



Tyro Payments weekend update

IMPORTANT – Disclaimer on Page 7

January 19, 2021 – Today Tyro Payments released an update to the market surrounding Viceroy's report, date January 15, 2021.

Extent of Impact & Functional Terminals & Communications: Viceroy's estimates were based on hundreds of channel checks to stores. Clearly, we do not have visibility to gauge exact numbers. Tyro also 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 – 5%), and their second announcement on the ASX (13 January 2021 – 19%). We will evidence this further in our update below.

1. <u>Extent of Impact</u>	
Assertion made:	"...approximately 50% of Tyro's merchant terminals are offline as of the date of writing"
Factual position:	At no time have 50% of Tyro's terminals been offline. As advised to the ASX today 15% of Tyro's merchants remain impacted.
Conclusion:	REPORT STATEMENT FALSE
6. <u>Functional Terminals</u>	
Assertion made:	"...Tyro has no idea - and no way to determine - how many of its terminals are actually functional"
Factual position:	Tyro has complete visibility of all its functional terminals - specifically these terminals are actively and continuously communicating with Tyro's payment switch.
Conclusion:	REPORT STATEMENT FALSE
7. <u>Communications</u>	
Assertion made:	".....customers had bricked terminals and had received no communications from Tyro"
Factual position:	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.
Conclusion:	REPORT STATEMENT FALSE

Tyro compares the number of merchants affected to the number of terminals bricked, and in no way can these figures even be compared. Due to Tyro's exposure to the hospitality sector the terminals per merchant may vary greatly. Considering the company has provided no transparency on the number of terminals out of operation, we believe they have effectively surveyed merchants to arrive at their figures.

Tyro has also not advised if churned customers were excluded from the denominator.

We also urge investors to read the Tyro Status Update page and communications to customers. After stripping out apologies, non-statements and promises to come back with more information there is not much content left. Customers had to wait 4 days for a recovery plan and have had precious little information since. The largest content update was released this morning, and arguably only in response to Viceroy Research

Cause of Incident: Tyro claims that the "event" was caused by terminal platform software supplied by Worldline. We note that no other worldline machines appear to be affected to the great joy of the Australian consumer. To suggest that Tyro alone is affected by a manufacturer-based fault, that no other customer of that manufacturer has experienced is not a clear explanation.

2. <u>Cause of Incident</u>	
Assertion made:	The terminal connectivity issue was caused by Tyro via a "software patch"
Factual position:	The root cause of the connectivity event has been identified as arising from an issue residing in specific versions of the terminal platform software supplied by the manufacturer of the terminals, Worldline. This issue caused valid, forward dated, certificates on the impacted terminals to be incorrectly interpreted as expired, due to the interplay of the selected expiry date and any date on or after 5 January 2021.
Conclusion:	REPORT STATEMENT FALSE



Repair costs: Our estimates, per our report, were based on a full replacement of terminals. This was expensive, and we rightly cited this as the reason Tyro did not simply replace all terminals. Tyro has not updated the market in relation to costs incurred in replacement, not has it indicated a compensation provision has been established.

3. Repair Costs

Assertion made:	The impacted terminals require "capital-intensive terminal repair/replacement" and "would have cost Tyro ~\$12m to replace"
Factual position:	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.
Conclusion:	REPORT STATEMENT FALSE

Gift cards: Our extensive channel checks with Westfield Centres across Australia told us that it was the case that Westfield gift cards were not functioning properly. Posing as customers, this was the advice we were given. Clearly this was not communicated clearly by either party.

4. Gift Cards

Assertion made:	<i>".....Westfield gift cards are all completely unreadable at this time, as even working terminals must process these transactions through Tyro infrastructure. This highlights some further fundamental issues which are present at Tyro's back end, as Tyro has also effectively 'bricked' gift cards.Westfield Gift Cards (usable in all stores within Westfield Precinct, were not functioning at any terminal (even non-Tyro terminals). These gift cards are loaded on Tyro machines."</i>
Factual position:	<p>Tyro does not issue Westfield gift cards nor are they 'loaded' on Tyro machines. As such there is no truth in the claim that such gift cards "must process through Tyro infrastructure".</p> <p>There is no 'bricking' of Westfield gift cards by Tyro.</p> <p>There is no relationship as claimed between Westfield gift cards and Tyro's 'back end' or any fundamental issues as claimed.</p> <p>If a gift card was not working on a non-Tyro terminal that has nothing to do with Tyro.</p>
Conclusion:	REPORT STATEMENT FALSE

Disaster Recovery plan: We will not argue over the subjective efficacy of Tyro's disaster recovery plan.

5. Disaster Recovery Plan

Assertion made:	Tyro has "no disaster recovery plan"
Factual position:	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.
Conclusion:	REPORT STATEMENT FALSE

Collection effort: We detail below the results of a consultation with an POS terminal industry expert regarding the timeframe and expense of the collection efforts. The costs incurred by contracting 255 personnel are not a basis for results, as collection efforts remain slow. Further there are several bottlenecks involved with this operation, the greatest of which is the hardware required to update these terminals and the logistics of collection and distribution.

Fleet Age: Obfuscation. Fleet age is not product offering. Tyro terminals are dinosaurs compared to innovative competitors.

9. Fleet Age

Assertion made:	<i>".....Tyro's product offering is over a decade old at this point"</i>
Factual position:	<p>Tyro terminals are exclusively Worldline manufactured and the fleet is not aged as implied in the Report, specifically:</p> <ul style="list-style-type: none">- ~60% of the fleet is 3 years old or less;- ~80% of the fleet is 5 years old or less.
Conclusion:	REPORT STATEMENT FALSE



Financial Analysis

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 below.

10. Financial Analysis

Assertion made:

".....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"

Factual position:

Tyro has cash and investments excluding depositor funds of \$137 million as at 31 December 2020.

Tyro is an Authorised Deposit-taking Institution (ADI). Deposits are generated to fund merchant loans and not to support operating cash requirements.

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.

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.

Conclusion:

REPORT STATEMENT FALSE

Tyro Payments Adjusted Free Cash Flow - Viceroy Research					
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Revenue	95,767	120,628	148,251	189,770	210,675
COGS	(49,584)	(64,538)	(79,163)	(106,510)	(117,200)
Gross Profit	46,183	56,090	69,088	83,260	93,475
OPEX (excl. IPO costs)	(49,400)	(70,795)	(86,178)	(103,523)	(121,802)
Operating Profit	(3,217)	(14,705)	(17,090)	(20,263)	(28,327)
<i>Margin</i>	-3.4%	-12.2%	-11.5%	-10.7%	-13.4%
NPAT	(746)	(12,775)	(16,370)	(18,439)	(38,057)
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)
FCF	(9,875)	(17,393)	(15,690)	(17,494)	3,449
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)
Viceroy adjusted FCF	(10,334)	(22,723)	(24,717)	(36,637)	(31,071)

Figure 1 Viceroy Analysis

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 either. 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 share¹.

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.

¹ <https://www.bendigobank.com.au/media-centre/bendigo-bank-announces-new-agreement-with-tyro/>



Viceroy Weekend Update

The situation at Tyro appears to have gotten worse according to further due diligence conducted by Viceroy Research over the weekend. Putting aside the irony of being more forthcoming with their investors than their customers, our research showed:

- Tyro customers reported to us that their systems failed over the weekend of 17-18, indicating an ongoing issue.

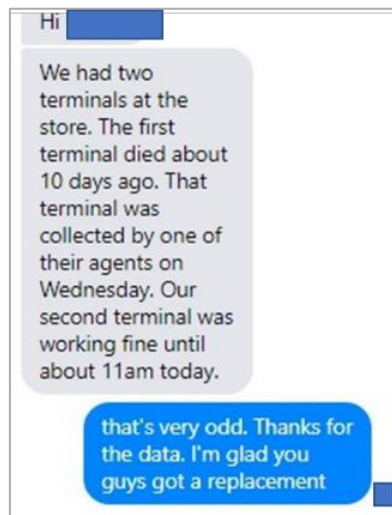


Figure 2 Correspondence with Tyro Customer

- Industry experts told Viceroy that the continued failures mean that this is likely a firmware issue and will take considerable time to fix. They suggested that the cause of the bricking was likely a software update that negatively affected the terminal firmware, likely due to a lack of testing before deployment.
 - Burning new firmware onto the machines is a time-intensive process that requires each terminal to be updated individually while connected to a desktop computer as well as specialized protocols and equipment. These firmware burns require a JTAG physical hardware interface and there are limited options to conduct simultaneous burns which Viceroy have been reliably told that neither Amtek nor Tyro are using.
- Industry experts estimated the turnaround time to be roughly half an hour per terminal per person but notes that Amtek is unlikely to have more than a few workstations considering the highly specialized nature of this equipment.
- One Tyro customer known to Viceroy informed us that they had been cold-called by Amtek who were apparently unaware whether or not the customer's machine was actually broken. This gives weight to our belief that Tyro's has no real idea of which terminals, and how many terminals, are bricked.

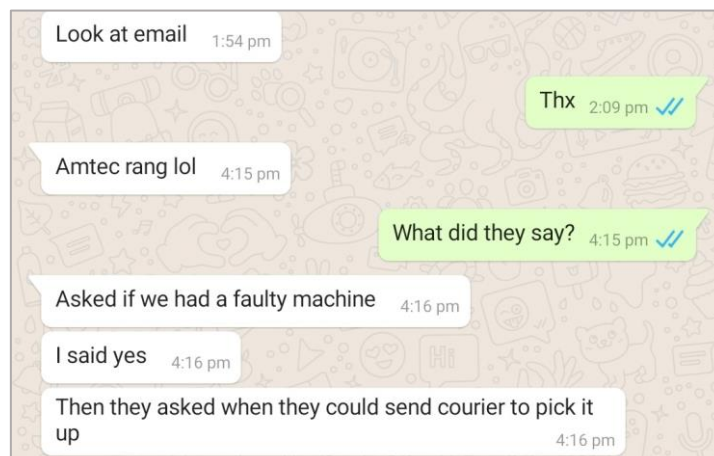
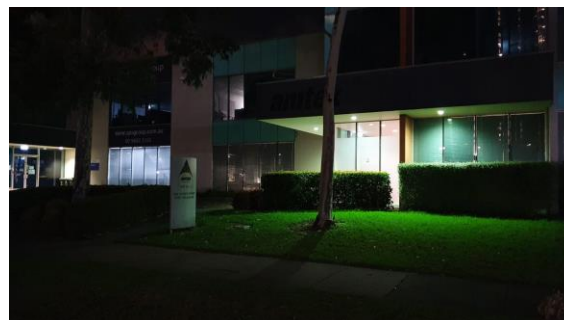
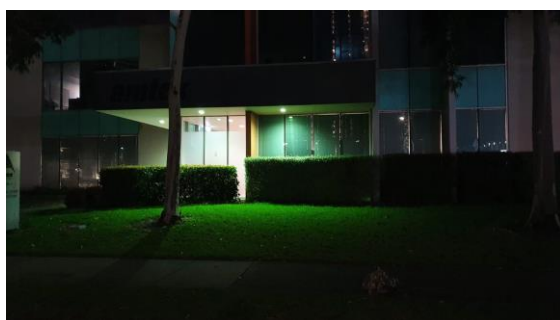


Figure 3 Correspondence with Tyro Customer



- While Tyro claims to be working 24/7 until we have completely resolved the issue, a Saturday night visit to Amtek's Melbourne office showed no activity inside and no cars parked outside. We were also informed that the cost of running a team of technicians would be prohibitively expensive.



Figures 4 & 5 Photos taken at Amtek's Melbourne Location at 11:30pm AEST on January 16, 2021

- These newer failures are likely to be caused by the same update that caused the original bricking being downloaded by terminals on different update schedules.
- Meanwhile, Tyro customers continue to raise hell on every review and social media platform with the Merimbula Chamber of Commerce going so far as to warn businesses against using them.

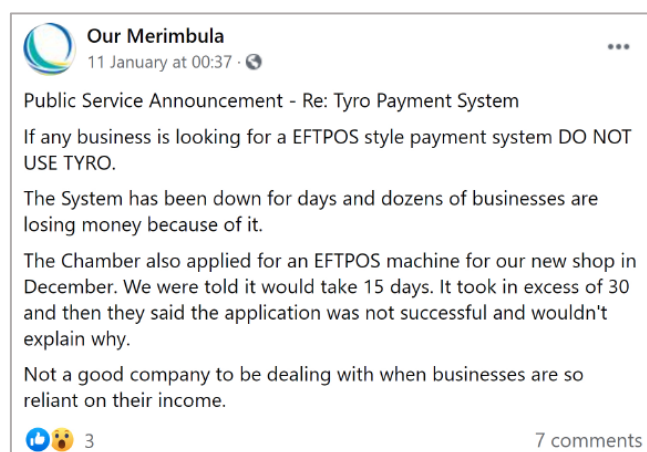


Figure 6 Merimbula Chamber of Commerce Facebook Page

- On 18 January 2021, Tyro released its weekly trading update to the market which lays bare the impact the outage is having on their operations. We present our analyses of these trading updates below. As can be seen Tyro's growth trajectory continued to flatten to say nothing of the underlying churn from the outage.

Tyro Payments TTV Analysis - Viceroy Research					D/D	Tyro Payments TTV Analysis - Viceroy Research					SD/D
Starting	Ending	TTV (AUDm)				Starting	Ending	TTV (AUDm)			
		2021	2020	%				2021	2020	%	
01-Dec-2020	31-Dec-2020	2,626	2,206	19.0%		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	08-Jan-2021	490	477	2.7%	
01-Jan-2021	12-Jan-2021	704	685	2.8%		01-Jan-2021	12-Jan-2021	704	696	1.1%	
09-Jan-2021	12-Jan-2021	214	249	-14.1%		09-Jan-2021	12-Jan-2021	214	219	-2.3%	
09-Jan-2021	15-Jan-2021	430	414	3.9%		09-Jan-2021	15-Jan-2021	430	417	3.1%	
Affected TTV Calculations @ 15 Jan						Affected TTV Calculations @ 15 Jan					
Viceroy CY20 Growth Estimate		20.0%	25%	30%		Viceroy CY20 Growth Estimate		20.0%	25%	30%	
January "bricked" yoy volume		3.9%	3.9%	3.9%		January "bricked" yoy volume		3.1%	3.1%	3.1%	
Loss		-13.4%	-16.9%	-20.1%		Loss		-14.1%	-17.5%	-20.7%	
Affected TTV Calculations @ 12 Jan						Affected TTV Calculations @ 12 Jan					
Viceroy CY20 Growth Estimate		20.0%	25%	30%		Viceroy CY20 Growth Estimate		20.0%	25%	30%	
January "bricked" yoy volume		-14.1%	-14.1%	-14.1%		January "bricked" yoy volume		-2.3%	-2.3%	-2.3%	
Loss		-28.4%	-31.2%	-33.9%		Loss		-18.6%	-21.8%	-24.8%	

Figure 7 Tyro Payments TTV Analysis



- Many customers Viceroy spoke to reported inconsistent communications and pickup efforts by the company with some merchants reporting that their terminals had been collected over a week ago with no replacement having been issued.

To conclude, it appears that Tyro have crucially mismanaged their risks as stated in their prospectus. This system outage appears not to be a natural disaster or an event beyond their control but the product of failure to innovate and monitor.

System outages

In addition, a system outage could have an adverse effect on our business, financial performance and operations. Not only would we suffer damage to our reputation in the event of a system outage, but we may also be liable to third parties. To successfully operate our business, we must be able to protect our processing applications and other systems from interruption, including from events that may be beyond our control. Events that could cause system interruptions include fire, natural disaster, unauthorised entry, power loss, telecommunications failure, computer viruses, terrorist acts and war. Events of this nature may cause us to lose critical data or experience system failures.

Figure 8 Tyro Payments Prospectus

Tyro Payments are more concerned with the price of their equities than the functionality of their products. Communications so far to both investors and the market have been opaque and downplay the significance, both financial and operational, of the ongoing situation. We stand by our research and look forward to the company's response.



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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