

Shift to Digital Strategy

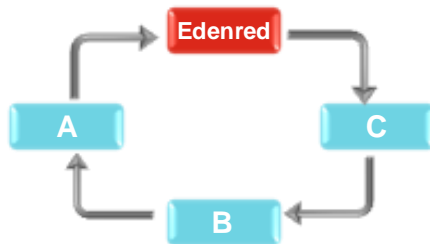
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Shift to Digital Strategy

- **Introduction**
- **The Digital Value Chain**
- **Edenred Digital Strategy**
- **Financial Impacts**
- **New Growth Opportunities**

Why shifting to digital makes sense for all stakeholders

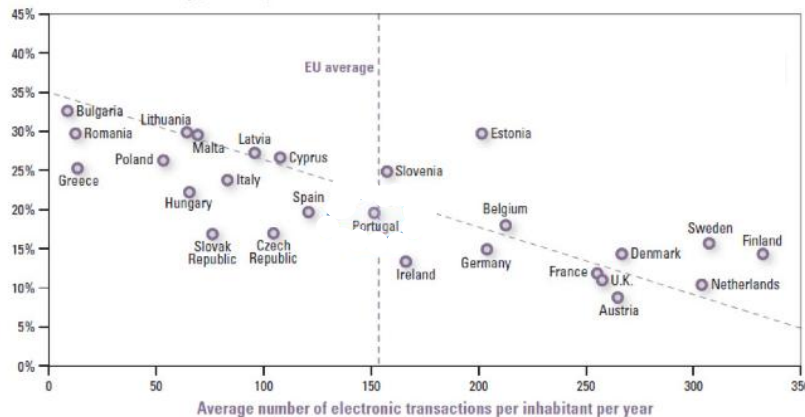
A win-win solution for all stakeholders



- ✓ **Clients:** optimized and simplified processes, cost savings
- ✓ **Beneficiaries:** convenient, fashionable solution
- ✓ **Affiliates:** simplified administrative process, value-added services, cost savings

An efficient tool for public authorities

Share of shadow economy (% of GDP)



Source: AT Kearney analysis

- ✓ Better control over fund allocation and traceability
- ✓ Clear correlation between card transactions penetration and reduction in the informal economy

Analysis of stakeholder needs led to the decision to accelerate the shift to digital at end-2010

Why shifting to digital makes sense for Edenred

Rationale for the shift to digital

- Market demand
- First mover / Competitive advantage
- New growth opportunities

Financial impacts

- + Issue volume growth
- = New sources of revenue, which offset the reduction in lost products
- + Reduced operating costs, leading to an operating flow-through ratio* objective of above 50% post-transition
- = Shorter float holding period, offset by higher volumes

A strategic priority for the Group

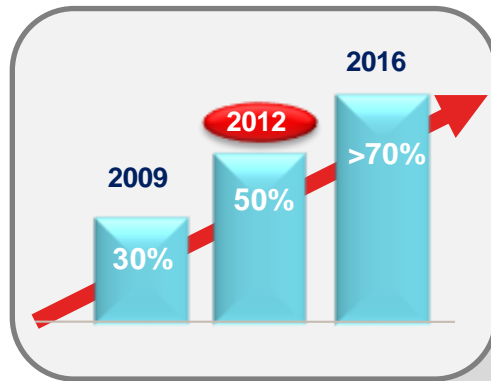
**Ratio between the like-for-like change in operating EBIT and like-for-like change in operating revenue*

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Digital Strategy

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How to Shift to Digital



A strategic move from paper to digital, implying changes in the value chain and interactions with new stakeholders

Two Main Phases

1

Program Launch Phase

2

Program Management Phase

A country-by-country process

Digital vs. Paper Value Chain: Program Launch Phase

Phase 1: Program Launch

Digital Value Chain



Paper Value Chain



Solution creation

1



1



Set up of processing capabilities

2



2



Affiliation network manager

3



3



Set up of POS devices

4



Set up of interfaces between POS and processors

5



Set up of capabilities and network for the launch of a program (paper or digital), implying non-recurring costs

An additional capability in the digital value chain: the set up of POS devices



POS devices: two options

Owned POS

- **Conditions for setting up our own POS:**
 - ✓ Need for strategic control
 - ✓ Specific technical features of the solution
 - ✓ Lack of equipment at the merchant POS
- **Edenred examples:**
 - ✓ Turkey for meal vouchers: electronic payment terminals or mobile phones
 - ✓ Italy for meal vouchers
 - ✓ Brazil and Mexico for Ticket Car



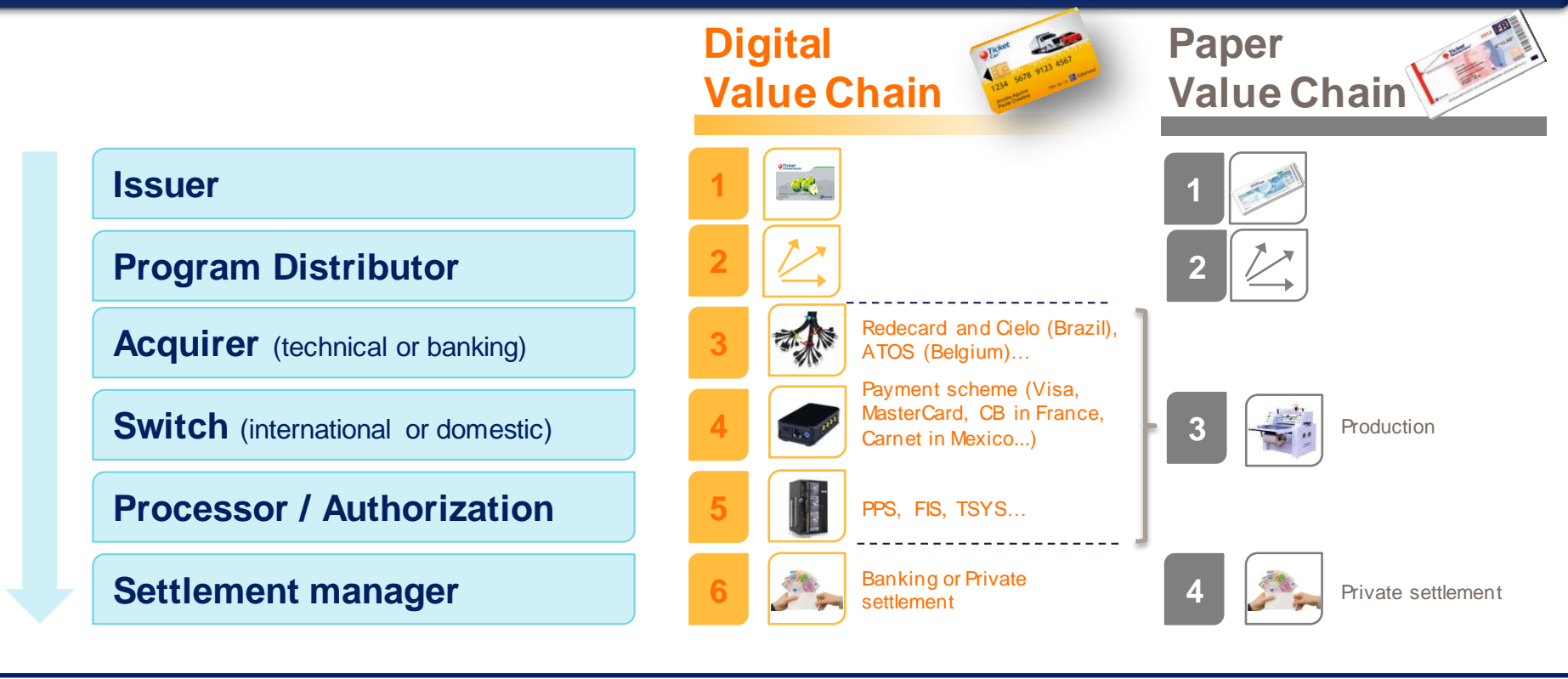
Use of existing POS

- **Conditions for the use of existing POS:**
 - ✓ No need for strategic control
 - ✓ Existing infrastructure corresponds to technical solution requirements
 - ✓ Sufficient merchant coverage
- **Edenred examples:**
 - ✓ Brazil for meal and food vouchers
 - ✓ France for Ticket Clean Way
 - ✓ Belgium for meal vouchers



Digital vs. Paper Value Chain: Program Management Phase

Phase 2: Program Management



The digital value chain is less integrated than the paper value chain

Edenred is the program manager for the full value chain (paper or digital)

New Stakeholders in the Digital Value Chain

2

Program Management Phase

Acquirer (technical or banking)

Technical acquirer:

- ✓ Allows collection of financial and non-financial data from a transaction at POS
- ✓ Transfers the data directly to authorization platforms

Banking acquirer:

- ✓ Allows collection of financial data from a transaction at POS
- ✓ Transfers the data to switching platforms

Provider can be the same entity, but the type of service offered is different



Switch (international or domestic payment schemes)

Intermediary between issuer and acquirer, which:

- ✓ Defines the rules of a transaction
- ✓ Executes transaction switch



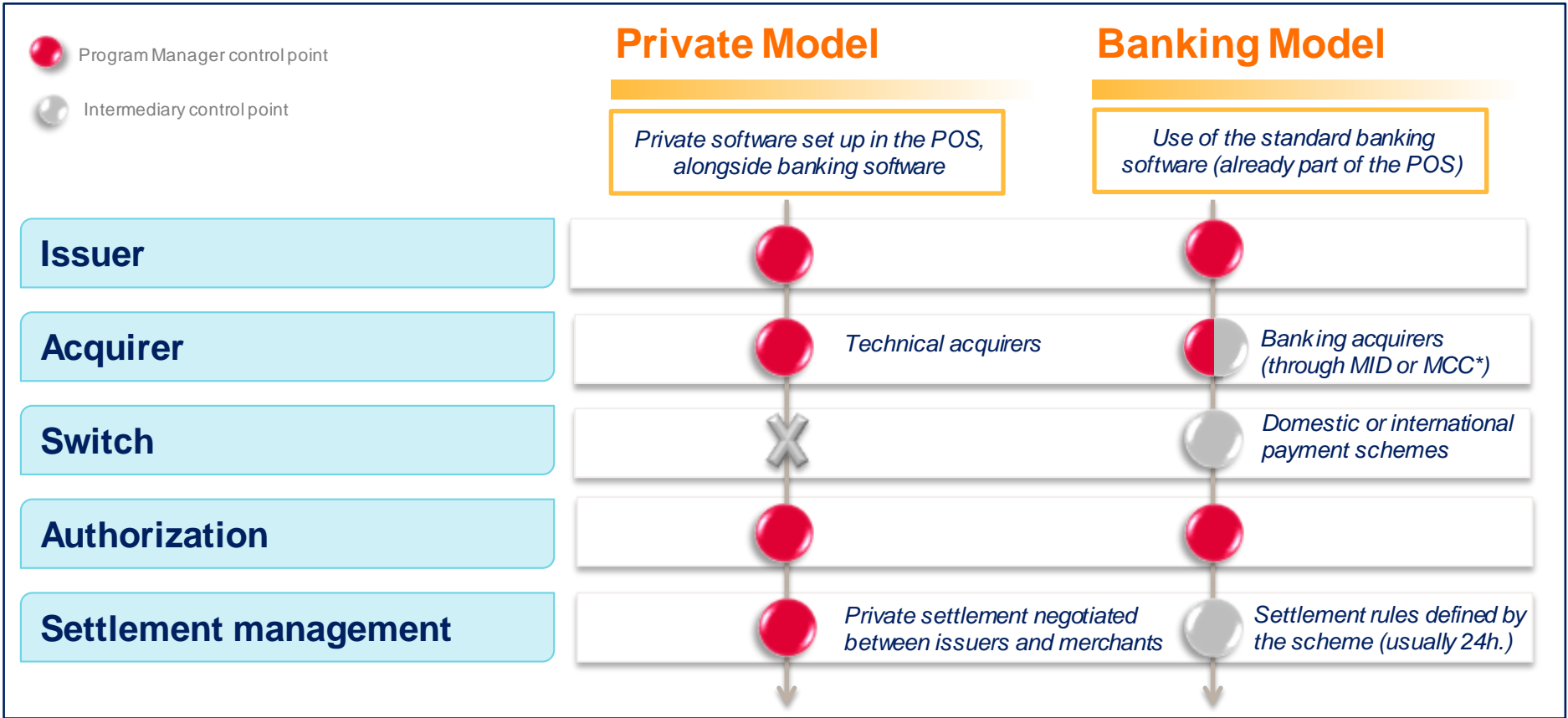
Processor / Authorization

Technical entity which:

- ✓ Ensures the technical processing of a transaction
- ✓ Provides IT data to issuers and acquirers



Coexistence of Two Models within the Digital Value Chain



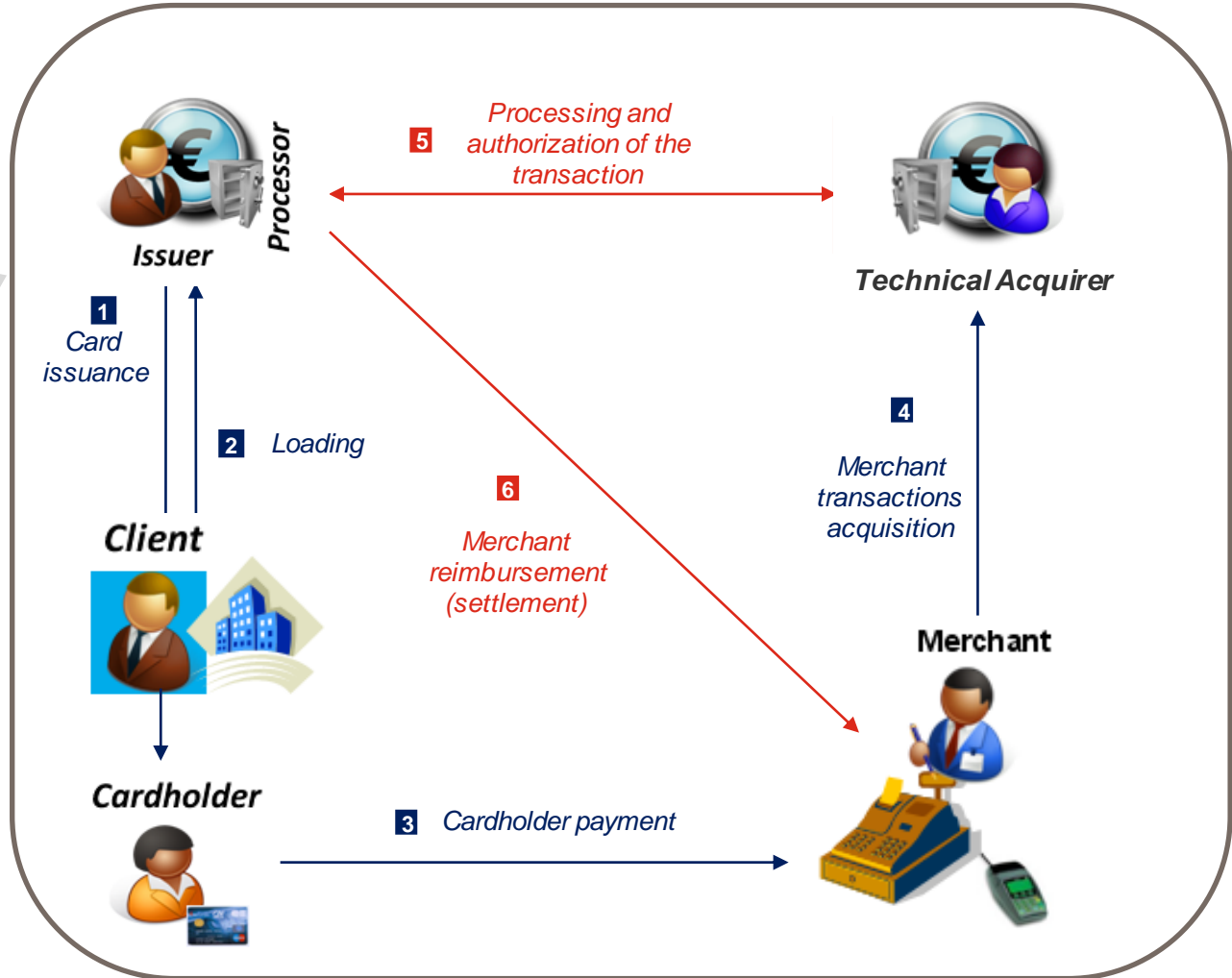
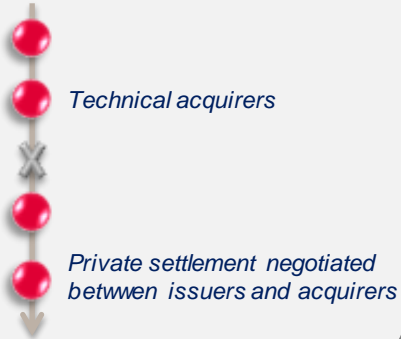
Private model: full control but higher implementation costs

Banking model: lower control but lower costs and quicker implementation

* Data acquiring is controlled by the program manager through MID (Merchant Identification Code) but not through MCC (Merchant Code Category) MID is a code attributed to a single merchant by a payment scheme, whereas MCC is a code attributed to a category of merchants (ex: restaurants)

Focus on the Private Model

Private Model



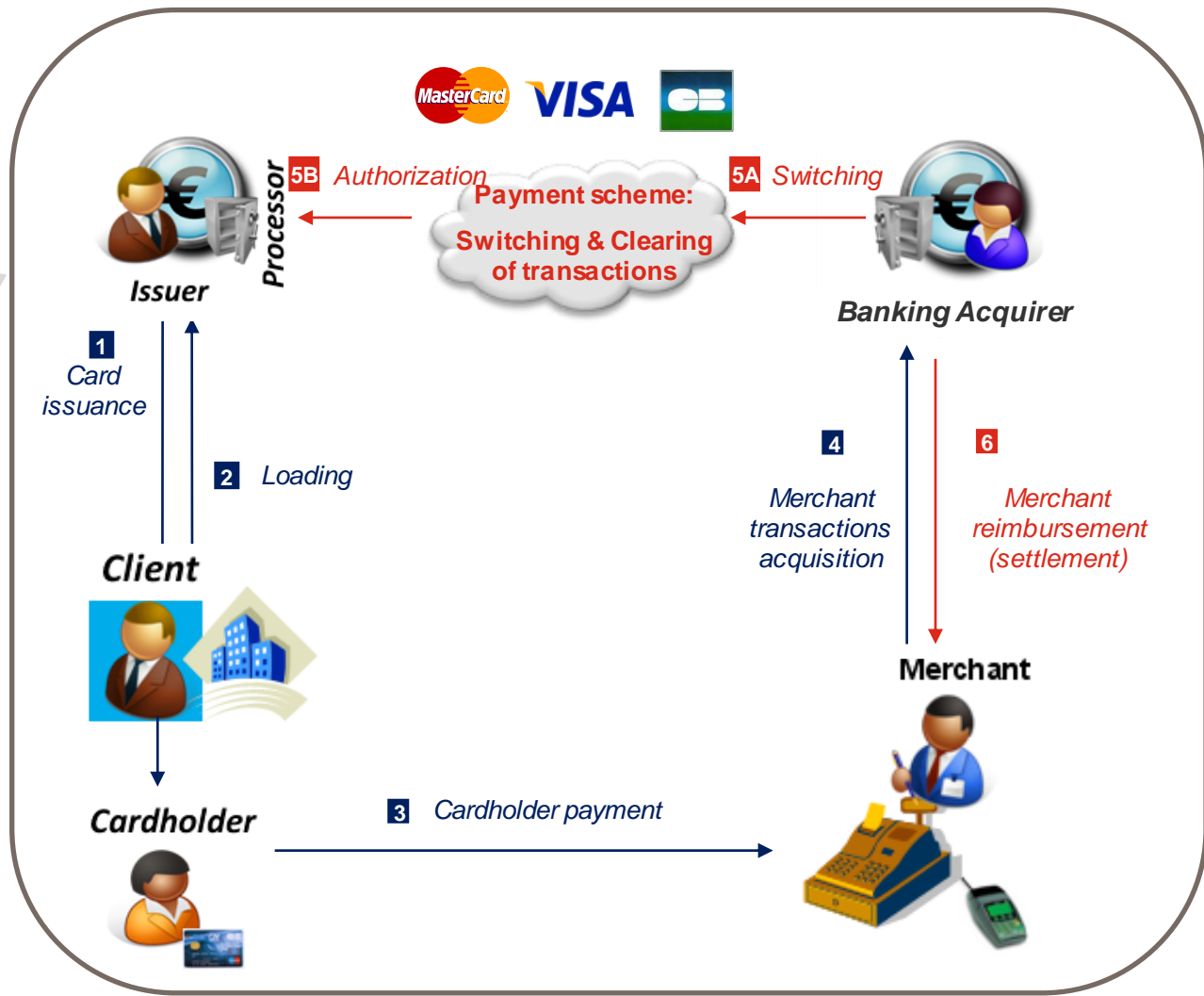
→ Same circuit as the banking model
→ Different circuit compared with the banking model

Merchant fee is collected directly from merchants

Focus on the Banking Model and Payment Schemes' Role

Banking Model

- Banking acquirers
- Domestic or international payment schemes
- Settlement within 24 hours



Same circuit as the private model
 Different circuit compared with the private model

Merchant fee is collected through the interchange fee, defined by payment schemes



Mobile Phone Devices

- **Mobile value chain is the same as card value chain**
- **Specific features of the mobile value chain:**
 - ✓ Different technology (mobile vs. card)
 - ✓ Mobile operators play the role of acquirers
- **Different options for mobile technology use:**
 - ✓ “Mobile to POS” transaction (beneficiary has to be equipped with an NFC mobile and merchant with an NFC POS or mobile)
 - ✓ “NFC card to mobile” transaction (beneficiary has to be equipped with an NFC card and merchant with an NFC POS or mobile)



Mobile is an alternative technology, but the digital value chain remains the same

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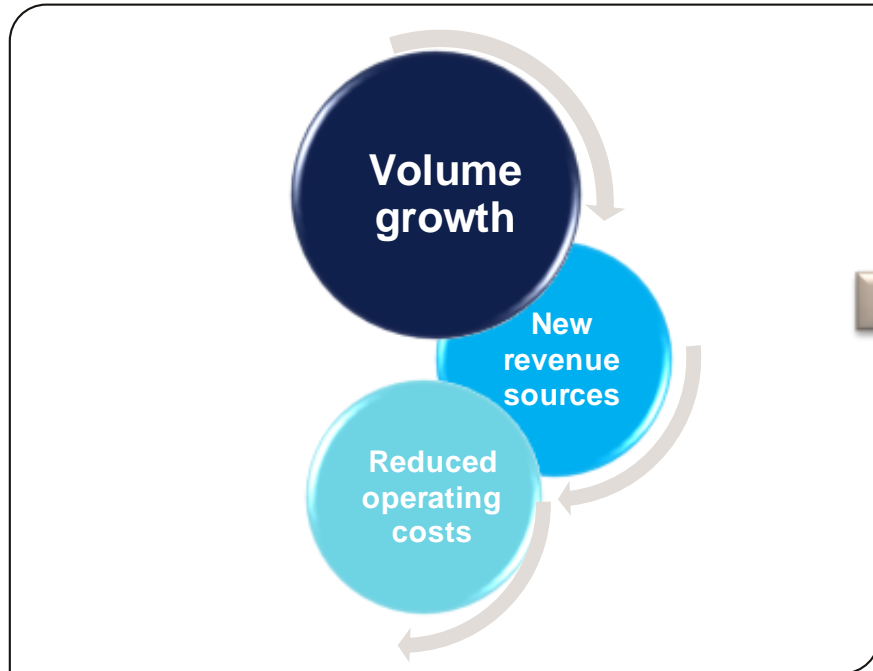
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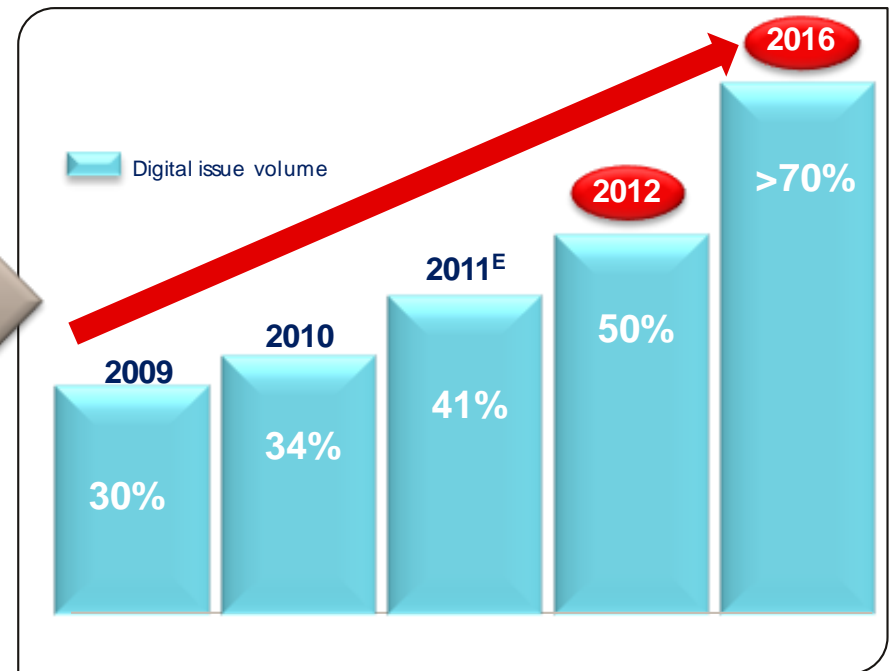


Overall Digital Strategy

Long-term positive effects for Edenred



Acceleration of the shift to digital



**Acceleration of the shift to digital since the demerger:
objective of 41% digital issue volume at year-end 2011,
50% at year-end 2012 and more than 70% post-2016**



Choice of Digital Model

Two options depending on local conditions
and program characteristics

Private Model

- **Choice criteria:**
 - High volume program
 - Filtered-loop network
- **Edenred examples:**
 - ✓ Meal and Food cards in Brazil
 - ✓ Meal cards in Belgium
 - ✓ Meal cards in Turkey



Banking Model

- **Choice criteria:**
 - Low volume program
 - Open-loop network (with filter option)
- **Edenred examples:**
 - ✓ Expendia Smart in Italy
 - ✓ Solred card in Spain





Choice of Technology

A wide range of technologies in the digital universe



Technology selection criteria:

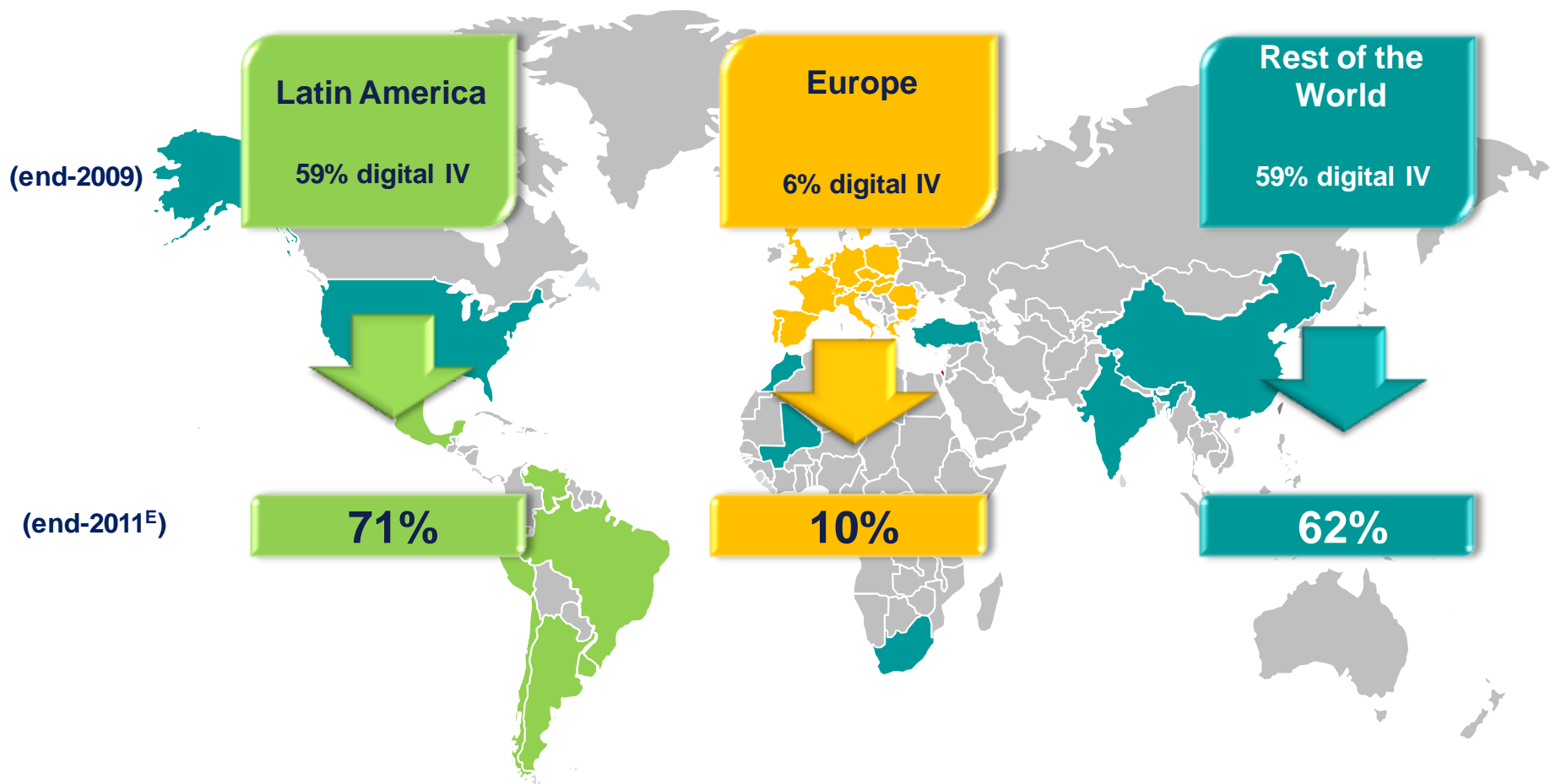
- ✓ Client demand
- ✓ Local environment (percentage of merchants and beneficiaries equipped with the technology)

Edenred operates with all types of technologies

Ex: currently 3 countries with mobile pilots

Edenred is technology agnostic

Digital Transition Map



Latin America and Rest of the World in final stage of digital roll-out

Start of digital roll-out in almost all European countries

Group's target: 50% of digital issue volume by year-end 2012

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Short and long-term financial impacts of the digital transition

Short-term

- 1 **No major investment linked to the shift to digital solutions**
(authorization and settlement platforms already deployed)
- 2 **Extra costs during the speed up phase (2011/2012): €10m to €15m per year**

Operating flow-through ratio⁽¹⁾ around 30% in 2011/2012, reflecting continued increase in operating margin despite extra costs during migration to digital

Long-term

- 1 **Stable take-up rate⁽²⁾**
- 2 **5% to 10% cost reduction**
- 3 **Shorter float holding periods offset by higher volumes**

Objective of operating flow-through ratio⁽¹⁾ above 50% post 2012

(1) Ratio between the like-for-like change in operating EBIT and like-for-like change in operating revenue

(2) Take-up rate: ratio of operating revenue to issue volume

2 Extra costs during the speed-up phase (1/2)



Speed-up phase (2011/2012)

Project launch costs (non-recurring)

- ✓ Market survey
- ✓ Digital ecosystem study
- ✓ Analysis of the regulations
- ✓ Functionalities definition



Start-up costs (non-recurring)

- ✓ Creation of acquiring and processing solutions
- ✓ Middle-office adaptation or creation
- ✓ Installation of applications on POS
- ✓ Affiliation of merchants, and training in the use of the applications (specific sales force)



Ongoing paper solution costs

- ✓ Issuance and reimbursement costs
- ✓ Logistics costs



New recurring costs (digital)

- ✓ Cost of beneficiary support hotlines
- ✓ Data acquiring and processing



2 Extra costs during the speed-up phase (2/2)



One-off extra costs during the digital speed-up phase (2011/2012):
€10-15m per year

1 Stable Operating Revenue / Issue Volume ratio

Brazilian Experience



Creation of new sources of revenue

CLIENT

- ✓ Card issuance fee
- ✓ Card reissuance fee
- ✓ Merchant affiliation fee

MERCHANT

- ✓ Merchant annuity
- ✓ Bank transfer fee
- ✓ Quick reimbursement fee

Reduction in Lost & Expired products

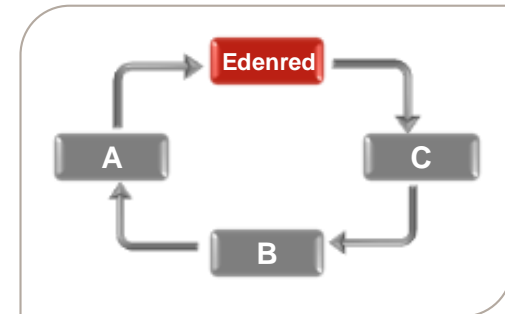
- No significant change in expired products
- Reduction in lost products

Invent 2016

New sources of revenue to be developed

- ✓ Couponing and loyalty services for affiliates and/or beneficiaries
- ✓ Consumption statistics to drive more and better targeted beneficiaries to affiliates

Leverage our network relationships and the knowledge of end-users' habits

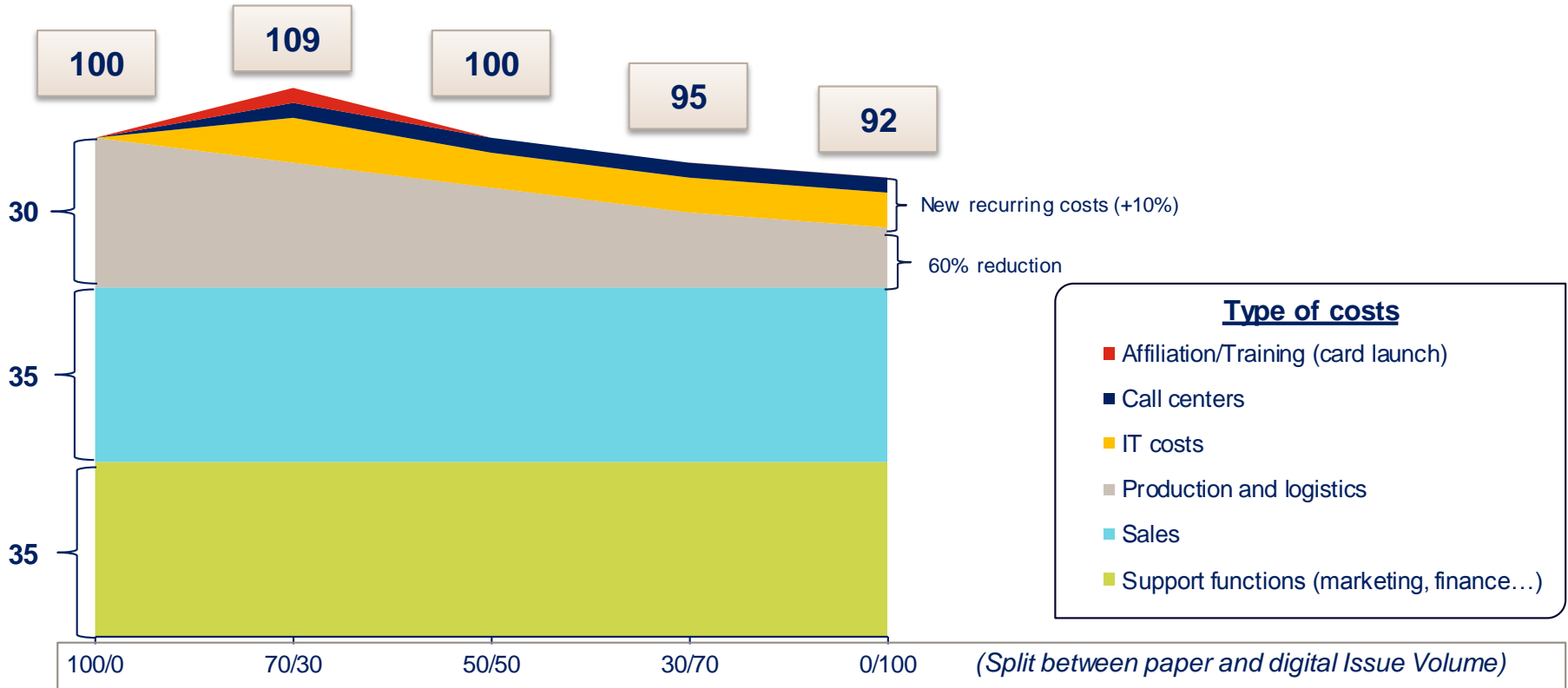


Post digital transition, stable take-up rate rate ⁽¹⁾

(1) Take-up rate: ratio of operating revenue to issue volume

2 Post-transition Cost Reduction

Cost trend at constant volume - Illustration (Base 100)



40%-50%

~30%

~50%

>50%

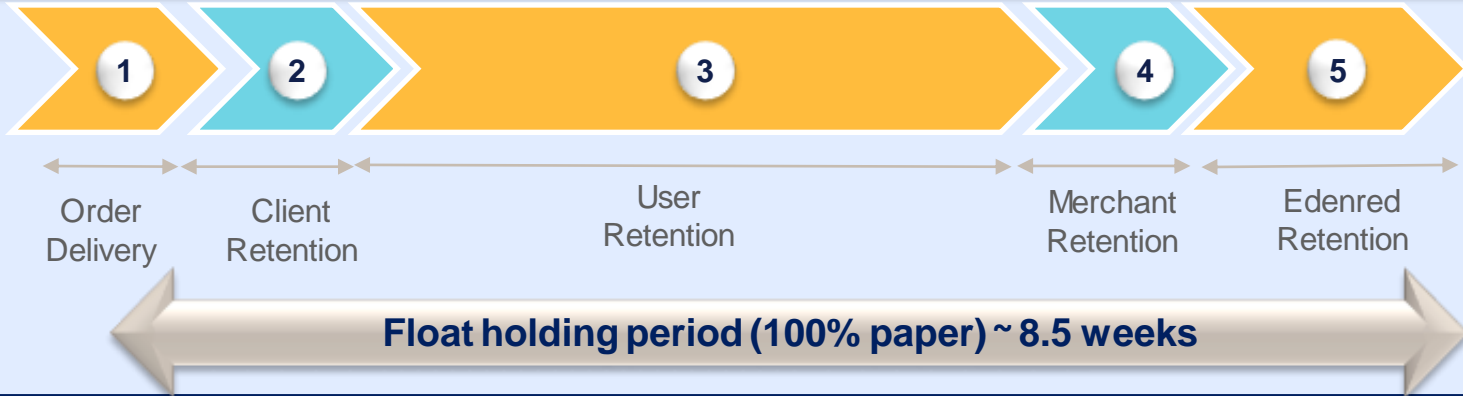
>50%

Operating Flow-through ratio

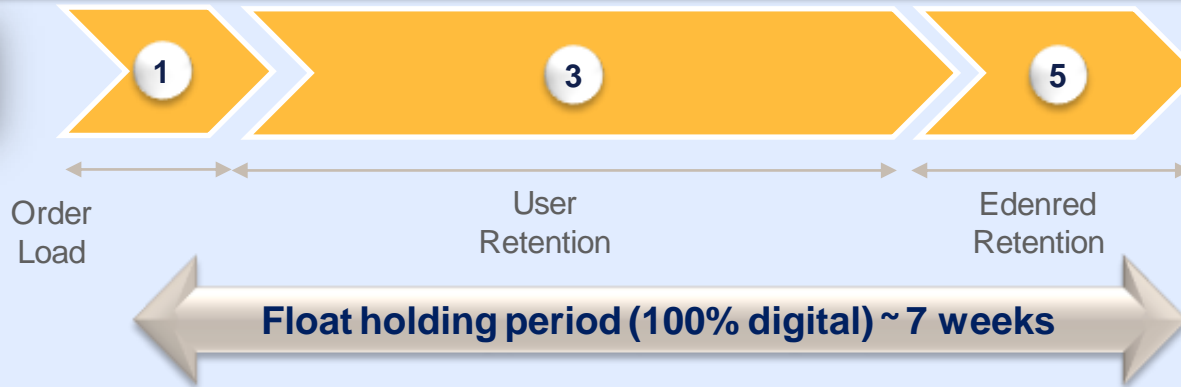
5% to 10% cost reduction post digital transition, depending on volume generated by the solution

3 Float Holding Period Reduction

Paper Cycle



Card Cycle



Holding period reduction at two stages of the cycle:
client delivery stage and merchant retention stage

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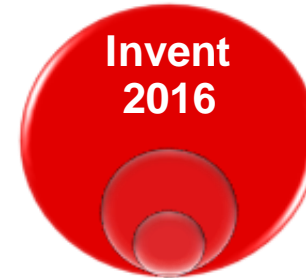
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Digital Transition: Opening New Horizons

Since the 1960's



2012



New markets
New Customers
New needs

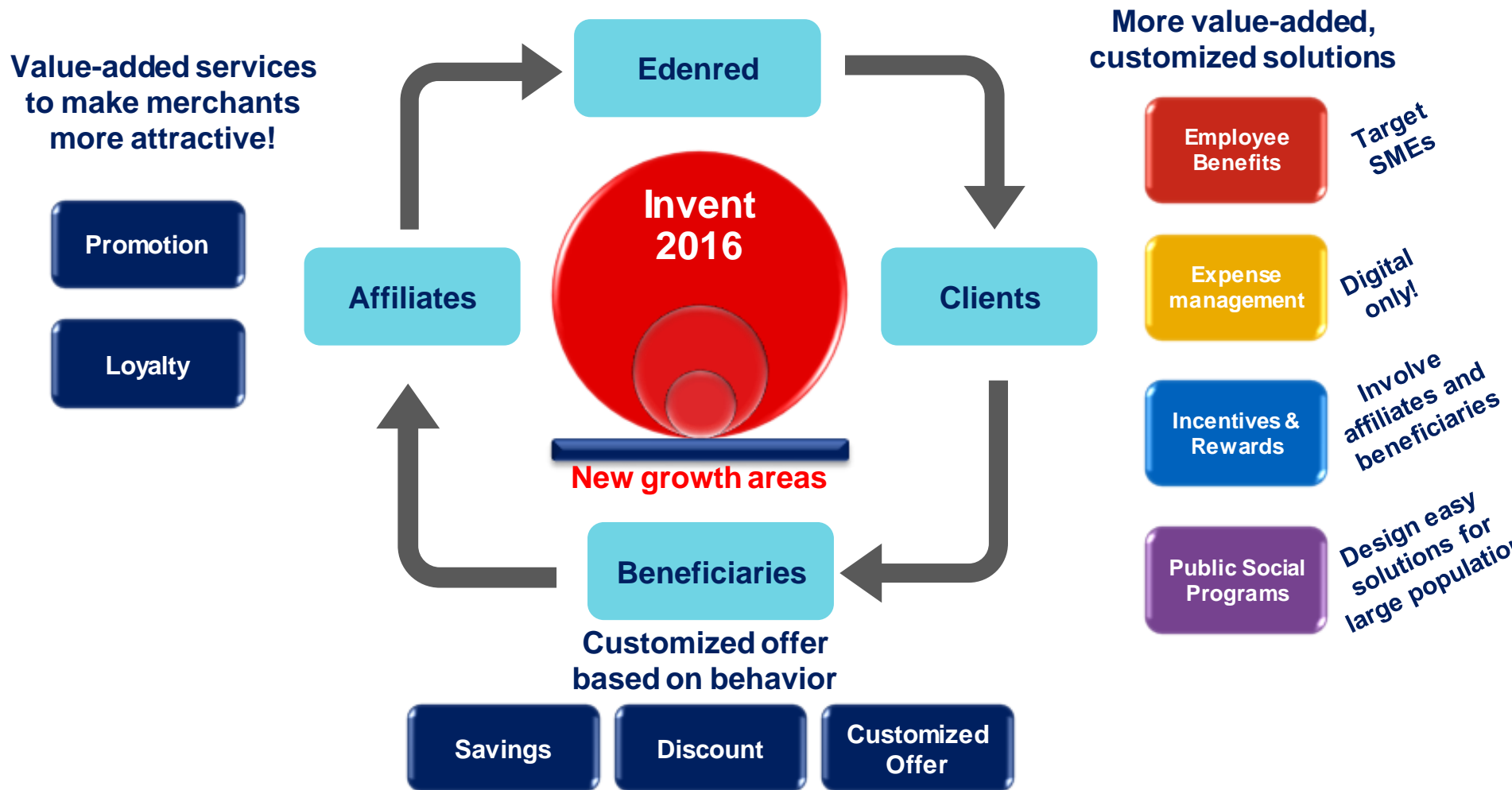
New solutions
New competition
Web2.0 community...

From Paper...

Digital Transition...

To Electronic

Digital will help Edenred to *Invent 2016*



Leverage relationships with all our stakeholders to invent new growth markets
Sustainably accelerating growth