

Stock Market Review

RS2 CEO: Listing important for deal on Barclays shareholding



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The CEO of RS2 Software plc Radi El Haj claimed that the company's Stock Exchange listing was an important factor for expediting the due diligence exercise that was conducted by Barclays Bank plc in connection with the licensing and the shareholding agreement reached earlier this year. He stated this in an interview which I carried out with him exclusively for this week's article.

Following the important developments at RS2 which saw the UK multinational bank sign an £8.5 million Bankworks software licence agreement and acquire an 18.25 per cent equity stake in RS2, I felt it was important to touch base with the CEO to understand the company's expansion plans and future strategy following this significant development.

The initial announcements were made by RS2 on May 16 and June 19. RS2 informed the market that "a major European bank intends to establish a strategic relationship with the company" and that this same bank intends to acquire a substantial shareholding of not less than 10 per cent. When the name was disclosed on August 30, some stock market participants and shareholders in RS2 questioned why a bank such as Barclays would wish to acquire a minority stake in a company listed on the Malta Stock Exchange.

I therefore started off the interview by asking Radi El Haj, who remains the majority shareholder of RS2, to explain how the deal evolved. The CEO explained that Barclays issued an official request for a proposal for card management services to RS2 and its major competitors. RS2 was selected as the best provider due to the functionality of Bankworks and its global reach through its present exposure in various regions worldwide.

Mr El Haj stated that after the negotiations on the licence agreement were concluded, Barclays indicated a willingness to also acquire a shareholding due to "the importance of the acquiring

business for Barclays". The bank wished to ensure that RS2 remains committed to the system over an extended period of time.

In the words of the CEO, the acquisition by Barclays was a "strategic one". Mr El Haj admitted that this was the first time a request for a shareholding in addition to a business relationship was received. He explained that large competitors of RS2 normally enter into joint ventures with banks or service providers who wish to ensure business continuity.

A frequent question asked by many retail investors following the news of the Barclays relationship was whether the bank's shareholding in RS2 could deter other Tier 1 banks from considering RS2's software given the involvement of a Barclays representative on the board of directors. The CEO dismissed this by explaining that certain measures were taken to ensure that no sensitive information is disclosed even at board level in order to protect the interests of all customers.

In terms of the benefits that were derived from being a publicly traded company during the entire process, the CEO claimed that most of the documents requested by Barclays as part of the due diligence process were readily available from RS2 and this expedited the entire exercise.

Mr El Haj believes that the listing improved RS2's credibility in the process by having all financial statements readily available including business plans, budgets, documents related to compliance matters as well as corporate governance procedures. The CEO indicated that such documents may not have been in place or regularly updated had RS2 still been a private company.

At this stage I referred the CEO to the prospectus published by the company at the time of their Initial Public Offering in May 2008. The document had indicated that as a result of the stock exchange listing, the company aimed to raise its profile "not only with possible future providers of funds, but also with its clients both present and future, thereby assisting the development of the company's business".

When asked whether this was achieved by RS2 after five years as a publicly traded company, Mr El Haj admitted that the listing on the Malta Stock Exchange achieved its objectives by enabling the company to enhance its profile. This is of utmost importance for those companies seeking to attract international investors. The CEO went on to explain that although shareholders of private companies



Radi El Haj is the chief executive officer of RS2 Software plc.

invariably question the costs and obligations that are incurred not only in the initial stages but on an ongoing basis as part of a stock exchange listing, he believes that these are fully justifiable when one considers the many benefits that are achieved over time. These frequently remain unnoticed at the outset.

Mr El Haj also feels that for companies that are seeking to grow internationally, another benefit of a public listing is that this opens up the possibility of obtaining a secondary listing in another market. Although RS2 has no such immediate time frames in mind in this respect, the CEO believes that this would be very much dependent on the company's future growth and market opportunities that become available in due course.

"With respect to the managed services area, Mr El Haj explained that the immediate focus is on Europe"

Some shareholders or financial analysts may wonder whether the involvement of Barclays changes the long-term strategy of the company. Mr El Haj feels that although this will help RS2 grow since "Barclays has a great reputation in the industry" and it provides the necessary confidence for new clients and other major players in the field to also seek relationships with RS2, the company must deliver on its promises and maintain its focus on its core business operations.

As such, the CEO claims that although the Barclays involvement may help accelerate RS2's growth, there is no immediate impact on the company's strategy. The vision remains one of "increasing the

business of managed services and outsourcing and focus on delivering the best services to its current clients and securing new clients for the licensing business".

Mr El Haj reiterated what was stated in the company's recent announcement on the plans for expanding in Latin America, especially with respect to licensing and other services.

So why Latin America as opposed to other regions such as Asia? The CEO was quick to point out that RS2 is already implementing a system in the region and they are discussing the expansion of the present cooperation with an existing client in that region.

While he claimed that Asia is not an immediate priority for the company, the CEO added "you never know what opportunities may present themselves in the future".

With respect to the managed services area, Mr El Haj explained that the immediate focus is on Europe. RS2's focus remains on offering processing services to merchants and institutions. This may necessitate increased human resources requirements in Germany to provide client support services for such potential clients.

In the recent Interim Directors' Statement published on November 14, the company also reported that it "is in intensive and advanced negotiations to conclude various agreements with new clients".

Mr El Haj explained that contract negotiations are ongoing with a number of new potential and existing clients for licensing and other services. While the company already reached a mutual understanding contractually on all delicate items, as well as the scope of the licence and the services to be provided, certain legal issues need to be finalised, and specific announcements will be made separately once each of the agreements are concluded. The CEO expects this to take place during

the course of the first quarter of next year. On the processing aspect, Mr El Haj explained that contracts are being negotiated with merchants and other payment services providers.

During the last 18 months, a number of very important developments took place at RS2, starting off with the completion of the new head office in Malta and the setting up of the managed services subsidiary. Subsequently, RS2 confirmed a licence agreement with a client in Latin America and, more recently, the deal with Barclays Bank plc. The stock market recognised the importance of these major milestones with the share price rallying significantly and strongly outperforming all other equities listed on the Malta Stock Exchange.

Mr El Haj was visibly very proud and satisfied at the progress achieved in 2012 and 2013 and claims that this would not have been possible without the foresight of the €7 million investment in the new property in Malta. The CEO explained that the purposely-built offices were designed with all compliance standards in mind for the processing of transactions. He claimed that this heavy investment in the property was instrumental to enter the managed services business.

Mr El Haj elaborated by stating that RS2 has to comply with various standards and audits of the payment industry on an annual basis to ensure the security aspects of the system, access to the data as well as the network and the source code. The new premises ensure that the company complies in all such measures.

The short interview conducted with the young and dynamic CEO of RS2 provides further evidence of the long-term benefits of a stock exchange listing especially for those companies that are seeking to grow internationally and in the process also aiming to attract international investors.

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