Twitter Thread by Viceroy

Viceroy
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Viceroy's report on Tyro is now live.

Over the last week, our research suggests $TYR has "bricked" (verb: to turn into a brick) ~50% of its terminals across the country, far more than numbers suggested by the company. $TYR #thread 1/n

https://t.co/DXD7cfJNb2



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 5th 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.

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.

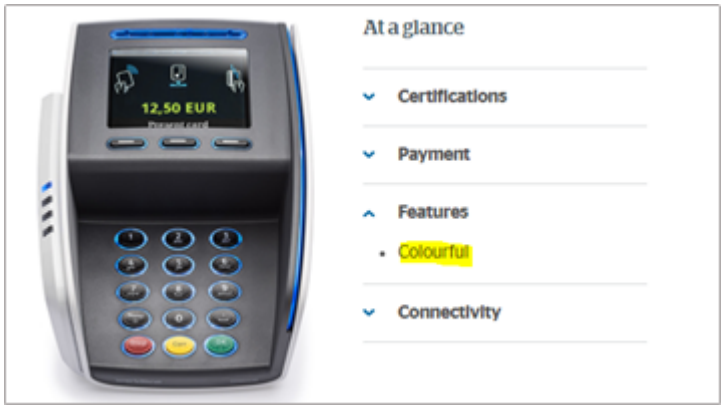
Bricked

- **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.

It seems that @Tyro has no idea & no way to know how many of its terminals are functional. Viceroy's extensive channel checks confirmed many customers had bricked terminals & received no communications from $TYR unless prompted. 2/n

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$TYR 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 4/n



$TYR does not have its own hardware: all terminals are 3rd party from Worldline. We have found no other instances of Worldline terminals being bricked recently (including ANZ now), so we understand the issue lies with Tyro. 5/n

Viceroy spend 5 days conducting channel checks into Tyro customers. Here are our key findings $TYR 6/n



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 4th 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.

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. $TYR 7/n



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.

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)**
Margin	*-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 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[17].

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.

[17] https://www.bendigobank.com.au/media-centre/bendigo-bank-announces-new-agreement-with-tyro/

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https://t.co/ZD2pwah9aJ

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. $TYR 10/n

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. $TYR 11/n

We believe Tyro presents significant 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. $TYR 12/12 #end