



# Tyro Payments Limited

COMPANY SUMMARY	
Last Cap Raise Price	A\$1.04 (Mar 16)
Last Traded Price	A\$1.25 (Sep 17)
Shares on Issue	424.6M
Implied Market Cap @ A\$1.25 per share	A\$530.7M
Tier 1 Capital	A\$109.2M
Capital Ratio	179%
Trading Platform	PrimaryMarkets.com
SIGNIFICANT SHAREHOLDERS	
Directors (incl. Cannon-Brookes)	25.6% <sup>1</sup> 7.8% <sup>1</sup>
Tiger Global Mgt	13.5%
TDM Asset Mgt	5.6%
HIGHLIGHTS	
<ul style="list-style-type: none"> <li>Revenue growth of 34% CAGR since 2012</li> <li>Well credentialed Board and management with skin in the game</li> <li>Technology led integrated EFTPOS offering</li> <li>First tech company in Australia to be issued a full Australian bank licence</li> <li>Well capitalised to roll-out its deposit and lending products</li> </ul>	
POINTS OF NOTE	
<ul style="list-style-type: none"> <li>CEO yet to be appointed (expected Jan 2018)</li> <li>Deposit and lending product in pilot stage, full roll-out will require focussed marketing effort</li> <li>Investment into product development, product delivery and sales and marketing need to translate into top line growth</li> </ul>	
BOARD OF DIRECTORS	
Chairman	Kerry Roxburgh
Acting CEO / Director	Rob Ferguson
NED	Mike Cannon-Brookes
NED	Catherine Harris
NED	Paul Rickard
COMPARATIVE COMPANIES	
Cuscal, Adyen, Global Payments, Worldpay, First Data International, Quest Payments, BlueChain	

## CANNON-BROOKES DOUBLES DOWN

### KEY POINTS

**Big Names Buy into Tyro** — Billionaire Atlassian co-founder Mike Cannon-Brookes, Tiger Global Management and TDM Asset Management together invested A\$100M in Tyro in March 2016. All believe in the long-term success of Tyro Payments. The significant buy-in from Mike Cannon-Brookes, one of Australia's most successful Fintech entrepreneurs is a clear tick of approval.

**Board and Key Management Personnel have Skin in the Game** — As at 30 June 2017, the Board holds ~109m<sup>1</sup> shares (over 25% of total shares on issue) and ~14m<sup>1</sup> options. Key management personnel hold more than 1m options. Based on the last round of funding at A\$1.04 per share, the Board and management's exposure is valued between A\$112-128m<sup>1</sup>:

**Scale the Key to Tyro's Success** — Tyro needs to continue to ramp up its share of payment processing to accelerate merchant fee income. Australia's retail turnover trends remain encouraging with 3-5% yoy growth. The total market for cashless transactions grew 6-8% yoy, with Tyro's transaction volumes growing at a faster rate of 20-30% yoy since 2014. Tyro's strategic partnership with Xero and Afterpay should also help to underpin Tyro's revenue growth and path to profitability.

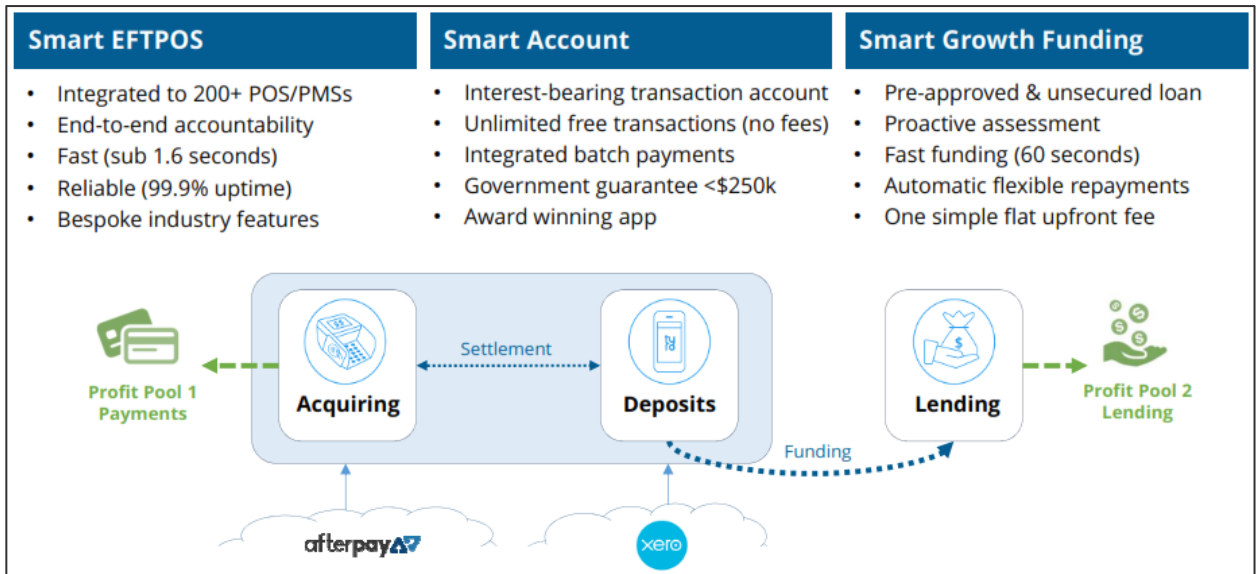
**Lending: a Second Source of Growth** — Tyro's second avenue of scalable growth is to aggressively expand lending utilising its T1 Capital to supplement its growing deposits base. While this could take some time to achieve, Tyro could generate an additional A\$10M -A\$15M in earnings depending on its funding costs, its net interest margin (NIM) and the extent of loan growth. This strategy is not that dissimilar to what Cuscal (a Tyro peer) has implemented.

**Potentially Breakeven in Two Years** — Further patience may be required for the opportunity in Tyro to play out in full. Assuming Tyro can sustain its current revenue growth trajectory and stabilise its costs, cost-to-income equalisation could be achieved within a two-year time frame which would further de-risk the business and possibly trigger a re-rating.

<sup>1</sup> As at 30 June 2017. Include shares currently held by Jost Stollmann, who retired from the Board in October 2017. Jost is a co-founder of Tyro and currently holds 64.4M ordinary shares and 7.6M options. On 7 November 2017, Tyro announced that Jost will sell 8M shares to Mike Cannon-Brookes and 16M shares to Tyro's employees and officers (with 8M of those shares to a company associated with Mike Cannon-Brookes).

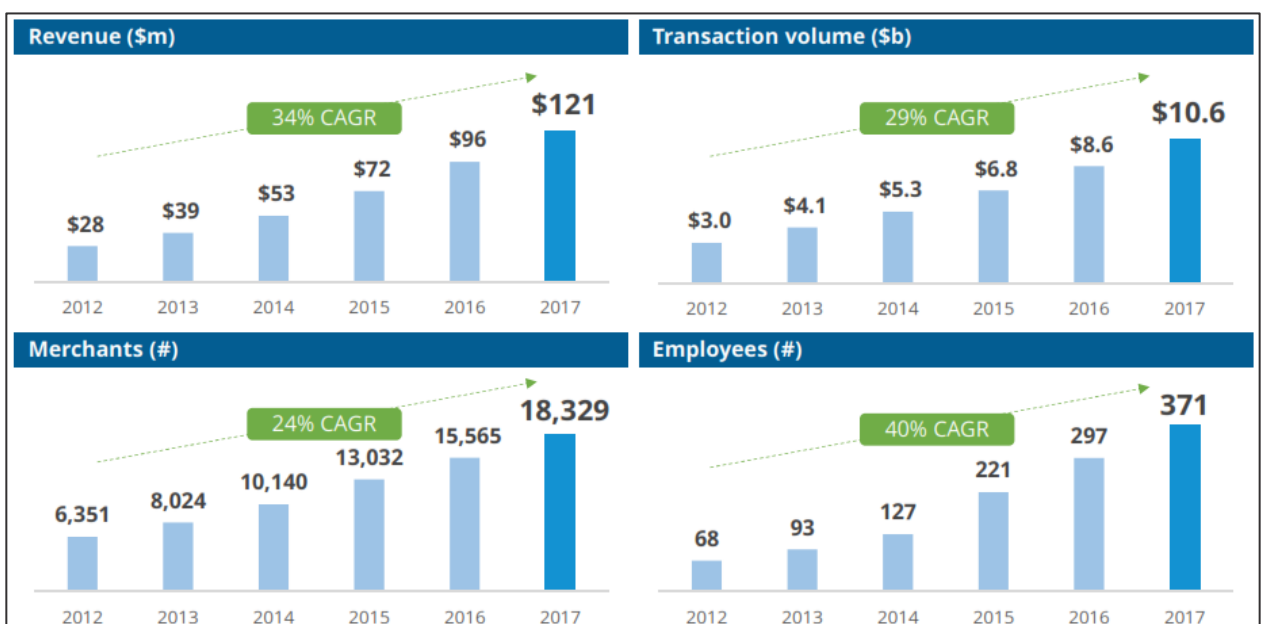
## COMPANY OVERVIEW

- **What is Tyro Payments?** — Tyro is a provider of payment infrastructure and services to Australian SMEs. The core of the business is the provision of EFTPOS terminals and services to SMEs complimented by lending and deposit products. Tyro currently serves >18,000 SMEs processing payments in excess of A\$10B annually.
- **Tyro Reduces SME Payment Friction** — Tyro's value proposition to SMEs is in reducing payment friction, enhancing payment efficiency and providing a suite of value-add service providers through its VAS hub. Tyro achieves this through offering: 1) tighter integration between payment systems and accounting software to reduce errors; 2) instantaneous reporting and reconciliation; 3) acceptance of more payment types; and 4) 24/7 customer support.



Source: Tyro AGM October 2017 Presentation

- **Transaction momentum continues in FY17** — Tyro has grown its revenue at a 34% CAGR since 2012 on the back of transactions growth of 29% CAGR over the same period. Investments in product and business development continues, reflected by the 25% yoy increase in employees. Tyro's transaction volumes have grown at >20% since 2014, outpacing total market growth of >5%. Tyro continues to increase its market share in its core target market from 2.4% in 2013 to 5.4% in 2017. We expect growth in market share to continue.



Source: Tyro AGM October 2017 Presentation



## COMMENTARY

- **Big Names Buy into Tyro** — The most notable backer of Tyro is one of Australia's most successful Fintech entrepreneurs, the billionaire Atlassian co-founder Mike Cannon-Brookes. Mike is a non-executive director of Tyro and invested A\$10M as part of the A\$100M capital raising completed in March 2016. It is proposed that in December 2017, Mike will acquire 16-24M shares currently held by Jost Stollman, who retired from the Board in October 2017. Other prominent asset managers that participated in the March 2016 capital raising include Tiger Global Management (A\$59.5M investment) and TDM Asset Management (A\$25.0M investment). Tiger Global Management oversees ~US\$20B (source: Forbes) and counts Facebook and LinkedIn among its early-stage investments. TDM currently manages ~A\$400m (source: SMH) and has stakes in Baby Bunting, Pacific Smiles, SomnoMed and kikki.k. Both Tiger Global and TDM have a strong track record of superior investment returns.
- **Board and Key Management Personnel have Skin in the Game** — Despite the recent CEO churn, the combination of rising share-based payments and options held by the Board and management team eludes to a strong alignment to long-term outcomes: important for any long-term orientated growth investor. The Board appears strongly incentivised to succeed with ~108m<sup>1</sup> shares and ~14m<sup>1</sup> options. Key management personnel hold more than 1m options. Based on the last round of funding at \$1.04 per share the Board's and management's exposure is valued at between A\$112-128m<sup>1</sup>, which is no small sum.
- **A Rising Tide Lifts All Boats** — Tyro's success effectively depends on its ability to capture its share of payment processing (be it by volume or value) and minimise customer churn to accelerate merchant fee income. Fortunately, retail turnover continues to enjoy 3-5% yoy growth, underpinning Tyro's path to profitability. Tyro itself is growing at an average % rate of mid to high 20s, well in excess of the 6% market increase in card payments. Elsewhere, the market share capture across different industry verticals, such as healthcare, hospitality and travel should also boost fee income as these transactions are typically higher value and higher margin.
- **Strategic Partnerships Lift Transaction Value** — Tyro's partnerships with providers such as Afterpay allow retailers to offer payment flexibility in store. While it's evident that these providers enhance sales and improve working capital management for online retailers, the extent to which it increases merchant sales in-store varies. On the surface, it is a positive dynamic for Tyro as any lift in transaction volume is welcome but it remains to be seen if Afterpay transactions are as profitable as regular EFTPOS payments.
- **Breakeven in Two Years?** — For now, customer acquisition cost appears high with the firm's cost-to-income ratio sitting at 126% (FY17). In comparison, a more normalised ratio for a bank is ~40-50%. Assuming that Tyro has the ability to sustain its current revenue growth trajectory, maintain its rate of market share growth and stabilise its costs, cost-to-income equalisation could be achieved within a two-year time frame. This would further de-risk the business and likely trigger a re-rating in the value of the company. The caution here is that Tyro is not yet self-financing and may require further equity capital between now and then.
- **Lending a Second Source of Growth** — Tyro's second avenue of scalable growth is to aggressively expand SME lending by combining growing deposit holdings with its existing T1 capital. Even though Tyro offers unsecured business loan to merchants, these loans are in fact quasi-securitised by expected EFTPOS receivables. Accordingly, any loans made to SMEs are not as risky as they appear as Tyro can price merchant risk more accurately with real time data it receives from its EFTPOS terminals. If Tyro was to complement growing deposit holdings by leveraging its T1 capital base (A\$109M), the business could hypothetically generate additional earnings of A\$10M – A\$15M depending on the cost of funding, net interest margin (NIM) achieved and the extent of loan growth. The timeframe will be dependent of how fast Tyro can lend out capital in a responsible and prudent manner, offset by the fact that losses will erode its T1 Capital.

<sup>1</sup> As at 30 June 2017. Includes shares currently held by Jost Stollmann, who retired from the Board in October 2017. Jost is a co-founder of Tyro and currently holds 64.4M ordinary shares and 7.6M options. On 7 November 2017, Tyro announced that Jost will sell 8M shares to Mike Cannon-Brookes and 16M shares to Tyro's employees and officers, with 8M of those shares assured to a company associated with Mike Cannon-Brookes.

**FINANCIALS**

<b>PROFIT AND LOSS STATEMENT (AUD'000)</b>	<b>FY2012</b>	<b>FY2013</b>	<b>FY2014</b>	<b>FY2015</b>	<b>FY2016</b>	<b>FY2017</b>
Fees and commission income	27,075	37,584	51,327	70,850	92,683	115,453
Interchange, integration, support fees	(16,148)	(21,184)	(28,466)	(39,082)	(48,876)	(63,761)
<b>Net fees and commission income</b>	<b>10,927</b>	<b>16,400</b>	<b>22,861</b>	<b>31,768</b>	<b>43,807</b>	<b>51,692</b>
<i>Gross Margin</i>	<i>40.36%</i>	<i>43.64%</i>	<i>44.54%</i>	<i>44.84%</i>	<i>47.27%</i>	<i>44.77%</i>
Terminal and accessories sale	564	707	554	573	212	327
Terminals and accessories COGS	(419)	(433)	(465)	(508)	(705)	(744)
<b>Net terminal sales &amp; accessories expense</b>	<b>145</b>	<b>274</b>	<b>89</b>	<b>65</b>	<b>(493)</b>	<b>(417)</b>
Other Income	7	24	13	130	862	1,532
<b>Total Operating Income</b>	<b>11,079</b>	<b>16,698</b>	<b>22,963</b>	<b>31,963</b>	<b>44,176</b>	<b>52,807</b>
Employee benefits expenses	(7,641)	(9,250)	(13,736)	(21,429)	(32,181)	(47,661)
Administrative expenses	(3,580)	(3,652)	(4,428)	(8,348)	(12,946)	(16,920)
Other expenses	(47)	(89)	(385)	(97)	(248)	(230)
<b>Total Expenses</b>	<b>(11,268)</b>	<b>(12,991)</b>	<b>(18,549)</b>	<b>(29,874)</b>	<b>(45,375)</b>	<b>(64,811)</b>
Loan Impairment	-	-	-	-	-	(230)
FX Gain	70	74	(36)	233	10	(53)
<b>EBITDA</b>	<b>(119)</b>	<b>3,781</b>	<b>4,378</b>	<b>2,322</b>	<b>(1,189)</b>	<b>(12,287)</b>
Depreciation	(970)	(1,098)	(1,276)	(2,436)	(4,025)	(5,984)
<b>EBIT</b>	<b>(1,089)</b>	<b>2,683</b>	<b>3,102</b>	<b>(114)</b>	<b>(5,214)</b>	<b>(18,271)</b>
Interest	561	609	750	805	2,007	3283
<b>Profit Before Tax</b>	<b>(528)</b>	<b>3,293</b>	<b>3,852</b>	<b>691</b>	<b>(3,207)</b>	<b>(14,988)</b>
Tax	-	6,573	(908)	120	2,461	2,213
<b>Net Loss for the year</b>	<b>(528)</b>	<b>9,866</b>	<b>2,944</b>	<b>811</b>	<b>(746)</b>	<b>(12,775)</b>

<b>PERFORMANCE INDICATORS</b>	<b>FY2012</b>	<b>FY2013</b>	<b>FY2014</b>	<b>FY2015</b>	<b>FY2016</b>	<b>FY2017</b>
<b>Transaction Volume (\$bn)</b>	3.0	4.1	5.3	6.8	8.6	10.6
<b>Employees</b>	68	93	127	221	297	371
<b>Merchants</b>	6,351	8,024	10,140	13,032	15,565	18,329
<b>Share of Target Market</b>	N/A	2.4%	3.0%	3.7%	4.5%	5.4%

**FINANCIALS**

<b>BALANCE SHEET (AUD'000)</b>	<b>FY2012</b>	<b>FY2013</b>	<b>FY2014</b>	<b>FY2015</b>	<b>FY2016</b>	<b>FY2017</b>
Cash and cash equivalents	18,183	22,945	9,011	12,673	82,224	24,052
Due from other financial institutions	-	-	-	-	27,803	52,438
Trade and other receivables	2,257	2,646	12,099	7,893	7,191	10,489
Prepayments	164	185	309	492	966	1,992
Inventories	136	375	293	855	923	1,148
Loans	-	-	-	-	-	4,511
<b>Total current assets</b>	<b>20,740</b>	<b>26,151</b>	<b>21,712</b>	<b>21,913</b>	<b>119,107</b>	<b>94,630</b>
Available-for-sale investments	207	336	381	596	681	21,097
PPE	1,651	1,737	2,996	7,673	12,557	13,482
Deferred tax assets	-	6,497	5,575	5,631	8,174	10,300
<b>Total non-current assets</b>	<b>1,858</b>	<b>8,570</b>	<b>8,952</b>	<b>13,900</b>	<b>21,412</b>	<b>44,879</b>
<b>TOTAL ASSETS</b>	<b>22,598</b>	<b>34,721</b>	<b>30,664</b>	<b>35,813</b>	<b>140,519</b>	<b>139,509</b>
Deposits	-	-	-	-	459	3,948
Trade payables and other liabilities	10,108	12,025	3,383	6,519	9,542	11,430
Provisions	382	521	618	1,088	1,526	2,064
<b>Total current liabilities</b>	<b>10,490</b>	<b>12,546</b>	<b>4,001</b>	<b>7,607</b>	<b>11,527</b>	<b>17,442</b>
Provisions	198	289	424	418	685	676
<b>TOTAL LIABILITIES</b>	<b>10,688</b>	<b>12,835</b>	<b>4,425</b>	<b>8,025</b>	<b>12,212</b>	<b>18,118</b>
Contributed equity	33,198	33,206	33,912	34,013	134,566	138,381
Reserves	7,079	7,255	8,041	8,707	9,572	12,157
Accumulated losses	(28,366)	(18,575)	(15,714)	(14,932)	(15,831)	(29,147)
<b>TOTAL EQUITY</b>	<b>11,911</b>	<b>21,886</b>	<b>26,239</b>	<b>27,788</b>	<b>128,307</b>	<b>121,391</b>

<b>CASH FLOW STATEMENT (AUD'000)</b>	<b>FY2012</b>	<b>FY2013</b>	<b>FY2014</b>	<b>FY2015</b>	<b>FY2016</b>	<b>FY2017</b>
Interest, fee and rental income received	27,681	39,040	52,797	71,970	91,101	117,112
Payments to suppliers and employees	(23,709)	(33,740)	(65,369)	(66,102)	(92,848)	(126,378)
Net inflow from retail deposits	-	-	-	-	459	3,489
Net outflow from customer lending	-	-	-	-	-	(4,741)
Receipts from terminals & accessories sale	564	707	554	573	212	327
Dividend income received	1	1	2	2	3	-
<b>Net cash flows from operating activities</b>	<b>4,537</b>	<b>6,008</b>	<b>(12,016)</b>	<b>6,443</b>	<b>(1,073)</b>	<b>(10,191)</b>
Investments in term deposits	-	-	-	-	(20,000)	(24,698)
Investments in available-for-sale assets	-	-	-	-	-	(20,125)
Purchase of PPE	(1,233)	(1,212)	(2,542)	(7,138)	(8,941)	(6,945)
Proceeds from disposal of PPE	7	50	18	112	139	24
Lease incentive received	-	-	-	1,229	2,080	-
<b>Net cash flows from investing activities</b>	<b>(1,226)</b>	<b>(1,162)</b>	<b>(2,524)</b>	<b>(5,797)</b>	<b>(26,722)</b>	<b>(51,744)</b>
Proceeds from exercise of share options	-	8	706	101	412	3,815
Proceeds from fund raising	2,000	5,500	-	-	99,720	-
Proceeds from shareholder loans	3,110	-	6,100	-	4,600	-
Shareholder loan repayment	(4,500)	(5,500)	(6,100)	-	(4,600)	-
Interest & fees paid on shareholder loans	(107)	(166)	(63)	-	(113)	-
<b>Net cash flows from financing activities</b>	<b>503</b>	<b>(158)</b>	<b>643</b>	<b>101</b>	<b>100,019</b>	<b>3,815</b>
<b>Change in cash and cash equivalents</b>	<b>3,814</b>	<b>4,688</b>	<b>(13,897)</b>	<b>747</b>	<b>72,224</b>	<b>(58,120)</b>
<i>Net foreign exchange difference</i>	70	74	(37)	232	10	(52)
<b>Cash and equivalents at beginning of year</b>	<b>14,299</b>	<b>18,183</b>	<b>22,945</b>	<b>9,011</b>	<b>9,990</b>	<b>82,224</b>
<b>Cash and equivalents at end of year</b>	<b>18,183</b>	<b>22,945</b>	<b>9,011</b>	<b>9,990</b>	<b>82,224</b>	<b>24,052</b>

## DISCLAIMER AND DISCLOSURE OF INTEREST

This document (**Report**) is issued by PrimaryMarket Limited an authorised representative of its wholly owned subsidiary Helmsec Global Capital Pty Limited, Australian Financial Services Licence No. 334838 (**PrimaryMarkets**). This Report is intended solely for the use by wholesale/institutional clients within the meaning of section 761G of the Corporations Act 2001 (Cth) (Act), sophisticated investors pursuant to Section 708(8) of the Act, professional investors pursuant to Section 708(11) of the Act and/or otherwise persons to whom a disclosure document is not otherwise required to be given under Chapter 6D of the Act.

To the extent that any recommendations or statements of opinion made by PrimaryMarkets in this Report constitute financial product advice, they constitute general financial product advice only and do not constitute personal financial product advice in any manner whatsoever. Accordingly, any such recommendations or statements do not take into account the investment objectives, financial situation, taxation requirements and/or the particular needs of any recipient. Before subscribing for securities in the Company named in the Report (**the Company**) you should consider, with the assistance of your independent financial and legal advisers, whether the potential investment is appropriate in light of your particular investment needs, objectives and financial circumstances.

Any recommendations or statements of opinion contained in this Report are based on assumptions made by PrimaryMarkets. These assumptions may or may not eventuate and accordingly, any such recommendations or statements of opinion may prove to be incorrect. This Report has been distributed in confidence and may not be reproduced or disclosed to any other person without the prior written consent of PrimaryMarkets.

The information contained in this Report has been prepared by PrimaryMarkets with due care but no representation or warranty whatsoever is made, express or implied, in relation to the accuracy and/or completeness of this information. This Report is based on information obtained from sources believed to be reliable and PrimaryMarkets has made every effort to ensure the information in this Report is accurate however PrimaryMarkets does not make any representation and/or warranty that any information in this report is accurate, reliable, complete and/or up to date. Except for any liability which cannot be excluded, PrimaryMarkets disclaims all liability for any error or inaccuracy in, or omission from the information contained in this Report or any loss or damage suffered, directly or indirectly by the reader or any other person as a consequence of relying upon the information.

PrimaryMarkets and its Directors, employees, agents and consultants accept no obligation or liability whatsoever to correct and/or update any information and/or opinions in this Report. Opinions expressed are subject to change without notice and only accurately reflect the opinions of PrimaryMarkets at the time of writing this Report. PrimaryMarkets and its Directors, employees, agents and consultants accept no liability whatsoever for any direct, indirect, consequential and/or other loss arising from any use of this Report and/or further communication in relation to this Report. The historical information in this Report is, or is based upon, information that has been released to the general market.

Each recipient of this Report acknowledges that PrimaryMarkets, its Directors, employees, authorised representatives, consultants, associates, related entities and/or family members may have interests in the securities of the Company. If you require further information in relation to the parties referred to above and their interest(s) in the Company please contact PrimaryMarkets.

**PrimaryMarket Limited** ABN 24 136 368 244

Level 12, 179 Elizabeth Street  
Sydney 2000

PO Box A298 Sydney South  
NSW 1235 Australia

[www.primarymarkets.com](http://www.primarymarkets.com)  
T: +61 2 9993 4475