

# FINANCIAL REVIEW

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## PORTFOLIO

Neil Helm, OzForex chief executive, tells Jeremy Chunn how the foreign exchange challenger plans to maintain the momentum.

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Australian companies which are open 24 hours a day are rare. But if you want to offer foreign exchange services to retail and business customers around the world, you can never close.

OzForex built its business for more than 10 years before floating in October. Its share price gained nearly 30 per cent on day one. Since then it's put on another 19 per cent.

But investors like companies with form and OzForex barely has six months on the boards. What's more it's yet to pay a dividend, although it has promised to deliver its first later this year. So what does 2014 hold for one of the strongest IPOs of 2013?

What makes OzForex special?

The **company** was built around the philosophy of giving clients a better deal. The founder, Matt Gilmour, worked in foreign exchange and felt consumers and small business were not getting an institutional level of service, it wasn't transparent around fees and margins, the service was poor. He wanted to provide that service online, as opposed to a phone-based traditional broking model. The website started as an information **site** but over time he felt there was an opportunity to provide an international payments capability, so it grew from his sunroom to a granny flat to Bridge Street [next door to the Australian Securities Exchange], with 200 staff and offices in **Hong Kong**, London, San Francisco and Toronto.

How did the international network evolve?

We opened in London so we could have two 12-hour shifts. Then we saw an opportunity in North America, so we opened up Toronto and could work eight-hour shifts, which was even better. We opened in San Francisco and **Hong Kong** because there's a market in those regions. The offices are designed around having that marketing capability and customer service capability. It's not so much about where the customers are located. We service customers in 40 or 50 countries.

The average **transactions** are about \$15,000 for consumers and \$30,000 for businesses, which seems large. What sort of clients are they?

For consumers, they could be people who are immigrating, buying **property** overseas, sending money to fund their children's education in the UK. From a small business perspective we have a lot of people who are importing goods, which could be surfboard blanks from Thailand, medical equipment from the US, boats, buying **property** overseas, a one-off asset **purchase**. There are lots and lots of corporate user cases.

We'll probably do about 2000 or 3000 **transactions** on any given day, with about a dozen being over a \$1 million. The biggest **transaction** we've ever done was about \$110 million. That was a one-off.

Will you continue to take share from the banks?

The larger players, the institutional banks who are dealing with the top end of town, we can't necessarily compete on price with those guys, so we're aiming for the sweet spot between a business that might be doing \$20 million and downwards in foreign exchange turnover. [Those clients] may not be as well served by the institutional banks.

Where do you see growth coming from?

We see the consumer and business side of things growing really well and the different geographies growing really well. Historically we've been growing at between 20 and 30 per cent ... across most of our key metrics.

There is a view that private equity take the best out of a business for themselves. Is this true?

No. The business has had different chapters. The first was when Macquarie invested in 2007. That created an increase in volume as they became our first white label partner and also put the onus on ensuring we have a very strong risk and compliance in place. The next chapter was when two private equity firms invested in 2010, and they brought a different set of values to the business in terms of understanding online customer acquisition, and extensive and helpful relationships globally. Being a public **company** is just the next chapter for us. The focus on growth the original shareholders had is no different from the focus on growth that we have ourselves.

How does white labelling work?

We have four white label partners: Macquarie, ING Direct, Travelex and MoneyGram. With white label, the partner is outsourcing an international payments capability to a specialist provider. We badge our website under their brand. From a customer's perspective, although we're answering the phone they're having a Travelex experience [for example]. Most deals are three to five years. At the end of the 2013 financial year revenue from white labels was about 11 per cent.

Does phone work put limits on your operations?

The phone is a critical part of our business early on in the process. The customer finds our business and clicks through to our website. Once they've registered we'll try to call them within 40 minutes. That's the customer service side of things. Pretty much at the end of that phone call they're ready to start booking **transactions**.

What's the scope for growth in white labelling?

We obviously would want to make sure it makes **commercial** sense for us to sign up a white label. There is effort required and cost for us. There's no exclusivity; it's more around us identifying the right prospects and them being comfortable with outsourcing to a third-party specialist as opposed to building that infrastructure themselves. Using the US as an example, there are about 9000 regional banks which could be an opportunity for us.

How hard would it be for the banks to change their business and take your market?

There needs to be an economic reason for them to change their current model. At the moment we estimate they have about 90 to 95 per cent of the flow. The platform we've built is scalable; as we're adding more volume, our costs don't go up at the same linear rate. Banks have large overheads, they charge large margins, they've got a huge distribution network. We represent a tiny portion of the market – that is growing.

We'll be paying a dividend this year but the specifics of that are being worked through.

Beyond international payments, how might online commerce evolve in your favour?

E-commerce is a very interesting space at the moment. There's a lot of noise and activity in the market, so we're keeping a close watch on what some of the other players are doing. People are moving more and more to mobile, whether it's phones or iPads. Whatever the device, we want to make sure that experience keeps improving.

What happens if you grow too fast?

We have a very scalable business model. We could triple the volume into our platform and there's no issue. The least scalable part of our service is the customer service component. We're spending a lot of time learning how to streamline that. The market is so large and the opportunity for us is so enormous, the challenge for us is working out which to take and which to leave on the side. That's a good position to be in.

Neil Helm

CEO, OzForex

Tenure

Seven years

Price rise since IPO

50.1 per cent

CEO Q&A

2000- 3000

The range of total **transactions** OzForex settles for its retail and business clients each day.

11%

Revenue that was attributable to whitelabel deals in 2012-13. OzForex has agreements with

Macquarie, ING Direct, Travelex and Money Gram.

\$110m

The largest **transaction** the foreign exchange provider has handled so far, which Helm

admits was a one-off.

**CO** ozfopl : OzForex Group Ltd.

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