

Trading Update – exiting loss making US operations

Key Highlights

- Recently announced¹ challenges with the broader US regulatory environment have directly impacted Change's issuing bank partner (an independent third party)
- Change is withdrawing from the US market to concentrate on the large PaaS market opportunity in Australia and New Zealand
- Immaterial impact to overall revenue (FY24 US revenue: US\$70k)
- Following removal of US related costs (FY24: US\$1.6m), Change's operating leverage will significantly increase driving material improvement in EBITDA and cashflow
- Change has delivered three consecutive quarters of record revenue growth and is on track to achieve its target of 30%+ revenue growth and maiden EBITDA positive result in FY25
 - Record revenue driven by increasing contribution from PaaS clients in NZ and Australia
 - Continuing sales momentum – in Q1 Change secured a new Vertexon PaaS client in NZ, a new PaySim client in SE Asia and new projects with existing clients

26 November 2024 Change Financial Limited (ASX: CCA) (Change or the Company) provides a strategic update on the Company's US operations and the resulting positive impact on profitability.

Change CEO Tony Sheehan commented, "It has been a positive start to FY25 for Change with new clients secured, our PaaS operations continuing to scale in Oceania and the business delivering increasing top line revenue and improved bottom line results. All this has been delivered against a backdrop of broader challenges in the US regulatory environment and although these challenges are not specific to Change, they have directly impacted US operations which has prompted us to strategically consider our geographic footprint.

"Recent regulatory events in the US market will likely continue to drag on the broader Change business and we estimate it would now take a number of years to achieve profitability in the region. We have therefore made the pragmatic decision to withdraw from the US market. This will reduce our overheads from H2 FY25 and allows Change to prioritise its Australia and New Zealand PaaS operations.

"This decision ultimately strengthens Change's financial position and enables the business to continue winning in markets where we are seeing significant near-term opportunities. We are seeing the number of requests for proposals in Australia and New Zealand continuing to increase in H1 and we are reinvesting into our existing key target regions including SE Asia with additional business development executives to aggressively pursue the large opportunity in front of us."

US Operations Update

Unlike Australia and New Zealand where Change is a principal issuer with Mastercard, regulatory requirements in the US stipulate that Change partner with an issuing bank. Over the past 18 months, notably following the collapse of Silicon Valley Bank, there has been a significant shift in the US regulatory environment with materially increased oversight of banks and the way they operate with third-party partners, with fintechs in particular drawing increased scrutiny.

These challenges are not only affecting Change but others in the US market with peers also experiencing similar challenges. On 17 October, the Office of the Comptroller of the Currency (OCC) announced it had taken enforcement action against Change's current US issuing bank partner. The issuing bank is completely independent of Change and the regulator's enforcement actions against the bank do not relate specifically to Change however any new programs seeking to onboard with the current issuing bank now require submission to, and approval from, the regulator.

¹ As announced to ASX in the Company's Q1 FY25 Quarterly update on 29 October 2024

The risk associated with a single US issuing bank partner is something Change has been actively seeking to address and mitigate. As a result, Change was in advanced stages of due diligence and commercial negotiations with one of the top 10 issuing banks in the US around future growth plans in the region. While these discussions were progressing, the Change Board and management team have assessed the merits of continuing to operate in the US and have decided to withdraw from the region for the time being, closing the Company's US operations.

Impact of Closing US Operations

Closing US operations will have an immaterial impact on Change's overall PaaS metrics and revenue. Currently, Change has less than 800 active cards in the US market representing only 1.2% of all active cards, primarily driven by one client. Due to the regulatory environment, it has been challenging for this client to grow and for others to progress beyond pilot stage.

The Company will however realise significant cost savings and operational efficiencies from exiting the US operations. Change is targeting to cease US operations in Q3 FY25 and estimates the total one-off closure costs to be less than one quarter of US operating expenses. Presented below is an illustrative proforma view of Change's FY24 Profit and Loss removing the US operations.

Proforma Profit & Loss Summary (as if closure took effect on 1 July 2023)				
(US \$000's)	FY24 Actual	US Removal Adjustments	FY24 Adjusted	Var %
Revenue	10,639	(70) ²	10,569	(0.7%)
COGS	(1,402)	331	(1,071)	(23.7%)
Gross Profit	9,237	261	9,498	2.8%
Employee expenses	(6,179)	570	(5,609)	(9.2%)
Professional services & insurance	(1,082)	77	(1,005)	(7.1%)
Technology & hosting	(1,447)	375	(1,072)	(25.9%)
Other expenses	(1,141)	203	(938)	(17.8%)
Operating Expenses	(9,849)	1,226	(8,624)	(12.4%)
EBITDA	(737)	1,486	749	201.6%

Outlook

With strong foundations in place, Change is focussed on delivering profitable growth. The strategic decision by the Board and management to employ prudent capital management measures and withdraw from the US market fast-tracks overall profitability by reducing the global cost base and refocusing capital and efforts on core markets where Change is having success.

After withdrawal from the US market, Change still has more than 60,000 active cards on the PaaS platform in NZ and Australia. In 12 months, Change has moved from test volumes to processing and issuing at a run-rate volume of NZ\$1 billion per annum in New Zealand for financial institution and fintech clients while also launching the PaaS platform in Australia with the first client live and transacting.

Given the immaterial US contribution from revenue, the Company remains on track to deliver the previously advised target of revenue growth 'in excess of 30%', and a maiden EBITDA positive result in FY25. The strategic shift is expected to significantly increase Change's operating leverage driving further EBITDA margin expansion and overall profitability.

Authorised for release by the board of Change Financial Limited.

² US PaaS operations revenue only – PaySim revenue from the US will remain

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About Change Financial

Change Financial Limited (ASX: CCA) (Change) is a global fintech, leveraging innovative and scalable technology to provide tailored payment solutions, card issuing and testing to banks and fintechs. Change's technology is used by 150+ clients across 40+ countries to deliver simple, flexible, and fast-to-market payment services, including card issuing and testing.

Change's payments as a service (PaaS) platform Vertexon, seamlessly integrates with banks and fintechs' core systems enabling delivery of digital and virtual card solutions to their customers. It includes integrated features such as Apple Pay, Google Pay, Samsung Pay and Buy Now Pay Later (BNPL) services. Change currently manages and processes over 27 million credit, debit, and prepaid cards worldwide.

Using PaySim, Change tests payment systems to help clients meet the reliability and performance expectations of end customers. Simulating the full transaction lifecycle across multiple systems, PaySim enables banks and fintechs to complete end-to-end testing of their payment platforms and processes from a desktop. Change also provides the default standard for payments testing for many Australian companies, including Australia's domestic card payment service eftpos.

Learn more about Change at www.changefinancial.com

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