Churn Baby, Churn
At what point do investors think customers can afford to have an unreliable service.

IMPORTANT – Disclaimer on Page 8

January 20, 2021 – Yesterday Tyro Payments (ASX: TYR) released an update to the market surrounding Viceroy’s report, dated January 15, 2021. We included a short rebuttal to this update yesterday attached to our weekend update but will go through the update in a more extensive, point-by-point rebuttal today.

Tyro’s childish response intentionally omits the extent of the damage, understates the harm to its customers, and flat-out refuse to provide any meaningful data for analysis.

1. Extent of Impact – NO FACTS GIVEN

Viceroy alleged 50% of Tyro’s terminals appear to have been bricked. This estimate was backed by thorough channel checks and supported entirely by transaction value analysis (with figures provided by Tyro).

In response, Tyro point investors to irrelevant statistics on how many current merchants are still affected by its widespread bricking.

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1. Extent of Impact

We ask Tyro once more: how many terminals were bricked throughout this incident?

Once more, here is the financial analysis of Tyro’s transaction value processed through terminals (TTV).

1. From 9 January 2021 to 12 January 2021, Tyro TTV was down 14.1% yoy.
2. Calendar year (CY) growth since Jan 2020 is estimated between 20-30%.
3. Therefore, to calculate the real loss of TTV (and thus estimate how many merchants were impacted), the calculation must be growth-adjusted. The calculation is:

\[
\text{Growth Adjusted TTV Loss} = \frac{1 - \text{yoy loss (9 Jan - 12 Jan)}}{1 + \text{CY growth (20 - 30 %)}}
\]

| Tyro Payments TTV Analysis - Viceroy Research D/D |
|---|---|---|---|
| Starting | Ending | TTV (AUDm) 2021 | TTV (AUDm) 2020 | % |
| 01-Dec-2020 | 31-Dec-2020 | 2,626 | 2,206 | 19.0% |
| 01-Jan-2021 | 08-Jan-2021 | 490 | 436 | 12.4% |
| 01-Jan-2021 | 12-Jan-2021 | 704 | 685 | 2.8% |
| 09-Jan-2021 | 12-Jan-2021 | 214 | 249 | -14.1% |

| Affected TTV Calculations @ 12 Jan |
|---|---|---|
| Viceroy CY20 Growth Estimate | 20.0% | 25% | 30% |
| January "bricked" yoy volume | -14.1% | -14.1% | -14.1% |
| Loss | -28.4% | -31.2% | -33.9% |

Therefore, it is mathematical gymnastics to suggest that less than 30% of terminals were affected given:

1. TTV is down ~30% from the 9-12 of January (4-6 days after the outage commenced).
2. TTV will be weighted toward merchants with more than 1 terminal.
Either Tyro’s growth in CY 2020 is false, or a much larger number of terminals have been bricked than disclosed.

Further, Tyro claims 2,000 terminals are being collected PER DAY, since at least the 13 January 2021 (and likely before).

Figure 1 Tyro Press Release – 13 January 2021

At this rate, around 30% of Tyro’s terminals at last count (~18k of 63k, per 2020 annual report) have already been collected, and 15% of merchants are still impacted!

2. Cause of incident – CAUSED BY SOFTWARE PATCH

Tyro seem to admit the error was due to a software patch. We do not see why this is even a point of contention. It is absurd that Tyro has passed blame to Worldline for bricking the terminals, likely to pass the buck on the legal liability for the bricking. These terminals are available across dozens of banks all over the world. The first thing we checked was if these other terminals were impacted. They are not.

3. Repair costs – WATCH THIS SPACE

Viceroy noted that the replacement cost of Tyro’s bricked customers would likely have cost $12m. This figure is correct, we used Tyro’s own figures to reverse check this. The company specifies the amount it spends on terminals, and the number of terminals issued during the year. After factoring in changes in inventory this gives the average cash cost per terminal, as shown in our previous report.

Tyro has dismissed this non-estimate as factually incorrect but has refused to provide any guidance the costs of their repairs. Inherently, this is the problem: the continued poor communication with investors about the impacts of this outage.

Tyro has taken a large reputational hit leaving customers without card readers or any workable alternative heading into a 3rd weekend – which happens to be a long weekend.

Tyro’s inability to guide towards the overall repair costs speak volumes.

4. Disaster Recovery Plan – HOW’S THAT GOING?

Don’t get a sore elbow patting yourself on the back, especially when this plan effectively led to a communications blackout that still has customers wondering when they will be able to use their terminals again.
5. Functional Terminals – HOW DID TYRO NOT KNOW HOW MANY TERMINALS WERE AFFECTED?

Tyro claims that it has had “complete visibility on all its functional terminals” which is an interesting way to say that they have limited or no visibility on all disconnected terminals which are the source of its current problem! This is effectively a non-statement: our things aren’t broken, except the ones we don’t know about.

It doesn’t help when Tyro do silly things like return terminals without batteries or the chargers. Are these also communicating with Tyro’s payment switch?

More proof of this is the inconsistent disclosures of issues by Tyro. On January 7, 2021, Tyro announced to the market that no more than 5% of TTV was impacted by its bricking event.

Tyro is also doing all that it is able to mitigate the impact upon merchants with the issue appearing to impact ~15% of its terminal fleet as active in January 2021. At this stage the issue has caused a ~5% reduction in expected transaction values over the period in question, however the total impact will only be able to be quantified once the issue is finally resolved.

By the next week, this figure jumps to 19% of completely impacted merchants. These figures are non-comparable and more importantly, are likely obtained through contacting customers directly as any network visibility would have given the number of terminals affected.

As recently as Monday, Amtek was cold-calling customers to ask if terminals had been bricked. We have verified this across NUMEROUS customers.
Again, Tyro completely sidestep the question as to how many terminals have been bricked, claim our estimates are false, and suggest that they have full control of this catastrophe.

If Tyro has “complete visibility” of all its functional terminals, please disclose how many terminals have been bricked.

6. Communications – WHAT UPDATES?

Viceroy did not claim Tyro did not communicate with customers. The customers did.

Email pumps to all of your customers—including unaffected customers (yes, we know) – continuously apologizing and giving no real updates as to Tyro’s “Major Incident Management” progress does not constitute communication. It is spam.

![Figure 5 Tyro “Communications”](image)

This is slap in the face to customers who have been continuously emailing and calling Tyro to no avail.

Customers even reached out to Viceroy for updates upon getting crickets from Tyro.

![Figure 6 Messages from Tyro customers](image)

7. Collection Effort – NO FACTS GIVEN

Tyro validate their collection efforts by bragging about how expensive it sounds. The number of Amtek staff involved in collection is apparently un-indicative of collection results, as Tyro are allegedly conducting all terminal fixes in-house.
If Tyro is resetting this issue in-house, we don’t understand why a larger courier company was not used to collect these devices.

If, as Mr. Cooke claims, these devices really do take “10 seconds” to fix, how have all terminals not been fixed already? And why are they being sent to Amtek’s warehouse instead of being fixed in situ at the merchant’s location?

Terminals would cost $12 million (while Cooke says it’s too early to provide a cost estimate for the recovery effort, the software fix required takes 10 seconds and no machines will need to be replaced).

Figure 7 Tyro still faces fight to win back trust – Australian Financial Review

Tyro management intentionally omit evidence surrounding any of their claims, thousands of merchants remain impacted, and the severity of the issue is being intentionally understated.

Tyro does not appear to know how many terminals have been bricked, as figures have increased since their first announcement on the ASX (7 January 2021 – TTV down 5%), and their second announcement on the ASX (13 January 2021 – Merchants without terminals 19%). We will evidence this further in our update below.

8. Fleet Age – PRODUCT OFFERING IS NOT FLEET AGE

Fleet age is not product offering and the age of individual machines means less today than how long ago it was considered cutting edge. Tyro terminals are dinosaurs compared to innovative competitors. This does not need to be reiterated any further.

Viceroy’s analysis was provided to break out the performance of the business that generates >90% of Tyro’s revenues and losses. We stand by this analysis, and present it again below, rebutting every point.

**Tyro should instead focus its efforts in addressing ridiculous assumptions in sell side models, especially after this bricking event.**

<table>
<thead>
<tr>
<th>Financial Analysis</th>
<th>Viceroy Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assumption made:</td>
<td>-</td>
</tr>
<tr>
<td>Factual position:</td>
<td>-</td>
</tr>
</tbody>
</table>

**Tyro Payments Adjusted Free Cash Flow - Viceroy Research**

<table>
<thead>
<tr>
<th></th>
<th>FY 2016</th>
<th>FY 2017</th>
<th>FY 2018</th>
<th>FY 2019</th>
<th>FY 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>95,767</td>
<td>120,627</td>
<td>148,251</td>
<td>189,770</td>
<td>210,675</td>
</tr>
<tr>
<td>COGS</td>
<td>(49,584)</td>
<td>(64,538)</td>
<td>(79,163)</td>
<td>(105,510)</td>
<td>(117,200)</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>46,183</td>
<td>56,090</td>
<td>69,088</td>
<td>83,260</td>
<td>93,475</td>
</tr>
<tr>
<td>OPEx (excl. IPO costs)</td>
<td>(49,400)</td>
<td>(70,795)</td>
<td>(86,178)</td>
<td>(103,523)</td>
<td>(121,802)</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>(3,217)</td>
<td>(14,705)</td>
<td>(17,090)</td>
<td>(20,263)</td>
<td>(28,327)</td>
</tr>
<tr>
<td>Margin</td>
<td>-3.4%</td>
<td>-12.2%</td>
<td>-11.5%</td>
<td>-10.7%</td>
<td>-13.4%</td>
</tr>
<tr>
<td>NPAT</td>
<td>(746)</td>
<td>(12,775)</td>
<td>(16,370)</td>
<td>(18,439)</td>
<td>(38,057)</td>
</tr>
<tr>
<td>Cash from ops</td>
<td>(1,073)</td>
<td>(15,571)</td>
<td>(12,799)</td>
<td>(13,931)</td>
<td>(8,194)</td>
</tr>
<tr>
<td>CAPEX</td>
<td>(8,802)</td>
<td>(1,822)</td>
<td>(2,891)</td>
<td>(1,045)</td>
<td>(1,663)</td>
</tr>
<tr>
<td>Investment in Intangible Assets</td>
<td>-</td>
<td>-</td>
<td>(2,518)</td>
<td>(3,082)</td>
<td></td>
</tr>
<tr>
<td>FCF</td>
<td>(9,875)</td>
<td>(17,393)</td>
<td>(15,690)</td>
<td>(17,494)</td>
<td>(3,449)</td>
</tr>
<tr>
<td>less: Share based compensation</td>
<td>-</td>
<td>(1,841)</td>
<td>(1,411)</td>
<td>(3,788)</td>
<td>(10,896)</td>
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<tr>
<td>less: Movement in deposits</td>
<td>-</td>
<td>(3,489)</td>
<td>(7,616)</td>
<td>(15,355)</td>
<td>(23,624)</td>
</tr>
<tr>
<td>less: JobKeeper Receipts</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(3,867)</td>
</tr>
<tr>
<td>Viceroy adjusted FCF</td>
<td>(10,334)</td>
<td>(22,723)</td>
<td>(24,717)</td>
<td>(36,637)</td>
<td>(31,071)</td>
</tr>
</tbody>
</table>

**Figure 8 Viceroy Analysis**

1. **Share Based Compensation** is like-for-like cash cost and dilutes investors, especially so in early years following an IPO.
2. **Movements from deposits** is negated because this cash is not really yours, and costs you interest. Loans take the nature of investments. The nature of these flows are completely different. This is the equivalent of suggesting debt should be included in free cash flow.
3. **All financial analysis is non-IFRS, this includes free cash flow.**
The BIG Lie – Status Update

In order to obscure the effects of churn, and to provide as little detail as possible, Tyro has resulted to providing the least useful data point possible: % of impacted merchants. This is useless because merchants may have more than 1 terminal, biasing their inclusion to the second category, and single-terminal merchants are biased toward the first and last categories.

<table>
<thead>
<tr>
<th>Merchant Status</th>
<th>13 January 2021</th>
<th>18 January 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Merchants with all terminals fully functional</td>
<td>70%</td>
<td>85%</td>
</tr>
<tr>
<td>Merchants with at least one terminal fully functional</td>
<td>11%</td>
<td>6%</td>
</tr>
<tr>
<td>Merchants with no functional terminals</td>
<td>19%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Figure 9 Tyro Status Update – 19 January 2021

By using this measurement:

1. The nominator is reduced, as merchants with no functional terminals churn out of the Tyro customer mix.
2. The denominator of “merchants with no functional terminals” is reduced, total customer numbers is reduced.

**BOTH of these skews the result in Tyro’s favor and makes it harder to ascertain the true impact of the outage.**

*Without context and through intentionally misleading disclosures, Tyro downplays the impact of this bricking event.*

Valuation Debrief

We take issue with many sell-side “DCF” valuations on Tyro, which would require the largest amount of financial gymnastics we’ve ever seen to justify a >$2b valuation. There is simply no cash flow to discount for the foreseeable future.

Viceroy does not believe Tyro’s revenue stream is particularly valuable. The antiquated model of merchant terminals provided by Tyro is so unappealing, Bendigo & Adelaide bank effectively handed over their merchant acquiring business to Tyro for a profit share².

Tyro’s IP does not seem particularly valuable and has very little moat in an industry where innovative players are coming in hot. If anything, Tyro should be valued more like a bank than a fintech business.

Finally, Tyro has proved it does not deserve recognition for being any more dependable than other payment terminal providers. In fact, it has proved the opposite.

Attention: Whistleblowers

Viceroy encourage any parties with information pertaining to misconduct within Tyro Payments, its affiliates, or any other entity to file a report with the appropriate regulatory body.

We also understand first-hand the retaliation whistleblowers sometimes face for championing these issues. Where possible, Viceroy is happy act as intermediaries in providing information to regulators and reporting information in the public interest in order to protect the identities of whistleblowers.

You can contact the Viceroy team via email on viceroy@viceroyresearch.com.

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