



eServGlobal Limited (eServGlobal or the “Company”)

Preliminary Final Report (App 4E) and Results Commentary for FY2017 (14 months)

28 February 2018

eServGlobal (LSE:ESG.L & ASX:ESV.AX), a pioneering digital transactions technology company, announces its preliminary results and ASX Appendix 4E for the 14-month financial year ended 31 December 2017.

SUMMARY

- Focus on value within HomeSend, having invested a further €3.89m in December 2017, increasing shareholding to 35.69%
- HomeSend gaining momentum with more than 20 agreements secured with banks together with a strong pipeline
- Significant cost savings achieved to rightsize the core business, commencing FY18 with an annualised total cost base (including cost of sales and operating costs) of €12.8m, anticipated to reduce further to a long term sustainable level of €12m - €12.5m. It is anticipated that this cost level can be covered from current and targeted contracts with existing customers of the Company.
- Revenue of A\$12.2m (€8.3m) compared to the prior year of A\$21.6m (€14.5m), with over €5m of expected FY17 orders signed in 2018
- Adjusted EBITDA loss for the core business of A\$15.2m (€10.4m) after excluding the share of HomeSend losses of \$5.5m (€3.8m) as well as debtor and work in progress provisions of \$8.3m (€5.7) made after impairment re-assessment of prudent provisioning policies*
- Debt repaid in full
- Cash and cash equivalents at 31 December 2017 of A\$10.8m (€7.1m).
- Raised a total of A\$38.1m (€26.0m) (net of expenses) through an Institutional Offer and Placing issuing 266,666,666 million ordinary shares

Summary Financials	FY17	FY17	FY16	FY16
	14 months	14 months	Full Year	Full Year
	A\$m	€m+	A\$m	€m+
Revenue	12.2	8.3	21.6	14.5
Cost of Sales	(16.7)	(10.9)	(15.5)	(10.4)
Gross Profit	(4.5)	(2.6)	6.1	4.1
Reported EBITDA	(29.6)	(20.2)	(11.0)	(7.3)
Adjusted EBITDA*	(15.2)	(10.4)	(7.4)	(4.9)
Net Interest	(2.1)	(1.4)	(7.1)	(4.7)
Amortization	(4.7)	(3.2)	(3.0)	(2.0)
Depreciation	(0.1)	(0.1)	(0.1)	(0.1)

Reported PBT	(36.5)	(24.9)	(21.1)	(14.1)
Adjusted PBT*	(22.1)	(15.1)	(17.5)	(11.7)
Income Tax	(0.7)	(0.5)	0.6	0.4
Reported PAT	(37.2)	(25.4)	(21.7)	(14.5)
Adjusted PAT*	(22.8)	(15.6)	(18.1)	(12.1)

+Average exchange rate was 0.6821 EUR to AUD (FY2016 0.6671)

* Excludes equity-accounted share of HomeSend loss of A\$5.5m (FY2016 A\$4.6m), foreign exchange losses of A\$0.3m (FY2016 gain of A\$3.6m), non-recurring costs of nil (FY2016 A\$0.2m), share based payments of A\$0.3m (FY2016 A\$0.1m), and debtor and work in progress provisions made after impairment re-assessment of prudent provisioning policies of A\$8.3m (FY2016 A\$2.3m)

Note: numbers in summary financials may not necessary total due to rounding

John Conoley, eServGlobal Executive Chairman, said, “eServGlobal exited 2017 free of debt and with a much reduced cost base. The 14-month year under review was a period of change and further refinement for the Group, both in terms of eServGlobal right-sizing the core business and in terms of our joint venture, HomeSend, which adapted itself to take advantage of the hugely expanded opportunity of the banking marketplace.

“We are excited by the significant opportunity available to HomeSend and we are confident in the strategy it is pursuing. More than 20 agreements have now been secured for banks to use the service, demonstrating continued momentum in the JV’s pivot towards the global payments market, a much larger market than the remittance market it originally served. The pipeline of opportunities has continued to grow, specifically the two very large contracts previously mentioned which have taken longer to close than hoped, have further progressed and remain in the later stages of discussion. eServGlobal expects an inflexion point in volumes in the short term, whilst noting that the complexity of some opportunities is always a consideration in the timing of such a transformation. Mastercard has continued to show strong support for their investment in this venture.

“Within the core business, important steps were taken during the year to create a more solid business foundation. eServGlobal is now debt-free with a much-reduced cost base and stronger sales strategy. We have had a positive start to the year with orders already received to the value of €5m. The Board of eServGlobal expects the operational EBITDA performance of the core business to improve in 2018, underpinning its goal of being an asset that can realise value for the Company. We start the new financial year in a substantially stronger position than we were a few short years ago.”

Annual General Meeting

For the purposes of ASX Listing Rule 3.13.1, eServGlobal advises that its next Annual General Meeting will be held on 17 May 2018 in London, United Kingdom. Details of the meeting will be provided in the notice for the meeting that will be issued in April 2018.

About eServGlobal

eServGlobal (AIM:ESG, ASX:ESV) is a pioneering digital financial transactions technology company, enabling financial and telecommunications service providers to create smoother transactions for their customers through deep

technical expertise and rapid implementation. Built on the latest technology platforms, eServGlobal offers a range of transaction services including digital wallets, commerce, remittance, recharge, rapid service connection and business analytics. eServGlobal combines more than 30 years' experience, with an agile, future-focused mindset, to align with the requirements of customers and partners around the globe. Together with MasterCard and BICS, eServGlobal is a joint venture partner of the HomeSend global payment hub, enabling cross-border transfer between bank accounts, cards, mobile wallets, or cash outlets from anywhere in the world.

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OPERATIONAL REVIEW

HomeSend Joint Venture | Global Payments Hub

HomeSend made progress on several fronts in 2017 as it pursues the significant opportunity before it, and momentum has carried on into 2018. More than 20 agreements enabling banks to use HomeSend have been signed over the past year, and advanced negotiations continue with several more large institutions. The pace of 'go lives' is expected to pick up in the near term.

The pivot of the business to focus on the growth opportunity presented by the banking payments market, as opposed to growth until now only from the remittance market through Money Transfer Organisations, is a paradigm shift, and for some time has been the focus for future growth of the resources of the business. This has created a pipeline almost exclusively of banks. A secondary consequence of this revised growth strategy is that the period of time required to finalise agreements with larger banks has been longer than that taken with MTOs given the size and complexity associated with banking sector contracts. Therefore, while progress continues, exact timing of agreements is difficult to predict. The board of HomeSend is confident that the strategy in place is the right focus for the business with early successes indicating significant market interest and an expanded opportunity.

The rationale behind the growth strategy for HomeSend is reinforced by research from McKinsey, which estimates global payments to be a US\$22 trillion market, and expects annual cross-border revenues to increase at a relatively stable annual rate of 6 percent during the next five years, exceeding US\$2 trillion by 2020: *"80% of cross-border payments are B2B related, with banks dominating 95% of this market. Maintaining their 95%+ share of this market will be challenging for banks."*

McKinsey goes on to point out that, *“to date, banks have done little to improve the back-end systems and processes involved in cross-border payments. As a result, cross-border payments remain expensive for customers, who also face numerous pain points (e.g. lack of transparency and tracking, slow processing times). However, as nonbank players increasingly encroach on the traditional cross-border turf of banks— moving from consumer-to-consumer (C2C) to business-to-business (B2B) cross-border payments—they will force many banks to rethink their longstanding approaches to cross-border payments.”*

In December 2017, eServGlobal participated in a €10M capital raise for the HomeSend JV. eServGlobal invested €3.89 million into HomeSend as part of the raise, increasing eServGlobal's holding to 35.69% in HomeSend (Mastercard: 56.09%; BICS: 8.21%). The funds will be used for working capital and to support the JV in building additional functionality to meet medium and long-term aims.

HomeSend is now integrated within the “Mastercard Send for Cross Border” platform, which is positioned by Mastercard as a key part of Mastercard's overall strategy.

Core Business | Digital Financial Transactions Technology

During FY2017, eServGlobal's core business made important steps in completing the turnaround of the business and the results of this have begun to flow in the first weeks of 2018 with €5m in orders received during Q1 to date.

As reported in the recent trading update, revenue in FY17 fell short of market expectations following delays in contract signature for orders worth €3M. These were finalised in January, with the full value recognisable over three years.

In 2017 further steps were taken to right-size the business, commencing FY18 with an annualised cost base of €12.8m compared to total costs in FY16 of €19.5m, a reduction of €6.7m. eServGlobal expects a breakeven point this financial year at 50% of the breakeven point of 2015, demonstrating the significant work that has been undertaken to reduce costs across all aspects of the business.

In addition, significant further work has been done to address some challenging legacy contracts. This is reflected in the costs recognised against the one off WIP provision through Cost of Sales of AU\$3.5m (€2.4m) and in relation to trade receivables against Administration Expenses of AU\$4.8m (€3.3m).

During the year, eServGlobal undertook a repositioning exercise that was reflected in the launch of a new brand. This was a strategic step to reflect to our customers and investors the changes that have been made within the business. Combined with a reinvigorated sales team, the new positioning has been well received by customers and supported by key strategic initiatives such as the launch of a Customer Advisory Board and the Channel Partner Program.

FINANCIAL REVIEW

In October, the Company undertook a fundraising of A\$38.1m (€26.0m) (net of expenses). The proceeds from this placement were used in part to fund eServGlobal's participation in the HomeSend capital raise, while also advancing the right-size of the business and paying down existing loans. Today eServGlobal is debt-free and in a much stronger position.

The consolidated entity achieved sales revenue for the year of \$12.2 million (2016: \$21.5 million).

Earnings before interest, tax, depreciation and amortisation ("EBITDA") was a loss of \$29.6 million, inclusive of foreign exchange losses of \$0.3 million (2016: EBITDA loss of \$11.0 million inclusive of foreign exchange gains of \$3.6 million).

An adjusted EBITDA loss figure of \$15.2 million (€10.4 million) provides an indication of the operations of the core business. This removes a number of non-cash and one off exceptional cost items including the share of HomeSend losses of \$5.5 million (€3.8 million), debtor and work in progress provisions of \$8.3 million (€5.7 million) made after impairment re-assessment of prudent provisioning policies, foreign exchange losses of \$0.3 million (€0.2 million) and share based payments of \$0.3 million (€0.2 million), a total adjustment of \$14.4 million (€9.8 million).

In relation to the provisions, based on a detailed assessment by management, an impairment expense on trade receivables of \$4.8 million charged to Administration Expenses (2016: \$0.9 million), and on work in progress of \$3.5 million (2016: \$1.4 million) charged to Cost of Sales was recognised in profit or loss in the current period.

The net unadjusted result of the consolidated entity for the period to 31 December 2017 was a loss after tax and minority interest for the year of \$37.2 million (2016: loss after tax and minority interest of \$21.7 million). Included in this result was an income tax expense of \$0.7 million (2016: income tax expense of \$0.6 million). Loss per share was 6 cents (2016: loss per share 6.0 cents).

The operating cash flow for the period was a net outflow of \$14.6 million (2016: net outflow \$12.0 million). Total cash flow for the period was a net inflow of \$1.8 million inclusive of net proceeds from the issue of shares of \$38.1 million, proceeds from borrowings of \$4.3 million and repayment of borrowings of \$16.3 million (2016: net inflow of \$5.5 million inclusive of net proceeds from the issue of shares of \$18.3 million and proceeds from borrowings of \$6.8 million, offset by payment of debt restructuring costs of \$3.3 million and repayment of borrowings of \$4 million). Cash at 31 December 2017 was \$10.8 million.

OUTLOOK

The core business has had an encouraging start to FY2018 and has already signed a number of contracts and has a number of further opportunities in the pipeline. This, combined with a streamlined cost base, gives the Board of eServGlobal cautious optimism that we can achieve

our target of creating a standalone business that is capable of creating shareholder value in 2018.

We expect 2018 to be a transformational year for HomeSend with the opportunity to significantly increase the volume run rate. We expect HomeSend to continue with its momentum of signing up further banking clients and while it is frustrating that the larger opportunities remain unsigned, they also remain in negotiation and as such we look forward to updating shareholders soon.

The Board would like to thank shareholders for their continued support and eServGlobal's employees for their continued hard work and dedication to the Company.