



## **INVESTMENT OPPORTUNITY**

**Reference: 2198**

A UK financial services technology start-up looking to shake up the domestic £1 trillion a year point of sale payments industry.

## **The Market**

Independent research suggests that 60% of the UK's £750 billion card-based retail sales are paid by debit card, 30% are paid by credit card and 10% are paid by other means, notably card-based wallets such as PayPal and now Klarna. Of the 32 million credit cards in issue at the end of 2018, 14 million of them collectively had £50 billion outstanding and incurring interest. With average APRs of 18.7% per annum, this generated over £9 billion in consumer interest payments for the incumbent card issuers.

With card-based retail sales expected to regularly surpass £1 trillion per annum and the amount outstanding on credit cards to almost treble to reach £130 billion by the end of this decade, retailers have little choice but to rely on these incumbent card-based providers to process their critically important consumer transactions, until now...

## **The Problem**

Most Point-of-Sale payment methods involve pull-based card transactions which are prone to technical declines, chargebacks, data breaches and increasing levels of fraud. Retailers are becoming ever more vocal in their complaints about the card schemes with a recent survey by the British Retail Consortium estimating that the all-in average cost to accept traditional pull-based card payments in store is now 2.2% with another 0.3% to 0.4% added for a digital sale.

Our client's goal is to make these card-based problems a thing of the past for retailers and their customers. In doing so, it has turned to push-based payments operating on the latest distributed ledger technology to lower operational costs and engender trust, transaction security and transparency amongst users.

At the heart of the solution is the Retailer Interface and Smartphone App which both operate totally independently of these legacy payment card schemes.

## **The Retailer Interface.**

Our client's solution provides retailers with a new in-store and online customer acquisition strategy with the power to offer on-the-spot financing to their qualified (or pre-qualified) customers designed to maximise retailer revenues when selling larger ticket items or when looking to increase customer basket sizes. Its one-time integration via API is modular and customisable to meet a retailer's system needs with zero investment or maintenance required. Retailers process customer orders at the point-of-sale with our client instantly settling the full value of the transaction with the retailer, leaving them free to immediately ship the order to the customer. Our client assumes all customer credit and fraud risk.

## **The Smartphone App.**

Whether shopping online or in-store, this solution will make shopping pure joy with an easy to use smartphone app incorporating flexible revolving lines of credit of up to £3,000 that customers can dip into whenever they need. If they don't use it, they don't pay us a penny. Customers just pay interest on the balance they use. And with up to 60 days interest free,

no minimum or maximum repayment periods, customers are always in control. With a simple and streamlined application process, credit approvals and disbursements all happen within 60 seconds. Using the app couldn't be easier; users can pay retailers at checkout time using a frictionless '1-Click', 'Scan & Go' or 'Contactless' payment options, send money to friends and family or even get a cash advance to their registered bank account.

## **What's the technology behind it?**

Services are built on top of JP Morgan's GPL/LGPL licensed Quorum enterprise ready distributed ledger and smart contract platform, customised by our client's technical team to fit its specific requirements alongside its retailer interface and smartphone app. Core services will be hosted by Amazon Web Services to provide rapid scalability with minimal capital expenditure while credit approval and credit management will initially be handled via integration with Welcom Digital, a multi-award-winning, UK FCA approved credit management solution provider.

## **Competitive Advantage**

The customisation of the Quorum platform and the specific requirements of the retailer interface and smartphone app will generate a significant quantity of proprietary copyright protected material and registrable intellectual property. Ultimately, becoming the first regulated distributed-ledger-based payment system operating alongside BACS, CHAPS, Faster Payments, MasterCard and Visa will also provide our client with a significant first mover advantage.

## **Target Market**

Initially the solution will target both the national retail chains and online retailers offering home furnishings and furniture, jewellery, fashion and electrical items to an audience that includes the UK's 17 million strong and digital-savvy Millennial generation that are comfortable dealing with new fintechs and alternative lenders.

## **Management Team**

The management team combines 70 years of specialist expertise and innovation in the design, specification and distribution of specialist payment services. From a senior manager of the internationally recognised SWIFT bank payment network to a multi-award-winning financial app developer and a former financial services regulator, the management team, supported by its non-executive directors, has both the political, corporate and entrepreneurial nous to deliver a fully compliant payment system within the United Kingdom and internationally.

## Business Model

Participating retailers are charged a transaction fee of just 1% of the value of each sale settled using the solution, collected automatically from the retailer at the time of sale. As a lender, consumers will also be charged interest on the credit they use, with minimum monthly repayments collected from their registered bank account by direct debit. With our client's cost to process a single transaction sitting under 5p, profits will come from increasing the overall value of retail transactions processed and the net interest margins earned on its consumer credit portfolio, estimated initially at 18% per annum.

## Financial Projections

This is a ground floor opportunity to join the co-founders with this seed placing of up to 5,000 New Ordinary Shares at a Placing Price of £100 per share to raise gross proceeds of £500,000. The Directors intend to use these proceeds to achieve four key foundation milestones and then raise additional funds to gear up for a subsequent commercial launch.

Its 4 Key Foundation Milestones are

- 1 Consumer Lending License issued by FCA,
- 2 £25m Credit Facility Provider engaged
- 3 Minimum viable product and services ready for release in the UK
- 4 Three UK Retailers engaged from the top 50.

Having achieved these key foundation milestones, and with sufficient financial resources being made available, our client believes it will be well positioned to attract 25,000 consumer users and process payments worth at least £52.5 million months with an average outstanding balance on credit and earning interest of £9.45 million over the first 12 months, increasing these key performance indicators in each consecutive year to reach 100,000 customers processing £420 million and a credit portfolio approaching £76 million by the end of 2022.

KPI's	2019	2020	2021	2022
No of Consumer Account Holders	0	25,000	50,000	100,000
Average Annual Spend per Consumer	0	£2,128	£2,840	£4,260
Total Transaction Volume	0	£53.2 million	£142 million	£426 million
Average Balance on Credit	0	£9.45 million	£25.2 million	£75.6 million
Revenue per Customer		£159.27	£212.36	£318.54

Assuming net interest margin remains constant at 18% per annum over the first three years and the company headcount rising from 25 to 50 operating from its proposed base in the city of York, our client believes it will be capable of generating cumulative net profits of £18 million, with significant upside potential for further growth.

<b>Illustrative Financial Projections</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Merchant Fee Income		532,500	1,420,000	4,260,000
Consumer Interest Income		3,449,250	9,198,000	27,594,000
Cost of Sales		(2,381,063)	(5,431,500)	(13,540,500)
Gross Margin		40.20%	48.85%	57.49%
Operating Expenses	(200,000)	(1,468,775)	(1,883,869)	(2,202,843)
Operating Margin	n/a	3.31%	31.10%	50.58%
EBITDA	(200,000)	131,913	3,302,631	16,110,657
Net Profit		113,322	3,149,439	15,066,545
Headcount	6	25	40	50
Average Cost per Head	0	40,410	39,438	36,770

Since, our client's industry maintains a moderate risk profile, once operations are established the management team feels the company could attract an enterprise valuation of at least 5 to 10 times net annual earnings giving it a potential valuation of between £75 million to £150 million by the end of the company's third full year of operation.

**To receive the full investor presentation** please sign and return the attached NDA to Claire Fortmuller, quoting reference 2198, by email at [cfortmuller@evolutioncbs.co.uk](mailto:cfortmuller@evolutioncbs.co.uk) or by calling 0118 334 7783.

**CONFIDENTIAL**

17 February 2020

Dear Sirs

**Confidentiality Letter Agreement ref: 2198**

**1. Disclosure**

- 1.1 We, Evolution Complete Business Sales Limited (Company Number 07512536) (**Provider**), understand that you, (**Recipient**), are interested to receive information relating to our client(s) for the purpose of exploring business opportunities relating to the acquisition of and/or investment in our client(s), (**Purpose**). You warrant that you are a person who falls within Article 19 or Article 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005.
- 1.2 In this letter agreement, Confidential Information means all confidential or proprietary information (however recorded or preserved) relating to the Purpose that is disclosed or made available whether before or after the date of this agreement (in any form or medium), directly or indirectly, by the Provider to the Recipient.
- 1.3 In consideration of the Provider agreeing to disclose Confidential Information to the Recipient, the Recipient undertakes to the Provider that it shall:
- (a) keep the Confidential Information secret and confidential;
  - (b) not use or exploit the Confidential Information in any way, except for or in connection with the Purpose;
  - (c) not copy, adapt otherwise record or reproduce the Confidential Information except as strictly necessary for the Purpose and with the written permission of the Provider. Any such copies, adaptation, record or reproduction shall be the property of the Provider;
  - (d) only make disclosure of the Confidential Information in accordance with paragraph 1.4 and paragraph 1.6. Any other disclosure can only be made with the Provider's prior written consent; and
  - (e) establish and maintain adequate security measures to safeguard the Confidential Information from unauthorised access or use.
- 1.4 The Recipient may disclose the Confidential Information to any of its subsidiaries, group companies, officers, employees, advisers, subcontractors and contractors (Representatives) that need to know the relevant Confidential Information for the Purpose only, provided that the Recipient procures that each such Representative to whom the Confidential Information is disclosed complies with the obligations set out in this letter agreement as if they were the Recipient.
- 1.5 The Recipient shall be liable for the actions or omissions of the Representatives in relation to the Confidential Information as if they were the actions or omissions of the Recipient.
- 1.6 The Recipient may disclose the Confidential Information to the minimum extent required by:
- (a) any order of any court of competent jurisdiction or any regulatory, judicial, governmental or similar body or taxation authority of competent jurisdiction;

- (b) the rules of any listing authority or stock exchange on which the Recipient's shares are listed; or
- (c) the laws or regulations of any country to which the Recipient's affairs are subject.

## **2. Limitations on obligations**

The obligations set out in paragraph 1 shall not apply, or shall cease to apply, to Confidential Information which the Recipient can show to the Provider's reasonable satisfaction:

- (a) that it is, or becomes, generally available to the public, other than as a direct or indirect result of the information being disclosed by the Recipient in breach of this letter agreement; or
- (b) was already lawfully known to the Recipient before it was disclosed by the Provider; or
- (c) has been received by the Recipient from a third-party source that is not connected with the Provider and that such source was not under any obligation of confidence in respect of that information.

## **3. Return of the Confidential Information**

- 3.1 If requested by the Provider at any time, the Recipient shall immediately destroy or return to the Provider all documents and other records of the Confidential Information or any of it in any form that have been supplied to or generated by the Recipient. If the Confidential Information is stored in electronic form, the Recipient shall (to the extent technically and legally practicable) permanently erase all such Confidential Information from its computer and communications systems and devices used by it.
- 3.2 The Provider may request the Recipient to certify in writing that it has complied with any of the obligations in paragraph 3.1.
- 3.3 Nothing in clause 3.1 shall require the Recipient to return or destroy any documents and materials containing or based on the Confidential Information that the Recipient is required to retain by applicable law, or to satisfy the requirements of a regulatory authority or body of competent jurisdiction or the rules of any listing authority or stock exchange, to which it is subject.

## **4. Term and termination**

- 4.1 If the Provider decides not to continue to be involved in the Purpose with the Recipient, it shall notify the Recipient immediately.
- 4.2 Notwithstanding the termination of discussions between the parties in relation to the Purpose pursuant to paragraph 4.1, the obligations of the Recipient shall continue for a period of 18 months from the termination of this letter agreement.
- 4.3 The termination of this letter agreement shall not affect any accrued rights or remedies to which either party is entitled.

## **5. Acknowledgment and inadequacy of damages**

The Recipient acknowledges and agrees that:

- (a) the Confidential Information may not be accurate or complete and the Provider makes no warranty or representation (whether express or implied) concerning the Confidential Information, or its accuracy or completeness; and
- (b) damages alone would not be an adequate remedy for any breach of the terms of this letter agreement by the Recipient. Accordingly, the Provider shall be entitled to the remedies of injunction, specific performance or other equitable relief for any threatened or actual breach of the terms of this letter agreement.



EvolutionCBS Limited  
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Theale  
Berkshire  
United Kingdom RG7 4AB

**6. Indemnity**

- 6.1 The Recipient shall indemnify the Provider against all liabilities, costs, expenses, damages and losses (including but not limited to any direct, indirect or consequential losses, loss of profit, loss of reputation and all interest, penalties and legal costs (calculated on a full indemnity basis) and all other reasonable professional costs and expenses) suffered or incurred by the Provider arising out of or in connection with any breach of this agreement by the Recipient or a permitted recipient.
- 6.2 If a payment due from the Recipient under clause 6.1 is subject to tax (whether by way of direct assessment or withholding at its source), the Provider shall be entitled to receive from the Recipient such amount as shall ensure that the net receipt, after tax, of the Provider in respect of the payment is the same as it would have been were the payment not subject to tax.

**7. Governing law and jurisdiction**

- 7.1 This letter agreement and any dispute or claim (including non-contractual disputes or claims) arising out of or in connection with it or its subject matter or formation shall be governed by and construed in accordance with the law of England and Wales.
- 7.2 Each party irrevocably agrees that the courts of England and Wales shall have exclusive jurisdiction to settle any dispute or claim (including non-contractual disputes or claims) arising out of or in connection with this letter agreement or its subject matter or formation.

Please indicate your acceptance of the above by signing and returning the enclosed copy of this letter as soon as possible.

Yours faithfully,

.....  
Signed by Mike Whittle, Managing Director  
for and on behalf of Evolution Complete Business Sales Limited

We acknowledge receipt and agree to the terms of this letter agreement:

Signed by .....

For and on behalf of .....  
[NAME OF COMPANY RECEIVING INFORMATION]

Date .....