

ASX ANNOUNCEMENT: 25 February 2010**MD & CFO on H1 Results & Outlook**

Open Briefing with Customers Limited CEO Tim Wildash and CFO Peter Campigli



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In this Open Briefing[®], CEO Tim Wildash and CFO Peter Campigli discuss

- Strong increase in earnings on full six month benefit from Direct Charging
- Confidence in continuing growth and ability to pay inaugural dividend in current year
- Proposed second capital return to shareholders

Open Briefing interview:**openbriefing.com**

Customers Limited today reported net profit of \$11.4 million for the first half ended December 2009 compared with a loss of \$7.0 million in the previous corresponding period. EBITDA before non-recurring items was \$26.0 million, up from \$6.4 million, reflecting a full six-month contribution from Direct Charging. EBITDA was also up from \$18.4 million in the second half of 2009, which had a four-month contribution from Direct Charging. In the first half, the proportional contribution from Direct Charging appears to have been significantly stronger than in the second half of 2009. What were the main drivers?

MD Tim Wildash

We're very pleased we've been able to achieve a strong increase in revenue and at the same time keep our costs under control. As well as the full six month benefit of Direct Charging, this result also included some marginal uplift from price changes, which were introduced from October onwards across part of our fleet where our costs of service provision are higher.

Our margins also benefited in the first half from changes we've made to some of our acquiring relationships and initiatives to optimise the cost structure of our network communications.

Pleasingly we benefited from our investment over the last few years in upgrading and standardising the network, which led to lower maintenance expenses in the first half. We had all-time record high up-time in the first half, averaging 99.34 percent, which we believe would have to be an industry best, and of course that helps our revenue line and relationships with merchants.

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Can earnings be maintained at the first-half level over the remainder of the current year ending June 2010?

MD Tim Wildash

We're confident we can maintain our high level of performance over the remainder of the financial year. All our major metrics are tracking to or slightly better than budget. All the indicators are showing us that demand for cash remains strong and is set to stay that way. Demand for cash is extremely resilient and that's good for us.

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Industry wide, the volume of monthly transactions at "foreign" ATMs has been down by an average of about 18 percent since Direct Charging was introduced in March last year. Can you comment on how transactions have trended at Customers' machines in recent months?

MD Tim Wildash

That industry-wide figure you quote includes the foreign transaction performance of bank ATMs, which have been much more heavily impacted by Direct Charging. We're not a bank and therefore our performance shouldn't necessarily be compared with the banking sector. We're essentially in the convenience sector.

Bank ATMs are in high street locations: in shopping centres and shopping strips where most people are within easy walking distance of an ATM owned by their own bank. Our ATMs are in convenience locations where we're generally the exclusive provider.

The effect of Direct Charging on our transaction numbers has been roughly half that of the banks because people have to make a decision to leave the venue where our terminals are located if they want to find an ATM owned by their own bank. Our experience shows that most people are reluctant to do that for the sake of a couple of dollars.

Since Direct Charging was introduced, the percentage decrease in our transactions has been, as anticipated, in the high single digits compared with pre-Direct Charging. More recently this percentage change is creeping up into double figures but that largely reflects the impact of price increases across part of our fleet and general conditions in the retail and convenience sectors.

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What has been the trend in average transaction fees across your network? What percentage of your fleet maintains a transaction fee of more than \$2 and are current fees sustainable going forward?

MD Tim Wildash

We think a fee of \$2 or thereabouts is sustainable, especially as cardholders demand ever increasing convenient access to cash, 24/7. Fees have been \$2 for a long, long time now throughout all bank ATMs as well as convenience ATMs.

Our own price changes have been predicated on the cost of service delivery at the particular location, bearing in mind we're also third party to suppliers that charge us an increased amount. Currently, in the order of 15 to 20 percent of our fleet has had price adjustments.

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Other ATM revenue, which includes branding, sale of ATMs, rental, advertising, etc., was \$1.2 million in the half, up only 5 percent from the previous corresponding period. Isn't this disappointing given your expanded agreement with Bendigo and Adelaide Bank and other initiatives in the half? How are these revenues expected to trend in the nearer term?

MD Tim Wildash

The ATMs for Bendigo and Adelaide Bank are rolling out now. We're happy with the way the roll-out has been going, albeit it's a bit slower than we'd like. The site selection process has been very considered with Bendigo undertaking careful profiling of its card base which we then map against our machine locations in designated areas.

It's also the case that the revenue from these kind of deals doesn't all flow through the "other ATM revenue" line. There's the direct component, which is the branding fee, which does go through that line, but actual transactions under the deal go through as normal revenue. And the evidence would tend to suggest that you get an increase in transaction volume at machines that carry the security of bank branding.

Other non-transaction based revenue, such as advertising, is still in its infancy. We're very happy with the way our ATM screen advertising is progressing and we have a full order book through to 30 June with a number of blue chip national advertisers.

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The first half saw a drop in ATM network expenses to \$24.5 million from \$26.9 million in the previous corresponding period, mainly reflecting reductions in ATM maintenance expenses and bailment expenses. How sustainable are these reductions?

MD Tim Wildash

We've continued to improve the business and push hard in all areas. One of the main areas we've focused on has been modernising the fleet, and we've invested relatively heavily in that in recent years. This has made the fleet easier to maintain and improved its performance whilst reducing expenses.

In terms of bailment expenses, lower interest rates helped bring down these costs.

Our merchant rebates have incurred upward pressure; however the movements are in line with what we've been anticipating for some time.

CFO Peter Campigli

The other thing to mention in respect to rebates is that not all merchants receive a rebate every month. Where appropriate we put a break even amount into our merchant contracts, so that the merchant gets nil rebate for say the first 200 transactions, receiving a certain amount after the threshold is achieved. That covers us at the bottom end.

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In the first half, Customers booked cash flow from operations of \$25.5 million, up from \$3.9 million in the previous corresponding period. With capex of \$10.7 million, up from \$2.7 million, free cash flow increased to \$14.8 million from \$1.2 million. What is the expected level of capital investment in the business and free cash flow going forward?

CFO Peter Campigli

We generally have maintenance capex of around \$7 million a year, whilst growth capex has been boosted and will be in the order of \$3 million to \$4 million this year. This will predominantly cover two areas: our relationship with Nautilus Hyosung; and the upgrading of our machines to provide extra functionality.

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Customers also announced today a second capital return of 8 cents per share. This follows your first capital return, also 8 cents per share, which was announced in November 2009 and recently received ATO approval. What's the rationale for the second capital return given your growth ambitions for the business and your commitment to start paying dividends at the end of the current year?

MD Tim Wildash

We're in a healthy position. In December we received just over \$10 million on the exercise of some long-standing options that went back to the company's investment into Asia some three or four years ago. As you know we exited the Asian operations last year and that formed the basis for our first return of capital.

The funds from the options were independent of the normal underlying earnings of the business, so we took the view that we didn't need the money. We're therefore proposing to return it to shareholders. The proposed return is subject to shareholder approval.

We're fortunate to be in a dynamic sector that allows us some exciting growth opportunities with minimal capital investment. Our strategy plan to take the business forward has been stress tested by both Macquarie Bank and by KPMG, which both know this industry exceptionally well. So we're very confident about the capacity of the business to generate strong cash flows and accumulate those cash flows. And that gives us confidence in our ability to start paying dividends at the end of the 2010 financial year.

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As at the end of December 2009, Customers had cash of \$28.1 million, up from \$8.0 million six months earlier. Net debt was \$3.5 million, down from \$29.2 million. Assuming the two capital returns (totalling approximately \$22 million) are completed, net debt will be around \$25 million and gearing 14 percent. What is the outlook for debt and gearing at the end of June 2010?

CFO Peter Campigli

Our board wants to maintain a conservative gearing level, somewhere around 30 percent, taking into account general economic conditions and the fact that obtaining funding in the current environment is significantly more difficult than it was a few years ago.

The board is comfortable that this level of gearing would allow us to pay dividends, look to invest in growth opportunities, such as New Zealand, and consider some value adding acquisitions.

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Can you give any insight into the progress in your growth strategy for the business, including fleet outsourcing for financial institutions?

MD Tim Wildash

The most exciting thing this business has done for quite a few years was signing our agreement with Nautilus Hyosung in November last year. The opportunities for us in providing Nautilus' top-end equipment into the Australian market are significant.

Our ATM branding arrangements with Bendigo and Adelaide Bank and Bank of Queensland will continue to be an important source of revenue growth for us into the future, and we're continuing to have constructive discussions with other financial institutions about setting up similar arrangements.

Also within our core capability, the New Zealand opportunity remains promising and we remain confident of success. Already five major banks have agreed to the establishment of an independent ATM network, but we still need the agreement of the two remaining major banks. We believe that once an agreement is struck, over 2,000 independent ATMs will be required in New Zealand. It's worth adding that we've got 550 contracts already signed and ready to go in that market.

In the area of new income streams, as I mentioned earlier our advertising bookings are very strong and our clients to date include McDonald's, Aerogard, Nivea for Men, ING, Telstra and the Victorian Government. At this stage our advertising revenue is small but it's continuing to improve.

We're also continuing to work on providing services such as mobile phone pre-paid facilities, loyalty programs and gift cards on our ATMs. Again they won't be significant in terms of revenue, but would be terrific added service offerings that we'd hope would enable us to sell more ATMs into better locations.

We continue to see tremendous growth opportunities for the business going forward and we believe our strategy will enable us to achieve significant long term value growth for our shareholders.

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Thank you Tim and Peter.

For more information on Customers, visit www.customersatm.com.au or call Rohan Martin, Manager Corporate Affairs, on +61 3 9090 4745

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