Tyro Payments

Commentary Note

Strong revenue and customer growth in H118

Tyro Payments is a provider of payments and banking infrastructure and services to Australia's small to medium enterprises (SMEs). The company was founded in 2003 as MoneySwitch Pty Ltd and was the first new entrant in the EFTPOS market since 1996. In 2015, Tyro became the first technology company to be awarded a banking licence. The company last raised capital in March 2016, with an equity capital raising of $100m at $1.036 per share led by Tiger Global, TDM Asset Management, and Atlassian co-founder and current Tyro director Mike Cannon-Brookes. The business surpassed $10bn in transaction values processed in FY17. The Compound Annual Growth rate to FY17 in transaction volumes has been ~45%. For the first half of FY18, the year-on-year volume growth was 24%. . Our analysis demonstrates that there is support for valuing Tyro above the last traded price of $1.10 a share.

KEY POINTS

Tyro reports strong H118 revenue and customer growth — Tyro Payments reported H118 revenue growth of 21% to $71.6M, driven by a 24% increase in transaction volumes and 23% lift in customers over the prior corresponding period. Tyro now commands an estimated 6.1% share of its target market of transacting small to medium enterprises in Australia. .

New CEO appointment positive – The appointment of Robbie Cooke to the CEO position from Tatts Group should be viewed as key positive for Tyro. Mr Cooke, who joins at the end of March 2018, is a seasoned executive in customer focussed, digitally driven businesses, having previously served as CEO of Wotif, which is now owned by Expedia, and most recently as MD/CEO of the Tatts Group leading the successful merger with Tabcorp. His appointment should help balance the future departure of chairman Kerry Roxburgh, which was flagged at the company's AGM last October.

Reverse DCF demonstrates last traded share price of $1.10 is assuming conservative growth — We have conducted a reverse DCF to determine what is implied in the last traded price of $1.10. We have considered the valuation excluding R&D investment in new business, and applied a WACC of 11%, Beta of 1.3 and terminal growth rate of 2.2%. Tyro's last traded price of $1.10/share implies market share of 13% in 2027 and a compound growth rate in revenues of 14.5%. In our view, this is a conservative growth rate given where the company is in its lifecycle.

Scale the Key to Tyro's Success —Tyro needs to continue to ramp up its share of payment processing to accelerate merchant fee income and drive the conversion of customers to its banking products. Tyro's growth rate of mid to high 20% y-o-y continues to outpace the broader market growth for cashless transactions of 7.8% for the same period. We have considered the impact of increased market share on valuation and have demonstrated that a 15% share of market results in a value of $1.41/share while 20% market share translates into $2.00/share.

Compco valuation at a premium to last traded price — Our analysis has derived multiples from comparative companies in Australia and the US in the payments processing market. Including Australian peers, the compco valuation is $1.33/share, excluding the Australian peers, this rises to $1.53/share, reflecting the relative size and maturity of the peer group.

The Golden Rule implies a premium to the last traded price - We have also applied The Golden Rule as a way of determining an appropriate revenue multiple that is related to investor return expectations, market pricing and profitability. Using a PE multiple equal to the long run market PE (15x), an NPAT margin of 18.4% and an uplift factor of 2x (based on Tyro's growth rate being twice the rate of return of the broader market) we determine a revenue multiple of 6x and an implied value of $1.53 per share.

Banking and Payments Processing

26 March 2018

Company Summary	
Last Cap Raise Price (Mar 16)	A$1.036
Last Traded Price (Feb 18)	A$1.10
Shares on issue	433.9M
Implied Market Cap (@$1.10 per share)	A$477.3M
Tier 1 Capital	A$104.2M
Capital Ratio	162%
Trading Platform	PrimaryMarkets.com

Significant Shareholders	
Directors & Executives *Hold 62.86M shares and 8.22M options*	14.5%
Tiger Global Management	13.5%
TDM Asset Management	5.6%

Upside Case

- Well credentialed board and management with skin in the game
- First tech company in Australia to be issued a full Australian bank licence
- Well capitalised to roll-out its deposit and lending products

Downside Case

- Deposit and lending products require significant marketing effort to scale
- Highly fragmented market below the top 4 big banks
- Investment into product development, product delivery and sales and marketing need to translate into top line growth

Board of Directors	
Chairman	Kerry Roxburgh
Acting CEO/Director	Rob Ferguson
NED	Mike Cannon-Brookes
NED	Catherine Harris
NED	Paul Rickard

PrimaryMarkets Contact Details	
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Disclaimer and disclosure of interest are displayed on the last two pages of this report.

COMPANY OVERVIEW

What is Tyro Payments?

Tyro is an Australian Bank and operates under the supervision of the Australian Prudential Regulation Authority (APRA). Tyro provides credit, debit and eftpos card acquiring, Medicare and private health fund claiming and rebating services as well as an interest bearing transaction and deposit account offering integration with Xero cloud accounting. Tyro takes money on deposit and offers unsecured cash-flow based lending to Australian EFTPOS merchants. Tyro currently serves more than 20,000 customers with its own in-house, cloud-based mobile core banking platform.

Key proposition is frictionless banking

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 platform. Tyro achieves this through offering: 1) tighter integration between payment systems, Point-of-Sale, Practice-Management-Solutions and accounting software to reduce errors; 2) fast and reliable technology; 3) instantaneous reporting and reconciliation; 4) acceptance of more payment types; and 5) 24/7 Australian customer support.

Exhibit 1: How Tyro's revenue streams deliver

Smart EFTPOS

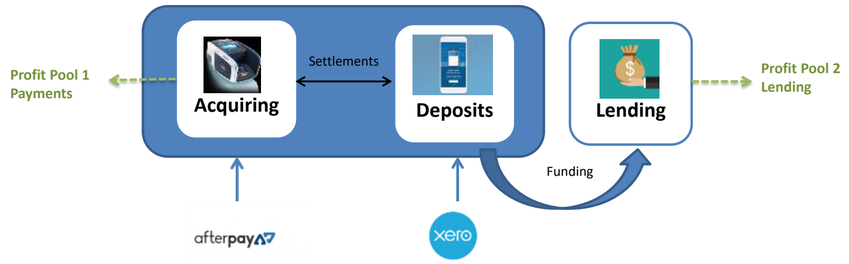
- Integrated to 244+ Point of Sale (POS) and Practice Management Solutions(PMS)
- Company's core business
- End-to-end accountability
- Fast (under 1.6 seconds)
- Reliable (99.9% uptime)
- Bespoke industry features

Smart Account

- Interest bearing transaction account
- Unlimited free transactions (no fees)
- Integrated batch payments
- Government guarantee <$250k
- Award winning app
- Total accounts at 31 Dec 2017 was 960, up seven-fold year on year

Smart Growth Funding

- Pre-approved and unsecured loan
- Pro-active assessment based on existing Merchant relationships
- Fast funding (60 seconds)
- Automatic flexible repayments
- One simple flat upfront fee
- $21.6m in total originations from soft launch in early 2017 to 31 Dec 2017 with $10.5m of these in H118



Source: Tyro Presentations and Reports

Transaction momentum continues in H118

Tyro's strong transactions growth continued in H118 with volumes increasing 24% year-on-year to $6.5bn for the six months reported. Tyro's transaction volumes have growth a more than 20% since 2014, outpacing total market growth of 7.8%[1] over the same period. The company achieved record transactions in December 2017 with $1.3bn recorded. It was the fifth consecutive month of transaction volumes in excess of $1bn. The lift in volumes was matched by customer growth which increased 23% to 20,778, driven by a 61% increase in new customer applications. The company's share of its target market is now 6.1%, up from 2.4% in 2013. We expect growth in market share to continue, particularly as Tyro's two new banking products gather momentum and extend the company's relationship with its merchant customer base. As Exhibit 2 demonstrates, the company's growth in its share of target market and transaction volumes was achieved with a smaller increase in employee numbers.

1 RBA Credit Card and Charge Card Statistics, February 2018

Exhibit 2: Performance Indicators from H118 result

	H117	H118	% chg
Transaction Volume ($bn)	5.3	6.5	24.0%
Employees	349	373	6.9%
Customers[2]	16,944	20,778	22.6%
Share of Target Market*	4.98%	6.11%	22.6%

Source: Tyro interim results, *Share of target market is based on RaaS estimates

INTERIM RESULTS DISCUSSION

Strong revenue growth

Tyro delivered 23.8% growth in total operating income driven predominantly from its merchant fees and commissions. Albeit off a small base, its nascent Smart Account and Growth Funding products delivered a greater than six-fold increase in net banking income. The Smart Account product added 440 net new active customers in the half to take total accounts to 960 at 31 December 2017, up from 133 a year before. The Growth Funding product originated $10.5m in loans in H118, bringing total originations to $21.6m. The company recorded only $65k (1.05%) in lending losses for the half on an outstanding loan balance of $5.5m.

Investment in people

Tyro reported an interim operating loss before tax of $6.8m, up from a $4.5m operating loss before tax a year ago, largely due to investment in people in particular sales and marketing staff ahead of a marketing push to come in H218 and an increase in contracting and consulting costs. The company noted that the 61% increase in new applications in the half is one of the first indications that the investment in sales and marketing was starting to pay off. Product Development and Management spend also increased as Tyro reinvests in scalability and growth. The net loss for the half was $6.7m versus $3.0m a year ago.

Exhibit 3: Profit and Loss Statement

In AUD'000	H117	H118	% chg
Fees and commission income	56,374	68,726	21.9%
Interchange, integration, support fees	(30,439)	(37,055)	21.7%
Net fees and commission income	25,935	31,671	22.1%
Gross Margin	46.01%	46.08%	0.2%
Interest income on loans	94	687	630.9%
interest expense on deposits	(9)	(38)	322.2%
Net banking operating income	85	649	663.5%
Terminal and accessories sale	236	443	87.7%
Terminals and accessories COGS	(527)	(346)	(34.3%)
Net terminal sales & accessories expense	(291)	97	(133.3%)
Other Income	901	562	(37.6%)
Total Operating Income	**26,630**	**32,979**	**23.8%**
Employee benefits expenses	(21,990)	(26,695)	21.4%
Administrative expenses	(7,653)	(10,590)	38.4%
Other expenses	(17)	(13)	(23.5%)
Total Expenses	(29,660)	(37,298)	25.8%
Loan Impairment	(24)	(65)	170.8%
FX Gain	51	-99	(294.1%)
EBITDA	**(3,003)**	**(4,483)**	**49.3%**
Depreciation	(2,866)	(3,431)	19.7%
EBIT	(5,869)	(7,914)	34.8%
Interest	1,395	(1,133	(18.8%)
Profit Before Tax	**(4,474)**	**(6,781)**	**51.6%**
Tax	1,484	75	(94.9%)
Net Loss for interim result	**(2,990)**	**(6,706)**	**124.3%**

Source: Tyro Interim Results, RaaS Advisory analysis

2 The term "Customers" is used generically. The equivalent number used as an economic unit is the number of "Merchant identifiers" used internally. The number does not translate to number of merchants or number of SMEs. RBA estimates the number of merchants in Australia is 680,000.

Strong Balance sheet and sustained cash losses

Tyro ended H118 with $44.6m cash and cash equivalents, giving it a strong balance sheet from which to scale. We set out the interim cash statement and balance sheet below.

Exhibit 4: Interim Balance Sheet

In AUD'000	Jun-17	Dec-17
Cash and cash equivalents	24,052	44,587
Due from other financial institutions	52,438	12,716
Trade and other receivables	10,489	20,692
Prepayments	1,992	1,906
Inventories	1,148	1,029
Loans	4,511	5,516
Total current assets	**94,630**	**86,446**
Available-for-sale investments	21,097	31,484
PPE	13,482	15,474
Net deferred tax assets	10,300	10,300
Total non-current assets	**44,879**	**57,258**
TOTAL ASSETS	**139,509**	**143,704**
Deposits	3,948	9,497
Trade payables and other liabilities	11,430	14,350
Provisions	2,206	2,476
Total current liabilities	**17,584**	**26,323**
Provisions	534	667
TOTAL LIABILITIES	**18,118**	**26,990**
Contributed equity	138,381	139,919
Reserves	12,157	12,779
Accumulated losses	(29,147)	(35,984)
TOTAL EQUITY	**121,391**	**116,714**

Source: Tyro Interim Results

Exhibit 5: Interim Cashflow Statement

In AUD'000	H117	H118
Interest, fee and rental income received	51,640	60,919
Payments to suppliers and employees	(59,848)	(70,900)
Net inflow from retail deposits	1,701	5,549
Net outflow from customer lending	(1,860)	(1,070)
Receipts from terminals & accessories sale	236	443
Net cash flows from operating activities	**(8,131)**	**(5,059)**
Investments in term deposits	(41,665)	39,697
Investments in available-for-sale assets	(15,014)	(10,137)
Purchase of PPE	(3,972)	(5,433)
Proceeds from disposal of PPE	7	28
Net cash flows from investing activities	**(60,644)**	**24,155**
Proceeds from exercise of share options	1,258	1,538
Net cash flows from financing activities	**1,258**	**1,538**
Change in cash and cash equivalents	(67,517)	20,634
Net foreign exchange difference	51	(99)
Cash and equivalents at beginning of year	82,224	24,052
Cash and equivalents at end of year	**14,758**	**44,587**

Source: Tyro Interim Results

COMMENTARY

CEO appointment a key positive

Since PrimaryMarkets' last report (8 November 2017), the company has announced the appointment of Robbie Cooke to the CEO position. Mr Cooke comes to the role from Tatts Group where he was CEO for five years. He previously was CEO of online travel portal Wotif. Mr Cooke will join Tyro in March 2018 and take the reins from director Rob Ferguson who has acted as interim CEO since August 2017. We believe Mr Cooke's experience in both building disruptive, high growth businesses and dealing with highly regulated businesses will be of benefit to Tyro.

Board and Key Management Personnel have Skin in the Game

The current board and senior executive team hold 62.9m shares and 8.2m options. On a fully-diluted basis, this equates to a combined shareholding of 15.9%, (excluding options, some of which are not yet in the money, the combined shareholding is 14.5%). The company's options vest over a five year period, aligning the company's leadership team with the long-term interests of shareholders.

Least Cost routing delivery

Tyro's success has historically been driven by the company's willingness to take the plunge ahead of competition and be the first to market with innovative products. The company has rolled out a new product feature, 'Tap & Save', that will ensure "least-cost routing" for customers in H218, making it the first bank to market and well ahead of the 1 April 2018 deadline recommended by the House of Representatives Standing Committee on Economics.

Success lies in greater than market growth

Tyro's success effectively depends on its ability to capture a greater share of payment processing (be it by volume or value) and minimise customer churn to accelerate merchant fee income. Since inception, the company has remained ahead of the market in terms of growth and innovation which has allowed it to increase its share of its target market to 6.1% in H118 from 2.4% in FY13. Tyro has achieved this by growing at an average percentage rate in the mid to high 20s, well in excess of the 7.8% market increase in card payments. Note that Tyro is also currently only in the card-present environment and thus this growth is without it tapping into the high growth ecommerce segment. Elsewhere, the market share capture across different core industry verticals, such as healthcare, hospitality and travel should also boost fee income as these transactions are typically higher value and higher margin.

Core business is break even now, based on our analysis

In calculating break-even revenue, we have used H118 results and assumed that H218 will be the same. In order to calculate fixed costs applicable to the existing business, we have assumed that 55% of employment costs relate to R&D. Of the total R&D expenditure (estimated to be $29.2m for FY18), we have assumed that 25% is spent on stay-in-business R&D which we have included in our fixed cost calculation. Total fixed costs for FY18 are estimated at $52.7m and using a contribution margin of 46.1%, Tyro's annualised revenue of $137.5m is $23.3m ahead of break- even revenue (calculated to be $114.2m). It is the company's intention to continue to invest in new technology projects because in a fast-moving marketplace, continued investment in new products is considered essential in maintaining market share. We set out our break-even analysis in the following exhibit.

Exhibit 6: Breakeven Analysis

In A$m	H118	H218	FY18
Revenue	**68.8**	**68.8**	**137.5**
Less COGS	(37.1)	(37.1)	(74.1)
Gross Margin	31.7	31.7	63.4
Contribution margin (%)	*46.1%*	*46.1%*	*46.1%*
Fixed Costs			
Total Employee costs	26.7	26.7	53.4
Less: R&D employees (Investment future businesses)	(14.6)	(14.6)	(29.2)
Add: Stay in business R&D (25% of total R&D costs)	3.7	3.7	7.3
Total operational employee costs	15.7	15.7	31.5
Other costs	10.6	10.6	21.2
Total Fixed Costs	26.3	26.3	52.7
Breakeven revenue	**57.1**	**57.1**	**114.2**
Revenue Inc/(Decrease) to achieve Break Even	**(11.6)**	**(11.6)**	**(23.3)**

Source: RaaS Advisory analysis

VALUE DISCUSSION & ANALYSIS

Value Considerations

In our view there is merit in exploring what is implied by the last traded share price and what multiples Tyro might reasonably be expected to trade on in comparison to its peers. In conducting this analysis, consideration has been given to the most appropriate methodology to be used. Methods examined include:

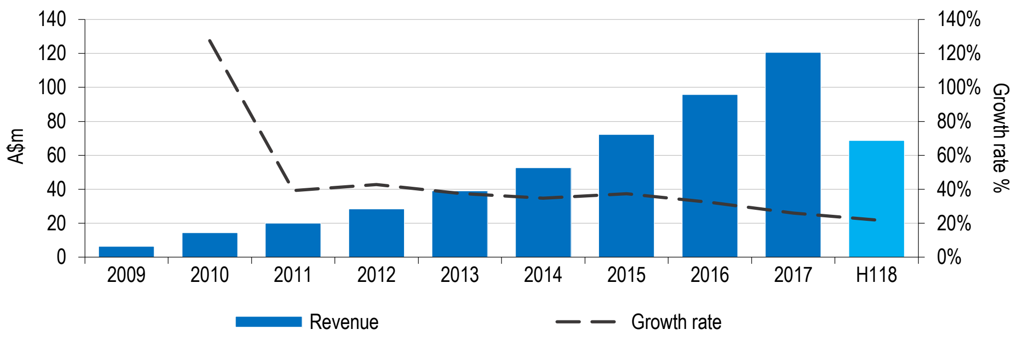
- Comparative company analysis, using earnings multiples;
- Reverse DCF used to determine the growth rate in cash earnings required to achieve the last traded share price of $1.10 per share;

To make sense of the multiples used in comparative company analysis, we have also looked at a simplified method referred to as "the Golden Rule" [3] (see page 10).

Reverse DCF Calculation

The current pricing of 433.9m Tyro shares at $1.10 for a market capitalisation of $477m implies CAGR in revenue of 14.5%. Tyro has achieved CAGR in revenue since 2009 of 45%. Annual revenue growth rates are set out in the chart below.

Exhibit 7: Tyro's Historical Revenues and revenue growth rate



Source: Company reports

Reverse DCF parameters

We have undertaken a reverse DCF analysis to determine what growth in future cashflows of the core business is assumed by the current share price. Our analysis in undertaking the reverse DCF calculation used

3 "Valuation of pre-revenue pre-earnings companies", Dr Kingsley Jones, Jevons Investment Management 2016

the following assumptions. Please note that these assumptions are not forecasts and should not be construed as such:

- Gross margin achieved in H118 was 46%, we have assumed the gross margin declines to 40% by the end of the 10 year period in the analysis as the business matures;
- CAGR in revenues over the 10 year period of 14.5%;
- R&D investment ,excluding investment in new business, is assumed to be 10% of revenue in FY19 and to grow at 5% pa thereafter;
- Number of people employed in business is expected to grow at a CAGR of 5% to reach 660 FTEs by 2027;
- Increase in labour costs of 5% pa gives recognition to scarcity of skilled technology professionals;
- Other costs are assumed to be fixed and increase by 3% pa.

The implied market share using current revenue per merchant of $6,631 growing at 2% pa and a total target market of 340,000 merchants growing at 3% per annum results in a 13% market share by 2027.

If we were to include estimates on new business R&D, the majority of which would be spent on additional employees, the CAGR in revenues required to achieve a $1.10 valuation, commensurate with the current share price, is 21.1% over the 10 year period.

This reverse DCF calculation uses forecasts for 10 years and a WACC of 11% based on the following inputs:

- Risk free rate of 2.85% = 10 year Commonwealth Government bond yield;
- Equity risk premium of 6.5% based on survey average[4] of 6% increased by 0.5% for size
- Terminal growth rate 2.2%
- Beta of 1.3 – assumed to have greater volatility than the market
- Target gearing of 0%

We have set out the estimated cashflows required to justify the current share price of $1.10 a share in Exhibit 8 below.

Exhibit 8: Reverse DCF analysis on core business adjusted for expansionary R&D (in A$m unless otherwise stated)

Year ending June 30	2018 e	2019 e	2020 e	2021 e	2022e	2023 e	2024 e	2025 e	2026 e	2027 e	Terminal
EBITDA (adjusted to remove growth R&D)	10.6	21.7	32.2	42.9	53.3	62.9	71.2	80.2	94.1	109.8	
Tax	(3.2)	(6.5)	(9.7)	(12.9)	(16.0)	(18.9)	(21.4)	(24.0)	(28.2)	(32.9)	
Maintenance Capex (stay in business R&D)	(7.4)	(8.2)	(9.0)	(9.5)	(9.9)	(10.4)	(11.0)	(11.5)	(12.1)	(12.7)	
Free Cash flow	**(0.0)**	**7.0**	**13.5**	**20.6**	**27.4**	**33.6**	**38.9**	**44.6**	**53.8**	**64.2**	**65.6**
Growth		NM	92.7%	52.0%	33.2%	22.8%	15.6%	14.7%	20.6%	19.3%	
Discount rate	1.000	0.901	0.812	0.732	0.659	0.594	0.535	0.482	0.435	0.392	0.353
Discounted value	0.0	6.3	11.0	15.0	18.1	20.0	20.8	21.5	23.4	25.1	23.2
Sum of PV	161.2										
								ERP		6.5%	
Terminal value	764.2							Risk free rate		2.85%	
Discount factor	0.353							WACC		11.0%	
PV of terminal Value	269.7							Beta		1.3	
								Terminal growth rate		2.2%	
PV of Enterprise	431.0										
Net cash at 31 December	(44.6)										
Net Value - Shareholder	475.6										
No of shares on issue	433.9										
NPV	**$1.10**										

Source: RaaS Advisory analysis

SCENARIO ANALYSIS AND PEER COMPARISON

Scenario Analysis

4 KPMG Survey of WACC, 2017

Using the same analysis as the previous section, we have looked at different scenarios and their impact on market share. The financial model is sensitive to revenue growth and market share. If we assume that Tyro achieves a market share of 15% by the end of the forecast period (2027) instead of 11.3%, the DCF increases to $1.68 from $1.10. We have similarly looked at the impact at higher and lower revenue growth rates and these are set out in the following exhibit. It is worth noting that we have not made adjustments to the cost base in the face of lower revenue rates but this is something that would potentially be available to management.

Exhibit 9: Scenario Analysis impact on DCF calculation

Scenario	Market share	DCF
CAGR in revenues of 10.3%, CAGR in employee costs of 7.6%	9%	$ 0.55
CAGR in revenues of 14.5%, CAGR in employee costs of 7.9%	13%	$ 1.10
CAGR in revenues of 16.5%, CAGR in employee costs of 8.0%	15%	$ 1.41
CAGR in revenues of 18.3%, CAGR in employee costs of 8.1%	18%	$ 1.71
CAGR in revenues of 19.8%, CAGR in employee costs of 8.2%	20%	$ 2.00

Source: RaaS Advisory analysis

Peer Comparison

There are several listed and unlisted players in the payments processing market both in Australia and offshore. Tyro mostly identifies with Alipay, the unlisted mobile and online payments business owned by Ant Financial and headquartered in Hangzhou, China and is also most closely comparable to unlisted US payments processors Stripe and Flagship Merchant Services, although these operators do not hold banking licences. Another US peer is Cayan Merchant Services which was acquired by Total System Services in December 2017 for US$1.05bn cash. Cayan has around 400 employees worldwide and services 70,000 merchants. We have included the main US listed payments players in our peer comparison below and three listed Australian players, Credit Corp, EML Payments and Flexigroup, to capture Australian companies of a similar size in the financial services sector. We note that the off-shore comparables have market capitalisations measured in tens of billions and that the structure of the US market with thousands of financial institutions is very different from the Australian market which is dominated by the Big Four banks and is tightly regulated.

Compco EV/revenue multiple implies

If we were to apply the median EV/Revenue multiple to Tyro's FY17 revenues of $119.9m, we would arrive at an implied value of $1.33/share, excluding the Australian peer group the EV/Revenue multiple rises to 5.5x, translating to an implied value of $1.53 per share.

Exhibit 10: Peer Comparison

Company	Code	Currency	Share price	Mkt Cap	EV	Rev TTM	EBITDA TTM	EPS TTM	Fct EPS	EV/ Rev	EV/ EBITDA	PE TTM	Fwd PE	EBITDA Margin
First Data	FDC	USD	15.8	14,680	33,520	8,130	2,880	1.56	1.39	4.1	11.6	10.13	11.37	35.4%
Global Payments	GPN	USD	110.42	17,610	22,030	3,980	1,100	3.01	5.06	5.5	20.0	36.68	21.82	27.6%
PayPal Holdings	PYPL	USD	74.78	89,750	86,420	13,090	2,430	1.47	2.28	6.6	35.6	50.87	32.80	18.6%
Square	SQ	USD	47.67	18,890	22,360	2,210	-17	-0.17	0.45	10.1	n/a	n/a	105.9	n/a
Total System Services	TSS	USD	85.69	15,570	19,090	4,930	982	3.16	4.19	3.9	19.4	27.12	20.45	19.9%
Credit Corp	CCP	A$	19.02	907	1,150	284	94	124.3	134.1	4.0	12.2	15.3	14.2	33.1%
EML Payments	EML	A$	1.08	267	254	463	122	24.4	23.4	0.5	2.1	4.4	4.6	26.3%
Flexigroup	FXL	A$	1.75	656	2,590	64	2	0.29	4.28	40.5	1295.0	604.1	40.9	3.1%
Median*				**15,125**	**20,560**					**4.8**	**19.4**	**27.1**	**21.1**	**26.3%**

Source: Thomson Reuters, Bloomberg Prices at 4th April 2018 *Median calculated in US$

THE 'GOLDEN RULE'

In our view, revenue multiples used in isolation can be problematic because they are not anchored to profit margins or to earnings multiples. Rather than use the average revenue multiples for a peer group of differing stages of maturity and with different risk and return characteristics and different profit margins, we have applied a simple valuation rule taken from a research paper by Dr Kingsley Jones, principal of Jevons Global. This simple valuation rule takes into account growth expectations, profit margins and earnings multiples and is defined as:

Current price to sales = Stable margin X Price Earnings Ratio X Sales uplift/Price uplift

The price that the market will pay at a given time is dependent on the cyclicality of markets. When the market favours growth then the emphasis is on revenue multiples with seemingly little regard for profitability. However, as this enthusiasm cools the market will turn its attention to profitability and return on funds employed. If we apply the simple valuation rule explained above and make the following assumptions:

- Sales uplift (defined as the expected growth in sales over the investor's investment horizon) divided by price uplift (defined as the investor's expectations of return over the investor's investment horizon).
- A long run EBITDA profit margin for the industry of 26.4% which converts to 18.4% NPAT margin using a tax rate 30%. We have based this margin on the listed peer group discussed on the previous page.
- The third component to this calculation is Price Earnings Ratio. The long term PE ratio of the ASX is 15x. The average PE for profitable companies in our comparative company group is 29. The market capitalization of this group of companies averages US$15.5bn. Most of these companies are global leaders and this, together with relative size and growth prospects, sees the market paying around 2x the market PE.

As the following exhibit demonstrates, market PE multiple and an uplift factor of 1.0x generates an EV/revenue multiple of 2.76x which in turn implies a value of $0.76 per share for Tyro. This however does not reflect Tyro's greater than market growth profile. It should be remembered that since 2014, the total market for cashless transactions grew 6-8% y-o-y, while Tyro's transaction volumes have grown at a faster rate of 20-30% y-o-y. If we assume that Tyro's sales growth of say 25% (mid-point of the 20-30% range) and that investor return expectations are 12.5% y-o-y, the uplift factor becomes 2.0x and results in a 6x revenue multiple and an implied value of $1.53 per share. Our assumption of a long run PE multiple of 15x could be seen as unduly conservative. The revenue multiple increases by 0.55x for every one PE point added.

Exhibit 11: Golden Rule using uplift factors of between 1x and 2x

Uplift factor	1.0	1.2	1.4	1.6	1.8	2.0
NPAT margin	18.4%	18.4%	18.4%	18.4%	18.4%	18.4%
PE	15.0	15.0	15.0	15.0	15.0	15.0
Revenue multiple	2.76	3.31	3.86	4.42	4.97	5.52

Source: RaaS Advisory

Exhibit 12: FINANCIAL SUMMARY

PROFIT AND LOSS STATEMENT (AUD'000)	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
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)
Net fees and commission income	**10,927**	**16,400**	**22,861**	**31,768**	**43,807**	**51,692**
Gross Margin	**40.36%**	**43.64%**	**44.54%**	**44.84%**	**47.27%**	**44.77%**
Terminal and accessories sale	564	707	554	573	212	327
Terminals and accessories COGS	(419)	(433)	(465)	(508)	(705)	(744)
Net terminal sales & accessories expense	145	274	89	65	(493)	(417)
Other Income	7	24	13	130	862	1,532
Total Operating Income	**11,079**	**16,698**	**22,963**	**31,963**	**44,176**	**52,807**
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)
Total Expenses	**(11,268)**	**(12,991)**	**(18,549)**	**(29,874)**	**(45,375)**	**(64,811)**
Loan Impairment	-	-	-	-	-	(230)
FX Gain	70	74	(36)	233	10	(53)
EBITDA	**(119)**	**3,781**	**4,378**	**2,322**	**(1,189)**	**(12,287)**
Depreciation	(970)	(1,098)	(1,276)	(2,436)	(4,025)	(5,984)
EBIT	(1,089)	2,683	3,102	(114)	(5,214)	(18,271)
Interest	561	609	750	805	2,007	3,283
Profit Before Tax	(528)	3,293	3,852	691	(3,207)	(14,988)
Tax	-	6,573	(908)	120	2,461	2,213
Net Loss for the year	**(528)**	**9,866**	**2,944**	**811**	**(746)**	**(12,775)**
PERFORMANCE INDICATORS*	**FY2012**	**FY2013**	**FY2014**	**FY2015**	**FY2016**	**FY2017**
Transaction Volume ($bn)	3	4.1	5.3	6.8	8.6	10.6
Employees	68	93	127	221	297	371
Merchants	6,351	8,024	10,140	13,032	15,565	18,329
Share of Target Market	N/A	2.40%	3.00%	3.70%	4.50%	5.40%

Source: Tyro Payments *Performance Indicators based on RaaS Analysis

Exhibit 12: FINANCIAL SUMMARY

BALANCE SHEET (AUD'000)	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Cash and cash equivalents	18,183	22,945	9,011	9,990	82,224	24,052
Due from other financial institutions	-	-	-	6,794	27,803	52,438
Trade and other receivables	2,257	2,646	12,099	3,782	7,191	10,489
Prepayments	164	185	309	492	966	1,992
Inventories	136	375	293	855	923	1,148
Loans	-	-	-	-	-	4,511
Total current assets	**20,740**	**26,151**	**21,712**	**21,913**	**119,107**	**94,630**
Available-for-sale investments	207	336	381	596	681	21,097
PPE	1,651	1,737	2,996	7,673	12,557	13,482
Net deferred tax assets	-	6,497	5,575	5,631	8,174	10,300
Total non-current assets	**1,858**	**8,570**	**8,952**	**13,900**	**21,412**	**44,879**
TOTAL ASSETS	**22,598**	**34,721**	**30,664**	**35,813**	**140,519**	**139,509**
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	2,206
Total current liabilities	**10,490**	**12,546**	**4,001**	**7,607**	**11,527**	**17,442**
Provisions	198	289	424	418	685	534
TOTAL LIABILITIES	**10,688**	**12,835**	**4,425**	**8,025**	**12,212**	**18,118**
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)
TOTAL EQUITY	**11,911**	**21,886**	**26,239**	**27,788**	**128,307**	**121,391**

Source: Tyro Payments

Exhibit 12: FINANCIAL SUMMARY

CASH FLOW STATEMENT (AUD'000)	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
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	-
Net cash flows from operating activities	4,537	6,008	(12,016)	6,443	(1,073)	(10,191)
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	-
Net cash flows from investing activities	(1,226)	(1,162)	(2,524)	(5,797)	(26,722)	(51,744)
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)	-
Net cash flows from financing activities	503	(158)	643	101	100,019	3,815
Change in cash and cash equivalents	3,814	4,688	(13,897)	747	72,224	(58,120)
Net foreign exchange difference	70	74	(37)	232	10	(52)
Cash and equivalents at beginning of year	14,299	18,183	22,945	9,011	9,990	82,224
Cash and equivalents at end of year	18,183	22,945	9,011	9,990	82,224	24,052

Source: Tyro Payments

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