

E-Invoicing / E-Billing

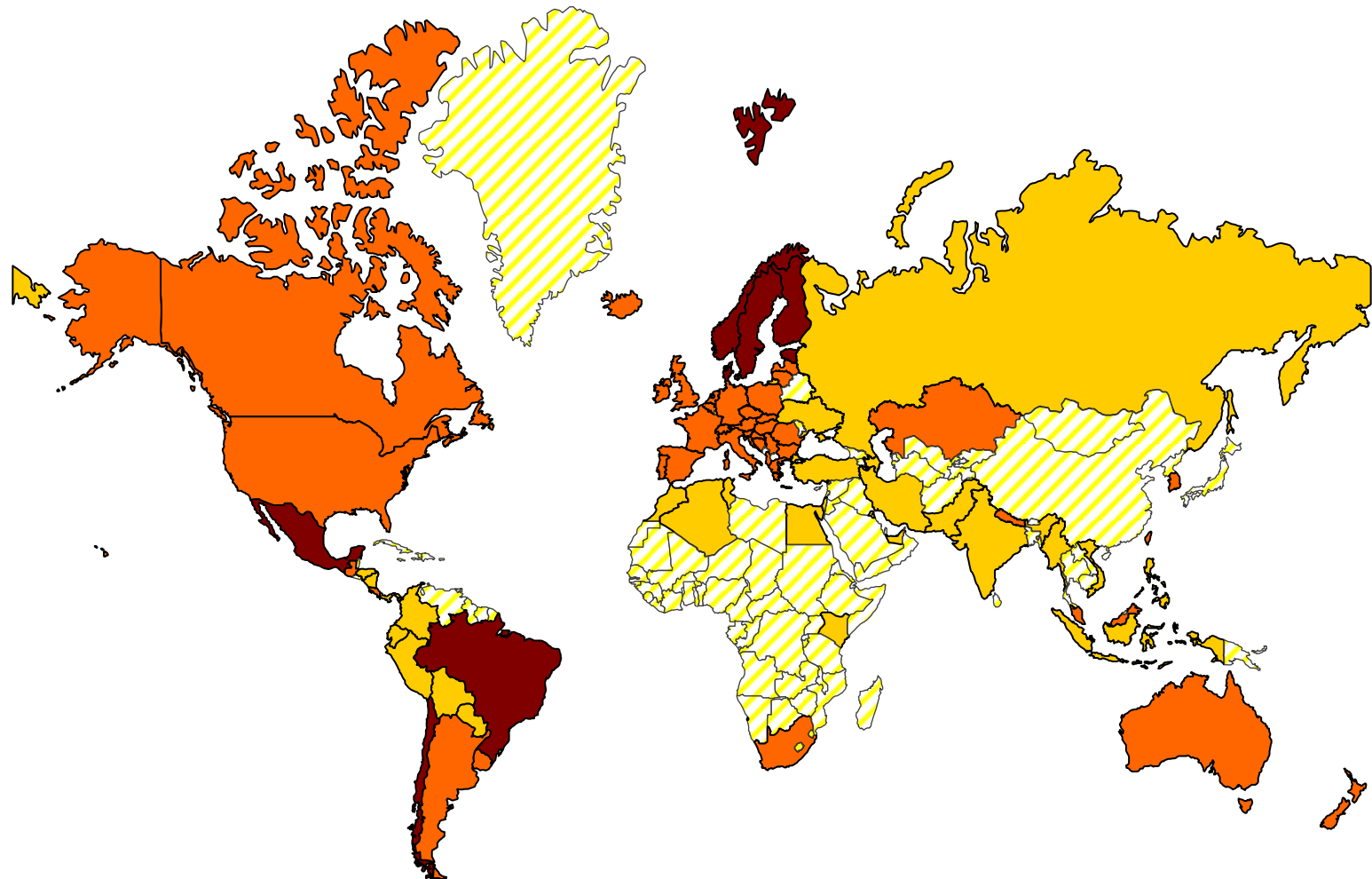
International Market Overview & Forecast



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Global overview

International E-Invoicing Market 2013



 Leaders

 Average

 Developing

 Laggards

Development of E-Invoicing Market Penetration



Recipient segment	Annual bill & invoice volume estimated to be at least		Estimated electronic proportion of total volume in 2013		Estimated annual volume increase in electronic bills/invoices	
	World	Europe	World	Europe	World	Europe
Consumer	200 billion	17 billion	>5%	13%	20%	20%
Business & Government	150 billion	16 billion		20%		29%

- Payment, Trade Finance and Procurement as main drivers
- Preference for optimization of internal operations (AR and AP management); E-Invoicing just one feature of P2P automation
- Increasing focus on collaboration with trading partners
- Direct exchange of E-Invoices among trading partners dominates; compared to Europe and LATAM, 3rd party operators not yet very numerous and powerful
- US Treasury Bureaus were mandated to implement Internet Payment Platform (IPP) by end of 2012; by 2013, Treasury will require that its commercial vendors submit their invoices using IPP
- The market for E-Invoicing is opening up. Currently at \$280 million, PayStream Advisors predicts demand is growing at a compound average annual growth rate of 13 percent.

- Very strict legislation
- E-Invoicing pushed by public sector
- Real-time audit or invoice data mining by tax authorities with the aim of combating tax evasion
- Obligations for E-Invoicing announced/planned in Chile, Costa Rica, Ecuador, Guatemala, Uruguay (local stakeholders expect a jump to 70% E-Invoicing market penetration in the country by 2015)
- Brazil, Mexico and Chile as market leaders

- First steps with B2C E-Billing; B2B legislation missing in many countries; sometimes, EDI invoices & paper originals
- Many advanced countries are more likely to adopt the (tax) control focussed LATAM model than the liberal European model
- Russian legislation now supports E-Invoicing; increasing activities in this large market
- Some other countries mandate the market participants to exchange invoices in electronic format, e.g. Kazakhstan, Nepal, Singapore, critical industries in Turkey, ...
- Some countries are in the process of closing the loop between tills at points of sale – tax authorities – and clients. This happens either with the help of fiscal printers or electronic receipts (similarities with E-Billing)
- Several advanced initiatives of federal administrations in the Pacific Region, including eProcurement

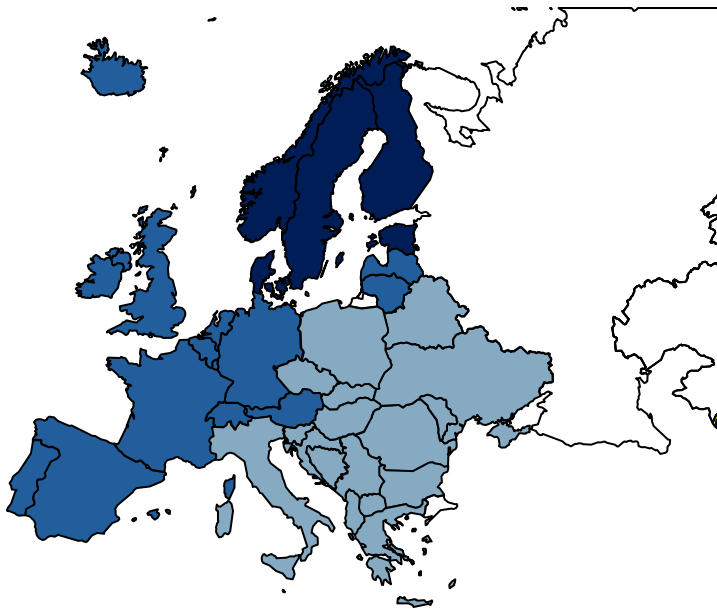
European Market

Market Penetration 2013

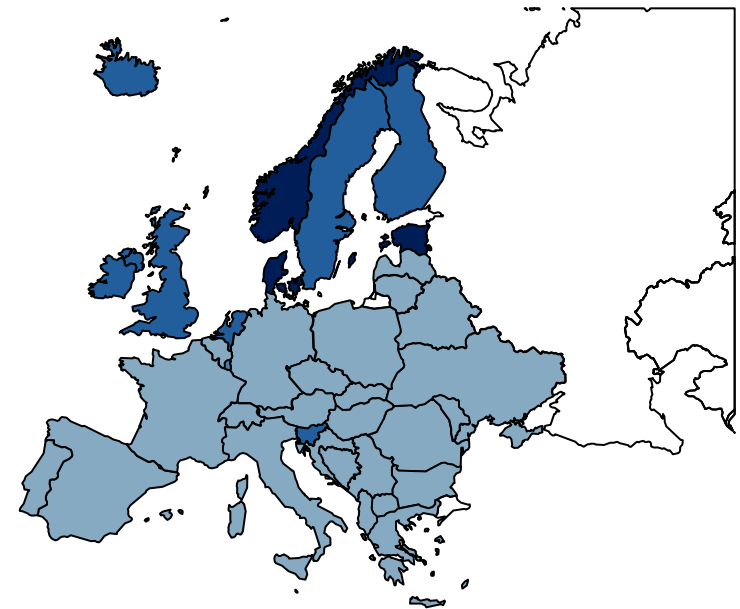
(Electronic share of total invoice/bill volume)



B2B/B2G/G2B



B2C



 >40%

 15-40%

 <15%

- Segments with (relative) decreasing growth rates due to
 - some saturation in a few Nordic countries and high volume industries (e.g. Retail, Telecom, Utilities, Healthcare in Switzerland)
 - postponed projects due to uncertainty about the legal changes when published not earlier than Q4 2012.
- Segments with (relative) increasing growth rates due to
 - the special effect caused by the new legislation in EU countries implemented it in 2010-2011; a proportion (around 20%) of unsigned PDF not considered in the past becomes part of the statistic as they are now tax compliant; the remaining 80% of the PDF invoices are still not considered as the survey shows that they are printed and the electronic origin is not archived

- Segments with (relative) increasing growth rates due to
 - higher publicity and increasing demand
 - public sector initiatives
- Decreasing (relative) growth rates for E-Invoicing networks due to
 - substitution by direct model or SaaS
 - larger networks including some operators with a focus on slower growing industries (Retail, Healthcare)
 - basis effect for some larger operators. Maintaining exponential growth is a challenge.

Development of European Market Penetration



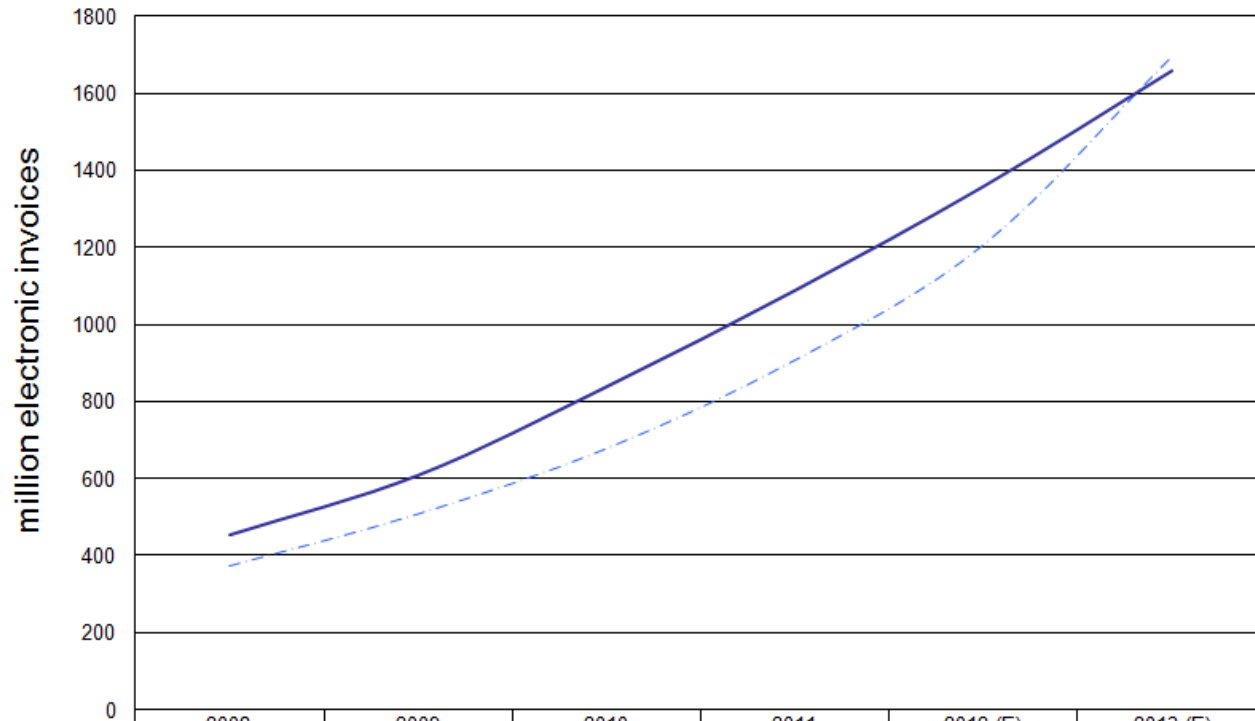
Electronic share	2008	2009	2010	2011	2012 (E)	2013 (E)
B2C	4%	5%	7%	9%	11%	13%
B2B/B2G/G2B	6%	8%	10%	13%	16%	20%
Weighted average	5%	7%	9%	11%	14%	18%

Channels Used for Electronic Invoices

B2B/B2G/G2B volume



B2B/B2G/G2B: Electronic invoice volume transferred directly or via service providers

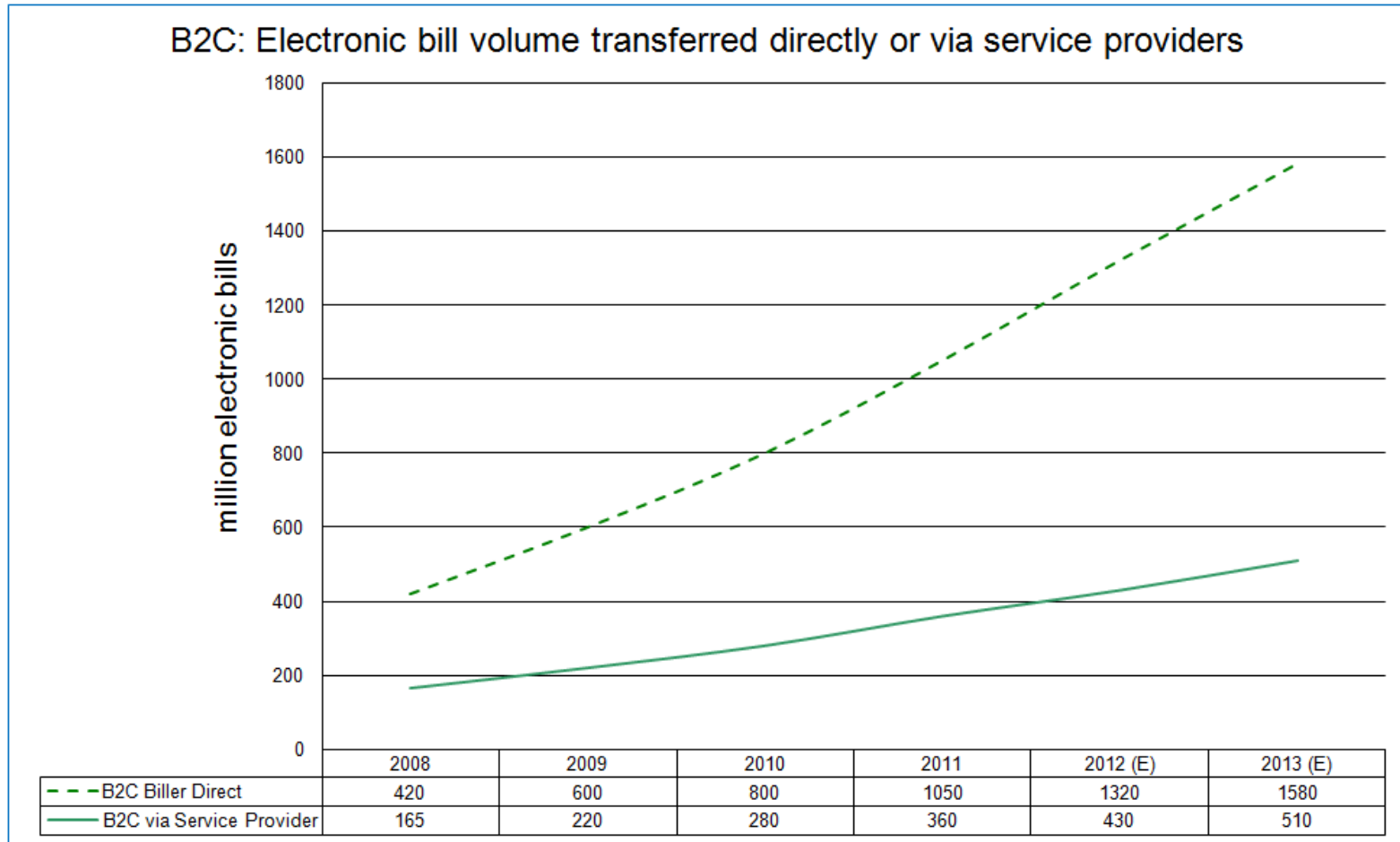


	2008	2009	2010	2011	2012 (E)	2013 (E)
B2B Supplier/Buyer Direct	375	510	680	910	1210	1700
B2B via Service Provider	455	610	840	1090	1360	1660

The strong increase in direct volume is mainly a statistical effect. Due to the new legislation in EU countries, a portion of the unsigned PDF invoices belongs now to the “tax compliant” invoices and are therefore considered in these statistics.

Channels Used for Electronic Bills

B2C volume

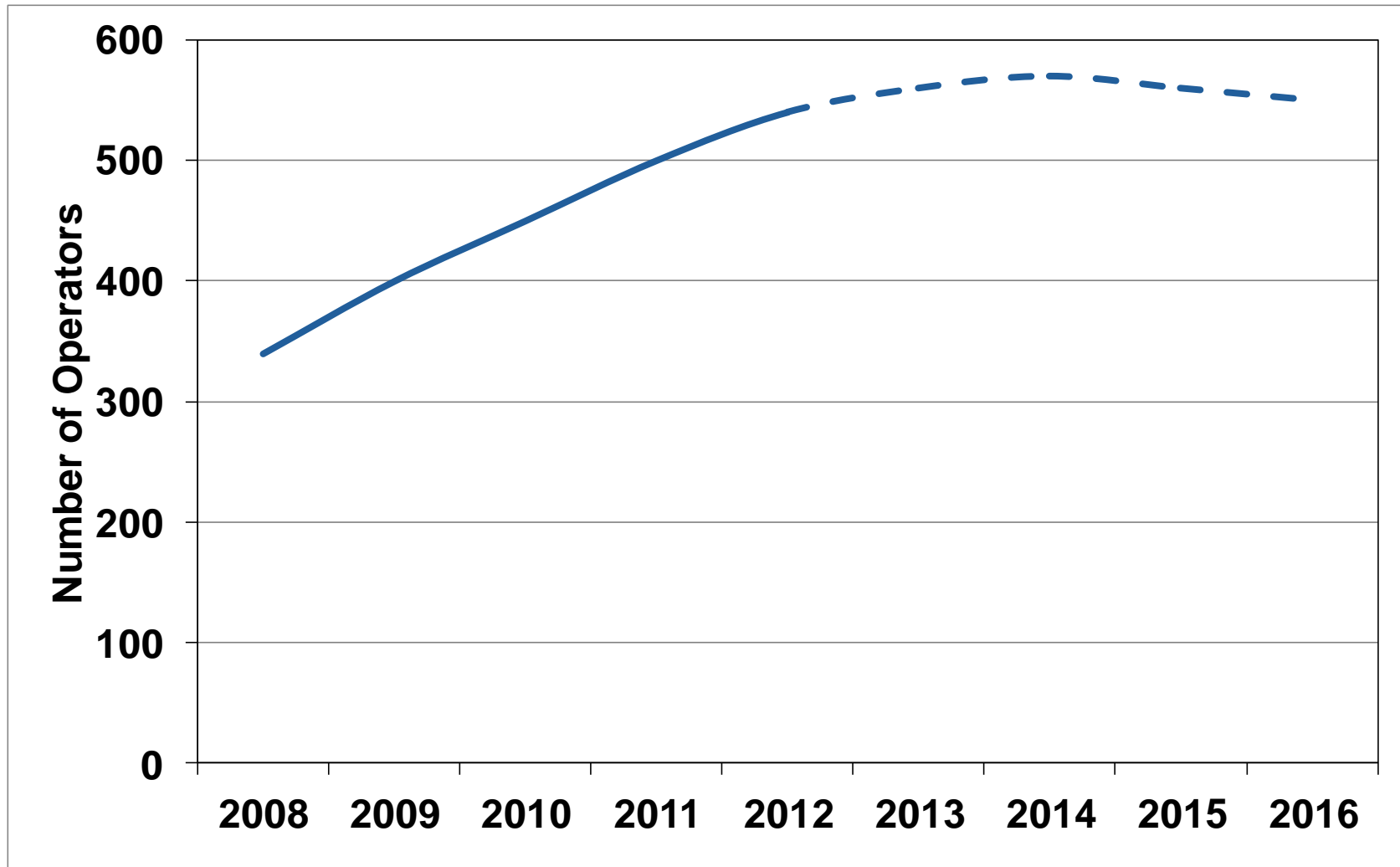


A very large German Telco operator loses steam and the proportion of its E-Invoicing users increases just modestly. Due to its size (15+ million e-bill subscribers), it has an impact on the European figures.

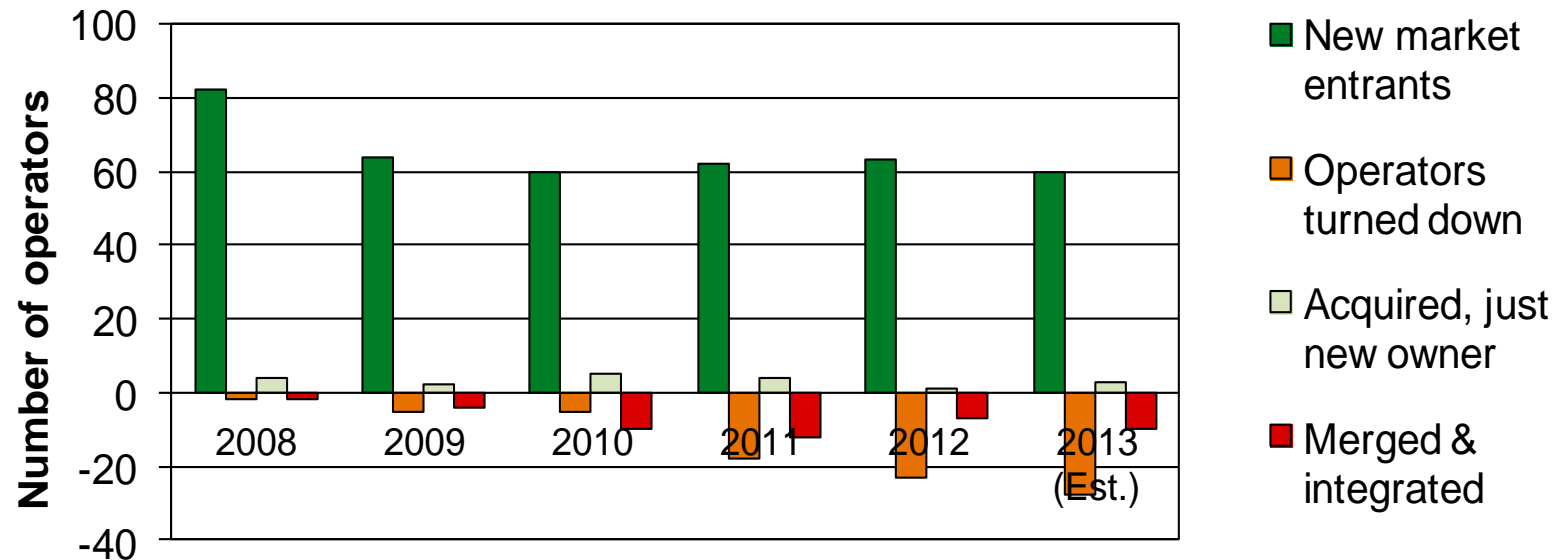
E-Invoicing network operators in Europe

- Provider offerings
 - Price erosion is likely to accelerate, especially on the supplier side and for the classic transaction business with little added value
 - Increasing importance of further added values
 - Trade Finance
 - Broad market coverage (directly or via partners)
 - Interoperability and open platforms
 - Support for processes and messages exchanged before an invoice appears
- Increase in direct exchange of (unsigned) PDFs bypassing operators; secure ePost / digital mail services unlikely to occupy this field
- New operators in countries with powerful public sector projects
- Downturn or takeover of providers not yet profitable, without substantial market share or with an inflexible solution architecture

E-Invoicing network operators in Europe



Changes in the service provider landscape

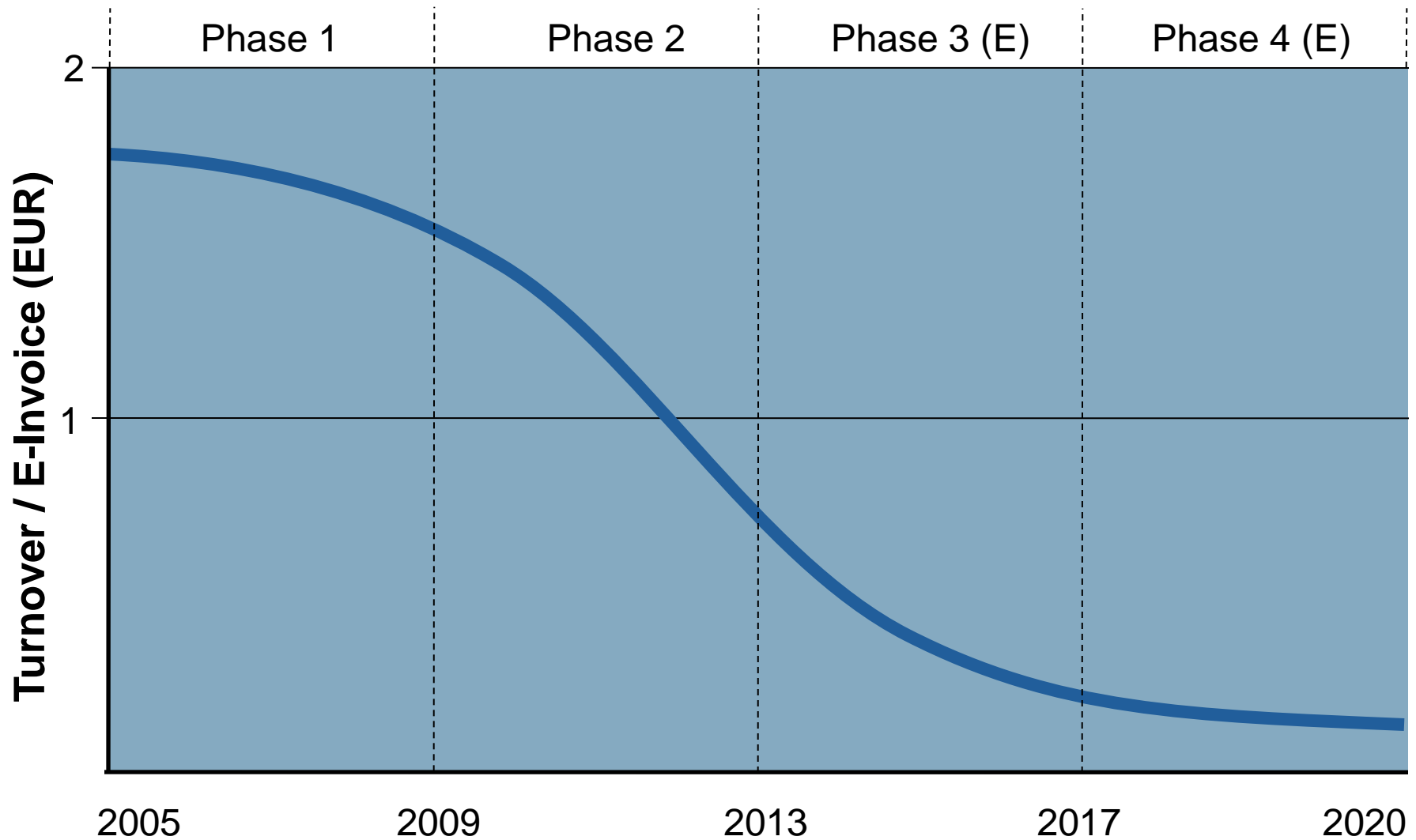


The service provider community might generate in Europe in 2013 a transaction based E-Invoicing/E-Billing turnover of about 1.7 billion Euro. The turnover* is estimated to grow annually by 17-15% during the next 3 years.

*) Besides this transaction based turnover, additional business is generated with the application and integration business. The valuation of that part is subject of future investigations.

E-Invoicing Network Operator Turnover (1)

Evolution of the Metric Turnover/E-Invoice (B2B/B2G/G2B)



E-Invoicing Network Operator Turnover (2)

Assumptions, considered providers and calculation base



- Considered are Service Providers acting in Europe and including all categories of operators (EDI Clearing Centres, focussed E-Invoicing operators, others like electronic marketplaces); depending on the degree of added value and international coverage, the services are not necessarily directly comparable, but all considered operators have in common that they process and exchange tax compliant E-Invoices.
- The author developed concrete benchmarks in 2004 and 2009 based on the typical size/volume of senders and recipients at that time and investigated the situation again in January 2013.
- Considered sources are the ratio of the turnover and the processed volume of some larger operators, inside information on consulting projects and several published price lists. In the latter case, the calculation formula include the depreciation (within 2 years) of the setup fee if applicable, the time based fee (annual or monthly fee) and the transaction fee.

E-Invoicing Network Operator Turnover (3)

Phase 1 (2004-2008)



- From 2004, legislation adopted by EU members supported E-Invoicing.
- Pioneer operators developed the E-Invoicing Market. Their costs as market makers were tremendous.
- Large buying organizations showed interest in E-Invoicing. Due to their multinational trading network, they had very demanding legal requirements. However, they recognized their own cost savings as recipients of electronic invoices and accepted a fee for exploiting this saving potential.
- Their suppliers, as invoice issuers, also saw the saving potential and accepted a fee for the services of an E-Invoicing network.
- There was not much competition between E-Invoicing networks aimed at addressing this demand by multinationals.

Issuers and recipients can save costs with E-Invoicing. In Phase 1, both parties benefitting of it were willing to pay a reasonable price.

E-Invoicing Network Operator Turnover (4) *Phase 2 (2009-2012)*



- The growth from 340 to 540 E-Invoicing network operators resulted in strong competition, price pressure and innovation.
- Large users increasingly benefited from volume rebates.
- Small suppliers typically had the opportunity to key-in a limited number of invoices for low or no transaction cost on web portals of E-Invoicing networks.

**2011: The processed E-Invoicing volume via service providers increased almost 30%, but the turnover “just” 21%.
→ 7% less Turnover/E-Invoice compared to previous year**

E-Invoicing Network Operator Turnover (5)

Phase 3 cont....



- The public administration becomes a user, thereby
 - affecting the vast majority of enterprises in each European country.
 - increasing the number of users as well as the processed volume significantly.
- Most countries declaring some level of obligation to E-Invoicing might see additional service providers trying to play a role between the suppliers and the public administration. This is despite the fact that federal administrations typically do not intend paying a fee as an E-Invoice recipient but just as an issuer.
- Increasingly, service providers rely on just the fees of senders of electronic invoices and other business documents.
- Bi-directional exchange of business documents becomes more popular; the income erosion per E-Invoice might be at least partially compensated through additional business messages and other added-values.

E-Invoicing Network Operator Turnover (6) *Phase 3 (2013-2016)*



- The price erosion might be driven by further parameters
 - Discount providers gain traction.
 - The new legislation in EU countries gives a boost towards direct exchange of PDF invoices, bypassing the service providers.
- Service provider contracts with the first generation of large E-Invoicing users might expire, resulting in tough price negotiations for renewal.
- Standardization of E-Invoicing makes changes from one service provider to the next easier.

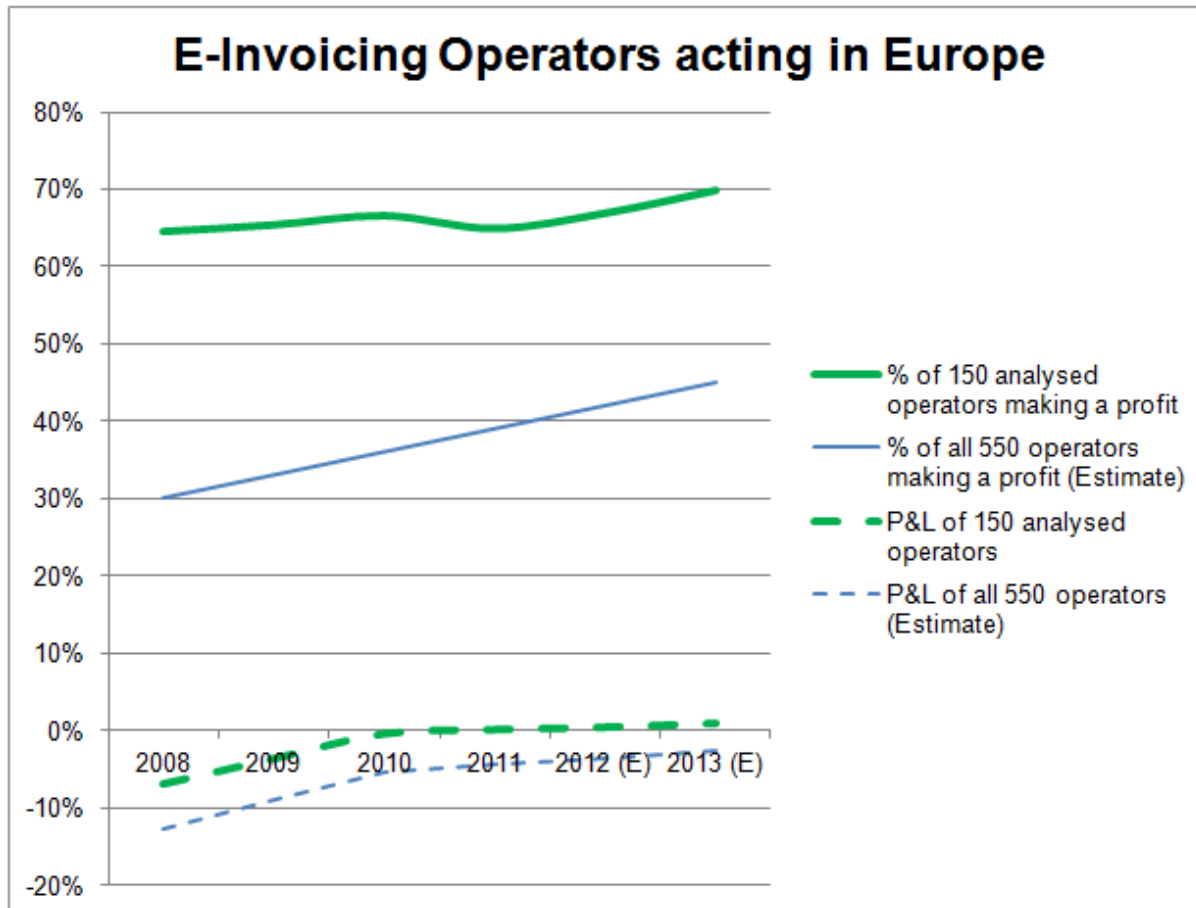
The Turnover/E-Invoice is estimated to erode by 10% p.a. However, new related business opportunities might appear and we have not to be concerned regarding the survival capability of agile providers.

E-Invoicing Network Operator Turnover (7) *Phase 4 (2017-2020)*



- Mass market
- E-Invoicing as a commodity business
- Service providers might offer the services on average for the price “internal costs + small margin” (e.g. EUR 0.15 ± 0.05) and use it as a base for other added-values.
- Why did I not explicitly mention the operators offering the services “for free”? → Because the previous slides consider the “whole operator community” and the figures build averages.

A limited number of operators are expected to be competitive due to economies of scale. Others might differentiate themselves by offering added value along the electronic supply chain or by focussing on interesting market niches.



Analysis:

- Considers just providers with E-Invoicing as a significant part of their business (at least 1/3 of turnover)
- Hard facts & figures from 150 financial statements / annual reports
- Own estimates for all 550 operators including younger market entrants.

It seems that the improved financial flexibility is immediately invested to gain additional market share (marketing & sales, price reductions, ...)

Please find further details in the Market Report
“E-Invoicing / E-Billing 2013 – Catalyst for AR/AP automation”

Report issued in April 2013.

For further information, please visit

www.billentis.com

Definitions & Methodology

E-Invoices

Transported and archived fully electronically from end-to-end in a tax compliant manner; 2011: 10%+ in Europe

Electronic, nok

Fully electronic, but not tax compliant due to lack of integrity, authenticity and legibility; \approx same volume as tax compliant invoices

Semi-electronic

Electronic invoices are supported by paper summary invoices, scanned or printed/archived by recipients; \approx same volume as tax compliant invoices

Transported
and archived as
paper only

Major bulk of paper invoices

Not considered in my statistics

- Screening and interpreting 650+ key sources, including:
 - User surveys in countries (AT, ES, FR, PT etc.) and industries (e.g. banking associations, GS1, santésuisse, ...)
 - Figures from large invoice issuers & recipients (e.g. Deutsche Telecom with around 600 million issued invoices p.a., public sector in several countries representing 10%+ of invoice volume in each country)
 - Figures of leading service providers
 - Consolidated figures of domestic E-Invoicing associations
- In total, results of surveys with 15,000+ enterprises and 10,000 consumers are considered in these statistics and forecasts