



# Tyro by name, Tyro by nature



tyro [noun]: a person who is just beginning to learn something or who has very little experience of something

**January 15, 2020** – Viceroy Research is short Tyro Payments Limited (**ASX : TYR**). Tyro is the 5<sup>th</sup> largest merchant acquiring bank (by number of terminals) in Australia, behind the four major banks (\$NAB, \$CBA, \$WBC, \$ANZ). Since its IPO in late 2019, Tyro has singled itself out as the most unreliable & technologically inferior fintech in Australia.

Over the last week, our research suggests **Tyro has “bricked” (verb: to turn into a brick) ~50% of its terminals across the country** via a software patch, which requires a recall and capital-intensive terminal repair/replacement. It has no disaster recovery plan and has left businesses, including medical facilities, without any means to collect payment from customers.

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***Viceroy Research believes Tyro presents a limited-risk short as customers churn in record numbers to vastly superior, non-archaic payment solutions providers, which are available in abundance, and immediately.***

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## Bricked

- **Viceroy’s extensive channel checks indicate that approximately 50% of Tyro’s merchant terminals are offline**, and have been for over a week as of the date of writing.
  - Tyro initially made an announcement to the market on January 7, 2021 that it was experiencing connectivity issues with “some” of its terminals, expected to affect only “5% of sales volume”.
  - In an update issued on January 13, 2021 Tyro expanded this number to 30% of customers affected by the breach.
  - **It seems that Tyro has no idea – and no way to determine – how many of its terminals are actually functional.**
  - Viceroy’s channel checks confirmed that many **customers had bricked terminals and had received no communications from Tyro** unless prompted.
- As of the time of writing, these **terminals are still down**, with limited collection efforts taking place. Many stores we have called and checked have **already switched providers** (with emphasis to Square), and many more cited numerous integration and connectivity issues throughout their Tyro experience.
  - Tyro have announced that the recall will be conducted by Amtek, a company with only 335 technicians and contractors and locations in only 3 states, collecting (allegedly) 2,000 machines a day. Even if Tyro’s assumption of only 30% bricked machines, collection alone would take 10 days.
  - Tyro’s customers are largely SMEs, who do not have alternative methods of collecting payment nor can they wear loss of business during a pandemic.
- **Viceroy can confirm that the breach affects multiple terminal models including Tyro’s more modern offerings of the Worldline Yoximo and Yomani machines.** The rest of Tyro’s product offering is over a decade old at this point.
- Viceroy calls to Westfield shopping centers indicate that 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.



## The Tech

- **Tyro is the most underwhelming fintech in the ASX**, and more closely resembles a bank. Its major revenue driving activity is simply providing merchant terminals – which have remained largely unchanged for a decade – to SMEs.
  - **Tyro does not have any of its own hardware.** All terminals are 3<sup>rd</sup> party machines purchased from Worldline.
  - Tyro’s software integrates with multiple apps (such as POS software), however these appear to be all open-API, and **provide no real competitive advantage** over Square.
  - Tyro claims low fees and less downtime (vs comps) as its competitive advantage, neither of which appear to be true.
- COVID-19 restrictions have encouraged venues to make many changes to the way they take orders and receive payments. **Restrictions in Australia’s most populous states has introduced rules to cut off bar service: most venues are strictly table service or takeaway.**
- **Competitors** like Mr. Yum have rolled out RFID docks which can be attached to any tables, and allow users to scan and order drinks directly to their table via merchant terminals such as PayPal, Google Pay, Apple Pay, Square, or Shop. Not only do the orders sync with virtually any POS/venue management system, but they also reduce the need to hire excess employees to staff emptier venues.
  - While more expensive (100bps merchant fee), the entire fee can be passed onto the customer. Even if it wasn’t passed on: it is still cheaper than hiring staff to take drinks orders at bars.
  - **Former Tyro customers appear on Mr. Yum’s blogs**, discussing how great their system is. Downtime is likely to churn customers away from Tyro.
- **Square** terminals are readily available from electronics retailers starting from \$50.

## Analysis

Despite being in operation since 2003 **Tyro is increasingly loss making and floats its operating cash flows through customer deposits** in its banking division.

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*We believe Tyro presents **significant downside** with no real catalyst to make a jump into profitability.*

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The company’s financials are unappealing, and their undifferentiated and outdated product offering is in stark contrast to fresh market participants. **The reputational and financial fallout from this outage will likely be severe and long-lasting.**

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*Investors should **demand an independent investigation** into the issues surrounding Tyro’s “bricking” of merchant terminals, together with a review of intenal controls.*

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Figure 1 Tyro Tweet – 1 Dec 2015<sup>1</sup>

<sup>1</sup> <https://twitter.com/Tyro/status/671552452009725952?s=19>



### **Attention: Whistleblowers**

Viceroy encourage any parties with information pertaining to misconduct within Tyro Payments Limited, 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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## 1. About Tyro

Tyro is a minor player in the Australian payments space, focused on the provision and operation of Point-Of-Sale (POS) merchant terminals manufactured by Worldline<sup>2</sup>. It appears to have little to no competitive advantage against other market participants, does not manufacture its own hardware, flouts basic app integration, and points to minimum terminal downtime as a major point of difference.

### Fintech?

For all purposes, Tyro more closely resembles a bank than a fintech. There is nothing technologically special about Tyro, and in our eyes, it is perhaps the most underwhelming tech stock listed in Australia. Its largest revenue driver is the provision of merchant terminals, which have remained largely unchanged for over a decade. For instance: here are features of the Worldline Yomani terminal on Tyro's roster:



Figure 2 Worldline Yomani "Features"<sup>3</sup>

### Market Overview

The company accounts for only 3% of total card payments acquired in Australia as of June 2020 and is dwarfed by the "Big 4" of Commonwealth Bank, NAB, ANZ and Westpac. Note that these statistics exclude major players such as Square, who are not "banks", and therefore excluded from all data points provided by Tyro.

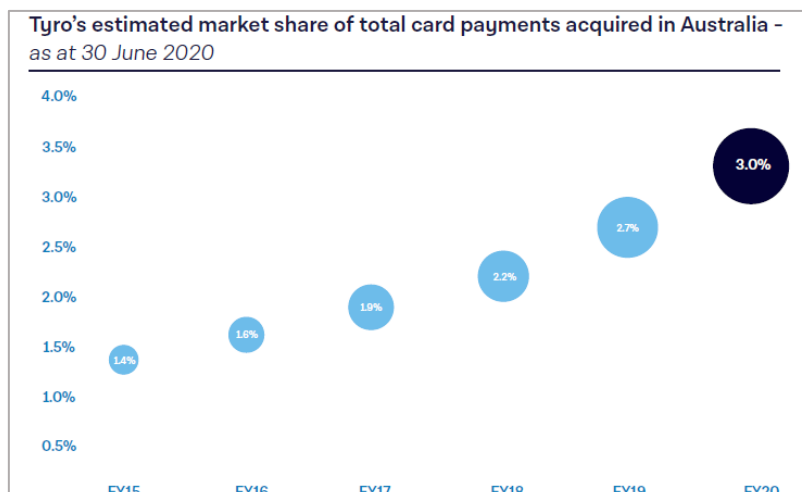


Figure 3 Tyro Estimate Market Share

Tyro has had greater success in appealing to SME's, marketing allegedly lower processing fees and being one of the first players to offer zero lock-in contracts. Accordingly, Tyro has a disproportionately large exposure to health, hospitality, and retail SMEs. It also has a disproportionately large churn.

<sup>2</sup> <https://worldline.com/>

<sup>3</sup> <https://terminals.worldline.com/en/home/products/payment-terminals/countertop-terminals/yomani.html>



## 2. The Bricking

Viceroy's extensive channel checks at locations across Australia indicate the number of bricked terminals is closer to ~50%, much larger than reported by Tyro.

On January 7, 2021 Tyro announced to the market that it had found "connectivity issues" with some of its terminals expected to affect only 5% of its sales volume<sup>4</sup>. The company later backtracked on this on January 13, 2021 on its status page where it claimed that 30% of customers were affected by the issue with 19% of customers having no functioning terminals whatsoever<sup>5</sup>.

Based on the last available merchant figures dated February 2020 this means at least 10,000 merchants affected, with at least 6,100 merchants without any functionality whatsoever. The company claims that this was due to an issue on some terminals resulting in a total loss of connectivity.

In terms of how widespread the issue is, we can confirm that as of today 70% of our customers are unaffected by the incident. A further 11% of customers have multiple terminals with at least one functioning terminal. The remaining 19% of customers have had no functioning terminals and are a focus of the recovery effort.

Figure 4 Tyro Payments Status Page

*Viceroy's extensive channel checks at locations across Australia indicate the number of bricked terminals is substantially higher than this figure. We believe ~50% of terminals appear to be down, and 30% of merchants affected.*

Merchants reported a total shutdown of these terminals and several had already replaced their Tyro terminals with Square terminals, or even processing payments through PayPal's online payment gateway (i.e. no hardware, as a quick fix).

### Financial Impact

The first signs of this impact were shown in Tyro Payments trading updates dated January 12, 2021<sup>6</sup>. A closer look at these figure shows that from the 8<sup>th</sup> to the 12<sup>th</sup> of January 2021, the period containing the bricked device issue, TTV fell by 14.1% yoy.

| Tyro Payments TTV Analysis - Viceroy Research |             |            |       |        |
|---|-------------|------------|-------|--------|
|   |             | 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%   |
| 08-Jan-2021                                   | 12-Jan-2021 | 214        | 249   | -14.1% |

Figure 5 Tyro Payments TTV Analysis – Viceroy Research

<sup>4</sup> <https://www.tyro.com/wp-content/uploads/2021/01/ASX-Release-Terminal-Connectivity-Issues-FINAL.pdf>

<sup>5</sup> <https://status.tyro.com/>

<sup>6</sup> <https://www.tyro.com/wp-content/uploads/2021/01/ASX-Release-Trading-Update-43-Final.pdf>



Comparing December to January figures we can see that this drop is ~30%, as accumulated growth over the year has not been factored in. This is even more concerning when compared to the previous year's January figures where we can see the growth expectations.

| Period                  | 2020            | 2019            | % Increase |
|-------------------------|-----------------|-----------------|------------|
| January                 | \$1.830 billion | \$1.444 billion | 27%        |
| February *              | \$1.785 billion | \$1.377 billion | 30%        |
| March (month-to-date)** | \$0.489 billion | \$0.414 billion | 18%        |

Figure 6 Tyro Payments Trading Update dated March 9, 2020

If we assume that the figures from January 8 to January 12 to represent this month's performance, we project a 32% drop in TTV growth. We believe this assumption is reasonable considering the facts on the ground.

### Channel Checks

Viceroy's channel checks included:

- National hospitality groups (>50 venues each)
- Malls & shopping centers
  - Westfield Concierge all use Tyro terminals – Viceroy channel checks confirmed all Westfield concierge terminals were down. Further: Westfield gift cards issued through Tyro were not being recognized at any terminal (working or not) across any of their malls (right after Christmas).
  - When prompted for status of individual retailers within malls, Viceroy were advised that “the ones that use our system, Tyro, are also all offline”.
- Local hospitality groups in each of Melbourne, Sydney & Brisbane.
- In-house visits by Viceroy and associates to Tyro venues across Melbourne & Sydney.

Given the data we have aggregated, it is our belief that the number of terminals “bricked” by Tyro is ~50%, or greater. For reference, Viceroy has a large sample data of a few hundred stores, which indicated more than half are bricked. Given stores typically have more than one terminal, this would suggest >50% of terminals are bricked.

Mathematically, many merchants have more than one terminal and over 30% appear to be completely offline according to both our checks and financial analysis of Tyro's figures. Thus, we find it highly improbable that only 30% of terminals are offline. We believe this figure is likely over 50%.

We verified our data against data scrapes across social media platforms as detailed below.

### LinkedIn

- Business for Doctors CEO, Dr Armstrong, confirmed “hundreds (perhaps thousands) of clinics have no availability to process patient payments”. Pharmacists confirmed this in the comment section.

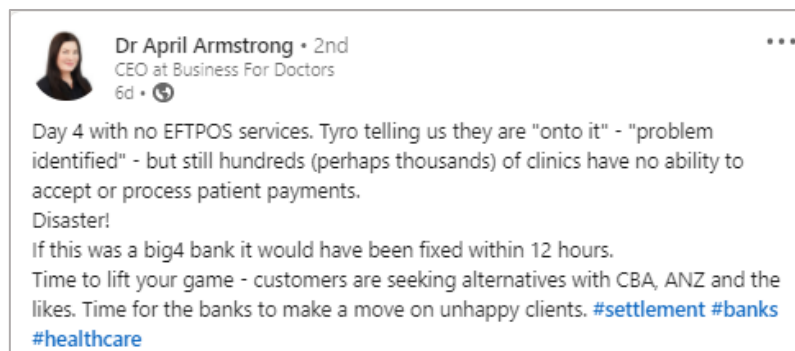


Figure 7 LinkedIn Post Extract<sup>7</sup>

<sup>7</sup> <https://www.linkedin.com/feed/update/urn:li:activity:6753110773045768192/>



## Facebook

- Tyro's Facebook updates have generated thousands of comments from unhappy customers, many of whom verify that they have not been contacted by Tyro for replacement and point out large discrepancies in what Tyro has announced to the market vs what has occurred on the ground.
- Given the vast number of comments from individual Facebook users alone, it is astounding that analysts have not properly adjusted their expectations on the longevity and severity of this issue.
- We note that Tyro appears to have disabled its community page to see where it has been tagged in posts, and reviews are now drawn directly from Trustpilot.

The figure displays seven Facebook posts from Tyro, organized into two columns. Each post includes the Tyro logo, a timestamp, a text update, and engagement metrics (likes, comments, shares). The posts are as follows:

- Post 1 (Left Column):** January 6 at 9:16 PM. Text: "We are still experiencing a technical issue which has impacted some customers' ability to process transactions through their Tyro EFTPOS machine. We are very sorry for the disruption this has caused and our team will continue working urgently through the night to resolve this issue. Further updates will be provided as they become available on [status.tyro.com](https://status.tyro.com)." Engagement: 18 likes, 65 Comments.
- Post 2 (Left Column):** January 6 at 1:32 PM. Text: "We are currently experiencing issues impacting a limited number of our EFTPOS terminals' connectivity and the ability for those terminals to process transactions. Our teams are working urgently to resolve this issue and we will provide further updates as they become available on [status.tyro.com](https://status.tyro.com). We're sorry for any inconvenience being experienced." Engagement: 26 likes, 135 Comments, 1 Share.
- Post 3 (Right Column):** January 7 at 10:48 PM. Text: "An email with further information has been sent tonight to all customers impacted by the connectivity incident. If you've not received this, please get in touch via [cs@tyro.com](mailto:cs@tyro.com) so we can resend to you. Once again we sincerely apologise for the impact this issue is having on our customers. Our team will continue to work around the clock to progress the resolution and further updates will be provided in the morning." Engagement: 22 likes, 111 Comments, 1 Share.
- Post 4 (Right Column):** January 7 at 5:36 PM. Text: "We really appreciate your patience as we continue to make progress on resolving the connectivity issue impacting some customers. Later this evening, we will be providing further information to impacted customers." Engagement: 23 likes, 157 Comments, 2 Shares.
- Post 5 (Right Column):** January 7 at 6:53 AM. Text: "Our team have continued to work through the night and are well advanced in identifying what's caused the connectivity issue. Unfortunately, the issue remains unresolved and impacted terminals have not returned to normal functionality. We are doing all things possible to restore impacted terminals to normal functionality and exploring alternative options available to assist our customers impacted in the interim. Regular status updates will be provided at [status.tyro.com](https://status.tyro.com) and we... See More" Engagement: 30 likes, 159 Comments, 3 Shares.

Figure 8 & 9 Facebook posts extract sample – Note comments



**Lisa McDonald**  
still waiting here in Mudgee too - we attempted to post our units back yesterday but Australia Post couldn't find the address on their system. So we are still waiting on a pickup. I sent several emails to tyro yesterday, yet to receive a reply. Luckily we had a square device so have been using that in place of our 5! tyro terminals - however the square fees are quite exxy

Like · Reply · 1d  
↳ 1 Reply

**Dave Cobra**  
It's time we ditched Tyro. Pathetic.

Like · Reply · 1d  
↳ 1 Reply

**Veronica Rustica**  
Absolutely appalling. Traded on Sunday at my live music event, 300 people and ONE working eftpos terminal. Now we discover that this won't be rectified by the weekend, no way to determine when our terminals are being replaced and I've got another 600 customers coming through this weekend. Then yesterday we receive notification to post them back. What?! So when are the replacements coming?? February?? The handling of this issue is a disgrace, eftpos facilities are critical for small to medium sized businesses.

Like · Reply · 1d

**Mumma's Melts - Home, Bath & Body**  
January 9 at 1:58 PM · 🌐

EFTPOS

Unfortunately our usual Tyro Eftpos machine is out of action until further notice. There is an Australia-wide tech issue affecting certain terminals & of course ours is one of them 🙄

Don't fret! We have our handy square machine as back up, but unfortunately it does not accept eftpos gift cards that require a 'swipe' function.

So until our terminal is replaced, we will only be able to accept cards with tap or insert function.

Sorry for the inconvenience this may cause. We are bugging the crap out of Tyro to have this fixed immediately.

Cash & Afterpay are still welcome 😊🙏

Thank you for your patience & understanding 🙏

#techissues #tyro #sorryinadvance

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**True North**  
4h · 🌐

Friends. Our eftpos machine is down. So along with the rest of Melbourne we cannot take card atm. Please, when you come in for your nice time with us, order from our website, [truenortharcher.com](http://truenortharcher.com) and use the order now button. We'll look after you x

Thanks a bunch @tyrolimited I along with every other small biz owner in a city which had to shut for a year will be yelling at you shortly. Love Nadia ❤️

Figure 10 & 11 Facebook - sample of recent comments on Tyro posts

## Twitter

- Twitter sleuths provide substantial data points in situations such as these. We find that many companies have moved on from Tyro altogether and show many affected customers who received zero communication from Tyro. Again, this validates our belief that Tyro does not know the full impact of this disaster.
- Tyro's handle has been swamped by angry customers from across Australia including local sports clubs, restaurants, bars, and pharmacies.

**Mark Fletcher**  
@emef

Hey @Tyro you say that you have emailed affected customers. I know of at least 5 situations where this is not true. These businesses have not had EFTPOS since last week.

11:38 AM · Jan 11, 2021 · Twitter Web App

**Andrew Ward**  
@EquitiesWard

I just went to my local cafe and see an ANZ payment terminal next to their Tyro terminal, they are extremely disappointed and won't be going back. Tyro is going to be in a world of pain for a while yet

12:25 PM · Jan 14, 2021 · Twitter for iPhone

Figure 12 & 13 Twitter posts mentioning Tyro Payments

## Reviews

Review aggregators:

- Trustpilot - At of January 14, 2021, Tyro's Trustpilot page has received 11 1-star reviews since the outage, about 16% of their total reviews<sup>8</sup>. Negative reviews about poor customer service appear commonplace throughout 2019-2020.
- Google Reviews - On Google reviews Tyro has received 24 1-star reviews since the outage, about 21% of their total reviews<sup>9</sup>.

<sup>8</sup> <https://www.trustpilot.com/review/tyro.com>

<sup>9</sup> <https://www.google.com/maps/place/Tyro/@-26.4652584,98.8332661,3z/data=!4m7!3m6!1s0x1b48b74369714df:0x69024bba69d9b057!8m2!3d-31.99852!4d136.0141176!9m1!1b1>





## The Terminals

Industry experts consulted by Viceroy believe this to be caused by a firmware update, and the issue appears to be at fault of Tyro, as other Worldline machines are still operational (including ANZ's).

We have found zero other companies affected by bricked Worldline terminals. It is therefore odd that Tyro are implicitly throwing Worldline under the bus in press releases when addressing the fault.

An AFR article dated January 13, 2021 shows a non-operational Tyro Payments terminal which we have identified as a Worldline Yoximo.



Tyro's standard repair rates for damaged terminals are:

- \$260 for a Xentissimo
- \$160 for a Xenta
- \$160 for a Yomani
- \$260 for a Yomani XR
- \$260 for a Yoximo
- \$90 for missing PIN shields

Figures 14 & 15 Lawyers circle Tyro as outage drags on – The Australian Financial Review & Tyro model list

Viceroy can also confirm through channel checks that this error was not contained to a certain type of machine, as we have also found instances of the Yomani machine being “bricked”.

The issue for Tyro as a small player in this game is that sending a replacement terminal (which any other major bank would have done in the same circumstance) would be extremely, extremely expensive. The average cost of a terminal not including fit-out or installation costs was AUD629 in FY2020.

| Cost per Terminal - Viceroy Research    |          |
|---|----------|
|   | FY 2020  |
| Cost of terminals purchased (AUD 000's) | (7,176)  |
| New terminals issued                    | 11,405   |
| Change in inventory                     | 0        |
| Cost per terminal                       | (629.20) |

Figure 16 Cost per Terminal – Viceroy Research

Assuming it was only 30% of terminals that became “bricked”, this would have cost Tyro ~\$12m to replace, not including likely expensive installation and delivery costs.



#### Key takeaways:

- Most clients said that they did not receive communications from Tyro when their terminal went offline, and Tyro has severely underestimated the number of affected terminals. Accordingly, we believe Tyro does not actually know how many terminals have been impacted.
- Most tech savvy clients have switched to Square by the first weekend of the outage, Saturday being the 4<sup>th</sup> day of bricked terminals.
- Westfield advised via telephone that Westfield Gift Cards (usable in all stores within Westfield Precinct, were not functioning at *any* terminals (even non-Tyro terminals). These gift cards are loaded on Tyro machines. This warrants investigation, as these are EFTPOS gift cards, and should not have been impacted.
- The collection and return of these machines is a train-wreck. Businesses were informed that they could “send” the terminals back via post instead of having them collected by couriers, Amtek, to fast track the process. Some stores have advised that they returned their terminals on Tuesday via post, and the collection agency came in-store to pick up the defunct machines on Wednesday.
- Very few stores we checked had terminals already collected, but those that did advised that Amtek’s turnaround estimate was far greater than Tyro. Clients were advised they can expect the machine back “by next week”, not 2-4 days from collection.
- The bricking problem is not limited to a single type of terminal and involves Tyro’s more modern offerings.
- It goes without saying that Covid has also impacted Tyro’s business.

Given the wide-spread publication of outrage, it is strange that no one has questioned Tyro’s lowball outage figures.



### 3. The Fallout

Most merchants interviewed by Viceroy had already switched to another provider. Tyro’s terminal solutions are provided without lock-in contracts meaning the cost of switching is minimal, or nonexistent<sup>10</sup>. In fact, with a 2-week turnaround looking possible, the cost of staying with Tyro far outweighs the cost of a Square terminal.

It is worth noting that prior to this bricking incident, Tyro was already experiencing ~12% churn, extremely high for a payment entity, much less one providing terminal solutions (which tend to be “sticky”).

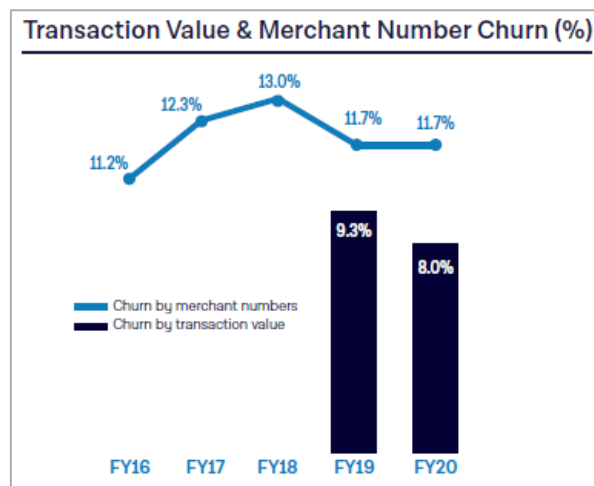


Figure 17 Tyro Payments Transaction Value & Merchant Number Churn

There is also the ongoing issue of legal action by affected merchants. Considering this outage has occurred in the middle of an epidemic making cash scarce, as well as Australia’s peak holiday season, we expect several class actions to emerge in the following 12 months<sup>11</sup>.

#### Tyro Terminal Response

So far, the company’s status page indicates that they are collecting terminals and expect a turnaround time of 2-4 days, after terminals were collected, depending on location through third party Amtek<sup>12</sup>.

Considering Tyro has 63,000 terminals in issue as of June 2020, and itself claims that ~20,000 are offline, collection alone will take 10 days. We still doubt if this timeframe is realistic, given the size of the contractor, Amtek, who appears to only have offices in 3 cities.

Further, industry experts told Viceroy Research that a timeframe of 3-5 days was feasible for metropolitan areas, with an Australia-wide rollout taking 2-3 weeks, but were skeptical of doing so with such a small third-party partner.

As of January 14, 2021, merchants interviewed by Viceroy had not had their terminals taken back however there are media reports that some terminals have been taken back<sup>13</sup>. These issues commenced on Wednesday, January 6, 2021. As of the date of writing, these issues have still not been rectified.

<sup>10</sup> <https://help.tyro.com/s/article/How-flexible-is-my-contract-with-Tyro#:~:text=At%20Tyro%2C%20we%20have%20no,it%20works%20for%20your%20business.>

<sup>11</sup> [https://www.afr.com/companies/financial-services/lawyers-circle-tyro-as-outage-drag-on-20210113-p56trr?utm\\_medium=social&utm\\_campaign=nc&utm\\_source=Facebook&fbclid=IwAR0naDQy4ZoUT\\_gjiQCTT2Mg0yCE6DcnsTUu9gNg-zmZaMeKYWaDcWtTD3s#Echobox=1610513655](https://www.afr.com/companies/financial-services/lawyers-circle-tyro-as-outage-drag-on-20210113-p56trr?utm_medium=social&utm_campaign=nc&utm_source=Facebook&fbclid=IwAR0naDQy4ZoUT_gjiQCTT2Mg0yCE6DcnsTUu9gNg-zmZaMeKYWaDcWtTD3s#Echobox=1610513655)

<sup>12</sup> <https://amtekcorp.com.au/>

<sup>13</sup> <https://www.afr.com/companies/financial-services/retailers-gobsmacked-by-tyro-s-efpos-outage-20210111-p56t7v>



## The Innovators

Tyro is also facing a widespread accelerated pivot in the Australian payments space largely brought about by the COVID-19 pandemic.

Regulation changes have included the limitation of bar service, for instance, requiring all bar patrons to order from tables.

Disruptors like Mr. Yum allow for from-the-table ordering and payment and have grown by leaps and bounds since the introduction of COVID-19 measures<sup>14</sup>. High labor costs and low margins endemic to the Australian hospitality space mean the opportunity to reduce staff headcount is one many market participants have taken.

This is the kind of obvious innovation that seems to solve problems, but is not compatible with thousand-dollar, antiquated machines Tyro still plays with.

We must also obviously point out that Square terminals are available at almost every electronics retailer in Australia and can be set up immediately.

## 4. In the courts

### Pending Class Action

On 13 January 2021, Bannister Law announced it had commenced an investigation into a possible Class Action claim on behalf of Tyro customers *and* shareholders<sup>15</sup>.

We generally find these claims bring a lot of scrutiny and are (obviously) terrible for Tyro's reputation, not to mention the looming cost and future liabilities of these cases attract.

### Spamming

In addition to its technical frailty, Tyro's also recently self-reported a breach of the Spam Act<sup>16</sup>.

Tyro has been forced to review its systems after sending 150,000+ spam email and SMS messages to customers without an 'unsubscribe' option. Tyro "self-reported" the issue, but only after it was notified of compliance issues by Australian Communications and Media Authority (ACMA) who received a customer complaint affirming Tyro had infringed the Spam Act.

This breach highlights Tyro's regulatory negligence in conjunction with their technical deficiencies, which further illustrates a poorly operated company with a disregard for detail.

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<sup>14</sup> <https://www.mryum.com/>

<sup>15</sup> <https://www.smartcompany.com.au/industries/retail/tyro-eftpos-outage-bannister-law-legal-action/#:~:text=Sydney%2Dbased%20law%20firm%20Bannister,Tyro%20terminals%20for%2010%20days.>

<sup>16</sup> <https://www.acma.gov.au/articles/2020-12/tyro-payments-breaches-spam-laws>

## 5. Financial Analysis

Tyro is still free cash flow negative and increasingly loss making, despite its revenue growth.

The table below illustrates our cash flow adjustments which we believe more accurately reflect the business' operational cash flows. A far bleaker picture of the company's finances emerges, and puts risk towards depositors, who are effectively holding up positive cash flows despite the fact this cash is not (really) Tyro's.

| <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>   | -3.4%           | -12.2%          | -11.5%          | -10.7%          | -13.4%          |
| <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 18 Adjusted Free Cash Flow – Viceroy Research

### Valuation

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 share<sup>17</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.

We believe Tyro presents significant and short-term downside with no real catalyst to make a jump into profitability and overhanging fear of litigation. Recent events have likely set Tyro back years in marketing and sales, and shareholders must be prepared to bear the cost of this.

<sup>17</sup> <https://www.bendigobank.com.au/media-centre/bendigo-bank-announces-new-agreement-with-tyro/>



## 6. Conclusion

Based on our research and interviews with affected merchants, we do not see any compelling bull thesis for Tyro. Between the loss of existing customers, reputational damages, and the market environment they find themselves in, we expect the company to decline significantly in this quarter.

As of the time of writing Tyro's issues are ongoing. Given the poor visibility into the company's response, the market's reaction, and low cost of exit for customers we are unable to quantify the impact this will have on the company's share price.