



# 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.**

<b>1. Extent of Impact</b>	
<b>Assertion made:</b>	<i>"..approximately 50% of Tyro's merchant terminals are offline as of the date of writing"</i>
<b>Factual position:</b>	<b>At no time have 50% of Tyro's terminals been offline. As advised to the ASX today 15% of Tyro's merchants remain impacted.</b>

*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).

- From 9 January 2021 to 12 January 2021, **Tyro TTV was down 14.1% yoy.**
- Calendar year (CY) growth since Jan 2020 is estimated between 20-30%.
- 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	
		TTV (AUDm)			
Starting	Ending	2021	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%	
<b>Affected TTV Calculations @ 12 Jan</b>					
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:

- TTV is down ~30% from the 9-12 of January (4-6 days after the outage commenced).
- 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).

of the recovery effort. Approximately 2,000 terminals a day are now being collected from our merchants and everything possible is being done to accelerate this to minimise the impact of this incident upon them.

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 3<sup>rd</sup> weekend – which happens to be a long weekend.**

### 3. Repair Costs

<b>Assertion made:</b>	The impacted terminals require "capital-intensive terminal repair/replacement" and "would have cost Tyro ~\$12m to replace"
<b>Factual position:</b>	The repair involves collecting the impacted terminals from the field and implementing an immediate software update. If the terminals were not in a disconnected state this fix would have been achieved via a remote download. There is no capital-intensive terminal repair or replacement required of the nature suggested in the Report.

**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. Disaster Recovery Plan

<b>Assertion made:</b>	Tyro has "no disaster recovery plan"
<b>Factual position:</b>	Tyro has a Business Continuity Management Policy and a Business Continuity Plan. In accordance with these plans Tyro immediately initiated its Major Incident Management Response upon the incident being identified to manage the recovery activities.

## 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.

<b>6. Functional Terminals</b>	
<b>Assertion made:</b>	"...Tyro has no idea - and no way to determine - how many of its terminals are actually functional"
<b>Factual position:</b>	<b>Tyro has complete visibility of all its functional terminals - specifically these terminals are actively and continuously communicating with Tyro's payment switch.</b>

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?**

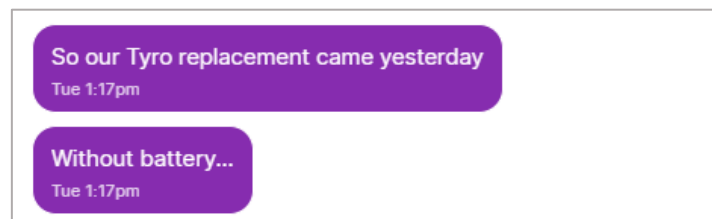


Figure 2 Messages from Tyro customers

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 our 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.

At the date of this release 70% of Tyro's merchants are unaffected by the incident. A further 11% of Tyro's merchants have multiple terminals with at least one functioning unit allowing them to continue to process payments. The remaining 19% of merchants are fully impacted by the incident and are a focus

Figure 3 Messages from Tyro customers

As recently as Monday, Amtek was cold-calling customers to ask if terminals had been bricked. We have verified this across NUMEROUS customers.

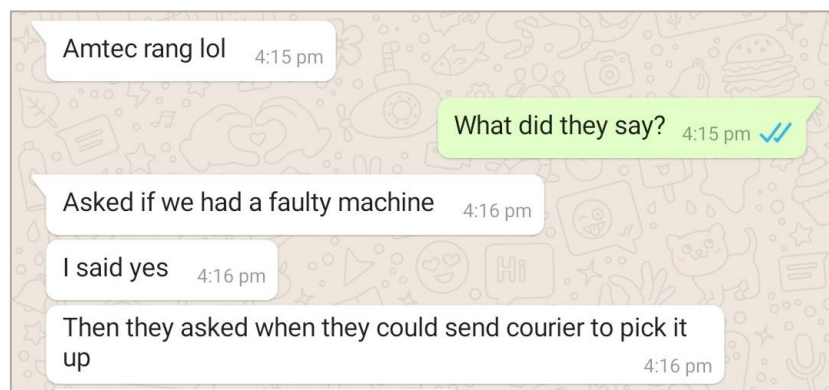


Figure 4 Messages from Tyro customers





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.

<b>7. Communications</b>	
<b>Assertion made:</b>	".....customers had bricked terminals and had received no communications from Tyro"
<b>Factual position:</b>	Tyro has sent the following incident communications to impacted merchants to the email addresses as notified by merchants – emails dated 7, 9, 10, 11 and 13 January 2021, together with 24/7 customer support by phone, Facebook and email. Tyro has also regularly kept merchants updated via its status page on its website.

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.

**Update** - Good evening. We've made further progress today and will be sharing a more detailed update on the status of our recovery plan in the morning. Please continue to send any questions to us at [cs@tyro.com](mailto:cs@tyro.com) and visit this page for updates.  
Jan 18, 19:19 AEDT

**Update** - Good afternoon. We are making strong progress in returning functioning terminals to many of our customers and remain completely focused on our recovery plan to have all impacted customers back up and running as soon as possible. We will share a further update on progress tomorrow. Please continue to visit this page and send any questions or queries to [cs@tyro.com](mailto:cs@tyro.com)  
Jan 17, 12:49 AEDT

**Update** - Good evening. We remain completely focused on getting all impacted customers back up and running as quickly as possible. Many thanks to all our customers for helping us expedite the collection of terminals and please know we will continue working 24/7 until we have completely resolved this issue.

What update?

Figure 5 Tyro “Communications”

*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.

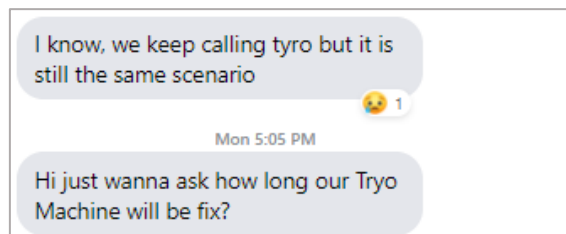


Figure 6 Messages from Tyro customers

## 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.



## 8. Collection Effort

**Assertion made:**

".....limited collection efforts taking place"

**Factual position:**

As per Tyro's ASX release dated 13 January 2021 we restate that "Tyro has been collecting, repairing, and returning impacted terminals to merchants as rapidly as possible. The turnaround time, from terminal collection to return, ranges between two and four days with this timeframe being location dependent. Tyro has engaged Amtek to assist and they have a team of approximately 250 personnel involved in the collection/return activities..."

Amtek has 255 personnel engaged in this exercise across over 60 locations in all Australian states and territories.

Tyro has today separately provided a status update on the collection progress.

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<sup>1</sup>

*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.

## 9. Fleet Age

**Assertion made:**

".....Tyro's product offering is over a decade old at this point"

**Factual position:**

Tyro terminals are exclusively Worldline manufactured and the fleet is not aged as implied in the Report, specifically:

- ~60% of the fleet is 3 years old or less;
- ~80% of the fleet is 5 years old or less.

<sup>1</sup> <https://www.afr.com/chanticleer/tyro-still-faces-fight-to-win-back-trust-20210119-p56v87>

## 9. Financial Analysis – NO FACTS PROVIDED

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.**

<b>10. Financial Analysis</b>	
<b>Assertion made:</b>	".....Tyro ...floats its operating cash flows through customer deposits" and "our cash flow adjustments ...more accurately reflect the business' operational cash flows.....and puts risk towards depositors, who are effectively holding up positive cash flows ...."
<b>Factual position:</b>	<p>Tyro has cash and investments excluding depositor funds of \$137 million as at 31 December 2020.</p> <p>Tyro is an Authorised Deposit-taking Institution (ADI). Deposits are generated to fund merchant loans and not to support operating cash requirements.</p> <p>The reporting of customer deposits in our audited Statement of Financial Position and Statement of Cash Flows is in compliance with Australian Accounting Standards and International Financial Reporting Standards.</p> <p>The adjustments in the Report to Tyro's cash flows include non-cash items (ie share based compensation) and furthermore to extract 'movements in deposits' without adding back 'movements in loans' is an inconsistent treatment for an ADI and will lead to an incorrect assessment of cash movements as it excludes the banking business.</p>

<b>Tyro Payments Adjusted Free Cash Flow - Viceroy Research</b>					
	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>FY 2020</b>
Revenue	95,767	120,628	148,251	189,770	210,675
COGS	(49,584)	(64,538)	(79,163)	(106,510)	(117,200)
<b>Gross Profit</b>	<b>46,183</b>	<b>56,090</b>	<b>69,088</b>	<b>83,260</b>	<b>93,475</b>
OPEX (excl. IPO costs)	(49,400)	(70,795)	(86,178)	(103,523)	(121,802)
<b>Operating Profit</b>	<b>(3,217)</b>	<b>(14,705)</b>	<b>(17,090)</b>	<b>(20,263)</b>	<b>(28,327)</b>
<i>Margin</i>	<i>-3.4%</i>	<i>-12.2%</i>	<i>-11.5%</i>	<i>-10.7%</i>	<i>-13.4%</i>
<b>NPAT</b>	<b>(746)</b>	<b>(12,775)</b>	<b>(16,370)</b>	<b>(18,439)</b>	<b>(38,057)</b>
Cash from ops	(1,073)	(15,571)	(12,799)	(13,931)	8,194
CAPEX	(8,802)	(1,822)	(2,891)	(1,045)	(1,663)
Investment in Intangible Assets	-	-	-	(2,518)	(3,082)
<b>FCF</b>	<b>(9,875)</b>	<b>(17,393)</b>	<b>(15,690)</b>	<b>(17,494)</b>	<b>3,449</b>
less: Share based compensation	-	(1,841)	(1,411)	(3,788)	(10,896)
less: Movement in deposits	(459)	(3,489)	(7,616)	(15,355)	(23,624)
less: JobKeeper Receipts	-	-	-	-	(3,867)
<b>Viceroy adjusted FCF</b>	<b>(10,334)</b>	<b>(22,723)</b>	<b>(24,717)</b>	<b>(36,637)</b>	<b>(31,071)</b>

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.

**Merchant Status**

**Table 1** below shows the progress in collecting, repairing and returning impacted terminals. This process is tracking to the program outlined in our release of 13 January 2021.

**Table 1 – Merchant Status**

	Merchants (%) 13 January 2021	Merchants (%) 18 January 2021
Merchants with all terminals fully functional	70%	85%
Merchants with at least one terminal fully functional	11%	6%
Merchants with no functional terminals	19%	9%

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.**

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

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### 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 share<sup>2</sup>.

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.

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<sup>2</sup> <https://www.bendigobank.com.au/media-centre/bendigo-bank-announces-new-agreement-with-tyro/>



### **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](mailto:viceroy@viceroyresearch.com).

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