Optimal Payments

Interim results

Focus shifts to integration

Software & comp services

H115 results confirm that business continues to be strong, and with the Skrill acquisition complete, the focus shifts to execution of targeted cost synergies and exploitation of the group's broader reach. With a more balanced geographical and customer mix and operating in a structural growth industry, key to Optimal's success will be the ability to develop innovative services to keep ahead of larger payment industry peers.

Year end	Revenue ($m)	PBT* ($m)	EPS* ($)	DPS ($)	P/E (x)	EV/EBITDA (x)
12/13	253.4	41.9	15.1	0.0	34.1	57.0
12/14	365.0	69.2	22.0	0.0	23.4	36.5
12/15e	589.3	98.6	20.7	0.0	24.9	23.5
12/16e	856.4	196.6	34.1	0.0	15.1	12.6

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

H115 results – good platform for growth

Optimal Payments' H115 results confirmed that both businesses generated strong underlying growth, partially offset by currency headwinds, with good performance from the US acquisitions. Pre-acquisition, Skrill's H115 revenue growth was strong (+26% in euro-terms) generating an EBITDA margin of 23%. The Skrill integration process is underway and management continues to expect to achieve cost synergies of $40m in FY16. We introduce forecasts that incorporate Skrill; we forecast strong cash generation that should significantly reduce the net debt position by the end of FY17.

Time to exploit scale and wider product range

With the acquisition completed in mid-August, Optimal is now focused on making the most of group's expanded product range, network of processing relationships and broader geographical coverage. The company is developing new services, with a focus on mobile, and is beta-testing a remittances service. In time, the company will launch new branding and a new company name (Paysafe Group). While the company still sees good growth opportunities in the online gambling sector, particularly in the US, management is keen to strengthen its position in other industry verticals such as e-commerce and digital goods.

Valuation: Discount closing but still too high

Optimal's share price has gained nearly 50% since its post rights issue low of 223p. The stock trades broadly in line with peers on an EV/EBITDA basis but trades at a discount on a P/E basis for FY16 and FY17. The recent Skrill acquisition broadens the company's product offering and geographical exposure and helps reduce the company's exposure to its largest merchant. In addition to the already targeted cost synergies, the enlarged group has the potential to generate additional revenue and cost synergies in excess of our forecasts. Strong cash generation should provide the funds for the company to make further bolt-on acquisitions. The company is planning an imminent move to the Main Market, and ultimately should be eligible for inclusion in the FTSE 250.

24 September 2015

Price	**330.25p**
Market cap	**£1,578m**
	$1.56/£
Net debt ($m) at end H115*	9.2
*Excludes rights issue cash of $685m	
Shares in issue	478.1m
Free float	98.5%
Code	OPAY
Primary exchange	AIM
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	27.5	26.9	10.9
Rel (local)	30.5	42.3	18.9
52-week high/low		338.0p	182.0p

Business description

Optimal Payments is a global payment solutions specialist operating in three areas: payment processing, eWallets and pre-paid services.

Next events

EGM	28 September 2015
Capital markets day	10 November 2015

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Edison profile page

Optimal Payments is a research client of Edison Investment Research Limited

Investment summary

Company description: Global payment solution provider

Optimal Payments is a global provider of online payment solutions – post the recent acquisition of Skrill, the company offers payment processing, eWallets and pre-paid online vouchers. The company's services are available in more than 200 countries and can process more than 100 payment types in 22 languages and 41 currencies. The recent acquisition has scaled the business up, resulting in a more balanced geographical and customer exposure and a wider product range. Management is focused on integrating the two businesses, with plans in place to achieve significant cost synergies while driving growth from the combined processing networks and relationships. The company will also consider further acquisitions.

Financials: Strong cash generation forecast

H115 results showed strong underlying growth in both business lines, with good cost control. We introduce forecasts that incorporate the Skrill acquisition from 10 August. We forecast that the adjusted EBITDA margin will fall slightly from 23.6% in FY14 to 22.9% in FY15 before rising to 28.1% in FY16 as cost synergies are realised. We forecast EPS growth of 65% in FY16e and 6% in FY17e. In addition to the rights issue, the company raised debt of $633m to fund the acquisition – we forecast strong cash generation over the next three years, which should reduce the company's net debt position from $522m at the end of FY15e to $162m by the end of FY17e.

Exhibit 1: Changes to forecasts

	EPS			PBT			EBITDA		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
2015e	19.3	20.7	7.2	85.8	98.6	14.9	102.3	129.0	26.1
2016e	19.5	34.1	75.0	97.8	196.6	100.9	115.2	240.6	108.8
2017e	N/A	36.2	N/A	N/A	209.3	N/A	N/A	256.8	N/A

Source: Edison Investment Research. Note: New forecasts include Skrill from 10 August.

Valuation: Closing the discount

Optimal has performed well since the rights issue, moving up nearly 50% from its low of 223p. The stock trades broadly in line with peers on an EV/EBITDA basis but trades at a discount on a P/E basis for FY16 and FY17. The recent Skrill acquisition broadens the company's product offering and geographical exposure and helps reduce the company's exposure to its largest merchant. In addition to the already targeted cost synergies, the enlarged group has the potential to generate additional revenue and cost synergies in excess of our forecasts. Strong cash generation should provide the funds for the company to make further bolt-on acquisitions. The company is planning an imminent move to the Main Market, and ultimately should be eligible for inclusion in the FTSE 250.

Sensitivities: Regulatory, customer concentration, integration

The following factors could affect our forecasts and the Optimal share price: a) merchant failure – mitigated through the use of its risk management tools and by holding rolling reserves; b) regulatory risk within the online gaming market; c) technology failure, although the use of multiple datacentres and redundancy mitigates this; d) security breaches – maintaining PCI DSS Level 1 compliance reduces this risk; e) currency risk – hedged where possible; f) competition from large, well-funded public companies; g) customer concentration – one customer made up 29% of Optimal H115 revenues although this should reduce below 20% post-acquisition; and h) integration risk – from the Skrill acquisition and recent US acquisitions.

Company description: Leading payments provider

Background to Optimal Payments

The company was founded in 1999 as NETELLER plc, when it launched its NETELLER eWallet, a secure online payment service for consumers that also offers 100% payment indemnification to merchants. The company listed on AIM in 2004 and, in 2005, bought Netbanx, a UK payment service provider (PSP) founded in 1996. In 2006, the company entered the Asian market with the launch of NETBANX Asia payment processing services. Due to the introduction of the Unlawful Internet Gambling Enforcement Act (UIGEA) in the US in 2006 which banned processing of payments related to illegal online gambling, NETELLER withdrew from the US eWallet market in early 2007. To reflect the revised focus of the group, the company changed its name to NEOVIA plc in 2008. In 2011, NEOVIA acquired Optimal Payments Inc, a Canadian-based PSP, and changed the group's name to Optimal Payments plc. In June 2014, Optimal acquired two US payment processors, Meritus and GMA, and in August 2015, doubled the size of the company through acquiring Skrill[1]. The company now employs c 1,500 staff across North America and Europe.

Group strategy: Take advantage of increased scale

With the acquisition of Skrill, the company has strengthened its presence in the digital wallet market and added new products and services in the shape of pre-paid voucher offerings and a point-of-sale invoice financing service. Exhibit 2 summarises the activities in each business line for the original Optimal Payments business and the acquired Skrill business.

Exhibit 2: Combined group activities

	Optimal Payments	Skrill
Payment processing	NETBANX	Skrill payment processing
	Meritus	
	GMA	
eWallet	NETELLER wallet	Skrill wallet
	Net+ prepaid MasterCard	Skrill prepaid MasterCard
	Optimal Payments Card Services	Payolution
Pre-paid		paysafecard/Ukash

Source: Optimal Payments

The Skrill acquisition was undertaken to create a payments business of greater scale, with more balanced geographical exposure, a more diversified customer base and with scope to expand margins and benefit from cost synergies. The group is now a leading payments provider with a wide addressable market, covering the payments spectrum from pre-funding (eWallets, pre-paid) and immediate funding (payment processing) to future funding (Payolution). In the eWallet market, Optimal is keen to broaden the verticals it serves outside of online gambling eg digital media, e-commerce, while taking advantage of the growth in US regulated online gambling. In the payment processing market, the group wants to take advantage of the scale of its processing networks and acquiring relationships to accelerate the sign-up of new customers. Management will also continue to consider additional acquisitions. To reflect the new combined business, the company plans to create a new brand and change the company name to Paysafe Group.

Management team

Post the Skrill acquisition, the board composition is unchanged. The management team has a wide variety of experience in the payment processing market across multiple geographies. Joel Leonoff (CEO) joined via the acquisition of Optimal Payments, where he was president and CEO. Brian McArthur Muscroft (CFO) joined Optimal Payments in January 2015; he was the CFO of Telecity

[1] See note: Skrill - a transformational acquisition

from 2006 to 2014. Danny Chazanoff (COO) also joined with the Optimal Payments acquisition, where he had held COO and CTO roles since 2006.

Payment processing (60% of FY15e revenues)

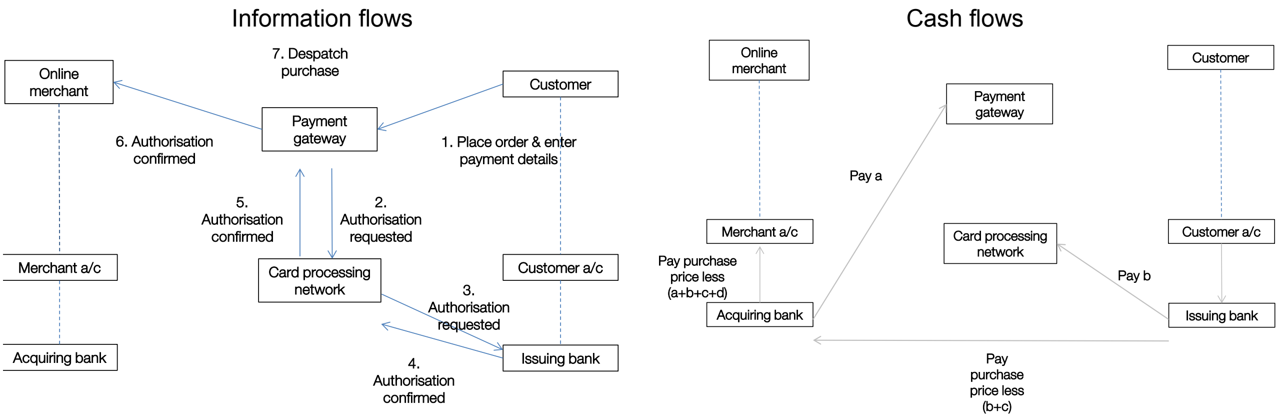
The majority of this division's revenue is generated from the existing Optimal Payments businesses, including NETBANX payment processing and the Meritus and GMA processing businesses acquired in 2014. Skrill also has a payment processing business, but the level of revenues from this business has not been disclosed so we assume it is not material. Throughout this section, we assume all payment processing services will be amalgamated under the NETBANX brand. In FY14, payment processing made up 75% of Optimal's revenues – we forecast that this will fall to 60% in FY15 and 44% in FY16 (the first full year of Skrill inclusion).

Introduction to the payment processing business

As a payment service provider (PSP), NETBANX provides a payment gateway for 'cardholder not present' (CNP) transactions. This enables customers to pay for goods and services on merchant websites or by mail order/telephone order (MOTO) using a variety of different payment methods. As a PSP, Optimal manages all the connections to the card processing networks, the acquiring banks, and the merchant's online shopping basket software. NETBANX's aim is to enable as wide a range of payment mechanisms as possible to maximise conversion rates, and continues to add new methods all the time. This business has more than 20,000 customers covering a variety of end markets including retail, gaming, digital download, travel, subscription, online dating and enterprise. In 2014, NETBANX processed more than 130m transactions worth $13bn (+30% y-o-y by value and volume). NETBANX offers three different services:

- **Bureau:** provides the acquiring bank relationship for the merchant and hence takes on the risk of merchant failure. By assuming a higher level of risk, NETBANX is able to charge additional fees. Typically a merchant will pay a fixed transaction fee, a percentage of the transaction value and a monthly account fee. In addition, NETBANX levies chargeback fees, if customers make chargebacks due to incorrect billing or the merchant fails to deliver its products or services. To provide the bureau service, NETBANX has relationships with 20 acquiring banks.
- **Direct:** acts as a payment gateway for merchants who already have an internet merchant account with an acquiring bank. NETBANX will receive a fee for each transaction processed, typically a fixed amount, although occasionally it will be a percentage of the transaction value.
- **Asia gateway:** offers a payment gateway to European and Australasian merchants with customers in Asia via a third party outsourced service provider.

Exhibit 3: Online payment processing using a payment gateway



Source: Edison Investment Research. Note: a = fee due to payment gateway; b = card company interchange fee; c = issuing bank fee; d = acquiring bank fee.

Exhibit 3 shows the typical process flow for an online purchase via a payment gateway. The first diagram shows the information flows that occur once a customer has placed an order online. The second diagram shows the cash flows that occur after the merchant has triggered the settlement process. In the case of the direct service, NETBANX charges only the per transaction fee, leading to a very high gross margin (close to 100%). For the bureau service, NETBANX charges a variety of fees, and in turn, pays some of this away to the acquiring bank. The revenue per transaction is higher, with a lower gross margin reflecting the pay-away. We understand that the majority of customers are on the bureau model.

Risk management is key to operating a successful bureau business

NETBANX is able to operate a successful bureau business by using a variety of risk management tools. The company vets merchants before approval, prices transaction fees to reflect the level of risk being undertaken and, once a merchant has signed up, monitors trading patterns to detect and prevent fraud. NETBANX is therefore able to attract customers who may be rejected by the banks' captive merchant acquiring businesses as they are deemed to be too high risk. High risk in this context could be a company with very high processing volumes or a company operating in an industry that is perceived to be high risk, such as online dating, travel services or subscription-based services. The service is PCI DSS Level 1 compliant, which means that customers can outsource the holding of private customer data to NETBANX.

Now offering merchant acquiring services

Last year Optimal obtained principal membership for merchant acquiring from MasterCard Europe and Visa Europe. This will not affect the gateway processing part of the business but has the potential to change the bureau side of the business. Previously, when taking on the acquiring relationship with a merchant, Optimal always worked with an acquiring bank: Optimal charged the merchant a percentage of the transaction value (risk weighted), and paid away a proportion of this to the acquiring bank. With principal membership of Visa and MasterCard, Optimal will be able to act as the acquiring bank and retain a larger percentage of the processing fee for European transactions. For existing bureau relationships, Optimal has the potential to transfer existing merchants over from the original acquiring banks – this would reduce the company's processing costs. For new business, this should make Optimal's offering more competitive and could allow it to move into lower-risk business. Optimal only started operating as an acquirer towards the end of H214, so has not yet generated material revenues from the service.

Competitive environment: Traditional and alternative processors

NETBANX most commonly competes with Datacash, GlobalCollect, Sage Pay, Wirecard, WorldPay and some acquiring banks. At the same time, NETBANX sees this as an opportunity, and also offers its services to banks to act as a white-label processor for the banks' merchant accounts.

Growth strategy: Retention and new customer acquisition

Typically NETBANX has very low customer churn rates – once a merchant has signed up, NETBANX is integrated into its sales process and this creates a high barrier to entry for competing payment processors, as merchants are unlikely to switch solely on the basis of slightly lower fees. NETBANX offers some volume-based discounts to counter this risk. Processing downtime would be the main reason for a customer to leave, but typically NETBANX maintains uptime of at least 99.99%, using several datacentres (Calgary, Montreal and Gatineau in Canada and Isle of Man and Dublin in Europe), and with built-in redundancy for load balancing and failover.

As a merchant's business grows, NETBANX benefits from increased transaction volumes and values. Online retail sales are forecast to continue to show strong growth: for example, Forrester predicts that US e-commerce revenues will grow at a CAGR of 10% from 2014 to 2019. This growth will be from a combination of new vendors entering the market and volume growth from existing vendors, as more retail sales shift from on premise or MOTO to online. OP continues to develop mobile functionality as a growing proportion of online transactions are made from mobile devices. The acquisition of FANS Entertainment in May 2015 added mobile platform development skills.

Growing the US business

Optimal has two routes to growth in the US:

- **US payment processing acquisitions:** In July 2014, Optimal acquired two US-based payment processors, Meritus and GMA, for up to $225m (see Growing US presence for further detail). The acquisitions give Optimal better payment processing presence in the US market through the US customer base and US salesforce. Combined, they contributed revenues of $45m (16% of STP revenues) and net earnings of $8.9m in FY14. These businesses do not process online gambling transactions.
- **US online gambling:** The 2011 Department of Justice ruling that the Wire Act only applies to online sports gambling has opened the way for states to introduce regulated online poker or other forms of non-sport related gambling. Three states have regulated online gaming (Delaware, New Jersey, Nevada) and others are considering it (eg California, New York and Pennsylvania). Optimal has agreements with CIE (a subsidiary of Caesars Entertainment Corporation), Vantiv (the third-largest merchant acquirer and PIN debit acquirer by volume in the US), Bally Technologies and 888 Holdings, to provide gateway payment processing as well as fraud management and related services in the regulated US online gambling market. Based on these agreements, we understand that Optimal is currently processing payments for six casinos (one in Nevada, three in Delaware and two in New Jersey). As the states in which services have launched are not very populous and Optimal earns fees worth a small fraction of the value of online gaming processed in each state, the short-term revenue potential is limited. However, it is well positioned to benefit as additional states legalise online gambling.

eWallet (28% of FY15e revenues)

This division includes the NETELLER wallet, the Skrill wallet, and the Net+ and Skrill pre-paid MasterCards. In 2014, NETELLER made up 25% of Optimal revenues. We forecast the eWallet business will generate 28% of FY15 revenues rising to 32% in FY16.

The NETELLER eWallet service was launched in 1999 and is now active in more than 200 countries. NETELLER is authorised by the FCA as an e-money issuer, and has passported its non-UK services on to this authorisation. As at March 2015, NETELLER had set-up 8 million accounts of which more than 900,000 were active customers. The Skrill eWallet service received its e-money issuer licence from the FCA in 2002, which it passports across the EEA. As at March 2015, there were 19 million Skrill wallet accounts. Skrill's wallet business is 1.5-2.0x the size of NETELLER in revenue terms.

From a merchant perspective, offering an eWallet as a payment method on its website improves shopping conversions, gives the merchant access to guaranteed funds, and shifts the customer identification process to the wallet provider. The eWallet has traditionally been used for online gaming as it allows the user to make payments on multiple sites without having to enter payment details each time, it maintains the customer's anonymity, enables fast receipt of winnings, and has multicurrency functionality. This means that a customer winning on one gaming site can quickly use those winnings to place bets on other websites, without having to wait for proceeds to clear a bank account or be credited to a payment card.

A customer loads up their eWallet by transferring money by bank transfer (free), by debit or credit card (fee 1.9-4.95% of value transferred), by alternative payment methods such as paysafecard or bitcoin (fee 5-9.9%), or by direct debit (free). The customer can then use the eWallet to pay for online products or services anywhere that NETELLER or Skrill are accepted. Both wallets operate loyalty schemes to attract and retain VIPs. To get money back from the eWallet, the customer can request a bank transfer, cheque or bank draft (incurring fees of €2.95-10.0). NETELLER and Skrill offer the option to transfer money onto a Net+ or Skrill MasterCard-branded prepaid card that in turn can be used for online purchases or to withdraw cash at ATMs.

Both NETELLER and Skrill offer a peer-to-peer payment service – this costs 1% of the amount sent and is free to the recipient. Skrill's Quick Checkout and the recently launched NETELLERGO! enable merchants to accept alternative payment methods without the customer having to register for a Skrill or NETELLER wallet. Skrill's 1-Tap allows merchants to offer customers a method to pay for goods with 'one-tap' on any device, removing the need to enter card details each time.

Both wallets generate the majority of their revenue from the fees charged to the merchants who accept eWallet payments. A merchant will be charged a fee (typically 2-4%) for every transfer from or into a wallet. Skrill and NETELLER also earn fees from foreign exchange and pre-paid cards, with the remaining revenues generated from customer deposits and withdrawals, dormant account fees and expiry of accounts.

Pre-paid MasterCard card issuing

NETELLER has been a pre-paid MasterCard issuer since 2012. NETELLER issues pre-paid cards to account holders, and is also authorised to issue white-label pre-paid cards on behalf of merchants. By March 2015, the company had issued 530,000 Net+ physical cards and 590,000 Net+ virtual cards. There were 50,000 active Net+ users as at March 2015, rising to 90,000 by the end of H115. Skrill also offers pre-paid MasterCard cards, using Wirecard as its issuing bank. The cards generate annual cardholder fees, cash withdrawal fees, foreign exchange charges and shipping and handling fees.

Wide geographical coverage, with some restrictions due to regulation

NETELLER currently operates in more than 200 countries with support for 23 currencies and 15 languages. NETELLER views 40 countries as banned or non-serviced (eg Iraq, Iran, Syria), with a further five where illegal online gambling transactions are declined (eg US, Canada, Turkey). Skrill considers 60 countries to be prohibited (for regulatory, legal or cultural reasons) and either declines customers completely or only processes non-gambling transactions. The group is now undertaking a review to harmonise countries served. Until 2007, the US was NETELLER's largest market. With the introduction of UIGEA, NETELLER withdrew from the US market. In 2014, Optimal re-launched NETELLER and Net+ in the US, supported by a federally insured US financial institution sponsor. The wallet service helps online gambling operators to counter the high rate of credit card rejections: loading a Net+ card using a credit card does not count as a gambling transaction so should not be rejected by a credit card company. Skrill has money transmitter licences in every US state that requires it; the company is in the process of seeking change of control approvals for these licences.

Competition: Global and local

NETELLER and Skrill compete with other global digital wallet providers. NETELLER previously competed with Skrill in the European gambling market, and both compete with PayPal in the e-commerce space (we note that PayPal bans gambling transactions in many jurisdictions, including the US). Both wallets also see competition from regional wallet providers such as AliPay (China), DineroMail (Latin America) and Yandex (Russia).

Pre-paid vouchers (12% of FY15e revenues)

Skrill acquired paysafecard in February 2013 for $177m. Paysafecard offers a service that enables consumers who want anonymity or do not have bank accounts to purchase a paysafecard voucher in cash from a paysafecard distributor. The code provided with the voucher can be used online as a payment method. In the year to 30 September 2014, paysafecard generated revenues of €133m/$181m at a gross margin of c 50%, and was available at 442,000 points of sale for use on c 5,700 websites. In April 2015, Skrill completed the acquisition of Ukash, a competing service to paysafecard, for £37m. Since the acquisition of Ukash, Skrill management has started the process of combining the two businesses under the paysafecard brand. We forecast that this division will generate 12% of FY15 revenues rising to 24% in FY16.

Sensitivities

Our forecasts and the share price performance are sensitive to the following factors:

- **Merchant failure.** NETBANX could be at risk of a high volume of chargebacks if a large merchant failed. It is difficult to predict the size of any such losses as it will depend on the size and volume of transactions covered by chargeback rules. The company tries to reduce its exposure through the use of its risk management tools, particularly to identify unusual trading behaviour, and by holding rolling reserves and security deposits. It also has a limited amount of insurance to cover this risk.
- **Customer concentration.** OP reported that in H115 one established customer generated 29% of fee revenue across the group. Post-acquisition, we estimate this will fall to c 18%.
- **Regulatory risk.** NETELLER has previously suffered from changes in the regulatory environment in several countries. OP continuously monitors the regulatory situation in each country in which it operates, and will withdraw some or all services from a country if necessary.
- **Technology failure.** If the processing platform in either business failed, this could damage OP’s reputation and could lead to the loss of customers. OP’s platform operates via a number of datacentres on both continents and has designed in redundancy for load balancing and failover.
- **Security breach.** If customer data were accessed and/or customer funds stolen via a security breach, this could lead to financial losses for OP, could damage the company’s reputation and could lead to a loss of customers. OP is certified to PCI DSS Level 1, the most stringent level of security in the card processing industry, and uses a variety of risk management tools to confirm the identity of customers and to identify unusual or risky trading patterns.
- **Currency risk.** Revenues are generated in a mix of currencies, the most material being the US dollar, euro, Canadian dollar, and pound. There is some natural hedging as processing costs tend to be paid in the same currency as revenues. Operating costs are split between sterling, euro and the Canadian dollar. As the mix of currencies at the gross profit level is unpredictable, it is difficult for the company to use hedging techniques on a wide scale, but where possible it will enter into forward contracts to lock down exchange rates.
- **Competition.** OP competes against a variety of small private companies and large, well-funded public companies.
- **Integration risk:** OP has made several acquisitions over the last 18 months; while the US acquisitions appear to be performing well, there is the risk that integration of the Skrill acquisition could take longer or cost synergies could be harder to achieve than expected.

Valuation

The Optimal share price has rebounded by nearly 50% since it reached its post-rights issue low of £2.23. On an EV/EBITDA basis, it is now trading in line with its peer group for FY16 although on a P/E basis it remains at a discount (c 20%). While some kind of discount is reasonable considering the group's exposure to China via its largest merchant, this exposure is reducing and we believe the current discount is too high. We believe our revenue and margin forecasts are conservative for FY16 and FY17, with scope for upside to both as the businesses are integrated. Our forecasts do not take into account more than the $40m cost synergies outlined by the company.

Exhibit 4: Peer group valuation and financial metrics

	EV/Sales (x)			EV/EBITDA (x)			P/E (x)			EBITDA margin (%)			Rev growth (%)		
	FY15e	FY16e	FY17e	FY15e	FY16e	FY17e	FY15e	FY16e	FY17e	FY15e	FY16e	FY17e	FY15e	FY16e	FY17e
Optimal Payments	**5.1**	**3.5**	**3.3**	**23.5**	**12.6**	**11.8**	**24.9**	**15.1**	**14.2**	**21.9**	**28.1**	**28.2%**	**61.5**	**45.3**	**6.3**
Payment processors															
Global Payments	4.4	4.1	3.5	13.7	12.6	11.0	20.0	17.8	16.0	31.9	32.4	32.0	(24.7)	7.1	15.6
PayPal	4.5	3.8	3.3	16.6	14.2	12.1	27.2	22.8	19.4	26.6	27.0	27.1	14.5	16.3	15.8
Paypoint	5.1	5.0	4.2	11.5	10.7	10.0	16.8	15.6	14.6	44.9	46.5	42.0	3.1	3.1	19.2
SafeCharge	4.9	4.0	3.5	16.0	13.1	10.7	24.8	20.1	16.8	30.5	30.9	32.9	30.8	21.1	14.2
Total System Services	3.7	3.4	3.3	12.2	11.2	10.8	20.8	18.7	17.3	30.1	30.7	30.2	10.8	7.0	4.9
Vantiv	5.9	5.4	5.0	12.2	11.0	9.9	21.0	18.4	16.3	48.3	49.2	50.5	17.5	8.7	8.5
Western Union	2.1	2.1	2.0	8.4	8.2	8.2	11.5	11.0	10.6	25.2	25.3	24.7	(1.9)	2.2	2.3
Wirecard	5.5	4.5	3.8	18.6	15.0	12.3	32.0	25.4	20.6	29.5	30.2	30.8	26.5	20.8	19.1
Average	**4.5**	**4.1**	**3.6**	**13.6**	**12.0**	**10.6**	**21.8**	**18.7**	**16.5**	**33.4**	**34.0**	**33.8**	**9.6**	**10.8**	**12.4**

Source: Edison Investment Research, Thomson. Note: Peers priced at 17 September 2015.

Financials

Review of H115 results

Exhibit 5: Half-yearly results summary

$000s	H115	H114	y-o-y
Revenues	223,023	159,056	40.2%
Gross margin	48.4%	54.6%	-6.2%
Adjusted EBITDA	49,852	38,992	27.9%
EBITDA margin	22.4%	24.5%	-2.2%
Adjusted EBIT	43,268	33,322	29.8%
EBIT	7,283	27,532	-73.5%
Net interest expense	(2,691)	(9)	Nm
Adjusted PBT	40,577	33,313	21.8%
PBT	4,592	27,523	-83.3%
Tax	(2,184)	(38)	Nm
Adjusted net income	37,277	31,413	18.7%
Net income	2,408	27,485	-91.2%

Source: Optimal Payments. Note: Adjusted profit measures exclude amortisation of acquired intangibles, exceptionals, share-based payments and FX gains/losses.

Exhibit 6: Divisional performance

	STP	SV	Total
H115 y-o-y revenue growth			
Reported	47%	20%	40%
Constant currency organic	5%	35%	11%
Constant currency excl. major merchant	21%	N/A	24%
Gross margin	**37.1%**	**87.3%**	**48.4%**

Source: Optimal Payments

Note that H115 results are for the original Optimal Payments business only, as the Skrill acquisition did not complete until August. The business saw strong y-o-y revenue growth of 40%, although the weaker euro had a negative impact on the Stored Value business: constant currency growth of 35%

y-o-y reduced to 20% on a reported basis. The STP business grew 47% as Meritus and GMA contributed to revenues from July 2014. On an organic constant currency basis STP grew 5%. Once the major merchant is excluded, underlying organic constant currency STP growth was 21%. The contribution to group revenues by the major merchant was flat at 29% in H115 compared to H214. In absolute terms, their contribution increased 9.4% h-o-h although was still 13% lower than a year ago. Gross margin was strong in SV; the decline in the STP gross margin was purely down to mix – the acquired US businesses grew faster than the divisional average on lower than average gross margins. According to management, the gross margins of the constituent parts of the STP division were all maintained over the period.

Operating expenses were well controlled, such that the decline in the EBITDA margin was less than the decline in gross margin over the year. Interest expenses rose reflecting the debt put in place to buy Meritus and GMA in H214. One-off costs included $4.1m restructuring costs, $12.4m acquisition costs and a $5.8m unrealised FX loss related to the forward contract taken out to hedge the rights issue proceeds (received in sterling while paying in euros for Skrill).

Introducing new group forecasts

We introduce forecasts that incorporate the Skrill businesses from 10 August 2015 (see Exhibit 7). These take into account the performance in H115 (prior to acquisition). Skrill grew H115 revenues 26% y-o-y to €155m/$173m, with the wallet business contributing $75.1m/GM 68% and the prepaid business $97.7m (including the Ukash acquisition from 1 April 2015)/GM 53%. The overall Skrill gross margin was 59% in H115, leading to EBITDA of $40.1m (margin 23%). Optimal is planning to align the way gross margin is calculated for NETELLER to more closely match the Skrill margin calculation – this should result in an eWallet margin close to 70%, but will have no impact at the EBITDA level. We assume the Skrill wallet business grows 26% in euro-terms (2% in dollar-terms) in FY15 followed by 3% growth in FY16 and FY17. For the pre-paid business, we forecast dollar-based growth of 2.5% in FY15 (full year including Ukash from April), 11% in FY16 and 8% in FY17. The company continues to expect to achieve cost synergies of at least $40m in FY16 - we have factored these into our FY16e and FY17e forecasts. Based on management guidance for restructuring costs of $26m, we split these $20m in FY15 and $6m in FY16. We note that the company has changed its balance sheet reporting to more accurately reflect Optimal's true cash position, excluding cash held on behalf of members and merchants.

Exhibit 7: Changes to forecasts

$000s	FY15e old	FY15e new	Change	y-o-y	FY16e old	FY16e new	Change	y-o-y	FY17e new	y-o-y
STP revenues	327,397	352,989	7.8%	28.5%	357,586	376,269	5.2%	6.6%	399,183	6.1%
eWallet revenues	105,132	163,244	55.3%	82.2%	116,443	277,833	138.6%	70.2%	292,343	5.2%
Pre-paid revenues	0	72,578	N/A		0	201,608	N/A	177.8%	217,736	8.0%
Total revenues	**433,079**	**589,275**	**36.1%**	**61.5%**	**474,729**	**856,410**	**80.4%**	**45.3%**	**909,963**	**6.3%**
Gross margin	50.1%	50.8%	0.7%	-1.1%	49.6%	52.5%	3.0%	1.8%	52.3%	-0.3%
EBITDA	102,274	128,976	26.1%	55.3%	115,220	240,606	108.8%	86.6%	256,834	6.7%
EBITDA margin	23.6%	21.9%	-1.7%	-0.9%	24.3%	28.1%	3.8%	6.2%	28.2%	0.1%
Reported adjusted EBITDA	**102,274**	**134,765**	**31.8%**	**56.6%**	**115,220**	**240,606**	**108.8%**	**78.5%**	**256,834**	**6.7%**
Reported adjusted EBITDA margin	23.6%	22.9%	-0.7%		24.3%	28.6%	3.8%	5.2%	28.2%	0.1%
Normalised PBT	85,832	98,616	14.9%	42.4%	97,847	196,624	100.9%	99.4%	209,317	6.5%
Normalised net income	79,824	88,754	11.2%	31.1%	90,998	173,029	90.1%	95.0%	184,199	6.5%
Normalised EPS (c)	**19.3**	**20.7**	**7.2%**	**-6.1%**	**19.5**	**34.1**	**75.1%**	**65.2%**	**36.2**	**6.0%**
Reported EPS (c)	14.8	4.7	-68.5%	-77.6%	15.9	29.7	86.8%	538.8%	33.0	10.8%
Net cash/(debt)*	716,990	(521,850)			802,636	(357,249)			(161,526)	

Source: Edison Investment Research. Note: *Previous forecasts were on 'own cash' basis, and included rights issue proceeds but did not incorporate the acquisition.

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Exhibit 8: Financial summary

$000s	2011	2012	2013	2014	2015e	2016e	2017e
Year-end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue	127,972	179,072	253,367	364,954	589,275	856,410	909,963
Cost of Sales	(53,868)	(89,648)	(121,484)	(175,830)	(290,116)	(406,371)	(434,188)
Gross Profit	74,104	89,424	131,883	189,124	299,159	450,039	475,774
EBITDA	18,738	28,275	53,106	83,044	128,976	240,606	256,834
Company EBITDA	17,453	27,563	52,213	86,063	134,765	240,606	256,834
Operating Profit (before amort acq intang, SBP and except.)	6,698	20,599	42,888	71,257	110,330	214,060	225,287
Amortisation of acquired intangibles	(4,700)	(4,100)	(3,300)	(9,200)	(16,700)	(14,700)	(14,700)
Exceptionals	(25,675)	(7,123)	(1,368)	7,219	(47,190)	(6,000)	0
Share-based payments	(1,007)	(3,931)	(4,512)	(8,274)	(14,000)	(14,000)	(14,000)
Operating Profit	(24,684)	5,445	33,708	61,002	32,440	179,360	196,587
Net Interest	(1,540)	(1,800)	(995)	(2,024)	(11,714)	(17,436)	(15,970)
Profit Before Tax (norm)	5,158	18,799	41,893	69,233	98,616	196,624	209,317
Profit Before Tax (FRS 3)	(26,224)	3,645	32,713	58,978	20,726	161,924	180,617
Tax	27	(2,461)	(1,235)	(1,303)	(2,073)	(19,431)	(21,674)
Profit After Tax (norm)	5,185	16,338	40,311	67,703	88,754	173,029	184,199
Profit After Tax (FRS3)	(26,197)	1,184	31,478	57,675	18,653	142,493	158,943
Average Number of Shares Outstanding (m)	216.8	221.6	252.2	277.7	400.6	479.2	482.4
EPS - normalised (c)	2.4	7.0	15.1	22.0	20.7	34.1	36.2
EPS - FRS 3 (c)	(12.1)	0.5	12.5	20.8	4.7	29.7	33.0
DPS (c)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Gross Margin (%)	57.9%	49.9%	52.1%	51.8%	50.8%	52.5%	52.3%
EBITDA Margin (%)	14.6%	15.8%	21.0%	22.8%	21.9%	28.1%	28.2%
Company EBITDA Margin (%)	13.6%	15.4%	20.6%	23.6%	22.9%	28.1%	28.2%
Operating Margin (before am and except.) (%)	5.2%	11.5%	16.9%	19.5%	18.7%	25.0%	24.8%
BALANCE SHEET							
Fixed Assets	72,672	67,393	65,551	294,837	1,646,459	1,635,712	1,622,966
Intangible Assets	63,337	58,526	53,231	281,479	1,630,177	1,617,977	1,605,777
Tangible Assets	9,335	8,867	12,320	13,358	16,282	17,735	17,189
Other Fixed Assets	0	0	0	0	0	0	0
Current Assets	172,743	219,167	184,490	177,275	106,608	231,047	374,905
Cash & cash equivalents	57,956	82,174	164,379	109,893	26,934	136,735	277,658
Restricted NETELLER cash	108,925	123,514	6,198	8,777	8,777	8,777	8,777
Cash held as reserves & settlement assets	0	0	0	38,607	38,607	38,607	38,607
Receivable from Members & Merchants	608	796	0	0	0	0	0
Trade and other debtors	5,254	12,683	13,913	19,998	32,290	46,928	49,862
Current Liabilities	143,957	192,104	117,634	113,618	144,095	144,095	142,063
Creditors	44,234	81,639	107,524	57,448	58,125	58,125	56,093
Payable to Members/Merchant liability	97,741	110,248	0	30,591	30,591	30,591	30,591
Short term borrowings	1,982	217	10,110	25,579	55,379	55,379	55,379
Long Term Liabilities	31,340	9,394	801	150,173	521,373	451,573	383,805
Long term borrowings	8,440	9,394	801	107,205	493,405	438,605	383,805
Other long term liabilities	22,900	0	0	42,968	27,968	12,968	0
Net Assets	70,118	85,062	131,606	208,321	1,087,598	1,271,091	1,472,002
CASH FLOW							
Operating Cash Flow	36,319	31,869	94,542	51,469	70,171	219,968	251,867
Net Interest	0	0	(158)	(1,873)	(11,714)	(17,436)	(15,970)
Tax	424	(932)	(1,191)	(1,564)	(2,073)	(19,431)	(21,674)
Capex	(11,222)	(6,467)	(13,567)	(11,094)	(18,000)	(18,500)	(18,500)
Acquisitions/disposals	(25,833)	(1,667)	(5,281)	(169,192)	(1,197,448)	0	0
Financing	(2,755)	3,294	1,188	(13,689)	660,104	0	0
Dividends	0	0	0	0	0	0	0
Net Cash Flow	(3,067)	26,097	75,533	(145,943)	(498,959)	164,602	195,723
Opening net (debt)/cash	64,207	58,718	85,829	118,389*	(22,891)	(521,850)	(357,249)
HP finance leases initiated	0	0	0	0	0	0	0
Other	(2,422)	1,014	(1,697)	4,663	0	0	0
Closing net (debt)/cash	58,718	85,829	159,665	(22,891)	(521,850)	(357,249)	(161,526)

Source: Company accounts, Edison Investment Research. Note: *Difference based on new basis for reporting cash.

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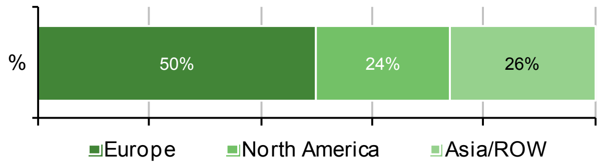
Revenue by geography (H115 pro forma revenue split)



Management team

CEO: Joel Leonoff

Joel was appointed co-CEO in February 2011 following the Optimal Payments acquisition, and president and CEO from August 2011. He founded SureFire Commerce, a TSE-listed company where he served as COO and CFO, and which merged with Optimal Payments Inc. He was previously the COO of PartyGaming.

CFO: Brian McArthur-Muscroft

In January 2015 Brian was appointed as CFO and joined the board as an executive director. He was previously Group FD at Telecity Group where he led the business's IPO in 2007 and raised £400m in senior debt facilities with major UK institutions to support the rapid growth of the business. He currently serves as a non-executive director of Robert Walters. In former roles, he was CFO at Viatel, Eckoh Technologies and Cable & Wireless HKT Multimedia. He was the interim CFO on the successful turnaround of MCI Worldcom EMEA.

Non-executive chairman: Dennis Jones

Dennis joined the board in July 2014 as non-executive chairman. He has had 30 years' experience in payments and payment processing and has held executive roles in the UK, Europe, China and the US where he was a director, president and CEO of RBS National Bank. Dennis is also currently the non-executive chairman of Optimal Payments Ltd, a wholly-owned subsidiary of the company, having previously been a director until September 2011.

Principal shareholders	(%)
Old Mutual Global Investors	12.0
Sentinel Group Holdings S.A	7.8
Franklin Templeton Institutional LLC	7.1
Wellington Management Company, LLP	5.4
Columbia Threadneedle Investments	4.6
Fidelity Management & Research	4.5
Thornburg Investment Management	4.5
Kames Capital	3.1

Companies named in this report

Global Payments, PayPal, Paypoint, SafeCharge, Vantiv, Wirecard