PROSPECTUS 2019

TYRO PAYMENTS LIMITED

ABN 49 103 575 042

JOINT LEAD MANAGERS

J.P.Morgan Morgan Stanley

AUSTRALIAN LEGAL ADVISER

CLAYTON UTZ

Important notices

OFFER

This Prospectus is issued by Tyro Payments Limited (ACN 103 575 042) (**we, us, our, Tyro,** and **Company**) and Tyro SaleCo Limited (ACN 637 258 096) (**SaleCo**) for the purposes of Chapter 6D of the Corporations Act 2001 (Cth) (**Corporations Act**). The Offer contained in this Prospectus is an initial public offering to acquire fully paid ordinary shares in us (**Shares**). See **Section 7** for further information on the Offer.

LODGEMENT AND LISTING

This Prospectus is dated 18 November 2019 (**Prospectus Date**) and was lodged with the Australian Securities and Investments Commission (**ASIC**) on that date.

We will apply within seven days after the Prospectus Date, to ASX Limited (**ASX**) for admission to the Official List and quotation of Shares on the ASX. None of ASIC, ASX or their respective officers takes any responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates.

As set out in **Section 7**, it is expected that the Shares will be quoted on ASX initially on a conditional and deferred settlement basis, and then on a deferred (but unconditional) basis. We, along with SaleCo, the Share Registry and the Joint Lead Managers, disclaim all liability, whether in negligence or otherwise, to persons who trade Shares before receiving their holding statements.

EXPIRY DATE

This Prospectus expires on the date which is 13 months after the Prospectus Date (**Expiry Date**). No Shares will be issued or transferred on the basis of this Prospectus after the Expiry Date.

NOT INVESTMENT ADVICE

The information contained in this Prospectus is not financial product advice and does not take into account the personal circumstances, investment objectives, financial circumstances, tax position or particular needs of any prospective investor.

It is important that you read this Prospectus carefully and in full before deciding whether to invest in Shares. If you have any questions, you should consult your accountant, financial adviser, stockbroker, lawyer or other professional adviser before deciding whether to invest in Shares.

In particular, you should consider the assumptions underlying the Financial Information (refer to **Section 4**) and the risk factors (refer to **Section 5**) that could affect our business, financial condition and performance and prospects. You should carefully consider these risk factors in light of your personal circumstances, investment objectives, financial circumstances, tax position and particular needs (including financial and taxation issues) and seek professional advice from your accountant, financial adviser, stockbroker, lawyer or other professional adviser before deciding whether to invest in Shares. There may be risks in addition to these that should be considered in light of your personal circumstances.

Except as required by law, and only to the extent so required, none of we, SaleCo or any other person warrants or guarantees our performance, our repayment of capital or the payment of a return on the Shares.

No person is authorised to give any information or make any representation in connection with the Offer which is not contained in this Prospectus. Any information or representation not so contained may not be relied on as having been authorised by us, SaleCo, any of our Directors, the Joint Lead Managers or any other person in connection with the Offer. You should rely only on information in this Prospectus.

EXPOSURE PERIOD

The Corporations Act prohibits us from processing applications in the seven day period after the Prospectus Date (**Exposure Period**). The Exposure Period may be extended by ASIC by up to a further seven days. The purpose of the Exposure Period is to enable this Prospectus to be examined by market participants prior to the raising of funds. The examination may result in the identification of deficiencies in this Prospectus, in which case any application may need to be dealt with in accordance with section 724 of the Corporations Act. Applications received during the Exposure Period will not be processed until after the expiry of that period. No preference will be conferred on applications received during the Exposure Period.

NO COOLING-OFF RIGHTS

Cooling-off rights do not apply to an investment in Shares issued or transferred under this Prospectus. This means that, in most circumstances, you cannot withdraw your application once it has been accepted.

OBTAINING A COPY OF THIS PROSPECTUS

During the Exposure Period, an electronic version of this Prospectus without an Application Form will be available at https://events.miraqle.com/Tyro-IPO/Home/ for Australian investors only. Application Forms will not be made available until after the Exposure Period has expired.

During the Offer Period, this Prospectus is available to Australian investors in electronic form at https://events.miraqle.com/Tyro-IPO/Home/. The Offer constituted by this Prospectus in electronic form is available only to persons within Australia. It is not available to persons in other jurisdictions (including the United States) in which it would not be lawful to make such an offer or invitation. If you access the electronic version of this Prospectus, you should ensure that you download and read the Prospectus in its entirety.

You may, before the close of the Offer, obtain a paper copy of this Prospectus (free of charge) by telephoning our Offer Information Line on 1800 883 072 (within Australia) from 8:30am to 5:30pm (Sydney Time) Monday to Friday (excluding public holidays).

Applications for Shares may only be made during the Offer Period, on an Application Form attached to or accompanying this Prospectus.

The Corporations Act prohibits any person from passing the Application Form on to another person unless it is attached to a paper copy of the Prospectus or the complete and unaltered electronic version of this Prospectus.

Refer to **Section 7** for further information.

STATEMENTS OF PAST PERFORMANCE

This Prospectus includes information regarding the past performance of the business conducted by us. Investors should be aware that past performance should not be relied upon as being indicative of future performance.

FINANCIAL INFORMATION

Section 4 sets out in detail the Financial Information referred to in this Prospectus. The basis of preparation of the Financial Information is set out in **Section 4**. The Financial Information has been prepared and presented in accordance with the recognition and measurement principles of Australian Accounting Standards, as issued by the Australian Accounting Standards Board, as outlined in **Section 4.2**.

All references to FY17, FY18 and FY19 appearing in this Prospectus are to the financial years ended 30 June 2017, 30 June 2018 and 30 June 2019, respectively, and all references to FY20f appearing in this Prospectus are to the financial year ending 30 June 2020, unless otherwise indicated. Historical Financial Information is presented on both an actual and pro forma basis and has been prepared in accordance with the recognition and measurement principles prescribed by AAS. This Prospectus also includes Forecast Financial Information for FY20f based on the general and specific assumptions including those set out in **Section 4.9.4**. The basis of preparation and presentation of the Forecast Financial Information, to the extent applicable, is consistent with the basis of preparation and presentation of the Historical Financial Information. The Forecast Financial Information presented in this Prospectus is presented on both a statutory and pro forma basis and is unaudited.

The Financial Information in this Prospectus should be read in conjunction with, and is qualified by reference to, the information contained in **Sections 4** and **5**.

All financial amounts contained in this Prospectus are expressed in Australian dollars, unless otherwise stated. Any discrepancies between totals and the sum of components in tables and figures contained in this Prospectus are due to rounding.

Investors should be aware that certain financial data included in this Prospectus is 'non-IFRS financial information' under Regulatory Guide 230 *Disclosing non-IFRS financial information*, published by ASIC. The Company believes this non-IFRS financial information provides useful information to users in measuring our financial performance and financial condition.

The non-IFRS measures do not have standardised meanings prescribed by AAS and therefore, may not be comparable to similarly titled measures presented by other entities, nor should they be construed as an alternative to other financial measures determined in accordance with AAS.

Investors are cautioned, therefore, not to place undue reliance on any non-IFRS financial information and ratios included in this Prospectus.

MARKET AND INDUSTRY DATA

This Prospectus, including the overviews of the industry in which we operate in **Sections 2** and **3**, contains data relating to the markets in which we operate. Such information includes, but is not limited to, statements and data relating to the number of Australian businesses, the size of the Australian card payments and business banking markets, market share, market trends and competitive dynamics, and uses publicly available third party and internally generated market data, industry forecasts and projections. The information contained in forecasts and reports of third parties includes assumptions, estimates and generalisations that we believe to be reliable, but we cannot warrant or guarantee the completeness of such information. Our internally generated data is based on estimates and assumptions that we believe to be reasonable, as at the Prospectus Date.

The market and industry data has not been independently prepared or verified and neither we nor the Joint Lead Managers can assure you as to its accuracy or the accuracy of the underlying assumptions used to estimate such data. Industry assumptions, estimates and forecasts involve risk and uncertainties and are subject to change based on various factors, including those described in the risk factors set out in **Section 5**. There is no assurance that any of the projections contained in this information will be achieved.

FORWARD-LOOKING STATEMENTS AND MARKETING AND INDUSTRY DATA

This Prospectus includes Forecast Financial Information based on an assessment of present economic and operating conditions, and on a number of general and specific assumptions set out in **Section 4.9.4** regarding future events and actions that, as at the Prospectus Date, we expect to take place. The basis of preparation and presentation of the Forecast Financial Information is consistent with the basis of preparation and presentation for the Pro Forma Historical Financial Information.

This Prospectus contains forward-looking statements which are identified by words such as 'may', 'could', 'believes', 'estimates', 'expects', 'intends' and other similar words that involve risks and uncertainties. The Forecast Financial Information is an example of forward-looking statements. These forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, and speak only as of the Prospectus Date. Many of these forward-looking statements are beyond our control and we do not undertake to publicly update or revise any forward-looking statement.

Any forward-looking statements are subject to various risks that could cause our actual results to differ materially from the results expressed or anticipated in these statements. Forward-looking statements should be read in conjunction with, and are qualified by reference to, risks as set out in **Section 5**, general assumptions, specific assumptions and the sensitivity analysis as set out in **Section 4**, and other information in this Prospectus. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond our control. None of we, SaleCo or any other person warrants or guarantees that the results, performance or achievements expressed or implied by the forward-looking statements contained in this Prospectus will actually occur and investors are cautioned not to place undue reliance on these forward-looking statements. We do not have an intention of updating or revising forward-looking statements, or publishing prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information, contained in this Prospectus, except where required by law.

SELLING RESTRICTIONS

This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation.

No action has been taken to register or qualify the Shares or the Offer, or to otherwise permit a public offering of Shares, in any jurisdiction outside of Australia. The distribution of this Prospectus outside Australia (including electronically) may be restricted by law and persons who come into possession of this Prospectus outside of Australia should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

IMPORTANT NOTICES

The Offer is not being extended to any investor outside of Australia, other than to certain Institutional Investors as part of the Institutional Offer.

In particular, this Prospectus may not be distributed to, or relied upon by, any person in the United States, unless accompanied by the US Institutional Offering Memorandum as part of the Institutional Offer.

The Shares have not been, and will not be, registered under the US Securities Act of 1933, as amended, or the securities laws of any state or other jurisdiction of the United States and may not be offered or sold, directly or indirectly, in the United States unless the Shares have been registered under the US Securities Act or are offered and sold in a transaction exempt from, or not subject to, the registration requirements of the US Securities Act and any other applicable securities laws. Offers to any persons in the United States are only being made pursuant to, and in accordance with, the terms described in the US Institutional Offering Memorandum.

PHOTOGRAPHS AND DIAGRAMS

Photographs and diagrams used in this Prospectus that do not have descriptions are for illustration only and should not be interpreted to mean that any person shown in them endorses this Prospectus or its contents or that the assets shown in them are owned by us. Diagrams used in this Prospectus are illustrative only and may not be drawn to scale. Unless otherwise stated, all data contained in charts, graphs, tables and figures is based on information available at the Prospectus Date.

COMPANY WEBSITE

Any references to documents included on our website at www.tyro.com or the Offer website at https://events.miraqle.com/Tyro-IPO/Home/ are for convenience only, and none of the documents or other information available on such websites is incorporated into this Prospectus by reference.

DEFINED TERMS, TIMES AND DATES

All defined terms and abbreviations used in this Prospectus have the meanings defined in the **Glossary** or are defined in the context in which they appear.

Unless otherwise indicated, all references to times and dates in this Prospectus are to Sydney Time.

THIRD PARTY REPORTS

Any statements, data or other contents referenced or attributed to reports by a third party (each a **Third Party Report**) in this Prospectus represent research opinions or viewpoints only of that third party, and are in no way to be construed as statements of fact. Authors of Third Party Reports do not make any representation or guarantee as to the accuracy or completeness of any information upon which a view, opinion or forecast or any information contained in any Third Party Report is based. Any views, opinions or predictions contained in a Third Party Report is subject to inherent risks and uncertainties, and third parties do not accept responsibility for actual results or future events. Any statement made in a Third Party Report is made as at the date of that Third Party Report and any forecasts or expressions of opinion are subject to future change without notice by any respective third party author of such reports. As such, investors are cautioned not to place undue reliance on such information. A third party is not obliged to, and will not, update or revise any content of a Third Party Report, other than where required by law, irrespective of any changes, events, conditions, availability of new information or other factors which may occur subsequent to the date of that Third Party Report. The Third Party Reports do not represent investment advice nor do they provide an opinion regarding the merits of the Offer.

DISCLAIMER

J.P. Morgan Securities Australia Limited and Morgan Stanley Australia Securities Limited have acted as Joint Lead Managers to the Offer and have not authorised, permitted or caused the issue or lodgement, submission, dispatch or provision of this Prospectus and there is no statement in this Prospectus which is based on any statement made by them or by any of their affiliates, officers, employees or advisers. To the maximum extent permitted by law, the Joint Lead Managers and each of their respective affiliates, officers, employees and advisers expressly disclaim all liabilities in respect of, and make no representations regarding, and take no responsibility for, any part of this Prospectus other than references to their name and make no representation or warranty as to the currency, accuracy, reliability or completeness of this Prospectus.

The Joint Lead Managers and their respective related bodies corporate and affiliates, and any of their respective officers, directors, employees, partners, advisers or agents (together, the **Lead Manager Parties**) are involved in, or in the provision of, a wide range of financial services and businesses including (without limitation) securities trading and brokerage activities and providing retail, private banking, commercial and investment banking, investment management, corporate finance, securities issuing, credit and derivative, trading and research products and services, including (without limitation) to, or in connection with, persons directly or indirectly involved with the Offer (such as existing Shareholders and members of the Board) or interests associated with such persons, out of which conflicting interests or duties may arise. In the ordinary course of these activities, each of the Lead Manager Parties may at any time hold long or short positions, and may trade or otherwise effect transactions, for its own account or the accounts of customers, including (without limitation) in debt or equity securities, loans, financing arrangements, or other financial accommodation, financial products or services, in connection with, or which rely on the performance of obligations by, interests associated with the existing Shareholders, members of the Board or other persons that may be involved in the Offer.

Unless specifically noted in **Section 9.11**, statements made by, attributed to or based on statements by third parties have not been consented to for the purpose of section 729 of the Corporations Act and are included in this Prospectus by us on the basis of ASIC Corporations (Consents to Statements) Instrument 2016/72 relief from the Corporations Act for statements used from books, journals or comparable publications.

PRIVACY

By filling out an Application Form, you are providing personal information to us through the Share Registry, which is contracted by us to manage applications. We and SaleCo can, and the Share Registry on our behalf, may collect, hold and use that personal information in order to process your application, service your needs as a Shareholder, provide facilities and services that you request and carry out appropriate administration.

If you do not provide the information requested in the Application Form, we, SaleCo and the Share Registry may not be able to process or accept your application.

Your personal information may also be used from time to time to inform you about other products and services offered by us, which we consider may be of interest to you.

Your personal information may also be provided to our members, agents and technology providers on the basis that they deal with such information in accordance with our privacy policy and applicable laws. Our members, agents and technology providers may be located outside of Australia where your personal information may not receive the same level of protection as that afforded under Australian law. The types of agents and technology providers that may be provided with your personal information

and the circumstances in which your personal information may be shared are:

- the Share Registry for ongoing administration of the Shareholder register;
- printers and other companies for the purpose of preparation and distribution of statements and for handling mail;
- market research companies for the purpose of analysing the Shareholder base and for product development and planning; and
- legal and accounting firms, auditors, contractors, consultants and other advisers for the purpose of administering, and advising on, the Shares and for associated actions.

If an applicant becomes a Shareholder, the Corporations Act requires us to include information about the Shareholder (including name, address and details of the Shares held) in the public Shareholder register. If you do not provide all the information requested, your Application Form may not be able to be processed.

The information contained in the Shareholder register must remain there even if that person ceases to be a Shareholder. Information contained in the Shareholder register is also used to facilitate dividend payments (if any) and corporate communications (including our financial results and annual reports and other information that we may wish to communicate to our Shareholders) and compliance by us with legal and regulatory requirements. A Shareholder has a right to gain access to the information that we and the Share Registry may hold about that person, subject to certain exemptions under law. A fee may be charged for access. Access requests must be made in writing or by telephone call to our registered office or the Share Registry's office, details of which are disclosed in the **Corporate directory** on the inside back cover of this Prospectus. Applicants can obtain a copy of our privacy policy by visiting our website https://www.tyro.com/privacy-policy/.

You may request access to your personal information held by or on behalf of us and you may correct the personal information held by or on behalf of us about you. By submitting an application, you agree that we, SaleCo and the Share Registry may communicate with you in electronic form or contact you by telephone in relation to the Offer. You may be required to pay a reasonable charge to the Share Registry in order to access your personal information. You can request access to your personal information by writing to or telephoning the Share Registry as follows:

- email: tyroipo@linkmarketservices.com.au;
- address: Link Market Services Limited, Locked Bag A14, Sydney South, NSW 1235; and
- phone: 1800 883 072.

INDEPENDENT LIMITED ASSURANCE REPORTS ON HISTORICAL FINANCIAL INFORMATION AND FORECAST FINANCIAL INFORMATION AND FINANCIAL SERVICES GUIDES

The provider of the Independent Limited Assurance Reports on Historical Financial Information and on Forecast Financial Information is required to provide Australian retail clients with a financial services guide in relation to the review under the Corporations Act. The Independent Limited Assurance Reports and accompanying financial services guides are provided in **Section 8**.

USE OF TRADEMARKS

This Prospectus includes our registered and unregistered trademarks. All other trademarks, tradenames and service marks appearing in this Prospectus are the property of their respective owners.

QUESTIONS

If you have any questions about how to apply for Shares, please call your Broker. Instructions on how to apply for Shares are set out in **Section 7** and on the back of the Application Form.

If you have any questions about whether to invest in Shares, you should seek professional advice from your accountant, financial adviser, stockbroker, lawyer or other independent professional adviser before deciding whether to invest in Shares.

This document is important and should be read in its entirety.

CONTENTS

Important information

Key Offer dates

Prospectus Date	Monday, 18 November 2019
Opening date of the Retail Offer	9am (Sydney Time), Tuesday, 26 November 2019
Closing date of the Retail Offer	5pm (Sydney Time), Monday, 2 December 2019
Bookbuild to determine Final Price	Tuesday, 3 December 2019 – Wednesday, 4 December 2019
Announcement of Final Price to the market	Thursday, 5 December 2019
Expected commencement of trading on ASX on a conditional and deferred settlement basis	Friday, 6 December 2019
Settlement of the Offer	Tuesday, 10 December 2019
Issue and transfer of Shares under the Offer (**Completion**)	Wednesday, 11 December 2019
Expected commencement of trading on ASX on an unconditional and deferred settlement basis	Wednesday, 11 December 2019
Expected dispatch of holding statements	Thursday, 12 December 2019
Expected commencement of trading on ASX on a normal settlement basis	Friday, 13 December 2019

Times and dates may change

Unless otherwise indicated, all references to times and dates in this Prospectus are to Sydney Time. The above dates are indicative only and may be subject to change. We, along with SaleCo and the Joint Lead Managers, reserve the right to vary the times and date of the Offer, including to extend the Offer, close the Offer early or to accept late applications, either generally or in particular cases, or to cancel or withdraw the Offer before settlement, in each case without notifying any recipient of this Prospectus or any applicant. Investors are encouraged to submit their applications as soon as possible. Applications received under the Offer are irrevocable and may not be varied or withdrawn except as required by law.

How to invest

Applications for Shares can only be made by completing and lodging an Application Form. Instructions on how to apply for Shares are set out in **Section 7** and on the back of the Application Form.

Questions

Please call our Offer Information Line on 1800 883 072 (within Australia) from 8:30am to 5:30pm (Sydney Time) Monday to Friday (excluding public holidays). If you are unclear in relation to any matter or are uncertain as to whether we are a suitable investment for you, you should seek advice from your accountant, financial adviser, stockbroker, lawyer or other independent professional adviser before deciding whether to invest in Shares.

References to 'we', 'us', 'our', 'Tyro' and 'Company'

Where used in this Prospectus, the expressions 'we', 'us', 'our', 'Tyro' and 'Company' refer to Tyro Payments Limited (ACN 103 575 042).

Key Offer statistics[1]	Based on Indicative Price Range	Based on Mid-Point Price
Indicative Price Range[2]	$2.50 – 2.75 per Share	$2.65 per Share
Total number of Shares available under the Offer	110.2 – 116.5 million	112.6 million
Gross proceeds of the Offer	$291.1 – 302.7 million	$298.0 million
Minimum Offer size[3]	$241.1 – 252.7 million	$248.0 million
Proceeds of the Offer paid to Selling Shareholders	$166.1 – 177.7 million	$173.0 million
Proceeds of the Offer raised by the issue of Shares by the Company	Approximately $125 million	Approximately $125 million
Total number of Shares on issue at Completion	496.0 – 500.6 million	497.7 million
Total number of Shares held by existing Shareholders on Completion	384.0 – 385.9 million	385.2 million
Indicative market capitalisation[4]	$1,251.4 – 1,364.0 million	$1,319.0 million
Pro forma net cash (as at 30 June 2019)[5]	$168.7 million	$168.7 million
Indicative enterprise value[6]	$1,082.7 – 1,195.3 million	$1,150.3 million
Enterprise value/pro forma FY20f revenue and income[7]	4.5 – 5.0x	4.8x
Enterprise value/pro forma FY20f gross profit[8]	10.9 – 12.0x	11.5x

Basis of the calculation above

The Company will offer to issue new Shares at the Final Price to raise approximately $125 million, with the number of Shares to be offered by SaleCo at the Final Price depending on the factors described in **Section 7.1.1**. The information presented at the prices referred to above assumes an Example Offer Structure as described in **Section 7.1.1**.

The first and second numbers in the 'Indicative Price Range' column above represent the lowest and highest (respectively) expected level of the relevant item, based on possible outcomes assuming the Example Offer Structure and prices described above. The numbers in the 'Based on Mid-Point Price' column assume the Final Price per Share is the mid-point of the Indicative Price Range and the Example Offer Structure.

The final value of these items may differ from the numbers reflected above. The actual number of Shares to be offered (and the Final Price at which they will be offered) will be determined by us, SaleCo and the Joint Lead Managers as part of the Bookbuild and announced by the Company and SaleCo following the Bookbuild and before listing on ASX.

Note:

1) This table contains Forecast Financial Information and information derived from the Forecast Financial Information. The Forecast Financial Information is based on assumptions and accounting policies set out in **Section 4** and **Appendix A**, and is subject to the key risks set out in **Section 5**. There is no guarantee that the forecasts will be achieved. Certain financial information in this Prospectus is described as pro forma for the reasons described in **Section 4**. Forecasts have been included in this Prospectus for FY20f. The Forecast Financial Information is based on the Offer described in **Section 7.1**.
2) The Indicative Price Range for the Offer is the indicative range for the Final Price. The Final Price may be set below, within or above the Indicative Price Range. Shares may trade below the lower end of the Indicative Price Range after Completion. The Mid-Point Price is the mid-point of the Indicative Price Range, rounded based on $0.05 increments. Figures are based on the timetable on the preceding page. A portion of Shares under the Employee Offer will be issued at 90% of the Final Price as referred to in **Section 7.5**.
3) The minimum Offer size represents the offer of new Shares by the Company and existing Shares by SaleCo acquired from the Initial Selling Shareholders as referred to in **Section 7.1** (and assuming no other existing Shareholders offer to sell any Shares).
4) Indicative market capitalisation is calculated as the relevant price multiplied by the total number of Shares on issue at that price at Completion.
5) Pro forma net cash is equivalent to cash and cash equivalents and liquid investments (floating rate notes) as at 30 June 2019, calculated on a pro forma basis assuming Completion.
6) Indicative enterprise value is defined as indicative market capitalisation less pro forma net cash of $168.7 million as at 30 June 2019.
7) Enterprise value/pro forma FY20f forecast revenue and income multiple is calculated as the indicative enterprise value range divided by pro forma forecast FY20f revenue and income of $240,633,000.
8) Enterprise value/pro forma FY20f gross profit multiple is calculated as the indicative enterprise value range divided by pro forma forecast FY20f gross profit of $99,784,000.

Chairman's letter

Dear investor,

It is with much pleasure that I offer you, on behalf of our Board, the opportunity to become a shareholder in Tyro Payments Limited.

Tyro is a great Australian technology success story with a heritage that dates back to 2003, when three inspired entrepreneurs, our founders, decided to build a payment switch engine. They had a vision to create '*the most efficient acquirer of electronic payment transactions in Australia, providing innovative service, functionality and value*'.

Sixteen years on, we have grown to become Australia's fifth largest merchant acquiring bank by terminal count, with more than 29,000 Australian merchants trusting us with their payments and business banking needs. The majority of our merchants are small and medium-sized enterprises operating in our core verticals of health, hospitality and retail. Our innovative payments and banking solutions, largely developed on our core proprietary technology platform, have been designed with our merchants' needs and preferences in mind. We are proud of these purpose-built solutions, which are characterised by simplicity, flexibility and reliability – true to our purpose of setting businesses free to get on with business by simplifying payments and banking.

Working with our CEO and Managing Director, Robbie Cooke, we have an experienced leadership team with significant commercial, payments, banking and technical expertise which is strongly aligned to Tyro's growth strategy. Our team of more than 450 'Tyros' prides itself on providing a real alternative to the traditional incumbents – core to our organisational DNA.

The success of our approach is reflected in the strong and continued growth we have achieved across our key measures of success – transaction value, revenue and merchants. In particular, in the 2019 financial year we achieved:

- 31% increase in transaction value processed to $17.5 billion (FY18: $13.4 billion);
- 28% increase in our revenue and income to $189.8 million (FY18: $148.2 million); and
- 25% increase in our number of merchants to exceed 29,000 (FY18: 23,245 merchants).

We made a pro forma EBITDA loss of $6.1 million in FY19 (FY18: loss of $7.4 million), reflecting our continuing investment in attracting more merchants to our ecosystem, the investment in our team and our commitment to develop our payments and business banking products. It should be noted that we will not be profitable in the Prospectus forecast period.

The key purpose of the Offer is to provide increased financial flexibility, supporting us in the pursuit of our growth strategy. This includes:

- expanding our payments and banking offerings;
- increasing our merchant base in our existing core verticals;
- entering two new industry verticals – accommodation and services;
- driving our eCommerce offering;
- product innovation; and
- potential M&A and strategic partnerships.

In addition, the Offer will provide our existing shareholders with access to greater liquidity and secure other benefits that may follow from a listing on the Australian Securities Exchange. The offer also provides the opportunity for new investors to be a part of our story.

The Prospectus contains detailed information about the Offer, the financial and operating performance, the outlook for us and material risks associated with the industry and business in which we operate. The key risks associated with an investment in us, including a failure to retain existing merchants and customers and attract new ones, risks associated with the launch of new products and actions by competitors, reliance on our payments offering, regulatory risks, and a downturn in general business conditions, are contained in **Section 5** of this Prospectus, which should be considered in detail. Before applying for Shares, any prospective investor should be satisfied they have a sufficient understanding of the risks involved in making an investment in us. Please refer to **Section 5** carefully for further information regarding the material risks we face. I encourage you to read the Prospectus in its entirety and consult with your independent professional adviser before making your investment decision in connection with the Offer.

On behalf of my fellow Directors, I look forward to welcoming you as a shareholder of Tyro.

Yours sincerely,

David Thodey
Chairman of the Board

Investment overview

1.1 Overview of Tyro and our business model

Topic	Summary	For more information
Who are we?	We exist to set businesses free to get on with business by simplifying payments and banking. We are a technology-focused and values-driven company providing Australian businesses with payment solutions and value-adding business banking products. We provide simple, flexible and reliable payments solutions as a merchant acquirer, along with complementary business banking products. For the more than 29,000 Australian merchants who chose to partner with us in FY19, we processed more than $17.5 billion in transaction value. In FY19, we generated $189.8 million in revenue and income from all of our business segments. In the same year, we originated $52.2 million in loans and held merchant deposits totalling $26.9 million at 30 June 2019. We are Australia's fifth largest merchant acquiring bank by number of terminals in the market, behind the four major banks.	Refer to **Section 3.1.1**
What is our history?	Our business was founded in 2003 with an ambition to be the most efficient acquirer of electronic payments in Australia. We have a track record of innovation, creating purpose-built solutions and being first to market. This approach saw us become the first technology company to receive an Australian specialist credit card institution licence in 2005. In 2015 that licence was replaced by the award of an Australian banking licence – making us the first new domestic banking licensee in over a decade. Another notable accomplishment was the launch of our internet-based or 'cloud' integrated payments solution in 2007.	Refer to **Section 3.1.2**
What products do we currently offer?	Payments are at our core, using our proprietary core technology platform to enable credit and debit card acquiring. We enhance our acquiring offering with features purpose-designed for those merchants that choose to partner with us, including our Point of Sale system integrations, least-cost routing (Tap & Save) and alternative payment types such as integrated Alipay (refer to **Table 3.1** in **Section 3.3.1** for a detailed list of features). Traditionally, we have been focused on in-store payments, but have recently expanded into eCommerce. As part of our offering, we also provide value-adding solutions, such as our loans in the form of merchant cash advances and our fee-free, interest-bearing merchant transaction accounts.	Refer to **Section 3.3**
Who uses our products?	Australian businesses, mainly small and medium-sized enterprises, are at the heart of what we do. In particular, we focus on three verticals – Health, Hospitality and Retail. This focus has enabled us to produce vertically-specific products and features, meeting the needs of our merchants and solving the friction points they experience. Our plan is to apply this same specialisation to other verticals that we believe will benefit from our focus on innovation and purpose-built solutions.	Refer to **Section 3.6**

1. INVESTMENT OVERVIEW

Topic	Summary	For more information
How do we acquire new merchants?	We have a variety of channels through which we acquire new merchants. Almost half of our new merchant applications in FY19 were generated from our digital marketing. Another 18% of our applications were referred by our Point of Sale system partners and Independent Sales Organisations.	Refer to **Section 3.5**
How do we generate revenue and what are our key expenses?	Our revenue and income is generated from a variety of sources: • **payments revenue and income**: which include Merchant Service Fees, terminal rental income, other fee income, and terminal and accessories sales; • **lending income**: which primarily consists of interest earned on merchant cash advances; • **investments income**: which includes interest income from investments; and • **other revenue and income**. Our key expenses can be grouped into: • **payments direct expenses**: which include scheme and interchange fees; integration, support and other fees; and cost of terminal accessories sold; • **interest expense on deposits**; • **operating expenses**: which include employee benefits and share-based payments expenses; other operating expenses (such as contractors, marketing expenses, third party technology costs, communication, recruitment and other administration costs); and lending and non-lending losses; • **depreciation and amortisation**; and • **net lease interest expense**.	Refer to **Sections 3.2** and **4.4**
How do we approach technology?	We see in-house technology capability, along with our core proprietary payments technology platform, as critical enablers to our business, and essential to the delivery of our value proposition. We have invested significantly to create a reliable, scalable and integrated in-house technology infrastructure. The majority of our merchant acquiring systems are built and maintained in-house, giving us an end-to-end solution. Where we select to work with third parties, we do so to strategically complement our in-house capabilities. Our infrastructure is maintained and regularly enhanced by our technologists (including experts such as software engineers, quality advocates, solution architects, product designers and security consultants) who comprise approximately half our team.	Refer to **Section 3.8**
How do we manage risk?	We encounter and manage risk as part of our day-to-day operations. We are committed to ensuring that a consistent approach to identifying, assessing and managing risk is established across our business and is embedded in our processes and culture. The key risk categories in our risk management framework include strategic, credit, liquidity, market and investment, operational, compliance, and customer and conduct risk.	Refer to **Section 3.9**
Who are our people?	We are a team of more than 450, of whom approximately half are in technology roles. We have an open, inclusive and collaborative culture that encourages high performance. Our team members come from 43 countries, speak 56 languages and have an average age of 34. We live by four values – '*Wow the customer*', '*Be good*', '*Commit to greatness*' and '*Stay hungry*'.	Refer to **Section 3.10**

Topic	Summary	For more information
What is our growth strategy?	We have seven key initiatives in our growth strategy: **1) grow merchant share in existing core verticals**: we seek to drive continued market segment growth through a variety of approaches including: increased marketing to drive brand awareness; more Point of Sale system integrations; additional payments methods; and the development of more industry-specific solutions; **2) add new core verticals**: we intend to add two new core verticals, Accommodation and Services, to our portfolio. We believe merchants in these verticals will benefit from a merchant acquirer with the technical capability to produce specialised solutions and the preparedness to build domain expertise; **3) drive expansion into eCommerce and other payment types**: we believe there is significant opportunity to drive growth in eCommerce within our current merchant base through our unified payments solution. Additionally, we intend on continuing to innovate and provide multiple new and emerging payment types, including payment methods like WeChat Pay and Zip Pay; **4) cross-sell and drive expansion in lending and other value-adding services**: we will promote our value-adding offerings to existing merchants (including our loans in the form of merchant cash advances and Tyro Connect – see below) to enhance our unit economics through greater share of merchant wallet and retention; **5) launch Tyro Connect**: our proposed 'plug and play' platform software solution is designed to be an integration hub for apps and Point of Sale systems, seeking to address merchant pain points around 'counter clutter' and manual processes. This platform, which is currently in early stage pilot, seeks to reinforce our value proposition to merchants and embed us more deeply into the evolving commerce ecosystem; **6) investment in me&u**: we have executed agreements to make a strategic investment in me&u, which is conditional on other parties entering into final documentation. me&u is a leading Australian mobile order and pay in venue solution for the hospitality industry which seeks to improve restaurant-goers' experience, free up wait staff for higher value tasks and increase order value and frequency. As part of our investment case, following completion, we would provide the in-app payment solution for me&u, and me&u would be one of the first key apps on the Tyro Connect platform; and **7) M&A and strategic partnerships**: we have an appetite to accelerate growth and development through acquisitions and/or strategic partnerships that align from a valuation, strategy and culture perspective.	Refer to **Section 3.11**

1. INVESTMENT OVERVIEW

1.2 Key features of our industry

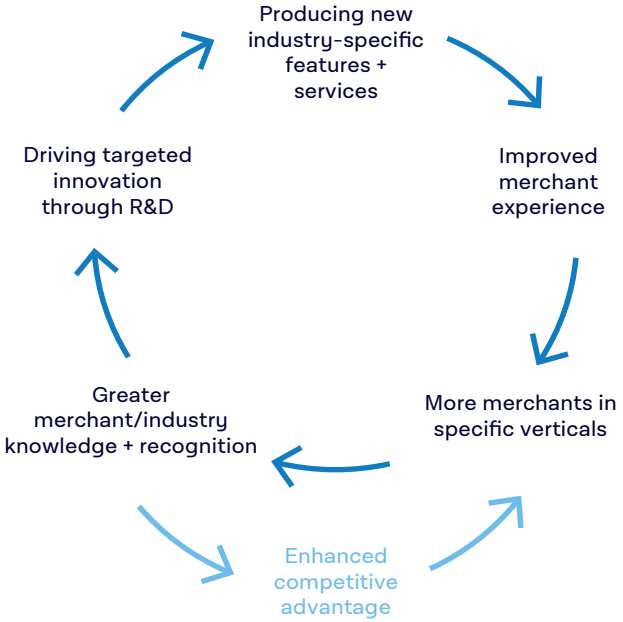
Topic	Summary	For more information
What industry do we operate in?	There were approximately 2.31 million businesses operating in Australia as at 30 June 2018. Of this, there were 1.67 million small and medium-sized enterprises (annual turnover between $50,000 and $5 million), of which 312,000 operated in the Health, Hospitality and Retail verticals. We operate in the Australian card payments market which totalled $651 billion in annual transaction value acquired for the year ended 30 June 2019, having grown at a CAGR of 7.5% since 30 June 2014. We had a 2.7% market share as at 30 June 2019, having processed $17.5 billion in transaction value, and approximately a 10% share in our core verticals of Health, Hospitality and Retail SMEs.[1] Of the $651 billion above, in-person card ('card-present') comprised $441 billion, representing a CAGR of 4.2% from 30 June 2014 to 30 June 2019, and 'card-not-present' transactions comprised $210 billion, representing a CAGR of 17.1% from over the same period. Online sales (a type of 'card-not-present' transaction) were estimated to have accounted for 8.2% of total retail sales in Australia in 2018. For the delivery of banking services by authorised deposit-taking institutions, there was $286 billion in outstanding small business credit (which includes secured and unsecured credit) and $571 billion in business deposits from non-financial corporations.	Refer to **Sections 2.2**, **2.3.4** and **3.1.1**
What are some of the key trends affecting the payments industry?	The payments industry is subject to several key trends, namely: • **cash to card migration**: cash is declining as a method of payment in Australia, a trend which has corresponded with an increase in card usage; • **integrated payments**: seamless connectivity between terminals and Point of Sale systems is an important feature for some merchants; • **contactless card payments and least-cost routing**: contactless card payments represent two thirds of all 'card-present' payments in Australia which has had implications on Merchant Service Fees; • **eCommerce and mobile payments**: the proliferation of internet usage, connected devices and new technologies has resulted in the increased adoption of eCommerce and mobile payments; and • **Merchant Service Fees**: Merchant Service Fees across most cards have been relatively stable in recent years.	Refer to **Section 2.3.5**
Who do we compete with?	We categorise our competitors as follows: • **major Australian banks**: that offer a range of consumer and business lending and deposit products alongside merchant acquiring, and include the four major banks; • **non-Australian technology-focused payment providers**: that have significant positions in markets outside of Australia and have a level of presence in Australia, usually with a technological and eCommerce focus; • **Australia and New Zealand-focused payment providers**: that supply customised payments solutions typically for specific segments, and include payment facilitators; and • **global large-scale payment providers**: that supply merchant acquiring and processing globally, as well as in some instances issuing and providing core financial technology for other organisations.	Refer to **Section 2.3.6**

1) Market sizes and subsets of those amounts are provided to illustrate their sizes relative to our relevant performance metrics and do not imply that we could achieve 100% penetration of them.

1.3 Our strengths

Topic	Summary	For more information
Software-led approach to payments, based on a core proprietary technology platform	Our in-house technology expertise and culture of software-led innovation coupled with our core proprietary technology platform assist us to provide an attractive value proposition. Our software-led approach to payments provides us with the following benefits: • assists us in attaining high transaction authorisation speeds; • contributes to our high levels of core platform availability; • enables us to adapt or create new product features and deploy to market quickly; • increases our ability to innovate for merchants in our core verticals; • enables us to integrate into other systems and services; and • assists us to realise economies of scale.	Refer to **Section 3.4.1**
Seamless direct integration with a significant number of POS systems	We have the largest number of direct Point of Sale system integrations among payment providers in Australia which delivers key benefits to our merchants, including: • greater choice; • quick and easy setup; • high speed of transaction processing; • improved security; • less cost, complexity and risk; and • fewer errors and faster reconciliation. Our POS system partners also represent a key merchant acquisition channel for us.	Refer to **Section 3.4.2**
A focus on core verticals	A focus on our core verticals of Health, Hospitality and Retail has enabled us to produce a suite of products and features that have addressed merchant needs.	Refer to **Section 3.4.3**

VERTICAL FOCUS FLYWHEEL



1. INVESTMENT OVERVIEW

Topic	Summary	For more information
Broad and direct access to the Australian financial system through licences and memberships	By virtue of our banking licence, we are currently the only specialised payment provider in Australia with the capacity to provide its own value-adding banking products, including interest-bearing deposit accounts, together with its core payments offering. Our banking licence also means that we do not rely on third party banks to gain access to, and settle via, the payments system. Our membership to certain card schemes enables us to acquire transactions directly (for example, Visa and Mastercard).	Refer to **Section 3.4.4**
Focus on providing best-in-class service to tens of thousands of Australian businesses	We proudly serve over 29,000 Australian merchants, and have consistently sought to provide them with best-in-class service. To support this objective, we closely track a number of merchant metrics including satisfaction and have incentives in place with team members to enhance our merchant advocacy (including an element of all team members' remuneration being linked to Net Promoter Score outcomes). Our Australia-based customer support team is available 24/7, so that our merchants can access reliable service regardless of when they trade. Our focused approach has led to our healthy Net Promoter Score of +34.	Refer to **Section 3.4.5**
A values-led and talented team	We have a strong emphasis on recruiting and retaining diverse talent that suits the needs of our business and contributes to our values-driven culture. We have more than 450 employees, of which approximately half are in technology roles and over 150 are in customer roles.	Refer to **Sections 3.4.6** and **3.10.1**

1.4 Key financial information

Topic	Summary	For more information
What is our pro forma historical and forecast financial performance?	A selected summary of our pro forma historical financial performance and pro forma and statutory forecast financial performance is set out below. You should read this information in conjunction with the more detailed discussion of the Financial Information set out in **Section 4**, including the assumptions, management discussion and analysis and sensitivity analysis, as well as the key risks set out in **Section 5**. A reconciliation of the pro forma forecast and statutory forecast statements is provided in **Section 4**.	Refer to **Section 4**

Topic	Summary	For more information
What is our pro forma historical and forecast financial performance? *continued*		Refer to **Section 4**

$'000 YEAR ENDED 30 JUNE	PRO FORMA HISTORICAL			PRO FORMA FORECAST	STATUTORY FORECAST
	FY17	FY18	FY19	FY20f	FY20f
Revenue and income	**120,575**	**148,231**	**189,770**	**240,633**	**240,633**
Total direct expenses	(64,538)	(79,163)	(106,510)	(140,849)	(140,849)
Gross profit	**56,037**	**69,068**	**83,260**	**99,784**	**99,784**
Operating expenses excluding share-based payments expense	(62,894)	(76,440)	(89,401)	(100,404)	(110,997)
EBITDA	**(6,857)**	**(7,373)**	**(6,142)**	**(620)**	**(11,213)**
Share-based payments expense	(1,841)	(1,411)	(2,593)	(7,639)	(10,050)
Depreciation and amortisation	(9,107)	(10,187)	(10,987)	(12,641)	(12,641)
Net lease interest expense	(1,327)	(1,142)	(919)	(546)	(546)
Loss before income tax	**(19,131)**	**(20,113)**	**(20,641)**	**(21,445)**	**(34,450)**
Income tax benefit	2,486	1,265	1,965	2,195	5,460
Net loss after tax	**(16,646)**	**(18,848)**	**(18,675)**	**(19,251)**	**(28,990)**

Note: Refer to **Section 4** for information on the basis of preparation of pro forma historical and forecast information and reconciliations. The Forecast Financial Information is based on assumptions and accounting policies set out in **Sections 4.2** and **4.9.4** and **Appendix A**, and should be read in conjunction with the discussion of the Historical Financial Information and Forecast Financial Information in **Section 4** including the sensitivities set out in **Section 4.10**, and is subject to the key risks set out in **Section 5**.

EBITDA is 'non-IFRS financial information' – we exclude share-based payments expense from operating expenses and EBITDA (refer to **Section 4.3**). We believe that certain non-IFRS financial information provides useful information to users in measuring our financial performance and condition; however, investors should not place undue reliance on non-IFRS financial information included in this Prospectus.

What will the number of Shares on issue be on Completion?	On Completion, based on the Example Offer Structure and the Mid-Point Price, we expect to have approximately 497.7 million Shares on issue. Refer to **Important information** and **Section 7.1.1** for a description on how we are calculating the expected numbers of Shares offered and on issue on Completion. There will be no classes of shares on issue other than fully paid ordinary shares.	Refer to **Important information** and **Section 7.1.1**

1.5 Key risks

Topic	Summary	For more information
Deterioration in macroeconomic conditions	The Australian payments and business banking industries in which we operate depend heavily upon the overall level of consumer and business spending in Australia. Two of our existing core verticals (Hospitality and Retail) are particularly exposed to discretionary spending in Australia. A decline in macroeconomic conditions or changes in certain macroeconomic factors may adversely affect our financial performance. We may face reduced revenues (for example, due to lower transaction volumes processed by our merchants) and increased losses (for example, through increased loan losses and/or chargebacks). Furthermore, our growth strategy, which includes plans to expand into new core verticals (Accommodation and Services), may be impacted by adverse developments in the broader economy.	Refer to **Section 5.2.1**
Increased competitive pressures	We operate in highly competitive industries that are subject to significant change due to advancements in technology, changing consumer behaviours, new products and services, evolving industry standards and regulation, and the changing needs of our merchants. We compete against a range of existing local and global providers (some of which have access to more resources and scale than us) and may face further competition from new entrants to the Australian market in the future. If we begin to compete less effectively in the market, our business, financial performance and operations could be adversely impacted.	Refer to **Section 5.2.2**
Pricing competition	We face pricing risk from competitive pressures (for example, we may need to lower our price to win or retain merchants, or increase investment in product innovation and development to stay relevant) and from increases in our cost base (for example, we may be unwilling or unable to pass on increases in interchange fees and scheme fees). Changes in consumer behaviour, including categories of cards used (for example, further movement from credit to debit – refer to **Section 2.3.5.1**), payment channels (for example, 'card-present' versus 'card-not-present') and interaction methods (for example, contact versus contactless), or regulatory outcomes, may adversely impact the margin we are able to achieve on our transactions. Any of these factors may adversely impact the margins we are able to achieve on our transactions and may lead to lower profitability.	Refer to **Section 5.2.3**
Disruption, failure or obsolescence of technology or inability to scale processes	Our ability to deliver our payments and banking offerings successfully depends on the efficient and uninterrupted operation of our technology platform, technology used by others and the internet generally. There is a risk that these technologies and systems may experience downtime or interruption due to internal and external events, and that measures implemented by us to protect against such events are ineffective. There is also a risk that our technology platform or product offering becomes obsolete or outdated. The need for standalone terminal hardware to process transactions in a card-present environment may alter, or that consumer behaviour may change, resulting in significant numbers of Point of Sale systems processing payments directly. There is a risk that the system and platform architecture, technology or processes that we have developed to support our business operations may become unsuitable or incapable of scaling in line with the growth profile of the business.	Refer to **Section 5.2.4**

Topic	Summary	For more information
Regulatory change	We are subject to a range of laws and regulations across our business and operate in an industry and alongside competitors that have been subject to increasing oversight and reform in recent years. Operating in an evolving regulatory environment means that developments may occur in the future that impact our business or the products that we currently offer, or may require us to make changes to products, processes or systems that have an adverse impact on our business or financial performance. Merchants' business performance may also be affected by changes to laws and regulations in the verticals in which they operate (for example, laws relating to permitted trading hours). Such risks may adversely impact our business, financial performance and operations.	Refer to **Section 5.2.5**
Operational risk events	Operational risk relates to the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events which affect our business. Our business is exposed to operational risks such as external and internal fraud, processing errors, system or hardware failure and failure of information security systems. Loss from operational risk events could divert investment from new products into remediation of existing systems and processes, damage merchant relations or our reputation, adversely affect our financial performance or position, as well as divert staff away from their core roles to remediation activity. In addition, losses could include legal or remediation costs and loss of property and/or information.	Refer to **Section 5.2.6**
Failure to retain existing merchants and attract new merchants	Our financial performance depends on our ability to retain existing merchants and to attract new merchants. This depends on the functionality, reliability, pricing, client support and value that our products deliver, among other factors. There is a risk that new merchants may be reluctant to switch to our offering. Merchants may also cease their relationship with us for reasons within or outside of our control. We use several referral channels to grow our merchant base. There is a risk that these channels become less effective or ineffective in growing our merchant base. Factors that could contribute to this include, but are not limited to, reputational damage to our brand; reduced interest from our merchants; our referral partners no longer being incentivised by our incentive programs; our referral partners forming exclusive or preferred arrangements with other payment providers; our Independent Sales Organisations performing below expectations; or our marketing efforts failing to increase brand awareness.	Refer to **Section 5.2.7**
Breach of information security and data privacy	There is a risk that we are exposed to an external or internal cyber security breach or failure; a successful cyber-attack; data theft or misplaced data; computer viruses; acts of vandalism; and programming errors. Such events may result in a significant disruption to our systems and operations, reputational damage, significant legal and financial exposure and a loss of intellectual property or confidential information, and potential breaches of applicable laws. There is also a risk that we may be unable to provide critical business processes due to a potential distributed denial-of-service attack, resulting in disruption of services, loss of merchants, financial loss or reputational damage. Any of these risks relating to information security and data privacy could result in a loss of confidence in the security of our systems and reduce our ability to retain existing merchants and attract new merchants, and may have a material adverse impact on our business.	Refer to **Section 5.2.8**

1. INVESTMENT OVERVIEW

Topic	Summary	For more information
Failure to attract and retain talent	Our continued success is partially dependent upon our ability to attract and retain skilled and qualified employees. As we operate in a competitive and specialised industry, there is a risk that we may not be able to attract and retain adequately skilled employees, or be able to find effective replacements for individuals who leave us. This may result in longer recruiting processes; increased staff costs; loss of knowledge, capabilities, relationships and expertise that are important to our business; and delays in the development and launch of our offerings.	Refer to **Section 5.2.9**
Compliance with existing key regulations and laws	We are subject to laws, regulations and prudential standards covering, among other things: governance; disclosure; capital; risk management; licensing; anti-money laundering and counter-terrorism financing; privacy; cyber security; sales practices; conduct; liquidity; and business continuity. There is a risk that we fail to comply with these laws and regulations. This could result in fines, penalties, suspension of certain business activities and reputational damage, among other adverse outcomes for our business or employees. The impact of failing to comply with laws and regulations may extend to the loss of certain licences which enable us to provide services to our merchants. These licences include our Australian financial services licence and authorised deposit-taking institution licence. As an ADI, we are subject to the Financial Sector (Shareholdings) Act 1998 (Cth) which imposes limits on shareholdings in ADIs (limiting stakeholdings to 20% unless approval of the Federal Treasurer is obtained). There is a risk that this limit could impact the attractiveness of purchasing Shares.	Refer to **Section 5.2.10**
Failure to identify, manage or mitigate our risk exposures	We are responsible for developing and maintaining a comprehensive and effective Risk Management Framework and a Risk Appetite Statement. Our framework describes the policies we have established to identify, manage and mitigate identified risks to our business. There is a risk that we fail to abide by these risk management policies which may lead to an inability for us to mitigate our risk exposures. In addition, these policies may not effectively identify, manage and mitigate our risk exposures. Failure in our risk management frameworks or policies as well as breaches of these frameworks and policies may result in a number of adverse consequences including, but are not limited to: losses; liabilities; reputational damage; costs; regulatory scrutiny; and dissatisfaction among merchants.	Refer to **Section 5.2.11**

Topic	Summary	For more information
Other	There are a number of other risks that may impact an investment in Shares, set out in **Section 5** and summarised below: • failure to comply with ASIC legislation relating to small business loan contracts; • ineffective management of capital and liquidity; • impact of stress testing; • emergence of alternative payment methods or technologies or changes in consumer behaviour; • failure of third party service providers; • dependence on our payments business; • recent or potential regulations related to our payment and financial services; • increase in credit losses; • loss of key merchants; • damage to brand reputation; • failure of Tyro Connect; • failure to realise value from innovation and product development investment; • failure to identify, execute and realise benefits from M&A or strategic partnerships; • inability to protect intellectual property; • breach of third party intellectual property rights; • inadequate insurance cover; • inability to generate profit in the foreseeable future; • impact of litigation, claims, disputes and regulatory investigations; • inability to raise future capital; • change in share price impact on payroll tax; and • other investment risk factors including: inability to meet forecasts and other forward-looking information; impact of general market developments; Shareholder dilution; no payment of dividends; force majeure events; economic and government risks; lack of Share liquidity; specific circumstances that may adversely our Share price; changes in tax law; and possible changes in accounting standards.	Refer to **Sections 5.2.12** to **5.3.10**

1.6 Key people, interests and benefits

Topic	Summary	For more information
Who are our Directors?	• David Thodey AO, Non-Executive Chairman • Robbie Cooke, CEO and Managing Director • Hamish Corlett, Non-executive Director • David Fite, Non-executive Director • Catherine Harris AO, Non-executive Director • Fiona Pak-Poy, Non-executive Director • Paul Rickard, Non-executive Director	Refer to **Section 6.1**

1. INVESTMENT OVERVIEW

Topic	Summary	For more information
Who are our Senior Leadership Team members?	• Robbie Cooke, CEO and Managing Director • Steve Chapman, Head of Internal Audit • Dave Coombes, Chief Technology Officer • Angela Green, Chief Risk Officer • Sascha Hess, Chief Security and Operations Officer • Yvette Mandanas, Chief People Officer • Praveenesh Pala, Chief Financial Officer • James Revell, Chief Strategy Officer • Lisa Vitaris, Chief Marketing Officer • Josh Walther, Chief Customer Officer • Sami Wilson, General Counsel, Company Secretary • Bronwyn Yam, Chief Product Officer	Refer to **Section 6.2**
Who are our Shareholders and what is expected to be their interest in the Company at Completion based on the Mid-Point Price?	**Summary shareholding structure on Completion** (refer to **Table 6.3** for further detail):	Refer to **Sections 6.3** and **6.4**

SHAREHOLDER[1]	SHARES HELD AT THE PROSPECTUS DATE	SHARES HELD ON COMPLETION $	SHARES HELD ON COMPLETION %
Mike Cannon-Brookes[2]	68,119,528	68,119,528	13.69%
Tiger Global[3]	66,064,904	39,638,943	7.96%
TDM Growth Partners[4]	66,017,538	66,017,538	13.26%
David Fite[5]	49,576,577	45,576,577	9.16%
Hans-Josef (Jost) Stollmann[6]	35,920,679	19,920,679	4.00%
Other Directors[7]	3,658,635	4,207,694	0.85%
Other existing Shareholders[8]	161,114,562	142,246,638	28.58%
New Shareholders[9]	–	112,008,957	22.50%
Total	**450,472,423**	**497,736,554**	**100.00%**

Note:

1. Based on the Example Offer Structure and Mid-Point Price as described in **Section 7.1**. Certain of these Shareholders hold Liquidity Event Performance Rights, Options and Remuneration Sacrifice Rights (refer to **Sections 6.4.3.2, 6.4.4.1,** and **6.4.4.4**).
2. Mike Cannon-Brookes' holding reflects Shares held personally and by Abyla Pty Ltd and Grokco Pty Ltd, entities controlled by Mike Cannon-Brookes.
3. Tiger Global holding reflects Shares held through Internet Fund III Pte. Ltd.
4. TDM Growth Partners represents the aggregate shareholdings of TDM Growth Partners' clients on whose behalf TDM Growth Partners manages their investment (including voting rights) in the Company. This includes 932,444 Shares in respect of which Hamish Corlett, Director, has a beneficial interest, held through associated entities. TDM Growth Partners intends to bid for a further $5.5 million of Shares under the Institutional Offer at the Final Price if it is within the Indicative Price Range. This table does not include Shares which may be allocated to TDM Growth Partners under this bid.
5. David Fite's holding reflects Shares held personally and by Danita Lowes. Euclid Capital Partners LLC, an entity controlled by David Fite as sole shareholder, holds 2,625,000 Loan Options (each over one Share) which are exercisable at a price of $0.08 per Option at any time before their expiry on 17 December 2020.
6. Hans-Josef (Jost) Stollmann's holding reflects Shares held personally and by Sophia-Konstantina Fiona Stollmann.
7. Other Director holdings reflect Shares held personally by the relevant Director and entities associated with the Director. Directors may take up additional Shares under the Offer (refer to **Table 6.4**).
8. Existing Shareholders may take up additional Shares under the Offer (which would form part of the new Shareholder total). For details on voluntary escrow arrangements in respect of certain Shares held by existing Shareholders (including Directors) on Completion, refer to **Section 6.5**.
9. Comprises Shares offered under the Offer and 300,000 Shares issued between the Prospectus Date and Completion under POS Partner Agreements referred to in **Section 3.11.5**.

Topic	Summary	For more information
Who are our Shareholders and what is expected to be their interest in the Company at Completion based on the Mid-Point Price? *continued*	**Summary of Directors' Shares, Options, Remuneration Sacrifice Rights, Loan Options and Liquidity Event Performance Rights on Completion** (refer to **Tables 6.4**, **6.5** and **6.13** for further detail):	Refer to **Section 6.3** and **6.4**

DIRECTOR	TOTAL ON COMPLETION
David Thodey AO	Shares: 863,208[1,2,3] Options: 82,286[13] Remuneration Sacrifice Rights: 131,905[7,8]
Robbie Cooke	Shares: 219,812[1,2] Options: 5,504,530[13] Remuneration Sacrifice Rights: 270,583[7,9] Liquidity Event Performance Rights: 1,200,000[15]
Hamish Corlett	Shares: 1,121,124[1,2,4] Options: 68,000[13] Remuneration Sacrifice Rights: 89,658[7,10]
David Fite	Shares: 45,576,577[1,2,5] Options: 294,318[13] Remuneration Sacrifice Rights: 89,658[7,11] Loan Options: 2,625,000[12]
Catherine Harris AO	Shares: 613,075[1,2,6] Options: 164,626[13] Remuneration Sacrifice Rights: 106,262[7,8]
Fiona Pak-Poy	Shares: 39,623[1,2] Options: 83,000[13] Remuneration Sacrifice Rights: 73,692[7,14]
Paul Rickard	Shares: 2,283,296[1,2] Options: 253,940[13] Remuneration Sacrifice Rights: 61,432[7,9]

Note:

1. Based on the Example Offer Structure and Mid-Point Price as described in **Section 7.1**. Certain of these Directors also hold Options, Remuneration Sacrifice Rights and Liquidity Event Performance Rights as referred to in **Sections 6.4.4.1, 6.4.4.4** and **6.4.3.2**.
2. All Shares held by Directors on Completion will be escrowed, excluding any Shares acquired under the Offer. For details on voluntary escrow arrangements, refer to **Section 6.5**.
3. David Thodey AO's holding reflects Shares held by Aspiring Co Pty Ltd.
4. Hamish Corlett's holding reflects Shares held beneficially through associated entities plus 188,680 Shares to be acquired under the Offer which he will hold personally.
5. David Fite's holding reflects Shares held personally and by Danita Lowes.
6. Catherine Harris AO's holding reflects Shares held personally and held by HFM Superannuation Pty Ltd.
7. For Non-executive Directors, Remuneration Sacrifice Rights granted in respect of FY20 Board fees. For Robbie Cooke, reflects FY19 STI. Granted on 16 October 2019 at a volume-weighted average Share price of $1.319.

Topic	Summary	For more information
Who are our Shareholders and what is expected to be their interest in the Company at Completion based on the Mid-Point Price? *continued*	8. Shares issued on conversion to be restricted for a period of three years from the date of the grant of the Remuneration Sacrifice Rights (**Rights Grant Date**). 9. Shares issued on conversion to be restricted for a period of five years from the Rights Grant Date. 10. Shares issued on conversion to be restricted for a period of one year from the Rights Grant Date. 11. Shares issued on conversion to be restricted for a period of 15 years from the Rights Grant Date. 12. Euclid Capital Partners LLC, an entity controlled by David Fite as sole shareholder, holds 2,625,000 Loan Options (each over one Share) which are exercisable at a price of $0.08 per Option at any time before their expiry on 17 December 2020. Assumes no Loan Options are exercised before Completion. 13. Refer to **Section 6.4.4.1** for further description of the types of Options. Assumes no Options are exercised before Completion. 14. Shares issued on conversion to be restricted for a period of two years from the Rights Grant Date. 15. Refer to **Section 6.4.3.2** for further detail on Liquidity Event Performance Rights.	Refer to **Section 6.3** and **6.4**

Options[1] on issue as at the Prospectus Date

(refer to **Table 6.9** for further detail):

YEAR OF GRANT	EXERCISE PRICE	VESTING CONDITIONS	NUMBER OF OPTIONS
FY13–FY17	$0.375–$1.76	Monthly linear[2]	21,964,272
FY18	Nil	Annual linear[3]	2,311,889
FY19	Nil	Annual linear[3]	1,511,918
FY19	$1.50	Performance[4]	6,154,423
FY20	$1.79	Performance[5]	7,822,596
Total			**39,765,098**

Note:

1. Excludes the Loan Options held by Euclid Capital Partners LLC, an entity controlled by David Fite as sole shareholder, and referred to in **Table 6.5**.
2. Options granted to Directors, Senior Leadership Team members and employees vesting monthly in equal tranches over a period of five years, commencing 1 July 2011 and ending on 31 July 2023 and are not subject to any performance conditions.
3. Options granted to Directors, Senior Leadership Team members and employees vesting annually in equal 20% tranches over a period of five years, commencing 12 months after the grant date and are not subject to any performance conditions.
4. Options granted to Directors and Senior Leadership Team members vesting annually in equal 25% tranches over a period of four years, commencing 24 months after the grant date and subject to the following performance conditions: (i) 25% compound gross revenue growth per annum; and (ii) a positive net profit result (before tax and share-based expenses). If a tranche does not satisfy both performance criteria on the relevant vesting date, the tranche will be retested at the next vesting date (if any).
5. Options granted to Directors, Senior Leadership Team members and certain nominated senior employees vesting annually in equal 25% tranches over a period of four years, commencing 24 months after the grant date and subject to the following performance conditions: (i) 20% compound gross revenue growth per annum; and (ii) a positive net profit result (before tax and share-based expenses). If a tranche does not satisfy both performance criteria on the relevant vesting date, the tranche will be retested at the next vesting date (if any).

In addition to the above, select members of the Senior Leadership Team have been granted performance rights under the Liquidity Event Performance Rights Plan. Certain POS system partners have the right to acquire up to an aggregate 2,400,000 Shares under 6 POS Partner Agreements.

Topic	Summary	For more information
What significant benefits are payable to Directors and other persons connected with us or the Offer and what significant interests do they hold?	For Shares expected to be held by Directors on Completion, refer to the table above. Directors are entitled to remuneration on terms as disclosed in **Sections 6.4.2.2** and **6.4.2.3**. Directors will receive funds in respect of the sale of Shares at the Final Price as part of the Offer (refer to **Table 6.4**). Advisers are entitled to fees for services as disclosed in **Section 6.4.1**.	Refer to **Section 6.4**
Will any Shares be subject to restrictions following Completion?	Yes. Certain Shareholders (the **Escrowed Shareholders**) have agreed to enter into voluntary escrow arrangements in relation to the Shares retained by them on Completion.	Refer to **Section 6.5**

1.7 Overview of the Offer

Topic	Summary	For more information
What is the type of security being offered?	Shares (being fully paid ordinary shares in the Company).	Refer to **Section 7.1.1**
What are the rights and liabilities attached to the securities?	A description of the Shares, including the rights and liabilities attached to them, is set out in **Section 7.14**.	Refer to **Section 7.14**
What is the consideration payable for the Shares?	The Indicative Price Range for the Offer is $2.50 to $2.75 per Share. Successful applicants under the Offer will pay the Final Price (other than for certain Shares under the Employee Offer as described in **Section 7.5**). The Final Price will be determined as part of the Bookbuild and may be set below, within or above the Indicative Price Range. Applicants under the Retail Offer will apply for a set dollar amount of Shares. Accordingly, applicants will not know the number of Shares they will receive at the time they make their investment decision, nor will they know the Final Price or the total Shares offered. Except as required by law, applicants cannot withdraw or vary their application.	Refer to **Sections 7.1.1** and **7.9.2**

1. INVESTMENT OVERVIEW

Topic	Summary	For more information
What is the Offer Period?	The key dates, including details of the Offer Period, are set out in **Important information**. No Shares will be issued on the basis of this Prospectus later than the expiry date of 13 months after the Prospectus Date. The key Offer dates are indicative only and may change. Unless otherwise indicated, all references to times and dates in this Prospectus are to Sydney Time. We and SaleCo, in consultation with the Joint Lead Managers, reserve the right to vary any and all of the times and dates without notice (including, subject to the ASX Listing Rules and the Corporations Act, to close the Offer early, to extend the Offer Period relating to any component of the Offer, or to accept late applications, either generally or in particular cases, or to cancel or withdraw the Offer before settlement, in each case without notifying any recipient of this Prospectus or any applicants). Without limiting this, we may accept offers at any time before Completion in our discretion. If the Offer is cancelled or withdrawn before the allotment of Shares, all application monies will be refunded in full (without interest) as soon as possible in accordance with the requirements of the Corporations Act.	Refer to **Important information, Important notices** and **Section 7.13.3**
What is the total Offer size?	The total Offer size will depend on a range of factors, including the issue of Shares and the sale of existing Shares by SaleCo. We are offering to issue Shares equal to $125,000,000. The number of Shares issued will be based on the Final Price and is in the range of 45.5 – 50.1 million based on the Indicative Price Range. The sale of existing Shares by SaleCo will depend on the Final Price and the number of existing Shares sold by the Selling Shareholders. For example, on the Example Offer Structure and assuming the Final Price is within the Indicative Price Range, SaleCo would offer between 64.6 and 66.4 million Shares for total proceeds of between approximately $166.1 and $177.7 million, representing a total Offer size of between approximately 110.2 and 116.5 million Shares for total proceeds of between approximately $291.1 and $302.7 million. The minimum Offer size, based on the offer of new Shares by the Company and existing Shares by SaleCo acquired from the Initial Selling Shareholders (and assuming no other existing Shareholders offer to sell any Shares) across the Indicative Price Range will be between approximately 92.0 and 96.5 million Shares for total proceeds of between approximately $241.1 and $252.7 million. Refer to **Section 7.1** for the Example Offer Structure which provides an illustration of the potential actual number of Shares available under the Offer and on issue on Completion, as well as the amount raised by the Company and sold by SaleCo, based on certain assumptions.	Refer to **Section 7.1**
What are the Offer components?	The Offer comprises the Retail Offer and the Institutional Offer. **The Retail Offer** consists of the Broker Firm Offer, the Priority Offer, the Employee Offer and the Merchant Offer. **The Institutional Offer** consists of an offer to Institutional Investors in Australia, the United States and selected other jurisdictions. A number of Institutional Investors have committed to the Joint Lead Managers to acquire, and will be allocated, $140 million of Shares at the Final Price under this Prospectus through the Institutional Offer (provided the Final Price is within the Indicative Price Range).	Refer to **Section 7**

Topic	Summary	For more information
What is the purpose of the Offer?	The purpose of the Offer is to: • broaden our shareholder base and provide a liquid market for Shares; • provide funding and financial flexibility to support our growth strategy and future growth opportunities; and • provide us with the benefits of an increased brand profile that arises from being a publicly listed entity.	Refer to **Section 7.1.3**
Is the Offer underwritten?	No. The Offer is not underwritten.	–
Who are the Joint Lead Managers for the Offer?	The Joint Lead Managers of the Offer are J.P. Morgan Securities Australia Limited and Morgan Stanley Australia Securities Limited.	Refer to **Section 9.8**
What is the minimum and maximum application size under the Retail Offer?	**Broker Firm Offer** The minimum application under the Broker Firm Offer is as directed by the applicant's Broker and there is no maximum value of Shares that may be applied for under the Broker Firm Offer. We, along with SaleCo and the Joint Lead Managers, reserve the right to treat any applications in the Broker Firm Offer that are from persons whom we believe may be Institutional Investors, as Final Price bids in the Institutional Offer or to reject the application(s). We, along with SaleCo and the Joint Lead Managers, also reserve the right to aggregate any applications that we believe may be multiple applications from the same person. **Priority Offer** The minimum application size by applicants, who have received an invitation to apply for Shares under the Priority Offer, is $2,000 at the Final Price. Your personalised invitation will indicate the maximum amount of Shares that you may apply for. **Employee Offer** The minimum application size by Eligible Employees under the Employee Offer is $2,000 and in multiples of $500 of Shares thereafter. Each Eligible Employee may apply for a maximum of $5,000 of Shares at a discounted price of 90% of the Final Price, and an additional maximum of $10,000 of Shares at the Final Price. **Merchant Offer** The minimum application size under the Merchant Offer is $2,000 at the Final Price and in multiples of $500 of Shares thereafter. The maximum value of Shares that may be applied for under the Merchant Offer is $15,000 at the Final Price.	Refer to **Sections 7.3.2, 7.4.2, 7.5.2,** and **7.6.2**
What is the allocation policy?	The allocation of Shares between the Broker Firm Offer, Priority Offer, Merchant Offer, Employee Offer and Institutional Offer will be determined by agreement between us and the Joint Lead Managers having regard to the allocation policies outlined in **Section 7**.	Refer to **Sections 7.3.4, 7.4.4, 7.5.4, 7.6.4** and **7.9.4**
When will I receive confirmation that my application has been successful?	It is expected that initial holding statements will be dispatched to successful applicants by standard post on or about Thursday, 12 December 2019. Refunds (without interest) to applicants who make an application and receive an allocation of Shares, the value of which is smaller than the amount of the application monies, will be made as soon as practicable after Completion.	Refer to **Section 7.8**

1. INVESTMENT OVERVIEW

Topic	Summary	For more information
Will the Shares be quoted?	We will apply to ASX within seven days of the Prospectus Date, for our admission to the Official List and quotation of Shares by ASX (under the code 'TYR'). It is anticipated that quotation will initially be on a conditional and deferred settlement basis.	Refer to **Section 7.13.1**
When are the Shares expected to commence trading?	It is expected that trading of Shares on ASX on a conditional and deferred settlement basis will commence on or about Friday, 6 December 2019. It is the responsibility of each person who trades in Shares to confirm their own holding before trading in Shares. Investors will be able to confirm their allocations by telephoning our Offer Information Line on 1800 883 072 (within Australia) from 8:30am to 5:30pm (Sydney Time) Monday to Friday (excluding public holidays). If you sell Shares before receiving a holding statement, you do so at your own risk. We, along with SaleCo, the Share Registry, the Joint Lead Managers and the existing Shareholders disclaim all liability, whether in negligence or otherwise, if you sell Shares before receiving your holding statement, even if you received confirmation of allocation from the Offer Information Line, by a Broker or otherwise.	Refer to **Section 7.13.3**
Are there any escrow arrangements?	Yes.	Refer to **Section 6.5**
Has any ASIC relief or ASX waiver been sought or obtained?	Yes.	Refer to **Sections 9.12** and **9.13**
Are there any tax considerations for Australian investors?	Yes.	Refer to **Section 9.10**
Are there any brokerage, commission or stamp duty considerations?	No brokerage, commission or stamp duty is payable by applicants on acquisition of Shares under the Offer. There are various fees payable by us to the Joint Lead Managers and by the Joint Lead Managers to the Co-Managers.	Refer to **Sections 9.10.5** and **6.4.1**
What should I do with any enquiries?	All enquiries in relation to this Prospectus should be directed to our Offer Information Line. All enquiries in relation to the Broker Firm Offer should be directed to your Broker. If you have any questions about whether to invest in Shares, you should seek professional advice from your accountant, financial adviser, stockbroker, lawyer or other professional adviser before deciding whether to invest in Shares.	Refer to **Important information** and **Section 7.3.4**

Industry overview

2.1 Introduction

We are a technology-focused company providing payment services as a merchant acquirer, as well as complementary banking services to Australian businesses.

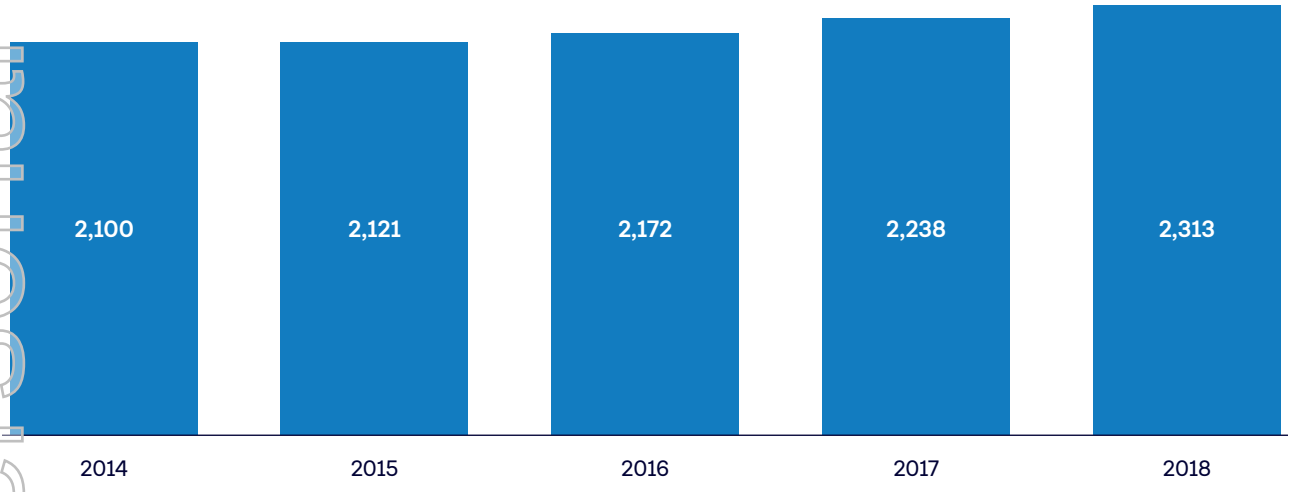
This **Section 2** contains an overview of:

- Australian businesses (refer to **Section 2.2**);
- the structure, mechanics (including fee structures) and size of our core market – Australian card payments (refer to **Section 2.3**);
- key trends in the payments market (refer to **Section 2.3.5**);
- competitive dynamics in the payments market (refer to **Sections 2.3.6** and **2.3.7**);
- business banking services, an ancillary market of ours (refer to **Section 2.4**);
- the current regulatory environment (refer to **Section 2.5**); and
- key recent developments in payments and business banking (refer to **Section 2.6**).

2.2 Overview of Australian businesses

There were approximately 2.31 million businesses operating in Australia as at 30 June 2018, reflecting a 2.4% CAGR between 30 June 2014 and 30 June 2018 as shown in **Figure 2.1**. This is the total market in which we operate.

Figure 2.1 Total number of Australian businesses, 2014 – 2018, ('000)



Source: ABS 8165 (Count of Australian Businesses including Entries and Exits) as at June 2018 (released in February 2019).
Note: Years ended 30 June.

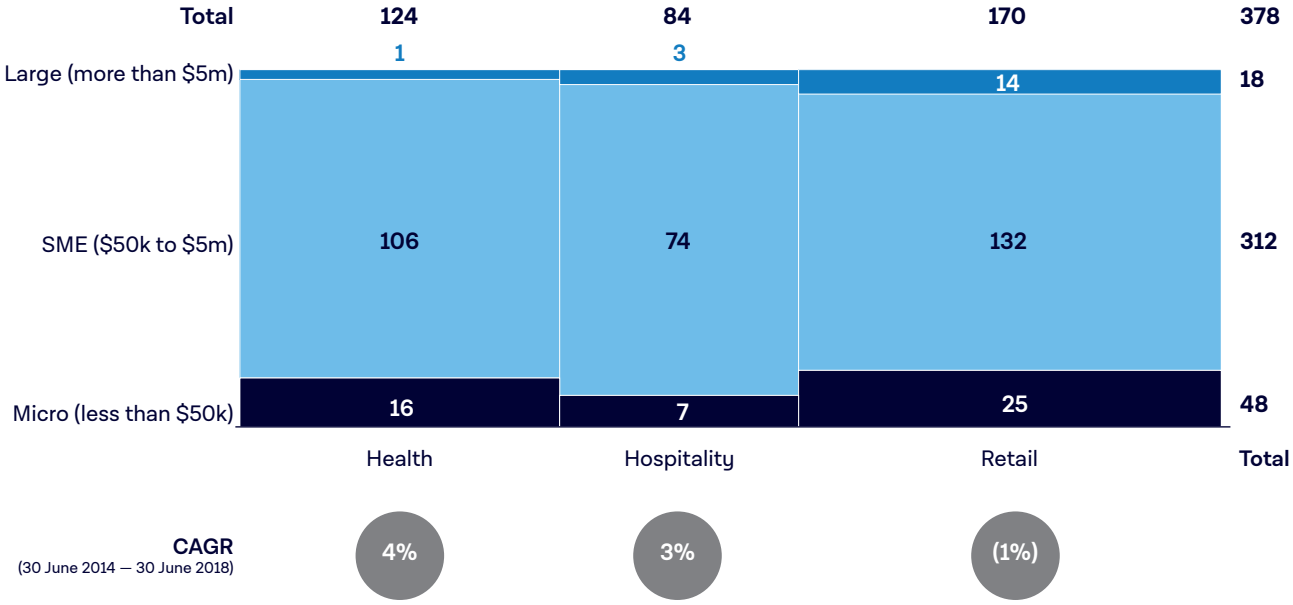
As illustrated in **Figure 2.2**, there were 378,000 businesses in our core verticals of Health, Hospitality and Retail, comprising approximately 16% of Australian businesses as at 30 June 2018.[1] The number of businesses in the Health and Hospitality verticals have grown at 4% and 3% CAGR respectively between 30 June 2014 and 30 June 2018, while the number of businesses in Retail saw a decline of 1% CAGR over the same period.

There were 1.67 million small and medium-sized enterprises that reported annual turnover between $50,000 and $5 million as at 30 June 2018, representing 72% of total businesses. Of these SMEs, 312,000 operated in the Health, Hospitality and Retail verticals.

SMEs have been the main target size category for us historically, and have consequently become the most significant portion of our merchant base by count. As at 30 June 2019, we provided payment services to over 29,000 Australian merchants, of which 77% were SMEs and 86% were in the Health, Hospitality and Retail verticals (refer to **Figure 3.4** in **Section 3.1.1**).[2]

1) ABS 8165 (Count of Australian Businesses including Entries and Exits) as at June 2018 (released in February 2019). The total number of businesses in each vertical has been calculated by summing the number of businesses in ABS ANZSIC Industry Classes that have been categorised per our internal classification of verticals.
2) ABS 8165 (Count of Australian Businesses including Entries and Exits) as at June 2018 (released in February 2019). The total number of businesses in each vertical has been calculated by summing the number of businesses in ABS ANZSIC Industry Classes that have been categorised per our internal classification of verticals. Merchant ID is a merchant identification number we use to determine the number of merchants using our services. We use transaction value as a proxy for turnover.

Figure 2.2 Total number of Australian businesses in Health, Hospitality and Retail verticals, by annual turnover, as at 30 June 2018, ('000)



Source: ABS 8165 (Count of Australian Businesses including Entries and Exits) as at June 2018 (released in February 2019). The total number of businesses in each vertical has been calculated by summing the number of businesses in ABS ANZSIC Industry Classes that have been categorised in accordance with our internal classification of verticals (refer to **Section 3.1.1** for a discussion of our core verticals).

2.3 Overview of Australian card payments

2.3.1 The card payments value chain

Australian card payments involve many different participants, each playing a different role in a complex value chain with the goal of enabling merchants to sell goods and services to consumers as seamlessly as possible.

In Australia, card payments are the most popular payment method, with total transaction value having surpassed cash in 2016.[3] Multiple participants are involved in securely and quickly authorising and settling card-based transactions on behalf of merchants.

The common card payments value chain includes six key participants, as described in **Figure 2.3** and **Table 2.1**.

3) RBA, How Australians Pay: Evidence from the 2016 Consumer Payments Survey, July 2017.

2. INDUSTRY OVERVIEW

Figure 2.3 Simplified illustration of the card payments value chain in Australia

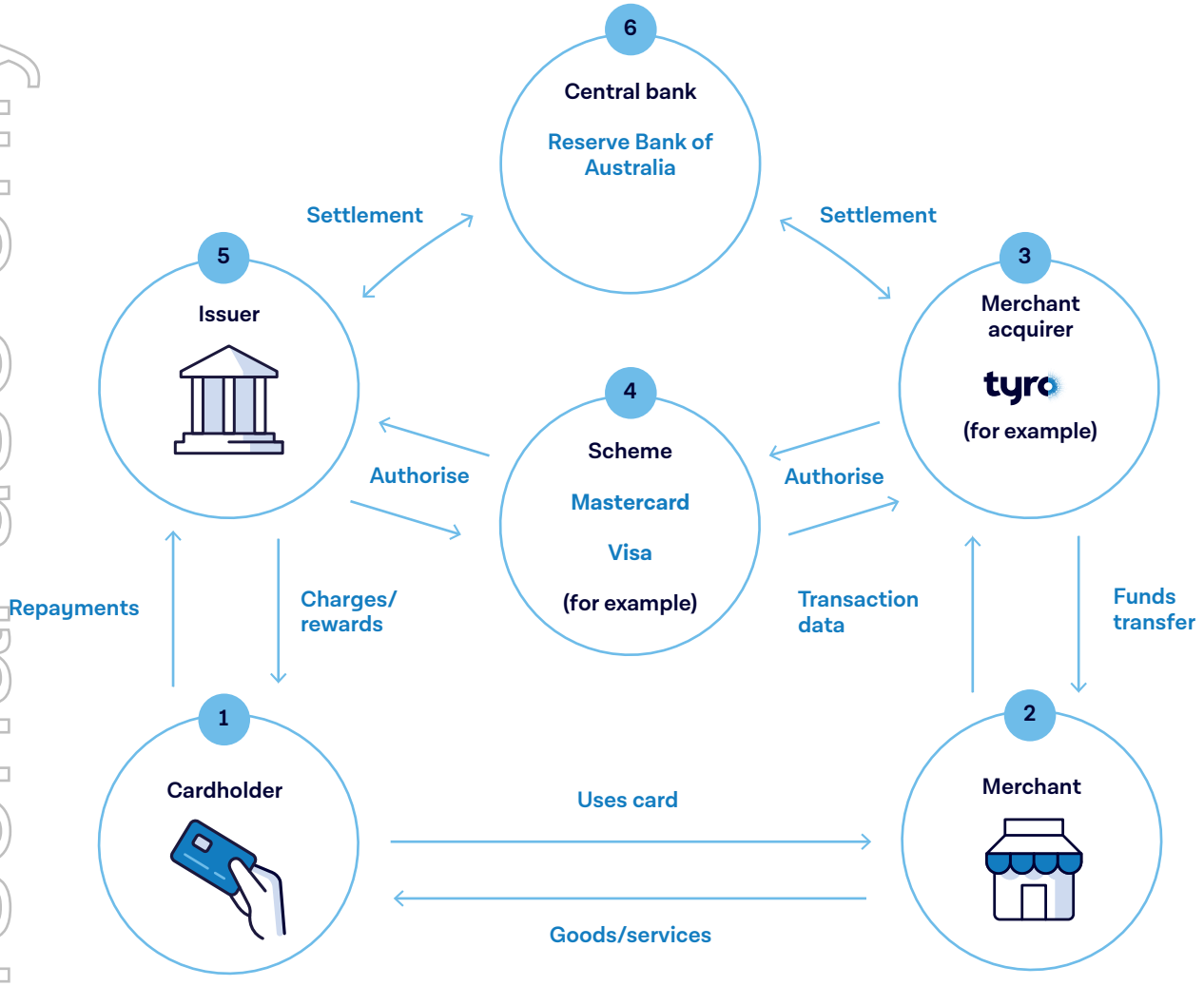


Table 2.1 Common participants in the card payments value chain

#	PARTICIPANT	ROLE
1	**Cardholder**	Purchases goods and services from merchants and who may interact via a number of channels generally considered as: • 'card-present', where a card, or mobile phone or other device containing the card virtually is physically present and interacts with an acceptance device such as a payment terminal; or • 'card-not-present', where the cardholders' card details are remotely accepted, such as through eCommerce or in a Mail Order/Telephone Order transaction.[4]
2	**Merchant**	Accepts payments from cardholders (see 1 above) in exchange for goods and services.
3	**Merchant acquirer**	Provides services to merchants to accept electronic payments typically via the provision of acceptance facilities such as a terminal or online gateway. The merchant acquirer organises the routing of transactions to the schemes (see 4 above) for authorisation with issuers (see 5 above), and the clearing and settlement of funds to the merchants (see 2 above) after the schemes (see 4 above) have received the funds from issuers (see 5 above). The merchant acquirer also performs due diligence on merchants (for example, 'Know Your Customer' checks) to mitigate fraud and counterparty risk (refer to **Figure 2.7** for examples of merchant acquirers in Australia).
4	**Scheme**	Maintains the rules and connectivity between merchant acquirers (see 3 above) and issuers (see 5 above) and performs clearing and settlement functions. The largest global card brands in 2018 included Visa, UnionPay, Mastercard and American Express[5]. Australia also has a domestic debit scheme called eftpos[6], which was established in the 1980s through industry collaboration and currently has 19 members, including us.
5	**Issuer**	Issues cards (including credit, debit, charge and prepaid cards) to cardholders (see 1 above) as instruments to access funds held in their accounts. They authorise merchant acquirers (see 3 above) via the schemes (see 4 above) to accept payments from cardholders (see 1 above) on behalf of the merchants (see 2 above), once cardholder identity and compliance checks are completed. Issuers include the four major banks, other banks such as Suncorp-Metway, HSBC and Citibank and other financial institutions such Latitude Financial Services and FlexiGroup.
6	**Central bank (Reserve Bank of Australia)**	Enables the transfer of funds from the issuer (see 5 above) to the merchant acquirer (see 3 above) via the Reserve Bank of Australia's Information and Transfer System.

4) 'Card-present' and 'card-not-present' is also known as 'device-present' and 'device-not-present', respectively.
5) The Nilson Report, Issue 1154, May 2019. Global Card Brands in 2018 – Ranked by Purchase Transactions.
6) eftpos refers to the Australian domestic debit scheme managed by eftpos Payments Australia Limited, as opposed to EFTPOS which refers to electronic funds transfer at point of sale (the generic term for electronic payments acceptance on terminals).

2. INDUSTRY OVERVIEW

There are a number of other participants that may be involved in the card payments value chain, as described in **Table 2.2**:

Table 2.2 Other participants in the card payments value chain

OTHER PARTICIPANTS	ROLE
Terminal providers	Typically manufacture and provide merchant acquirers with hardware and/or software devices used to accept payments. These can come in a range of form factors, with common terminal types including countertop (internet-connectivity enabled via an Ethernet cable) and mobile (internet-connectivity enabled via Wi-Fi or mobile network). In our case, we manage our own proprietary terminal software housed in hardware that we source from a third party supplier.
Point of Sale system providers	Provide a combination of software and hardware solutions to merchants to help manage inventory and record transactions, essentially acting as modern day cash registers. In the Health vertical, these systems are referred to as Practice Management Systems.
Payment facilitators	Offer payment services but are sponsored by a merchant acquirer(s) and typically enter into 'sub-merchant' agreements with merchants under their 'master merchant' account that they hold with a merchant acquirer(s). There has been a rise in payment facilitators with the increase of online shopping and the emergence of online payment gateways, where providing technologically advanced payment acceptance facilities online was deemed advantageous rather than the merchant acquiring itself. A payment gateway is an online payment acceptance application that accepts card details and transmits the transaction data to a merchant acquirer.
Processors	Typically provide outsourced technical services to merchant acquirers (or issuers) such as transaction switching and routing, data transmission and communications, data storage, record management, clearing and settlement and authorisation functions. Merchant acquirers and processors are terms sometimes treated synonymously; however, they perform different functions that can be offered by the same entity (as in our case).
Risk management providers	Monitor and assess transactions to verify the legitimacy of these transactions and flag potentially fraudulent activity on behalf of merchant acquirers and issuers. This is sometimes also managed in-house.
Digital wallet providers	Enable 'virtualised' cards to be hosted digitally (typically on a mobile phone or wearable device such as a 'smart' watch) and used by cardholders online or in a 'card-present' transaction via Near Field Communication acceptance on a terminal. The providers of digital wallets commonly charge issuers on a per transaction basis in return for hosting their cards. Examples include Apple Pay, Samsung Pay and Google Pay.
Independent Sales Organisations	Authorised third parties that represent banks or other participants by promoting and selling their services.

The term 'payment provider' is commonly used to refer to one of more of the above participants, but generally acts as a reference to either a merchant acquirer or payment facilitator.

2.3.2 Transaction mechanics[7]

A typical card transaction consists of two key processes – authorisation, and clearing and settlement. Authorisation occurs at the time of purchase usually within seconds, whereas the clearing and settlement of the funds between participants occurs later, for example within 24 to 48 hours from purchase of goods or services. In some cases, a card transaction may be disputed by the cardholder, which may result in a chargeback (refer to **Section 2.3.2.3**).

2.3.2.1. Authorisation

The steps involved in the card payments authorisation process typically include:

- the cardholder selects the goods or services that they wish to purchase, either in the merchant's premises or by adding it to their shopping cart online;
- in a premises, the merchant may use a Point of Sale system to gather the item information and record the sale. If the merchant has 'integrated payments', the POS system will initiate the transaction by electronically transmitting the value of the transaction to the terminal. If the merchant does not have integrated payments, they will input the price of the goods or services manually into the terminal;
- the cardholder presents their card at either a terminal (by inserting, swiping or tapping a card) or at an online gateway (by entering the card details or initiating the use of a digital wallet) to purchase the goods or services. The cardholder's card information is captured by the payment provider at this step;
- the transaction data is routed from the terminal or online gateway to the merchant acquirer through an internet connection;
- the merchant acquirer (and/or processor/risk management provider) initially reviews the transaction for indications of fraud and then routes it to the relevant scheme;
- the scheme routes the transaction to the relevant issuer;
- the issuer validates the authenticity of the card and whether the transaction will exceed the cardholder's defined balance or spending limit and sends an authorisation command (approved or declined) back to the scheme;
- the scheme forwards the authorisation command to the merchant acquirer; and
- the merchant acquirer displays the authorisation on the terminal or via the gateway enabling the merchant to complete the sale to the cardholder. In an integrated payments scenario, the Point of Sale system receives information advising the result of the authorisation, and then records the sale if the transaction was approved (refer to **Section 2.3.5.2**). In a standalone scenario, the merchant records the sale manually.

2.3.2.2 Clearing and settlement

The steps involved in the clearing and settlement process typically include:

- the schemes calculate the net settlement positions for merchant acquirers and issuers using transaction information gathered via clearing data received from the merchant acquirers and issuers;
- the schemes advise both merchant acquirers and issuers of the amounts to be settled, net of fees (for example, interchange fees and, in some cases, scheme fees – refer to **Section 2.3.3**);
- the schemes initiate settlement either directly to the Reserve Bank of Australia or indirectly by instructing a settlement bank that facilitates the flow of funds via the relevant central clearing systems;
- the amounts are subsequently settled (facilitated by the Reserve Bank of Australia) to the merchant acquirer's Exchange Settlement Account; and
- the merchant acquirer calculates settlement amounts owed to its merchants and submits settlement instructions directly to the Reserve Bank of Australia to transfer funds from the merchant acquirer's central Exchange Settlement Account to the Exchange Settlement Account of the merchant's nominated settlement bank. The settlement bank makes the funds available to the merchants.

7) Describes simplified steps only. Does not purport to cover all variations or steps of the process including, but not limited to, international schemes (for example, settled via SWIFT), routing-only transactions for certain schemes, merchants that settle directly into a bank account held with the merchant acquirer, alternative payment types (for example, Alipay), billing arrangements, switch to issuer transactions, or where an organisation acts as both the merchant acquirer and issuer for a transaction.

2.3.2.3 Chargebacks

Merchant acquirers are generally responsible for processing chargebacks. A chargeback occurs when a cardholder disputes a card payment that has been acquired by a merchant acquirer on behalf of a merchant. For example, a cardholder believes a fraudulent purchase has been made by somebody else using their card.

When a chargeback occurs, the merchant acquirer is typically required to refund the value of the transaction to the cardholder's bank. If the merchant can demonstrate that the chargeback claim is invalid, the merchant acquirer would attempt to recover the refunded amount from the cardholder's bank. However, if a merchant cannot demonstrate that the chargeback claim is invalid, the merchant acquirer would recover the value of the chargeback from the merchant's bank account. In the event that a merchant cannot cover the cost of a valid chargeback claim (for example, if the merchant has become insolvent), the merchant acquirer would usually incur the cost of the chargeback.

2.3.3 Transaction economics

Typically, fees payable by merchants for the above services include:

- **Merchant Service Fee**: this is the primary fee a merchant acquirer (or other payment provider such as a payment facilitator) charges a merchant – typically calculated as a percentage of the transaction value or as a fixed amount per transaction (for example, cents per transaction). This fee can be deducted from settlement proceeds or direct debited to the merchant periodically. This fee usually includes the following fees:
  - **interchange fee**: this is a fee an issuer charges a merchant acquirer for issuing the card and processing. Schemes set these rates within limits determined by the Reserve Bank of Australia, determined mainly by card type, interaction method and merchant category. Generally, this is the largest component of the Merchant Service Fee.
  - **scheme fees**: this is a combination of fees charged by the schemes to the merchant acquirer and issuer, with these fees calculated on transaction value or volume, or as a fixed fee. These fees generally relate to the total value or number of transactions processed by the merchant acquirer over a set period, and include other fees such as registration fees; and
  - **Merchant Acquiring Fee**: this is the balance of the Merchant Service Fee retained by the merchant acquirer after deducting the interchange fee and scheme fees;
- **other transaction fees**: these may include fees charged by the merchant acquirer to the merchant for transactions such as Mail Order/Telephone Order transactions and Dynamic Currency Conversion. We currently offer these two features, among others (refer to **Table 3.1**); and
- **terminal fee**: this is a rental fee charged periodically by the merchant acquirer to the merchant for the provision of terminals. Occasionally, terminals may be purchased outright by the merchant or bundled into the Merchant Service Fee on a per transaction basis.

Pricing structures for the Merchant Service Fee can vary in type and terminology, and we describe them as:

- **cost-plus**: a fixed Merchant Acquiring Fee (i.e. margin) is charged on top of the interchange (or interchange and scheme) fees that the merchant acquirer is charged, which together form the total Merchant Service Fee;
- **simple**: a single Merchant Service Fee is charged for all eligible transactions regardless of circumstances of the transaction (card type, amount or interaction type), for example, calculated as a percentage of transaction value for all eligible transactions. This fee may be increased to include terminal rental;
- **blended**: each scheme (for example, Visa) is individually priced with regard to the interchange and scheme fees for that scheme, plus a Merchant Acquiring Fee. These individually priced fees, when aggregated, form the total Merchant Service Fee;
- **normalised**: card types (for example, a business card or standard personal credit card) sometimes within schemes (for example, Visa) are categorised by the merchant acquirer across all eligible card types and schemes. These categories are individually priced considering interchange and scheme fees for those categories and when aggregated with a Merchant Acquiring Fee, form the total Merchant Service Fee; and
- **fixed plan**: a fixed monthly fee that includes a certain threshold of total value and/or number of transactions per month as selected by the merchant in advance, with additional fees incurred by the merchant once this threshold is passed.

We currently offer cost-plus, normalised, blended and simple Merchant Service Fee structures (refer to **Table 3.1**).

2.3.3.1 Surcharging

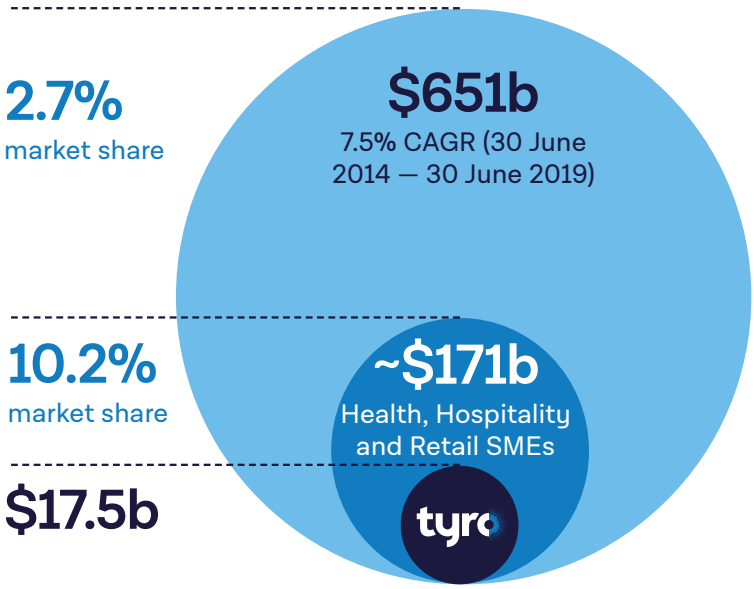
Occasionally, merchants choose to pass on some or all of the Merchant Service Fees they incur as a surcharge to the cardholder in addition to the price of the goods or services provided. Effective from 1 September 2017, the Australian Competition and Consumer Commission enacted a ban on all Australian businesses from imposing excessive surcharges on cardholders.[8] We offer a tool which assists merchants with their compliance in relation to surcharging (refer to **Table 3.1**).

2.3.4 Size of the card payments market in Australia

The size of the Australian card payments market can be viewed in a number of different ways, for example, by number of businesses, transaction value of card transactions acquired (either 'card-present' or 'card-not-present' – refer to **Figure 2.1**) or number of terminals. We generally use the transaction value of cards acquired in Australia as the primary market definition, as the number of businesses in a vertical does not always reflect the relative total transaction value processed by that vertical. For instance, the level of acceptance of cards in a business, variations in frequency of card payments and the average transaction value can result in a small number of businesses contributing a larger relative value of transactions. Irrespective of the above methodologies used, the market is significant and growing (refer to **Section 2.2**, **Figure 2.4** to **Figure 2.6**).

As illustrated in **Figure 2.4**, the transaction value of card payments acquired in Australia totalled $651 billion for the year ended 30 June 2019, having increased at a CAGR of 7.5% since 30 June 2014.[9]

Figure 2.4 Annual transaction value of card payments acquired in Australia and our estimated market share, for the year ended 30 June 2019, ($ billion; %)



Source: RBA C1.1 (Credit and Charge Cards – Original Series – Aggregate Data); RBA C2.1 (Debit Cards – Original Series); RBA C2.2 (Prepaid Cards – Original Series); internal company data.

Note: Includes the total value of transactions acquired in Australia for credit and charge cards, and debit cards and the total value of transactions for prepaid cards. While our payments product can be used by businesses across different verticals and size of merchants, we provide our assessment of annual transaction value for small and medium-sized enterprises in our core verticals of Health, Hospitality and Retail. This has been estimated by multiplying the count of SMEs in these core verticals at 30 June 2018 by the estimated proportion of these merchants that accept card payments and average transaction values by vertical per merchant across 'card-present' and 'card-not-present' by reference in particular to our aggregated merchant data, and applying a growth rate (based on CAGR of total industry transaction value acquired from 30 June 2014 to 30 June 2019) to determine a figure as at 30 June 2019. Market sizes and subsets of those amounts are provided to illustrate their sizes relative to our relevant performance metrics and do not imply that we could achieve 100% penetration of them.

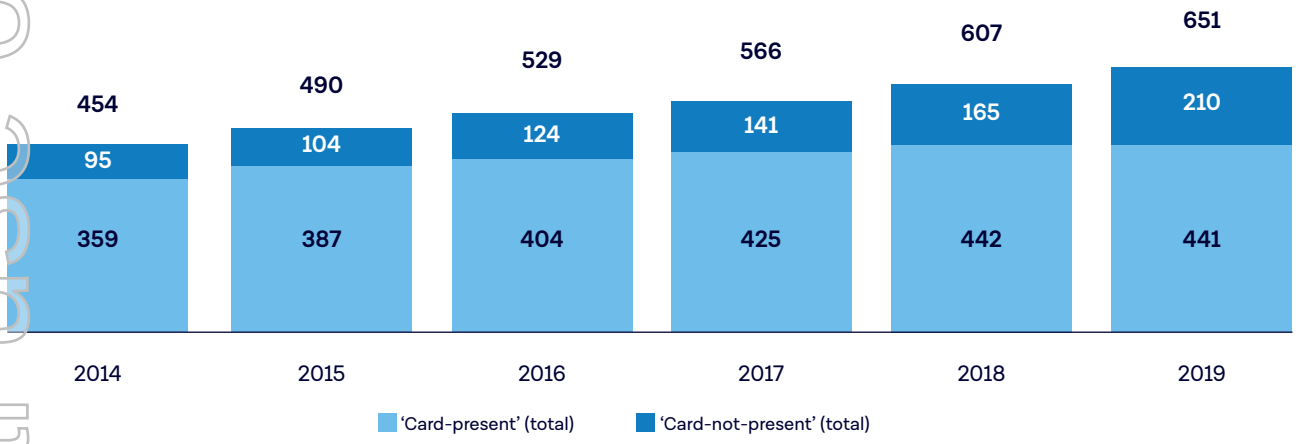
8) Competition and Consumer Amendment (Payment Surcharges) Act 2016.

9) RBA C1.1 (Credit and Charge Cards – Original Series – Aggregate Data); RBA C2.1 (Debit Cards – Original Series); RBA C2.2 (Prepaid Cards – Original Series).

2. INDUSTRY OVERVIEW

While our focus has been on 'card-present' transactions historically, we recently launched an eCommerce solution to enhance our 'card-not-present' offering (refer to **Table 3.1**). 'Card-present' transactions in Australia comprised $441 billion (of the $651 billion referred to above) for the year ended 30 June 2019, representing a CAGR of 4.2% from 30 June 2014. The value of 'card-not-present' transactions in Australia for the year ended 30 June 2019 was $210 billion and has grown at a CAGR of 17.1% from 30 June 2014 to 30 June 2019.[10] Online sales (a component of 'card-not-present') were estimated to have accounted for 8.2% of total retail sales in Australia in 2018.[11]

Figure 2.5 Annual transaction value of card payments acquired in Australia, by 'card-present' and 'card-not-present', 2014 – 2019, ($ billion)

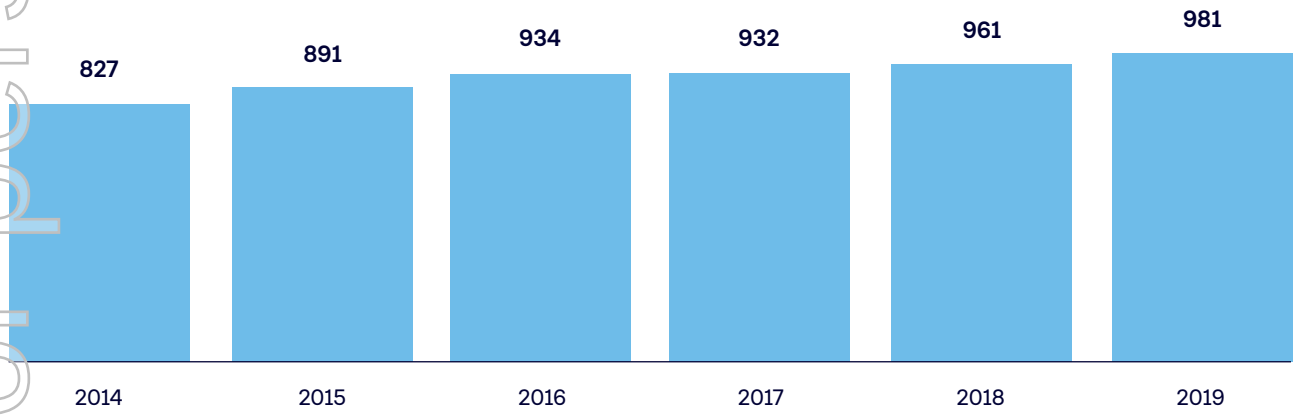


Source: RBA C1.1 (Credit and Charge Cards – Original Series – Aggregate Data); RBA C2.1 (Debit Cards – Original Series); RBA C2.2 (Prepaid Cards – Original Series), years ended 30 June.

Note: Includes the total value of transactions acquired in Australia for credit and charge cards, and debit cards and the total value of transactions for prepaid cards.

The number of terminals in the Australian market was 961,000 as at 30 June 2018 and 981,000 as at 30 June 2019, which represents a CAGR of 3.5% from 30 June 2014 to 30 June 2019. Globally, Australia has among the highest penetrations of terminals.[12]

Figure 2.6 Total number of terminals in the Australian market (AusPayNet members), 2014 – 2019, ('000)



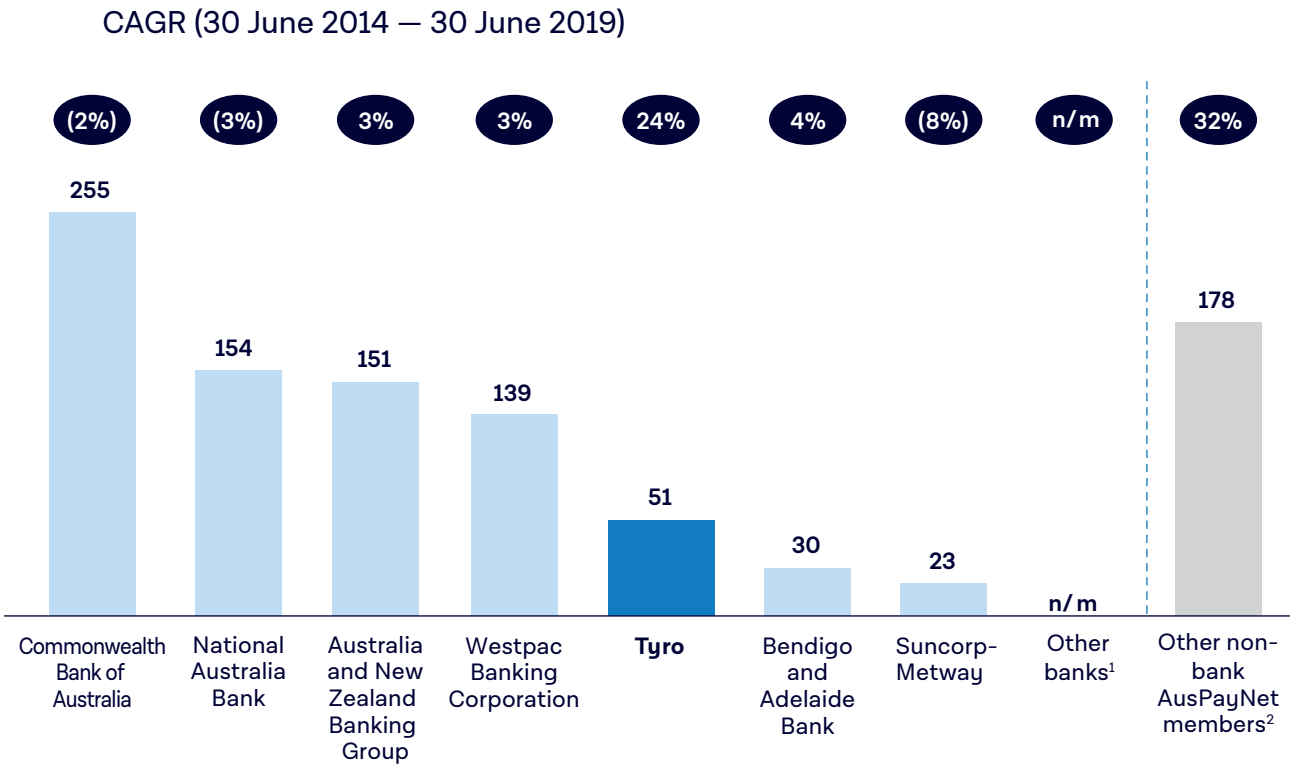
Source: AusPayNet (Device Statistics – EFTPOS Statistics, 30 June 2019), years ended 30 June.

Note: The above does not include terminals of providers who are not members of the Australian Payments Network, a self-regulated body set up by industry participants, with rules that cover cards, cheques, direct entry, and high value payments (refer to **Section 2.5.9**). Members include payment providers that do not hold Australian banking licences such as Adyen and First Data, but exclude Square.

10) CAGR of 17.1% calculated based on whole numbers in respective periods. Discrepancies between calculated growth rates are due to rounding.
11) National Australia Bank Online Retail Sales Index, year ended December 2018.
12) AusPayNet, Device Statistics – EFTPOS Statistics, 30 June 2019. Penetration reflects number of terminals per capita among Bank of International Settlement countries.

In Australia, the four major banks[13] control a significant majority of the 'card-present' payments market as measured by terminals with their share sitting at 71% as at 30 June 2019. We were the fifth largest merchant acquiring bank as measured by number of terminals.[14]

Figure 2.7 Number of terminals by banks and other providers in Australia, as at 30 June 2019, ('000)



Source: APRA, Authorised deposit-taking institutions' points of presence statistics, 30 June 2019; AusPayNet, Device Statistics – EFTPOS Statistics, 30 June 2019.

Note: Other providers (labelled 'Other non-bank AusPayNet members') includes terminals of other providers who are members of the Australian Payments Network (for example, Adyen and First Data), a self-regulated body set up by industry participants, with rules that cover cards, cheques, direct entry, and high value payments (refer to **Section 2.5.9**). Does not include non-bank payment providers who are not members of the Australian Payments Network (for example, Square). Discrepancies between totals and the sum of components shown in the figure above are due to rounding.

1. Not material. No other bank reported by APRA had terminal numbers exceeding 127 terminals (being the Regional Australia Bank) at 30 June 2019.
2. Calculated by taking the total number of terminals reported in market by AusPayNet (Device Statistics – EFTPOS Statistics, 30 June 2019, refer also to **Figure 2.6**) and subtracting the sum of terminals provided by all domestic banks as reported by APRA in the above source. We estimate that this number reflects the following changes since 30 June 2018: Bank of Queensland merchant acquiring services are provided by First Data (10,643 terminals); Wirecard operates the customer portfolio of Citi's merchant acquiring business in 11 markets in Asia Pacific, including Australia (3,566 terminals); and Smartpay (a non-bank payment provider) having gained its own acquiring capabilities in Australia (where it previously used Bendigo and Adelaide Bank for acquiring services).

13) The four major banks refer to Australia and New Zealand Banking Group, Commonwealth Bank of Australia, National Australia Bank and Westpac Banking Corporation, collectively.

14) APRA, Authorised deposit-taking institutions' points of presence statistics, 30 June 2019.

2.3.5 Key payment trends in Australia

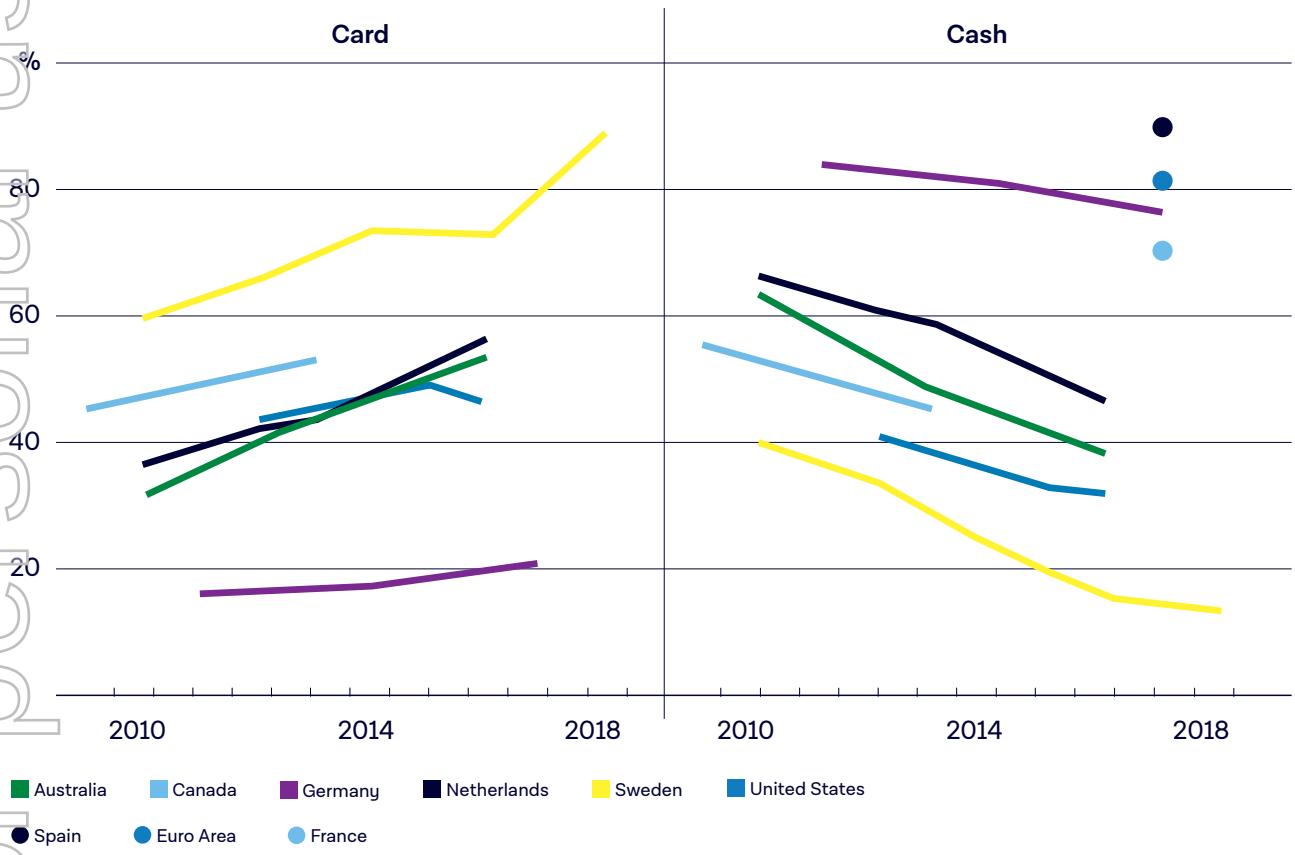
The Australian payments market is subject to the following key trends:

2.3.5.1 Cash to card migration

Cash is declining as a method of payment in Australia as the perceived benefits of card payment, such as convenience, rewards and security, and availability of electronic acceptance devices, have increased. Australia ranked third behind only Norway and South Korea in terms of the number of non-cash transactions per inhabitant in 2017.[15] As shown in **Figure 2.8**, the use of cash for payments in Australia decreased from 62% in 2010 to 37% in 2016. Simultaneously, the use of cards for payments in Australia increased from 31% in 2010 to 52% in 2016.[16]

The migration to card from cash is expected to be an ongoing trend, with the Reserve Bank of Australia recently stating that '*the shift to electronic payments is occurring quite quickly and it is likely to continue*', and that it is conceivable that '*cash becomes a niche payment instrument*.'[17]

Figure 2.8 Trends in cash and card payments by selected countries, 2009 – 2018, (% of number of payments)



Source: RBA, Payments System Board Annual Report 2018 – Trends in Payments, Clearing and Settlement Systems.
Note: Cash and card do not sum to 100%; observations are not directly comparable due to differing survey methods and inclusions across countries.

The increased use of debit cards has been an important component of the migration from cash to card over the past five years. As at 30 June 2019, credit and charge cards represented 49% (down from 56% as at 30 June 2014) of total transaction value acquired, while debit cards represented 50% (up from 44% as at 30 June 2014), with the remaining component being made up of prepaid cards.

15) Capgemini Research Institute, World Payments Report 2019 – Figure 19.
16) RBA, How Australians Pay: Evidence from the 2016 Consumer Payments Survey, July 2017. Percent of payments (number), consumer payment methods.
17) RBA, "A Journey Towards a Near Cashless Payments System", Governor Philip Lowe, Speech at 2018 Australian Payment Summit, Sydney, 26 November 2018.

2.3.5.2 Integrated payments

In Australia, there is typically a physical separation between the terminal hardware and the hardware hosting the Point of Sale system. This differs from other markets (such as the United States) where hardware hosting the POS system may also perform payment functions.

The formation of the Australian market has been influenced by the prohibition of signatures as an authentication method for Australian cardholders from 1 August 2014, with issuers of Australian cards being required to comply with the 'chip and PIN' EMV standard[18] as the method of authentication for purchases made in person. PIN entry security is a requirement of the Payment Card Industry Security Standards Council and the Australian Payments Network in the Australian market (refer to **Section 2.5.9**).

Additionally, Australian regulations have to date generally restricted the ability to enter a PIN on software hosted on an off-the-shelf mobile or tablet device. As such, POS system providers have not typically included card acceptance software in their solutions, and have instead partnered with merchant acquirers for the provision of terminals.

The need for distinct terminals to process card payments means merchants generally have two alternative ways of enabling 'card-present' payments – (1) standalone or (2) integrated. After selecting the goods or services on the POS system, the merchant will either:

1) manually input the amount owed by the cardholder into the terminal and initiate the card acceptance (standalone); or
2) select an option on the POS system to transmit the amount owed by the cardholder to the terminal and initiate the card acceptance electronically (integrated).

The standalone scenario can have a number of potential issues for the merchant, namely:

- more time to take payment from a cardholder due to the need for manual entry into the terminal;
- errors introduced by manually keying in the amount into the terminal; and
- a requirement to manually reconcile the POS system recorded sales to payments received via the terminal.

Many merchant acquiring banks in Australia rely on a third party provider's solution to integrate their terminals with merchant POS systems, often at additional ongoing cost that is potentially passed on to the merchant. Introducing an additional element in between the terminal and POS system can make it difficult for a merchant to troubleshoot payment problems when they arise, as it may not be immediately clear which of the service providers is the source of the issue. The provision of integration software and the terminal by the same provider can reduce complexity in payments for the merchant and POS system supplier, as well as increase the transaction speed. This can be achieved through the provision of an API through which a POS system can securely and directly communicate with terminals over the internet using an Ethernet or Wi-Fi connection (rather than, for example, using a physical USB or serial cable).

We released our in-house integration software (which uses an internet connection rather than cables) to merchants in 2007 at no additional cost to them. Internet-based or 'cloud' solutions were introduced later by others. For example, in 2018, one of Australia's largest third party integrators used by most Australian merchant acquiring banks also started adopting an internet-based or 'cloud' approach to integration (requiring additional development work by each of the banks to enable).[19]

Some of the benefits of connecting the POS system to the terminal via an internet-based or 'cloud' connection may include:

- removing the need for terminals to be tethered to the POS hardware with cables, resulting in more mobility and less clutter;
- enabling mobile terminals to remain integrated with the POS system as they are moved around the merchant's location;
- allowing for the sharing of a single terminal between multiple POS system instances (versus a fixed 1:1 ratio which may result if the terminal is connected to the POS system via a cable);
- removing the need for card details to be shared with the POS system as they are sent directly from the terminal to the merchant acquirer via a secure internet connection, and is only reliant on POS system internet connectivity so that the POS system can receive the authorisation notification; and
- facilitating the integration of terminals with mobile and web-hosted POS systems (which may not easily support alternate integration methods, for example, serial cable connections).

18) A global technical standard for cards equipped with computer chips and the technology used by devices (for example, terminals and ATMs) to authenticate transactions made using these cards.
19) PC-EFTPOS Update April/May 2019, which reported PC-EFTPOS having over 540 Point of Sale systems accredited for integration with their software.

2.3.5.3 Contactless card payments and least-cost routing

Contactless card payments (also known as 'tap-and-go') are payments made in person by a cardholder in which they tap their card on the terminal. According to the Australian Payment Network, Australia leads the world in this type of payment, measured by the portion of 'card-present' payments that are contactless versus via another method (for example, inserting a card with chip and PIN).[20] The Reserve Bank of Australia reported that contactless card payments represented two thirds of all 'card-present' payments in Australia as at November 2016.[21]

The rise of contactless card payments as a popular payment method has had implications on Merchant Service Fees, as described below. In Australia, debit card transactions can be processed through one of three debit schemes – the domestic scheme (eftpos) or the two international schemes (Debit Mastercard or Visa Debit). Most debit cards in Australia have a functionality that enables the transaction to be processed via either eftpos or one of the two international schemes.[22] These cards are called multi-network debit cards (occasionally known as dual-network debit cards) and can be identified by having both an international scheme logo on the front of the card and the eftpos logo on the back. Usually, the transaction routes to the same cardholder deposit account, regardless of the scheme that processes it. However, the Merchant Service Fee can vary depending on which of the three schemes the transaction is routed by, due to differences in the size and structure of the interchange fees (i.e. percentage based on transaction value or fixed amount per transaction).

For many merchants, historically payments routed via the eftpos scheme were significantly less expensive than payments routed via the Debit Mastercard or Visa Debit networks.[23] The average Mastercard and Visa debit total merchant fees (Merchant Service Fees plus other merchant fees) were 0.52% for the quarter ended June 2019, compared to average eftpos total merchant fees of 0.28% for the equivalent period.[24]

This cost differential was a significant issue for many merchants operating in Australia because:

- half of all card transaction value acquired in Australia in the year ended 30 June 2019 were via debit cards, representing $324 billion[25];
- most debit cards are multi-network and used in a contactless manner[26,27]; and
- since FY16, the eftpos scheme has been providing an alternate transaction path for multi-network debit contactless card payments which previously only routed via the international schemes.[28]

While there is usually no difference to the cardholder as a result of the routing (i.e. the cost of the goods or services and the purchasing experience typically remain the same), merchants have often experienced higher costs. To address this, the House of Representatives Standing Committee on Economics recommended that merchant acquirers provide merchants with the ability to send contactless payments from dual-network debit cards through the scheme of their choice. It stated that regulatory action should be taken by the Payments System Board if this had not occurred by 1 April 2018.[29] In response to this recommendation, we announced our least-cost routing feature (Tap & Save) in March 2018. This feature allows merchants to save money by processing each eligible contactless multi-network debit card payment through the scheme that we determine to cost the merchant the least – whether that be eftpos or the international schemes.

Almost a year after the House of Representatives' suggested deadline, a number of merchant acquiring banks launched 'merchant choice routing'. In certain cases, the routing is determined by the bank, and in others, the merchant is to required designate whether all of the merchant's subsequent contactless multi-network debit card transactions are routed via the eftpos scheme or via the international schemes.

20) AusPayNet Milestones Report: The Digital Economy, June 2018.
21) RBA, How Australians Pay: Evidence from the 2016 Consumer Payments Survey, July 2017.
22) RBA, Least-cost Routing of Debit Card Transactions, as at 29 September 2019.
23) RBA, Least-cost Routing of Debit Card Transactions, as at 29 September 2019.
24) RBA, C3 Average Merchant Fees for Debit, Credit and Charge Cards, as at quarter ended June 2019. Data reflects average total merchant fees for each scheme, as reported in the data set. The data set reports average merchant fees paid by merchants to acquiring institutions as a percent of purchase value for the Mastercard, Visa, American Express, Diners Club and eftpos schemes, and as cents per transaction for the eftpos scheme. These fees are net of rebates and GST and include fees arising from general-purpose debit cards, credit cards and charge cards issued to individuals or businesses under the eftpos, Mastercard, Visa, American Express and Diners Club schemes. Merchant acquirers report merchant fee income that arises from domestic merchants from card transactions initiated by domestic and foreign cardholders.
25) RBA C1.1 (Credit and Charge Cards – Original Series – Aggregate Data); RBA C2.1 (Debit Cards – Original Series); RBA C2.2 (Prepaid Cards – Original Series).
26) RBA, Least-cost Routing of Debit Card Transactions, as at 29 September 2019.
27) AusPayNet, Milestones Report: The Digital Economy, June 2018.
28) eftpos Payments Australia Limited, 2016 Annual Report.
29) House of Representatives Standing Committee on Economics, Review of the Four Major Banks (Third Report), December 2017.

2.3.5.4 eCommerce and mobile payments

The Australian payments industry has seen considerable disruption recently with the adoption of new payment technologies. The proliferation of internet usage, connected devices and new technologies has resulted in some changes in the way people pay for goods and services. In many cases, payments have been shifting toward:

- 'card-not-present' transactions, specifically payments occurring online (eCommerce); and
- the use of digital wallets, usually hosted on a cardholder's mobile phone or 'smart' watch (commonly termed 'mobile payments').

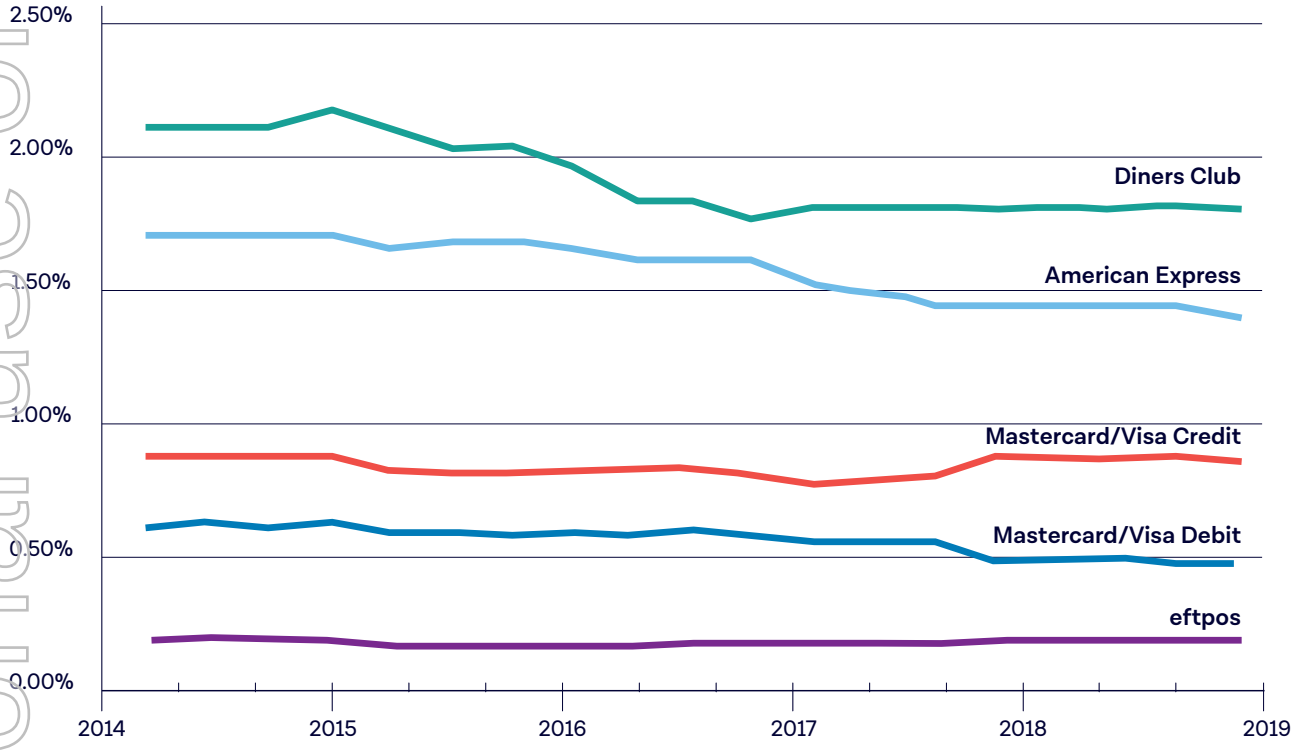
Some of the specific factors driving the adoption of eCommerce and mobile payments include:

- an increase in the preference to shop online;
- the proliferation of smartphone ownership and usage;
- the availability of Near Field Communication technology;
- the increase in the use of applications on mobile devices that facilitate payments within the app itself ('in-app payments'), which is providing an alternative to, or replacing, instances where traditionally 'card-present' transactions were the primary option (for example, Uber, Deliveroo and Airbnb);
- technological advances that have enabled the storage of cards electronically in a more secure manner which has encouraged adoption of recurring payments. For example, this is common in verticals such as fitness or childcare and subscription-based software, including businesses that offer media streaming;
- advances in invoicing and accounting software solutions that enable payments via a linked card, as opposed to situations in which bank transfers or cash were once the most preferred methods of payment;
- the adoption of 'buy-now, pay-later' as a payment method in which there is commonly a card linked online;
- enhancements in peer-to-peer money transfer functionality, such as speed, cost and user experience; and
- the rise of alternative payment methods, particularly those stemming from China (for example, Alipay and WeChat Pay), that use Quick Response codes to authenticate transactions.

2.3.5.5 Merchant Service Fees

Merchant Service Fees are impacted by changes in interchange fees, scheme fees, Merchant Acquiring Fees and other transaction fee types.

Figure 2.9 Merchant Service Fees in Australia, 2014 – 2019, (total Merchant Service Fees as % of transaction values acquired)



Source: RBA, C3 Average Merchant Fees for Debit, Credit and Charge Cards, from quarter ended June 2014 to quarter ended June 2019. Figure reflects Merchant Service Fees for each scheme, as reported in the data set.

Note: The data set reports average merchant service fees paid by merchants to acquiring institutions as a percentage of purchase value for the Mastercard, Visa, American Express, Diners Club and eftpos schemes, and as cents per transaction for the eftpos scheme. These fees are net of rebates and GST and include fees arising from general-purpose debit cards, credit cards and charge cards issued to individuals or businesses under the eftpos, Mastercard, Visa, American Express and Diners Club schemes. Merchant acquirers report merchant fee income that arises from domestic merchants from card transactions initiated by domestic and foreign cardholders. Merchant service fees reported in the data set include ad valorem or flat fees that relate to the value or number of transactions acquired.

As illustrated in **Figure 2.9**, Merchant Service Fees across most cards have been relatively stable since 2014. This was impacted in 2017 when the Reserve Bank of Australia capped interchange fees from 1 July 2017. The quarterly weighted-average interchange fees for debit and prepaid cards were capped at 8.0 cents per transaction and fees for individual interchange categories could not exceed 15.0 cents (if levied as a fixed amount) or 0.200% (if levied in percentage terms). The quarterly weighted average interchange fees for credit cards was capped at 0.500% of transaction value and a maximum interchange fee of 0.800% was set.[30]

In Australia, average Mastercard and Visa credit Merchant Service Fees were 0.85% in June 2019, compared to 0.84% in June 2018. Average Mastercard and Visa debit Merchant Service Fees were 0.45% in June 2019, compared to 0.47% in June 2018. Average eftpos Merchant Service Fees were 0.17% in June 2019, compared to 0.16% in June 2018.[31]

30) RBA, 2015-16 Review of Card Payments Regulation, Final Standards and Implementation. Note – Interchange categories are determined by scheme brand, regions or jurisdiction, the type of credit or debit card (for example, Commercial, Consumer, Premium), the type and size of the accepting merchant (for example, Charities, Petroleum), and the type of transaction (for example, contactless, recurring).

31) RBA, C3 Average Merchant Fees for Debit, Credit and Charge Cards, to quarter ended June 2019.

2.3.6 Payments competitive landscape

Payment providers can be differentiated by a number of factors, including product features, reliability, speed, security, branding, channel capabilities, pricing, vertical specialisation, value-adding services, data analytics and insights, integration, and hardware. We compete mainly using our core proprietary technology platform, regional and vertical focus, technology expertise, Point of Sale system integrations and our banking licence (refer to **Section 3.4**).

We categorise our competitors as follows:

- **major Australian banks**: the four major banks offer a range of consumer and business lending and deposit products alongside merchant acquiring, and in certain cases, payment facilitation. For these banks, payment services complement their banking products. As noted in **Figure 2.7**, the four major banks in Australia represented 71% of terminals provided by banks in the market at 30 June 2019. Outside of the four major banks, other banks such as Bendigo and Adelaide Bank and Suncorp-Metway also offer merchant acquiring solutions;
- **non-Australian technology-focused payment providers**: more recently, payments organisations have emerged in other markets with a focus on technology. These providers often have a strong eCommerce focus, sometimes integrated into their 'card-present' solutions, and may also focus on a particular market segment (for example, merchant size or vertical). Notable players in this category include Adyen, Square, Stripe and Shopify;
- **Australia and New Zealand-focused payment providers**: these participants usually build customised solutions with technology for verticals and seek to differentiate themselves through branding, an understanding of their local customer base, and the development of partnerships that address the needs of their local base. These payment providers may also act as payment facilitators, holding relationships with merchant acquirers. Examples include organisations such as Quest Payment Systems, Smartpay, Live eftpos and IntegraPay; and
- **global large-scale payment providers**: these participants supply merchant acquiring and processing globally, as well as in some instances issuing and providing core financial technology for other organisations. These payment providers include global merchant acquirers such as Worldpay (FIS), First Data (Fiserv), (Atos) Worldline, Wirecard and Global Payments. These companies participate at various stages of the value chain (refer to **Section 2.3.1**).

Recent notable developments in our competitive landscape include:

- **market entry of international payment providers**: in recent years, international payment providers have entered the Australian merchant acquiring or payment facilitation market, including: First Data, which began offering merchant acquiring services directly to merchants in 2015; Adyen, which opened its Sydney office in 2015 and expanded its acquiring capabilities into Australia in 2016; Wirecard, which announced its intention to purchase the customer portfolio of Citi's merchant acquiring business in 11 markets in Asia Pacific, including Australia, in 2017; and Square, which launched the Square Reader in Australia in 2016;
- **new terminal introduction by major banks**: notably, Australia and New Zealand Banking Group launched the Android-based BladePay terminal in 2016 (subsequently discontinued for new merchants), and Commonwealth Bank of Australia launched the Albert terminal in 2015; and
- **consolidation of large global payment providers**: there has been consolidation between larger organisations seeking economies of scale. For example, Fiserv's acquisition of First Data in 2019 and FIS' acquisition of Worldpay in 2019.

2.3.7 Payments competitive dynamics

Over the past decade, in a number of international markets, some banks have exited their direct merchant acquiring businesses. This has provided opportunities for regionally-focused specialist merchant acquirers and processors. These specialists often achieved scale through mergers, acquisitions and geographic expansion, either directly or by providing outsourcing solutions to other providers for various parts of the value chain.

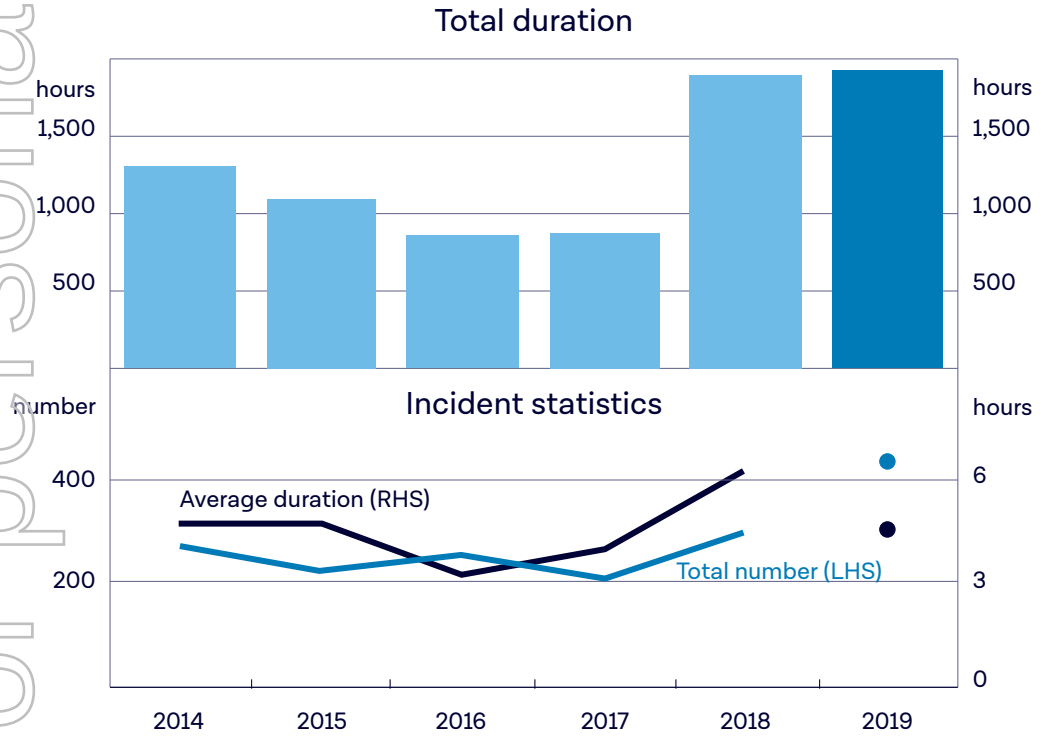
In Australia, however, the four major banks have retained their merchant acquiring businesses and account for the majority of the market (refer to **Figure 2.7**). These banks and other financial institutions may also rely upon a number of specialist organisations to supply various components of their merchant acquiring solutions.

There are a number of competitive dynamics in Australia which, where evident, may assist technology-focused payment providers that own an end-to-end core proprietary technology platform including:

- **end-of-life or end-of-support systems**: following a two-year industry review conducted by the Australian prudential regulator's technology risk team, the Chairman of APRA noted that the financial services institutions' IT systems have been subject to "*persistent underinvestment over a number of years*" and that "*The review found, for example, a number of instances of critical systems (applications and infrastructure) at end-of-life or end-of-support, without funded remediation plans in place.*"[32,33] Data collected by the Reserve Bank of Australia referred to by the Chairman of APRA also found that the total number and average duration of outages in retail payments rose sharply in 2018 (refer to **Figure 2.10**).[34] Card services accounted for around 10% of the incidents, with the most common reported cause of outages being software failures;

Figure 2.10 Outages in retail payments in Australia, 2014 – 2019

Outages reported by banks and other financial institutions that settle retail payments



Source: RBA, Payments System Board Annual Report 2019 – Retail Payments Regulation and Policy Issues.
Note: Reflects calendar year end. Observations for 2019 are annualised outcomes for the first half of the calendar year.

32) APRA, 'Peering into a cloudy future', Wayne Byres, Chairman – 2018 Curious Thinkers Conference, Sydney.
33) APRA, '*Technology that is end-of-life, out-of-support or in extended support is typically less secure by design, has a dated security model and can take longer (or may be unable to) effect change*, based on 'Peering into a cloudy future', Wayne Byres, Chairman – 2018 Curious Thinkers Conference, Sydney.
34) RBA, 'Modernising Australia's Payments System', Michele Bullock, Assistant Governor (Financial System) – Speech to the Central Bank Payments Conference, Berlin, 25 June 2019.

- **technological complexity through fragmentation of value chain**: certain processes and systems utilised by some banks for their merchant acquiring businesses are outsourced to third parties. The interplay between multiple systems and third party service providers can introduce technological complexity, increased points of potential failure and potential difficulties in introducing new features and functionality quickly (for example, if multiple large or global organisations need to cooperate in order to effect changes); and
- **some reliance on third parties for new functionality**: various elements of the merchant acquiring process have been outsourced by a number of banks in Australia, increasing the reliance on specialist suppliers to deploy new features and functions. In a number of cases, banks have outsourced to the same supplier, potentially receiving similar functionality at a similar time.

Changes in expectations about payments in the specific local environment have also provided opportunities for technology-enabled payments-focused businesses. For example:

- **importance of card payments**: as the share of card payments has overtaken other methods of paying (refer to **Section 2.3.5.1**), the awareness of and attention paid to the provision of these services have increased. Card payments are essential for many businesses in order to sell their goods and services and as a result, service expectations have risen;
- **regional specificity**: while merchant acquiring may appear to operate homogenously across the globe, there are a number of regional nuances that require specific technological capabilities, local knowledge and/or regionally-specific relationships. These may be the result of local schemes or payment methods (for example, eftpos), regulation (for example, 'chip and PIN' EMV standard and fee caps), distribution channels (for example, local Independent Sales Organisations or Point of Sale partners) or simply economic and market factors. These nuances can require offshore participants to adapt their existing offerings before competing effectively in specific regional markets;
- **alternative and multiple financial service providers**: with a proliferation of financial technology organisations and neobanks in many jurisdictions across the globe, the choices available to consumers and businesses for their financial services have increased. Consequently, businesses may consider financial service providers other than their main financial institution or 'pick and mix' more than one financial institution to provide them with financial services; and
- **pace of technological change in commerce**: changes in the payments and financial services landscape are being fuelled by technological advances. This can drive consumer expectations for more innovative functionality in the provision of financial services, leading to the need for payments organisations to enhance their experiences (including the need for commerce to be fast, reliable and simple).

2.4 Delivery of business banking products in Australia

2.4.1 Overview of business banking products

We currently offer two business banking products – an interest-bearing transaction account and a loan in the form of a merchant cash advance. These business banking products complement our core payments offering.

Businesses of all sizes in Australia use banking services regularly. From a lending perspective, businesses may be looking to manage liquidity or cash flow, acquire inventory, purchase other assets or further business development activities. Key lending products include credit cards, unsecured loans and overdrafts, secured term loans, lines of credit, asset finance and debtor finance.

From a deposits perspective, businesses may be looking for savings accounts to earn interest on balances, or transaction accounts that allow them to manage their business finances more effectively. Key deposit products include transaction accounts, savings accounts and term deposits.

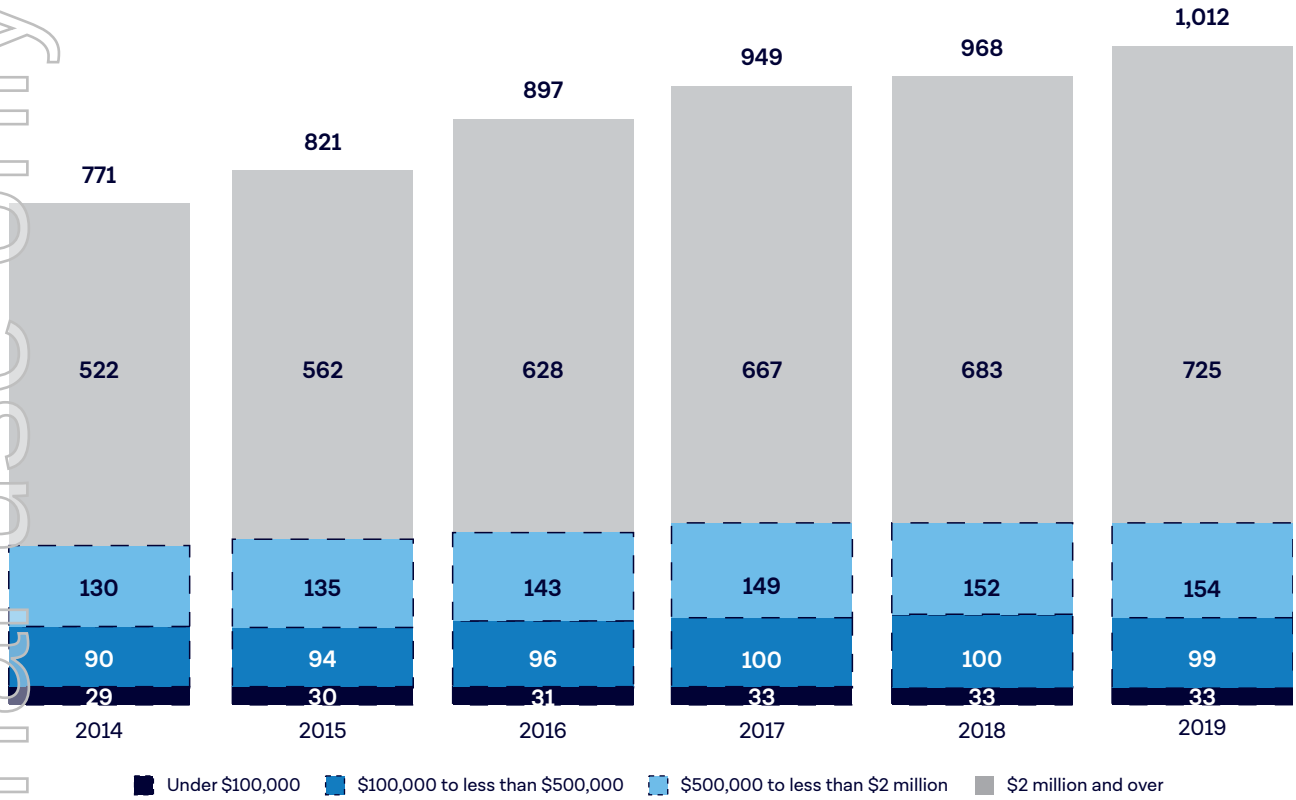
2.4.2 Size of the business lending market

The market for business loans in Australia is significant and growing. In Australia, the majority of loans are provided by authorised deposit-taking institutions, with the four major banks comprising 70% of all ADI originations.[35] For ADIs, the total amount of credit outstanding to businesses as at 30 June 2019 was $1.01 trillion, representing a CAGR of 5.6% from 30 June 2014. Of this, small business loans (as defined by loan sizes of less than $2 million) accounted for $286 billion in outstanding credit.[36]

35) Reflects ADI originations to non-financial corporations.

36) RBA, D7.3 Bank Lending to Business – Total credit outstanding by size and by sector, to 30 June 2019. Small business loans are represented here by loan sizes of less than $2 million.

Figure 2.11 Authorised deposit-taking institution business credit outstanding, by loan size, 2014 – 2019, ($ billion)



Source: RBA, D7.3 Bank Lending to Business – Total credit outstanding by size and by sector, to 30 June 2019. Small business loans are represented above by loan sizes of less than $2 million.
Note: Years ended 30 June.

However, the market size for credit from ADIs to businesses may underestimate the total potential market lending opportunity, particularly for small and early stage businesses, due to challenges these businesses may have experienced in accessing credit to date. The Reserve Bank of Australia has suggested that many smaller and early stage businesses struggle to gain access to finance from banks due to a lack of collateral or a perceived risk involved.[37] As such, many small businesses have turned to equity funding, or use personal loans and credit cards to fund their operations. It is estimated that the 'funding gap' for businesses with an annual turnover of up to $20 million in Australia is $90 billion.[38]

A number of alternative lenders, largely non-banks, have entered the market to service the small business segment and address this funding gap. However, the vast majority of the volume of business credit outstanding in Australia is still originated by banks.

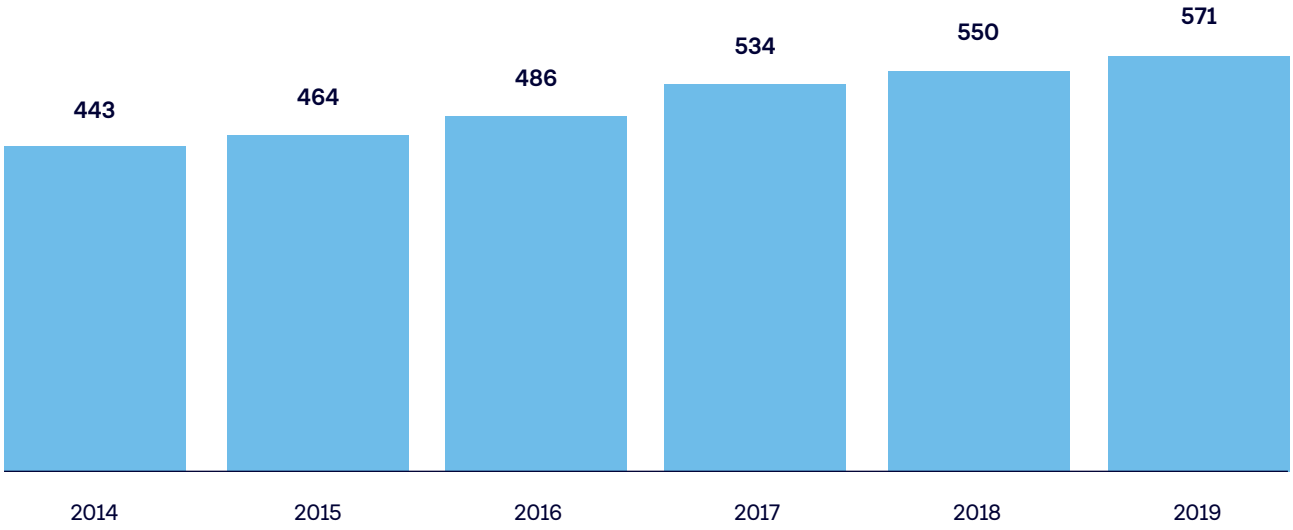
2.4.3 Size of the business deposits market

The total market for business deposits in Australia was $571 billion as at 30 June 2019 and is dominated by the four major banks, who collectively hold 77% of total business deposits in Australia.[39] All deposits in Australia are held by authorised deposit-taking institutions.[40]

While many business accounts incur fees, there are also a number of accounts that are fee-free. However, these accounts may offer lower or zero interest rates on deposits.

37) RBA, Access to Small Business Finance, September 2018.
38) East & Partners and Judo Bank, SME Banking Insights Annual Report, 2019.
39) Reflects ADI deposits to non-financial corporations.
40) APRA Monthly Authorised deposit-taking institution Statistics, as at 30 June 2019.

Figure 2.12 Authorised deposit-taking institution business deposits, 2014 – 2019, ($ billion)



Source: APRA Monthly authorised deposit-taking institution statistics, Back Series, as at 30 June 2019.

Note: Years ended 30 June. Figures are for deposits from non-financial corporations from cheque accounts and accounts with other payment methods, term deposits, notice of withdrawal, and savings and other accounts.

2.4.4 Business banking competitive landscape

Our business banking products compete with the offerings of a variety of participants. These competitors offer a range of deposit, secured and unsecured lending products and include:

- **traditional banks**: offer business customers a wide range of credit products such as credit cards, unsecured lending, overdrafts and secured lending products, along with a variety of deposit products. The traditional banks collectively provide the majority of credit lending to businesses in Australia. Residential or commercial property security is often sought by the traditional banks when lending to small and early stage businesses. When unsecured lending is offered, 12 to 24 months of financial statements are sometimes required in order to be assessed for the loan, which can restrict lending to early stage businesses;
- **neobanks**: include a variety of newer banking entrants (for example, Xinja and Volt) and provide banking services to customers, often exclusively through digital channels. Neobanks are sometimes seeking to displace primary banking relationships with the traditional banks. Services offered by neobanks often target consumers and may include a broad range of deposit, lending, and other ancillary banking products. In Australia, neobanks are relatively new to the market following authorised deposit-taking institution and restricted ADI licence grants by the Australian Prudential Regulation Authority since May 2018. We do not categorise ourselves as a neobank as our banking products are targeted offerings with the goal of complementing our core payments business, with our banking licence providing us direct access to the payments system;
- **alternative specialised non-bank lenders**: include organisations that focus on offering a range of lending products, such as secured and unsecured loans, to businesses. They often specialise in small business lending (for example, Prospa and OnDeck). These competitors do not offer deposit products as they are not authorised deposit-taking institutions. Many alternative and specialised non-bank lending competitors seek to offer an improved customer experience through technology-led innovation, such as simple application processes and fast approval timelines, achieved in part by implementing proprietary data-led credit risk models;
- **global payments businesses providing SME credit**: include a series of payments businesses (for example, PayPal and Square) that offer business lending products (such as merchant cash advances) as offerings that complement their core payments and business enablement software products. PayPal offers its Working Capital product to Australian merchants; however, Square Capital is not currently available in Australia; and
- **overseas SME lending specialists**: include international lenders who are not currently offering loans in Australia and focus on SMEs. These lenders seek to provide improved customer experiences through technology, innovative use of data for credit assessments, and in some cases offer white-label lending solutions to other businesses.

2. INDUSTRY OVERVIEW

2.5 Current regulatory environment

There are a number of laws, regulations and standards that apply to industry participants including the following:

2.5.1 Australian Securities and Investments Commission

ASIC is Australia's integrated corporate, markets, financial services and consumer credit regulator. ASIC is an independent Australian Government body. ASIC is empowered under the ASIC Act and regulates corporate conduct via that Act and other legislation/regulations including the Corporations Act. Under the ASIC Act, ASIC's main role and regulatory responsibilities include:

- maintaining, facilitating and improving the performance of the financial system and entities within it. This includes monitoring:
  - corporate conduct;
  - consumer protections and market integrity in the financial services sector; and
  - capital markets;
- working closely with the Australian Securities Exchange to ensure compliance with the Corporations Act and Market Integrity Rules. ASX is obliged to to notify ASIC of various matters, including suspected contraventions of relevant laws and rules;
- promoting confident and informed participation by investors and consumers in the financial system;
- administering the law effectively and with minimal procedural requirements;
- making information about companies and other bodies available to the public as soon as practicable; and
- engaging in regulatory action when necessary to enforce and give effect to relevant law.

Under these laws, ASIC has a number of enforcement powers. Some of these powers include:

- grant relief from provisions of the legislation that ASIC administers;
- make product intervention orders (refer to **Section 2.6.1**);
- investigate actual and suspected breaches of the law;
- compulsory information gathering powers including requiring the production of books or requiring individuals to answer questions at examinations;
- issue infringement notices for breaching certain laws;
- commence prosecutions or refer matters to the Commonwealth Director of Public Prosecutions;
- seek injunctions, declarations and/or seek civil penalties; and
- impose, suspend or cancel licenses and make banning orders. Licenses can also be varied by imposing additional license conditions or removing license authorisations.

ASIC issues Regulatory Guides that provide guidance including those relating to:

- how ASIC interprets legislation and when ASIC will exercise specific powers under legislation; and
- the underlying principles in relation to ASIC's approach.

ASIC has indicated its 2019 – 2020 strategic priorities include:

- high-deterrence enforcement action;
- prioritising the recommendations and referrals from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry;
- addressing harms in insurance;
- improving governance and accountability;
- protecting vulnerable consumers; and
- addressing poor financial advice outcomes.

2.5.2 Australian Financial Complaints Authority

The Australian Financial Complaints Authority scheme commenced on 1 November 2018. As a customer complaint body, AFCA offers an independent dispute resolution service for financial services complaints from small businesses and consumers. AFCA replaces the Financial Ombudsman Service and the Credit and Investments Ombudsman, as well as the Superannuation Complaints Tribunal. We are a member of AFCA.

2.5.3 Corporations Act

Key areas in the Corporations Act that apply to industry participants include:

- **Australian financial services licence**: many participants in the financial services industry operate under an Australian financial services licence (**AFSL**) granted by the Australian Securities and Investment Commission. We are required to and hold an AFSL as we provide financial services (refer to **Section 3.3.2**). Central to the regulation is the concept of a financial product. The term is defined very broadly to cover facilities through which or through the acquisition of which a person can make a financial investment, manage financial risk or make non-cash payments. The licence requires such participants, among other things, to comply with obligations relating to reporting, governance and disclosures that must be made to clients and/or the regulators. If our business activities change, or laws or regulations change, our obligations may change and we may be required to reassess the coverage of the AFSL; and
- **financial product disclosure**: certain disclosures are required under the Corporations Act, including those in relation to providing or offering financial products. We are not required to prepare any product disclosure statements (as defined in Chapter 7 of the Corporations Act) in connection with our current business.

2.5.4 Banking Act

Under the Banking Act, a body corporate must not carry on banking business in Australia unless the Australian Prudential Regulation Authority has granted an authority to carry on that business. Banking business includes a mixture of deposit taking and lending. Once approved by APRA as an authorised deposit-taking institution, the entity is subject to APRA's prudential requirements and ongoing supervision. As an ADI, we are subject to the Banking Act, which, among other things:

- imposes obligations relating to the remuneration and accountability of senior executives and directors under the Banking Executive Accountability Regime (**BEAR**). The BEAR also establishes, among other things, deferred remuneration, key personnel and notification obligations for ADIs. The BEAR is administered by APRA;
- imposes obligations in relation to the sale or disposal of an ADI's business, or a general reconstruction of an ADI; and
- empowers APRA to make and vary prudential standards to be complied with by ADIs, and monitor prudential matters and compliance with those standards (refer to **Section 2.5.7**).

2.5.5 Anti-money laundering and counter-terrorism financing

The Australian Transaction Reports and Analysis Centre monitors businesses, relevantly with an Australian geographical link, that offer 'designated services' as defined in the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Cth). When a business provides 'designated services', that entity is referred to as a 'reporting entity' and is subject to legislative and regulatory obligations under the AML/CTF Act and AML/CTF Rules. As we provide 'designated services', we are a reporting entity under the AML/CTF Act.

Key AML/CTF Act obligations include:

- **existence of and compliance with an AML/CTF program**: we are required have in place and regularly review our AML/CTF program. It is informed by an AML/CTF risk assessment and is endorsed by the reporting entity's board;
- **applicable customer identification procedures including Know Your Customer conventions**: adequately identifying and verifying the identity of customers before providing a 'designated service' to the customer;
- **ongoing customer due diligence**: monitoring customers and their transactions throughout the customer's lifecycle with the reporting entity;
- **appointment of an AML/CTF compliance officer**: the designation of a person at the management level within the reporting entity as the AML/CTF compliance officer, responsible for managing compliance with the AML/CTF obligations;
- **compliance reports**: submitting an annual compliance report to AUSTRAC; and
- **reporting obligations**: reporting to AUSTRAC, including where suspicious activity has been identified. These are known as suspicious matter reports.

We also have obligations under separate sanction legislation (being the Autonomous Sanctions Act 2011 (Cth), the Autonomous Sanctions Regulations 2011 (Cth) and the Charter of the United Nations Act 1945 (Cth) and associated regulations) to ensure that sanction obligations are met in relation to our business. Under the Australian legislation, sanctions measures may include general prohibitions on:

- making a 'sanctioned supply' of 'export sanctioned goods';
- making a 'sanctioned import' of 'import sanctioned goods';

- providing a 'sanctioned service';
- engaging in a 'sanctioned commercial activity';
- dealing with a 'designated person or entity';
- using or dealing with a 'controlled asset'; or
- the entry into or transit through Australia of a 'designated person' or a 'declared person'.

The Department of Foreign Affairs and Trade maintains a consolidated list of all persons and entities designated for the purposes of sanctions regimes implemented under Australian sanction laws.

Australian sanctions laws establish criminal offences for contravening a sanctions measure.

2.5.6 Privacy Act

The Privacy Act 1988 (Cth) imposes obligations with respect to credit reporting and the collection, storage, use and disclosure of personal information. Obligations that are relevant to industry participants include:

- complying with the Australian Privacy Principles;
- having a privacy policy as well as implementing practices, procedures and systems to mitigate privacy risk;
- collecting, using, disclosing, managing and dealing with personal and sensitive information in line with the Privacy Act;
- particular obligations relating to credit reporting and other credit implications;
- taking reasonable steps to protect personal information from misuse, loss, unauthorised access, modification or disclosure. We regularly review the security and reliability of our services; and
- ensuring procedures are in place for responding to data breaches under the notifiable data breaches scheme.

2.5.7 Australian Prudential Regulation Authority

We were granted an authorised deposit-taking institution licence in August 2015. Accordingly, we are subject to various prudential and reporting standards, including minimum capital requirements, governance standards, liquidity, risk management, audit, information security, Financial Claims Scheme, Fit and Proper, large exposures, outsourcing, and reporting requirements. We are subject to ongoing supervision by APRA. Under the Banking Act 1959 (Cth), APRA has investigative powers, can disqualify certain senior executives and directors, can issue directions (including to comply with the Banking Act) for any conduct that may cause instability in the Australian financial system, or impose licence conditions. Enforcement action can result in:

- administrative action (including revoking an authorisation, registration or licence);
- civil penalties; and
- criminal penalties.

APRA's prudential standards are aimed at maintaining the safety and solvency of institutions that APRA regulates. They set out certain capital, governance and risk management requirements, covering matters such as:

- **capital adequacy**: these standards aim to ensure that a regulated institution maintains sufficient capital to act as a buffer against the risks associated with its activities;
- **outsourcing**: these standards aim to ensure that all outsourcing arrangements involving material business activities entered into by a regulated institution are subject to appropriate due diligence, approval and ongoing monitoring;
- **risk management**: these standards aim to ensure regulated institutions implement proper measures to monitor and control the risks associated with their business activities;
- **business continuity management**: this standard requires regulated institutions to identify risks to business continuity and to develop a business continuity plan;
- **governance**: these standards set out APRA's minimum requirements for good governance of regulated institutions; and
- **Fit and Proper**: this standard sets out the steps that regulated institutions must take to ensure that the institution's responsible persons are fit and proper persons to hold their positions.

APS 330 details the market disclosure requirements for Australian domiciled banks. APS 330 requires us to disclose the main features of our capital instruments, prescribed capital adequacy metrics credit risk and securitisation exposures (if applicable). These disclosures are required to be published by us on our corporate website within 40 business days of the semi-annual reporting date.

2.5.8 Financial Sector (Collection of Data) Act

The Financial Sector (Collection of Data) Act 2001 (Cth) confers power on APRA to determine, by writing, reporting standards in respect of 'reporting documents' that must be complied with by financial sector entities, including authorised deposit-taking institutions. Reporting documents are any of the following:

- statements, reports, returns, certificates or other documents containing information of a financial or accounting nature relating to the business or activities of the entities; and
- surveys, reports, returns, certificates or other documents containing other information relating to the business or activities of the entities.

The reporting standards may include matters relating to:

- the forms of, and information contained in, reporting documents;
- the auditing of reporting documents;
- the persons who are to sign reporting documents;
- the times as at which, or the periods to which, the information in reporting documents is to relate;
- the giving of reporting documents to APRA, and the specifying of, or the authorising of APRA to specify, the times before which, or the periods within which, those documents are to be so given; and
- the discretion of APRA, in particular cases, to vary reporting standards, including the discretion to vary any times or periods specified in or under the standards.

2.5.9 Australian Payments Network

Australian Payments Network Limited (formerly the Australian Payments Clearing Association) is a self-regulated body set up by industry participants, with rules that cover cards, cheques, direct entry and high value payments. It has a self-maintained set of policies and standards that members must abide by. It helps members improve the safety, convenience, efficiency, equity and reliability of payments systems in Australia. We are one of over 100 participant members of AusPayNet, which includes Australian banks, building societies, credit unions, major retailers and other service providers.

2.5.10 Schemes

Schemes set the rules and technical standards in relation to their networks, including for the acquiring of transactions. We have gained memberships and licences to multiple schemes and have processes in place to adhere to the various scheme rules and compliance obligations (refer to **Sections 3.4.4** and **3.9.3.6**).

2.5.11 Financial Sector (Shareholdings) Act

As an authorised deposit-taking institution, we are subject to the Financial Sector (Shareholdings) Act 1998 (Cth) which imposes limits on shareholdings in ADIs. In order to possess a stake above 20%, the Federal Treasurer must approve an application under sections 13 and 14 of the FSSA. Breaches for stakes of more than 20% could result in pecuniary penalties. Further, upon application by the Federal Treasurer, the Federal Court can dispose of the shares of the offending person.

2.5.12 ACCC and ASIC's debt collection guideline

Collection activities must adhere to the requirements of the Privacy Act regarding the handling of a customer's personal and credit information as well as other consumer protection laws such as the ASIC Act and Australian Consumer Law. There is also Regulatory Guide 96 Debt collection guideline, jointly developed by the Australian Competition and Consumer Commission and Australian Securities and Investments Commission, which provides guidance on what should and should not be done to minimise the risk of breaching Commonwealth consumer protection laws that may apply when undertaking debt collection activities.

2. INDUSTRY OVERVIEW

2.6 Key recent developments

There has been recent regulatory reform and other activity in Australia focused on the payments, lending and deposit industries, and banking more generally. There are a number of pending changes and reforms at different stages of development. The following identifies a number of key developments relevant to the industry participants:

2.6.1 Regulators and external dispute resolution (EDR) scheme

The key regulators and EDR scheme that are relevant to our business include ASIC, APRA and AFCA.

- **Australian Securities and Investments Commission**: effective in April 2019, ASIC gained powers to intervene and issue product intervention orders. A product intervention order can require (among other things) the suspension of sale of a product where ASIC determines that a financial product may result in significant detriment to consumers. Products we offer are subject to ASIC's product intervention powers. The same legislation which introduced ASIC's product intervention powers also introduced new design and distribution obligations for issuers and distributors of financial products including credit facilities. These new obligations, set out in the Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Act 2019, will apply from 5 April 2021.

  ASIC recently clarified its approach to litigation as a component of its enforcement strategies, such that if it is satisfied that breaches of the law are more likely than not to have occurred, and the facts of a case show pursuing the matter would be in the public interest, it will ask '*Why not litigate*?'. ASIC has noted that the approach does not suggest it will take every matter to court as the default option, or that it will pursue litigation where it would be inappropriate or not in the public interest to do so. ASIC has said that it will, in asking itself '*Why not litigate*?', consider a number of key factors including its model litigant obligations and the likelihood of achieving regulatory outcomes. However, ASIC has stated that it expects that its level of court-based enforcement action will increase against providers of financial services and products to consumers;

- **Australian Prudential Regulation Authority**: on 15 April 2019, APRA published its updated enforcement approach, indicating that '*APRA could achieve better outcomes in the future by taking stronger action earlier where entities were not cooperative or open, and by being more willing to set public examples*'.[41] Since adopting its new approach, APRA has demonstrated stronger enforcement actions such as issuing formal directions and imposing licence conditions on two superannuation licencees, and applying additional capital requirements on three major banks and one insurer in response to risk governance shortcomings; and

- **Australian Financial Complaints Authority**: AFCA commenced operation in November 2018. AFCA is focused on customer fairness and, since its establishment, has received an increased number of complaints involving the financial services sector. AFCA has jurisdiction to hear disputes between credit providers, financial service entities and their customers. When determining complaints, AFCA must do what is fair in all circumstances, having regard to legal principles, applicable industry codes or guidance, previous relevant determinations and good industry practice (as determined by AFCA). This means that AFCA may make an adverse finding against a member even if the member has complied with all legal requirements, where AFCA determines that good industry practice, or general considerations of fairness, would require another outcome.

  If AFCA determines that an individual dispute(s) raises, or several disputes raise, or it identifies from information obtained by it, a matter that may affect other customers, it may classify the matter as a 'systemic' issue and refer the issue to ASIC (and other appropriate bodies such as APRA, the Commissioner of Taxation or the Office of the Australian Information Commissioner). AFCA may also require the entity to do or refrain from doing any act that AFCA considers reasonably necessary to, among other things, prevent or remedy loss or disadvantage suffered by consumers or small business. It may also give directions regarding remediation in respect of its findings.

2.6.2 Royal Commission

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry was established in December 2017 to investigate misconduct in the banking, superannuation and financial services industry in Australia. The Commissioner's final report was published in February 2019, along with the Australian Government's response to the inquiry's recommendations. The report included 76 recommendations (including changes to the role and power of the sector's regulators) and 24 referrals for potentially criminal conduct. The scope of the report covered multiple financial services and, as such, has impacted many banks as they look to address the implications of the report.

41) APRA, "APRA releases new Enforcement Approach", as at 15 April 2019.

The Australian Government has committed to take action on the Royal Commission. It has implemented or commenced implementation action in relation to a number of the recommendations directed to it and released an Implementation Roadmap in August 2019 indicating indicative timelines for the implementation of recommendations and additional commitments.

Of relevance to us (refer to **Section 3.3.2.2**) were recommendations related to SME lending, which include:

- expansion of the definition of a small business to include any business with less than 100 full-time equivalent employees where the loan applied for is below $5 million;
- no extension of consumer credit laws (National Consumer Protection Act 2009 (Cth)) to cover small businesses; and
- no changes to existing guarantor laws in relation to owners or directors of small businesses.

2.6.3 Consumer Data Right and Open Banking

Following a review into Open Banking in 2017, the Australian Government decided to legislate a Consumer Data Right across multiple industries. This will provide consumers with greater control over their data and their right to share it with authorised trusted recipients, initially in the banking industry, but then also potentially in the energy and telecommunications industries.

The CDR aims to improve the ability to compare and switch between products and services by mandating companies to share product and customer data with accredited third parties at a customer's request, such that those third parties can use the data to provide products and services back to those customers. The aim of the CDR is to encourage competition between service providers and reduce barriers to entry, leading to better customer outcomes and increased innovation.

The Treasury Laws Amendment (Consumer Data Right) Bill 2019 was introduced to Parliament in February 2019, but lapsed at dissolution in April 2019. The subsequent submission of the Bill in July 2019 was passed in August 2019. The CDR's application in the banking sector, more commonly referred to as Open Banking, is expected to improve transparency of product and service options across the industry, reduce barriers for new entrants, and facilitate customer choice between an increased set of financial service providers.

Under the Open Banking regime, customers should have improved access to their own data in a usable form and be able to direct its secure transfer to a person accredited under the Competition and Consumer Act 2010 (**accredited person**). This is intended to support the development of better and more convenient products and services tailored to individual needs.

Open Banking is being introduced in stages. An amended phased implementation timeline has been adopted, and the timeline published by Treasury as at 15 November 2019 includes:

- 1 July 2019: three of the four major Australian banks voluntarily provided access to product data for credit and debit cards, deposit accounts and transaction accounts. Other banks are able to make this information available if they wish. The four major Australian banks will be required to make this information available one month after the standards are made;
- not later than February 2020: the four major Australian banks will be required to give access to consumer, account and transaction data for credit and debit cards, deposit accounts and transaction accounts; and
- from February 2020 and in a staggered manner, the four major Australian banks will be required to:
  - give access to product data for mortgages;
  - give access to consumer, account and transaction data for mortgage accounts;
  - give access to product data for other accounts; and
  - give access to consumer, account and transaction data for other accounts; and
  - for all other banks, all stages follow 12 months after the four major Australian banks.

As an ADI, we fall under the purview of this legislation and are working towards ensuring that we meet compliance within the deadlines.

2.6.4 ASIC review into unfair contract terms for small businesses

In November 2016, section 23 of the Competition and Consumer Act 2010 (Cth) and its equivalent, section 12BF of the Australian Securities and Investments Commission Act 2001 (Cth), were expanded to provide protection to small businesses from unfair terms in standard form contracts, including those relating to financial products and financial services. This reform was relevant to our terms and conditions, in respect of our payments, deposit and lending products. If terms are found to be unfair, they are void and cannot be relied upon.

As part of a broad industry-wide review, ASIC has been reviewing standard form small business lending contracts. As part of that review, ASIC issued Report 565 *Unfair contract terms and small business loans* in March 2018, which outlined the changes that the four major banks had made to their small business loan contracts, to reduce the risk of non-compliance with the unfair contract terms law. Refer to **Section 5.2.12** for a discussion of these matters as they relate to us.

2.6.5 CPS 234 Information Security

A new mandatory prudential standard CPS 234 *Information Security* commenced on 1 July 2019 (or in the case of information assets managed by a third party, the earlier of the next renewal date of the contract and 1 July 2020). CPS 234 aims to ensure that an APRA-regulated entity takes measures to be resilient against information security incidents (including cyber-attacks) by maintaining an information security capability commensurate with information security vulnerabilities and threats. See **Section 5.2.18**.

2.6.6 Productivity Commission Inquiry Report on competition in the Australian financial system

The Productivity Commission Inquiry Report *Competition in the Australian Financial System* was handed to the Australian Government on 29 June 2018 and tabled on 3 August 2018. In the report, the Commission criticised the lack of competition in the Australian financial services market and made recommendations including:

- banning interchange fees and investigating whether regulation of Merchant Service Fees is necessary;
- mandating least-cost routing;
- adjusting risk weightings applied to SME lending not secured residentially;
- designating a 'Competition Champion' among financial regulators (recommending that the ACCC becomes a permanent member of the Council of Financial Regulators); and
- the ACCC undertaking five-yearly market studies on the effect of vertical and horizontal integration on competition in the financial system.

The report also highlights that improved access to data under Open Banking may erode the informational advantage of the larger, more traditional banking institutions.

2.6.7 New Payments Platform

Launched in February 2018, the New Payments Platform facilitates real-time payments in Australia. Specifically, it enables instant settlement of financial transfers between customers, assuming both of their financial institutions are connected to the NPP. The NPP enables a range of additional functionality, such as simple addressing ('PayID') and the ability to affix more detailed description text to each transaction. The NPP has been designed in a manner that will allow for continuing development of new features and services (known as overlays).

The NPP is maintained by NPP Australia Limited, which is mutually owned by 13 participating financial institutions, including the four major banks and the Reserve Bank of Australia. Authorised deposit-taking institutions can connect directly to the NPP. As at 28 October 2019, approximately 85 Australian financial institutions have connected to the NPP (either directly or indirectly).

We are not connected to the NPP as it is not currently an imperative for our business; however, we continue to assess merchant demand for real-time funds transfer, which the NPP would facilitate, relative to other planned features.

2.6.8 Reserve Bank of Australia quinquennial review of cards regulatory framework (planned for 2020)[42]

The Reserve Bank of Australia has noted that it will be conducting a comprehensive review of the cards regulatory framework in early 2020. The RBA has generally undertaken comprehensive reviews of its regulatory framework for card payments around every five years, guided by its board's mandate to promote competition and efficiency in the payments system. This review is expected to look at how the RBA's standards have been working in practice and will consider a range of issues raised by stakeholders. The RBA has noted that the review may include:

- the level of the interchange fee benchmarks and caps;
- the transparency of scheme and processing fees;
- competition in the debit card market;
- the competitive balance between three and four-party card schemes; and
- the 'no surcharge' rules of 'buy-now, pay-later' services.

The RBA intends to publish an issues paper for the review in early 2020 and undertake a consultation process with stakeholders. We expect to participate in this consultation process.

42) RBA, Payments System Board Annual Report 2019 – Retail Payments Regulation and Policy Issues.

Company overview

3. COMPANY OVERVIEW

3.1 Overview

3.1.1 About Tyro

We are a technology-focused and values-driven company providing Australian businesses with payment solutions and complementary business banking products.

Our mission is to eliminate friction through payments and banking solutions that:

- businesses trust;
- partners advocate;
- employees are proud of; and
- our community backs.

Our vision is to be Australia's:

- fastest growing;
- most loved and trusted; and
- sustainable

payments and business banking partner.

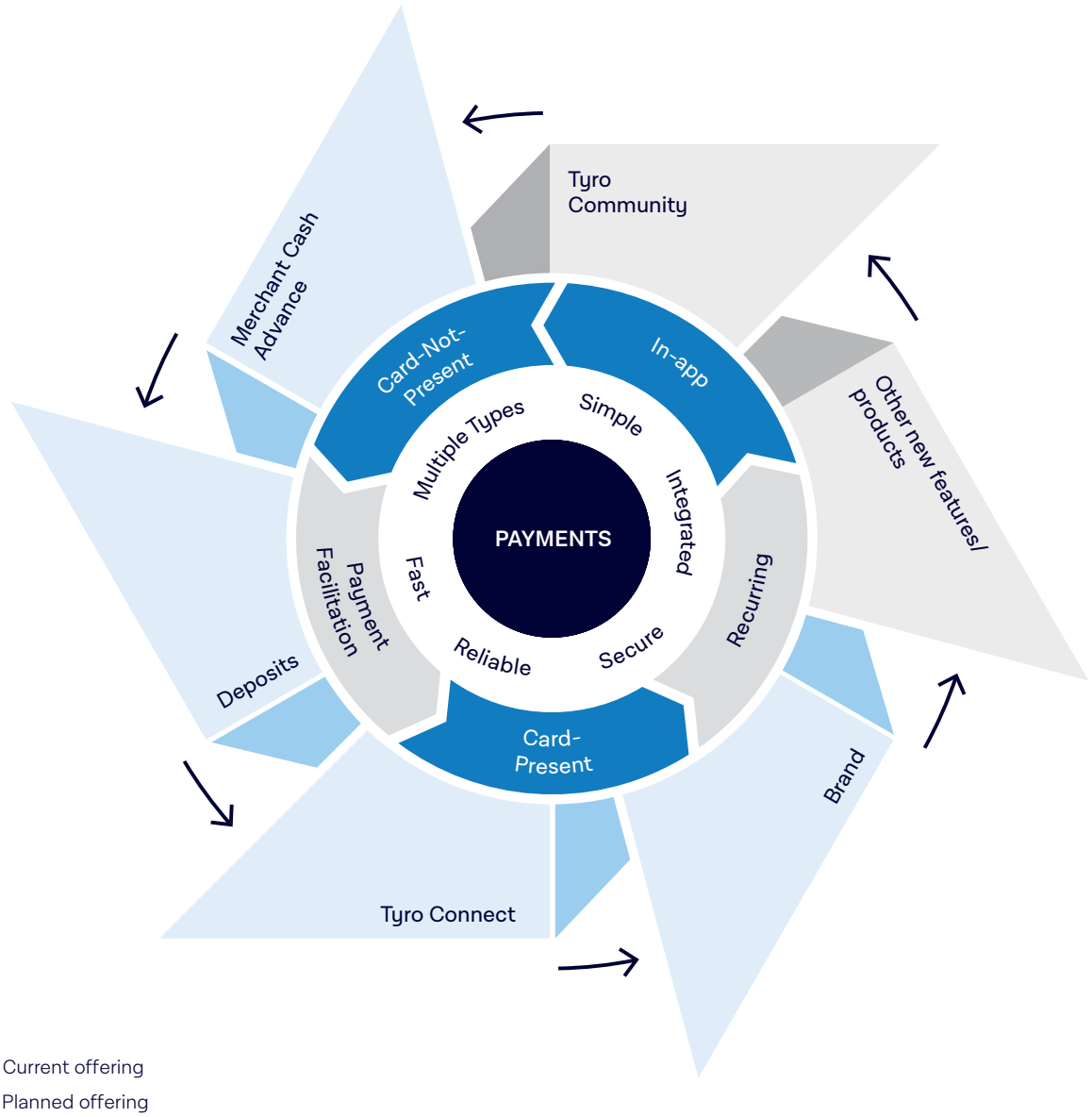
We are Australia's fifth largest merchant acquiring bank by number of terminals. We operate in the Australian card payments market which exceeded $650 billion in annual transaction value acquired in FY19. In FY19, we processed $17.5 billion in payments for more than 29,000 Australian merchants. We generated $189.8 million in revenue and income from all of our business segments. We also offer complementary banking services to our merchants. In FY19, our loan originations totalled $52.2 million and our deposit balances totalled $26.9 million as at 30 June 2019.

Our products are characterised by simplicity, flexibility and reliability. We strive to provide a better alternative to the traditional bank incumbents and pride ourselves on our different approach and heritage, including:

- our long and successful track record, having established our operation 16 years ago, building deep payments knowledge and expertise;
- establishing a payments and banking solution purpose-built for Australian business, particularly in the small and medium-sized enterprise segment;
- leveraging direct access to the payments system by virtue of our Australian banking licence (authorised deposit-taking institution licence);
- our ability to reduce friction experienced by businesses in payments and banking as a tech-driven enterprise with approximately half of our team in technology roles;
- being an innovative challenger in the Australian financial services landscape, delivering many industry 'firsts' along the way (refer to **Figure 3.5**); and
- remaining niche and nimble with a payments centricity – designing banking and other value-adding services around our payments core – as represented by our ecosystem 'flywheel' (refer to **Figure 3.1**).

We believe that our capabilities and business model position us well to stay true to our purpose of setting businesses free to get on with business by simplifying payments and banking solutions.

Figure 3.1 Our ecosystem



Creating an ecosystem centred around payments, enhanced by value-adding features and products designed to attract new merchants and retain existing merchants.

All with the view of setting businesses free to get on with business by simplifying payments and banking solutions.

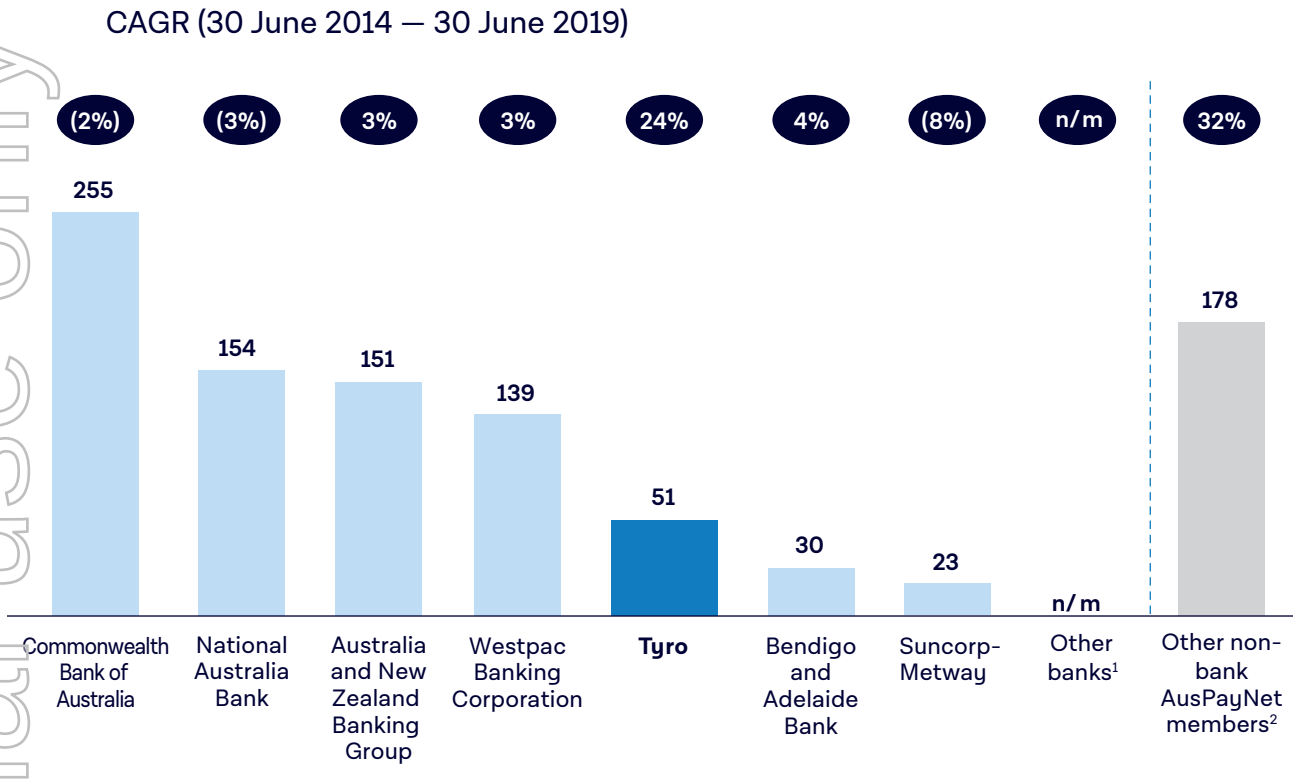
Current offering:

- Payments are at our core.
- Our focus is on enabling simple, integrated, secure, reliable and fast payment acceptance for merchants, across multiple payment types.
- We primarily operate in the 'card-present' payments space, but have recently launched eCommerce and in-app solutions to enhance our 'card-not-present' capability (refer to **Table 3.1**).
- Innovations include our least-cost routing feature and our integrated Alipay offering (refer to **Table 3.1**).
- Complementary banking solutions, including a loan in the form of a merchant cash advance and a deposit account, as value-adding solutions for our merchants and a drawcard for prospective merchants.

Planned offering:

- New products and features, such as our API platform (Tyro Connect), payment facilitation, recurring payments and a community charity initiative.

Figure 3.2 Number of terminals by banks and other providers in Australia, as at 30 June 2019, ('000)



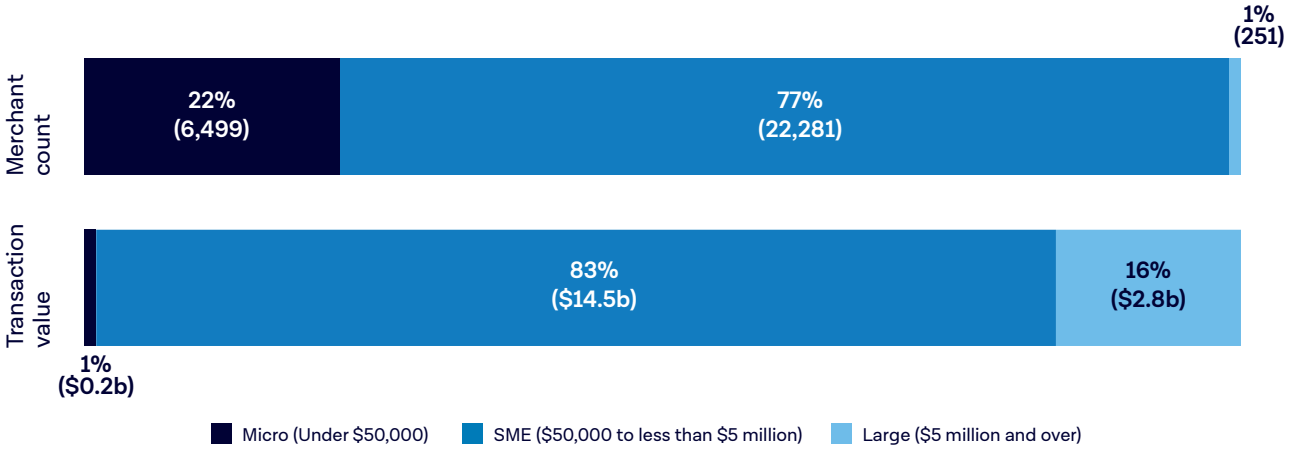
Source: APRA, Authorised deposit-taking institutions points of presence statistics, 30 June 2019; AusPayNet, Device Statistics EFTPOS Statistics, 30 June 2019.

Note: Other providers (labelled 'Other non-bank AusPayNet members') include terminals of other providers who are members of the Australian Payments Network (for example, Adyen and First Data), a self-regulated body set up by industry participants, with rules that cover cards, cheques, direct entry, and high value payments (refer to **Section 2.5.9**). Does not include non-bank payment providers who are not members of the Australian Payments Network (for example, Square). Discrepancies between totals and the sum of components shown in the figure above are due to rounding.

1. Not material. No other bank reported by APRA had terminal numbers exceeding 127 terminals (being the Regional Australia Bank) at 30 June 2019.
2. Calculated by taking the total number of terminals reported in market by AusPayNet (Device Statistics – EFTPOS Statistics, 30 June 2019 – (refer also to **Figure 2.6** in **Section 2.3.4**) and subtracting the sum of terminals provided by all domestic banks as reported by APRA in the above source. We estimate that this number reflects the following changes since 30 June 2018: Bank of Queensland merchant acquiring services are provided by First Data (10,643 terminals); Wirecard operates the customer portfolio of Citi's merchant acquiring business in 11 markets in Asia Pacific, including Australia (3,566 terminals); and Smartpay (a non-bank payment provider) having gained its own acquiring capabilities in Australia (where it previously used Bendigo and Adelaide Bank for acquiring services).

Our core customers are Australian SMEs, who we define as businesses that transact between $50,000 and $5 million with us annually. We also successfully serve micro (transacting less than $50,000 annually) and large (transacting more than $5 million annually) merchants outside of this range, where we believe that our products and capabilities can efficiently meet their needs.

Figure 3.3 Merchant count and annual transaction value by size, as at 30 June 2019

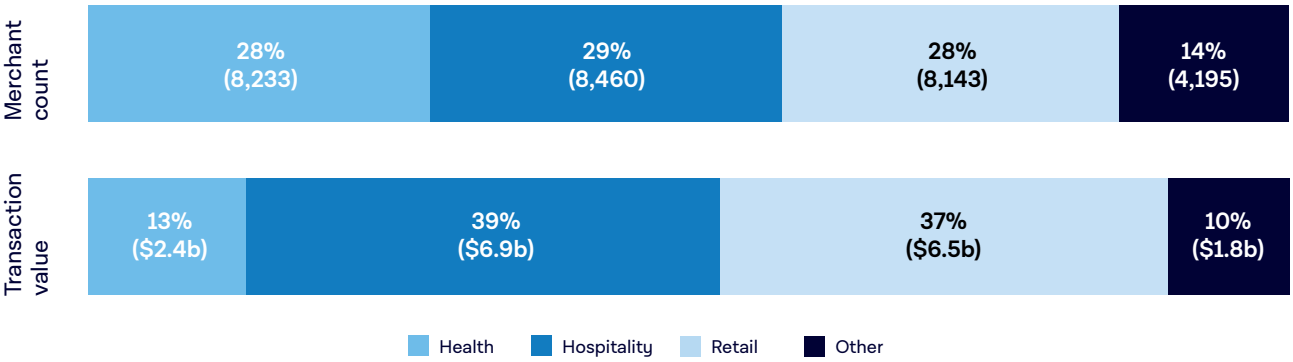


Note: Discrepancies between totals and the sum of components shown in the figure above are due to rounding.

The majority of our transaction value is generated from our core of SME merchants – 83% in FY19. However, our large merchants also contribute significantly toward our overall transaction value – in FY19, our 251 large merchants (approximately 1% of our merchant base) contributed 16% of our annual transaction value (refer to **Figure 3.3**).

We primarily focus on merchants in the Health, Hospitality and Retail verticals, where we have developed significant expertise and bespoke vertical-specific solutions over many years (refer to **Section 3.4.3**). Outside of these core verticals, part of our growth strategy is to expand into the Accommodation and Services verticals (refer to **Section 3.11.2**).[1]

Figure 3.4 Merchant count and annual transaction value by vertical, as at 30 June 2019



Note: Discrepancies between totals and the sum of components shown in the figure above are due to rounding.

1) The count of our merchants by vertical is based on information collected from the merchant at the time of application. Verticals are identified by industry standard Merchant Category Codes, which have been mapped to ABS ANZSIC Industry Classes per our internal classification. Examples of Health merchants include doctors, physicians, health practitioners, medical services, opticians, dentists and orthodontists. Examples of Hospitality merchants include bars, lounges and fast food restaurants. Examples of Retail merchants include book stores, florists, cosmetic stores and household appliance stores. Examples of Accommodation merchants include trailer parks and campgrounds and lodging. Examples of Services merchants includes carpentry, accounting, auditing and bookkeeping services.

3. COMPANY OVERVIEW

3.1.2 Key milestones and achievements

Some of our key milestones and achievements are referred to in **Figure 3.5** and **Figure 3.6**.

Figure 3.5 Our history of innovation and creating purpose-built solutions

	KEY MILESTONE		MERCHANTS (#) at 30 June	TRANSACTION VALUE at 30 June
	2003	Founded as MoneySwitch with a vision to be the most efficient acquirer of electronic payments in Australia	0	$0
	2005	First technology company to obtain an Australian specialist credit card institution licence	0	$0
	2006	First transaction in production made	0	$0
	2007	Launched an internet-based or 'cloud' integrated payments solution	145	$6m
	2009	First to launch integrated Medicare Easyclaim rebates on a terminal	1,431	$511m
	2010	Launched non-stop 'live-live' acquiring	2,991	$1.3b
	2011	Launched integrated mobile terminal payment solution	4,520	$2.0b
	2015	Became the first new domestic banking licensee in over a decade and raised $100m equity	13,032	$6.8b
	2016	Completed the development of and soft launched the Tyro Business Loan, following the launch of the Tyro Bank Account in 2015	15,565	$8.6b
	2018	First Australian bank to launch least-cost routing and an integrated Alipay solution	23,245	$13.4b
	2019	Rebrand reflecting expansion beyond payments into complementary value-adding offerings	29,031	$17.5b

Figure 3.6 A selection of our awards

3.2 Business and revenue model

3.2.1 Business model

We generate revenue from our merchants by enabling them to accept payments and providing them with loans in the form of merchant cash advances. We also offer fee-free interest-bearing transaction accounts to businesses.

In payments, we reduce friction for merchants in a variety of ways, including by simplifying the setup process, reducing processing times, reducing data entry errors, streamlining daily reconciliation, enhancing transaction security, and providing online access to near real-time transaction reporting (refer to **Table 3.1**).

3. COMPANY OVERVIEW

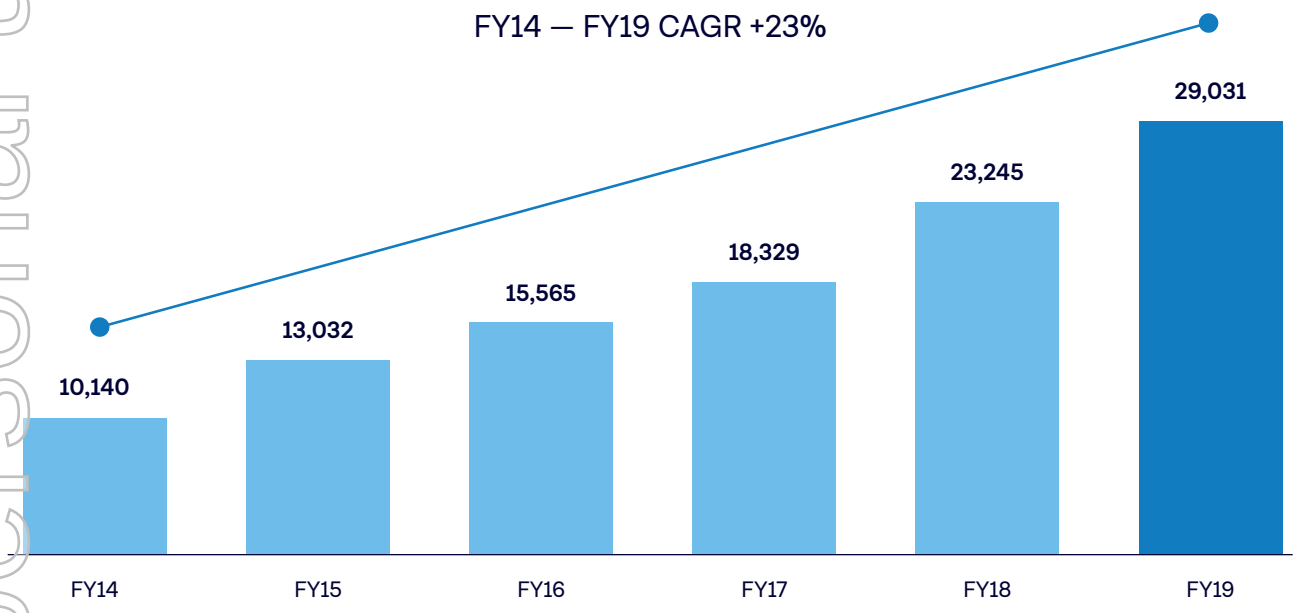
Our merchant-focused solutions include:

- allowing our merchants to accept multiple payment types;
- an eCommerce solution that makes it easy for merchants launching online to take payments, and provides unified payments for merchants with an existing online and in-store presence (i.e. providing single-settlement and reporting across 'card-present' and 'card-not-present');
- being the first bank to offer a least-cost routing feature (Tap & Save), which allows merchants to save money by processing eligible contactless multi-network debit card payments through the scheme that costs the merchant the least (refer to **Section 2.3.5.3**); and
- a fully integrated Alipay payments solution that provides our merchants with an opportunity to access the significant number of Chinese tourists visiting Australia each year.

As at 30 June 2019, more than 29,000 Australian merchants trusted us with their payments requirements – reflecting a 25% increase on FY18 and outpacing our five-year CAGR of 23%.

We grow our merchant base by enabling businesses to switch from their current payment provider and offering services to merchants that have recently established their businesses. A focus on retention supports our merchant base, as does offering value-adding services (refer to **Section 3.5** on merchant acquisition and **Section 3.6.3** on merchant retention).

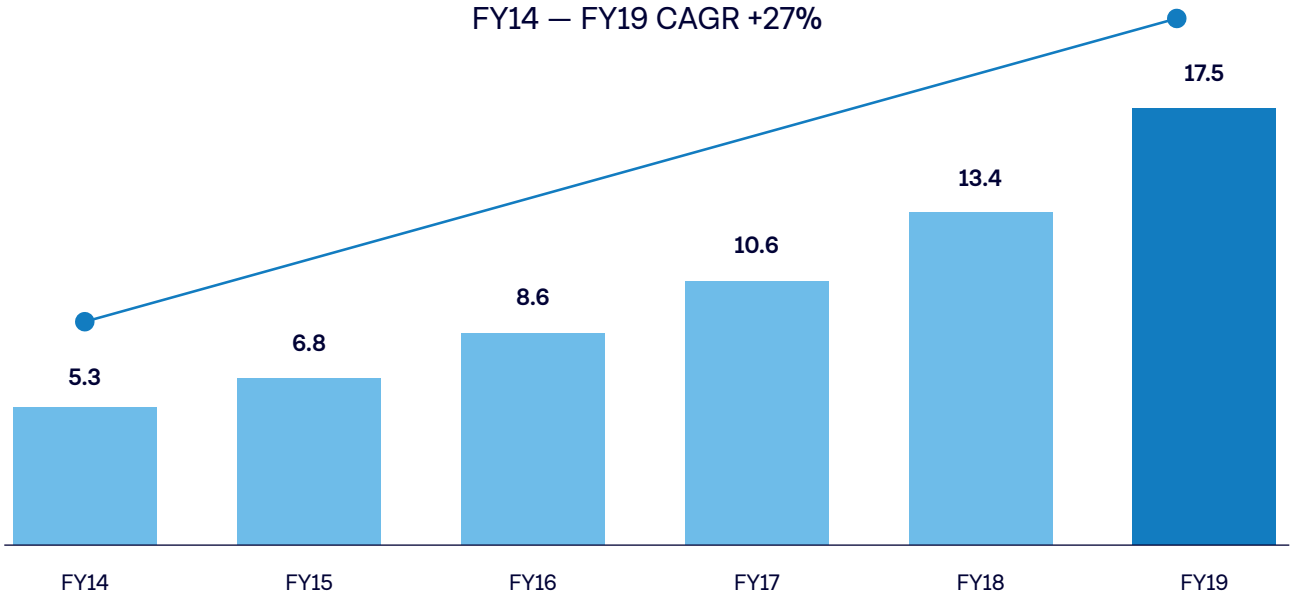
Figure 3.7 Merchant base, FY14 – FY19



Note: Years ended 30 June.

In FY19, we processed $17.5 billion in transaction value, an increase of 31% on the prior year (FY18: $13.4 billion) – with our growth exceeding the 26% year-on-year performance achieved in FY18 and outpacing our five-year CAGR of 27%.

Figure 3.8 Transaction value, FY14 – FY19, ($ billion)



Note: Years ended 30 June.

The development of superior solutions, delivery of quality service, reliability, speed and brand awareness are key to our growth (refer to **Table 3.1** on our core payments features and **Section 3.4** on our competitive strengths).

We generated an EBITDA loss of $6.1 million in FY19, reflecting our continued investment in developing innovative products to meet merchant needs, our commitment to attracting more businesses to our ecosystem and our continued investment in our team.

In FY19, our operating expenses (before non-cash items) were $89.4 million, an increase of 17% on the prior year (FY18: $76.4 million). The major elements of this were:

- staff (representing 69%), of which approximately half related to team members in technology roles;
- marketing activity (excluding staff) (representing 5%); and
- communications and technology costs (excluding staff) (representing 6%).

3.2.2 Revenue model

The majority of our revenue is derived from fees we earn from merchants for enabling the acceptance of card payments, namely authorisation, and clearing and settlement, processes. This is known as merchant acquiring (refer to **Section 2.3.2**).

The main fee that we earn from merchant acquiring is known as the Merchant Service Fee (which represented 88% of our payments revenue and income in FY19), which is calculated based on a pre-agreed percentage of transaction value, or a defined number of cents per transaction. The Merchant Service Fee is designed to cover both interchange fees and scheme fees (which are costs that we incur in conducting the acquiring process and pay to the issuers and schemes respectively), with the remainder generally representing our margin (the Merchant Acquiring Fee) (refer to **Section 2.3.3**). There are multiple Merchant Service Fee pricing structures we can offer our merchants (refer to **Table 3.1**).

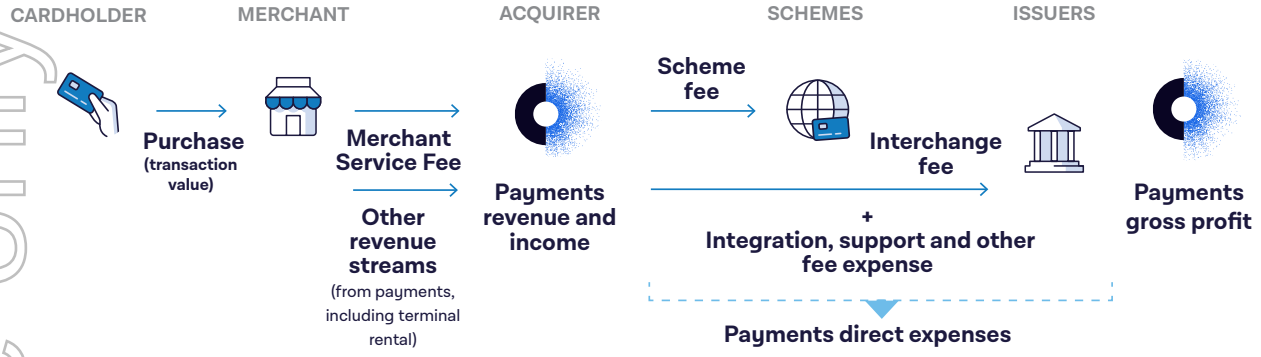
We also earn revenue from other payments features and services as follows:

- **terminal rental**: we earn a fixed monthly fee for providing terminals to merchants;
- **other fees**, which mainly include:
  - **integrated health insurance claiming**: we earn a fixed fee per transaction for Medicare Easyclaim and private health insurance claims accepted by our merchants on behalf of their cardholders;
  - **Mail Order/Telephone Order**: we earn a fee for each MOTO transaction based on a pre-agreed percentage of transaction value; and
  - **Dynamic Currency Conversion**: we earn a fee for each DCC transaction based on a pre-agreed percentage of transaction value; and
- **terminal accessories**: we offer a small range of terminal accessories for outright purchase by merchants, including paper receipt rolls, terminal car chargers, mounts for countertops and spare batteries.

Refer to **Table 3.1** for detail on features of our payments offering mentioned above, and **Section 2.3.3** for fees commonly paid by merchants.

3. COMPANY OVERVIEW

Figure 3.9 Illustrative economics of a card payment



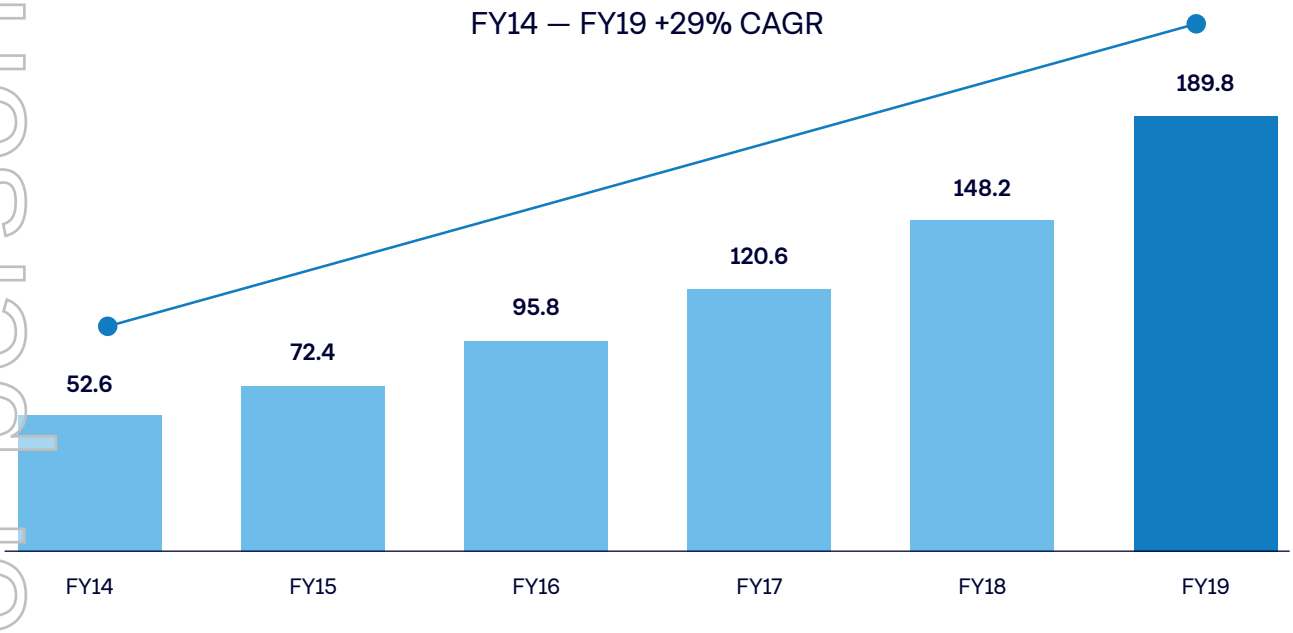
Note: Payments revenue and income above comprises Merchant Service Fees, terminal rental income, other fee income and terminal accessories sales. Other fee expense above includes cost of terminal accessories sold.

The revenue we derived from our payments business (which includes Merchant Service Fees, terminal rental income and other income) was $183.7 million in FY19, an increase of 28% on the prior year (FY18: $143.0 million).

In addition to our payments revenue, we earn income from lending, which primarily consists of interest income from merchants who take a loan in the form of a merchant cash advance (refer to **Section 3.3.2.2**).

Revenue and income from all sources in FY19 was $189.8 million, an increase of 28% on the prior year (FY18: $148.2 million) and representing a five-year CAGR of 29%.

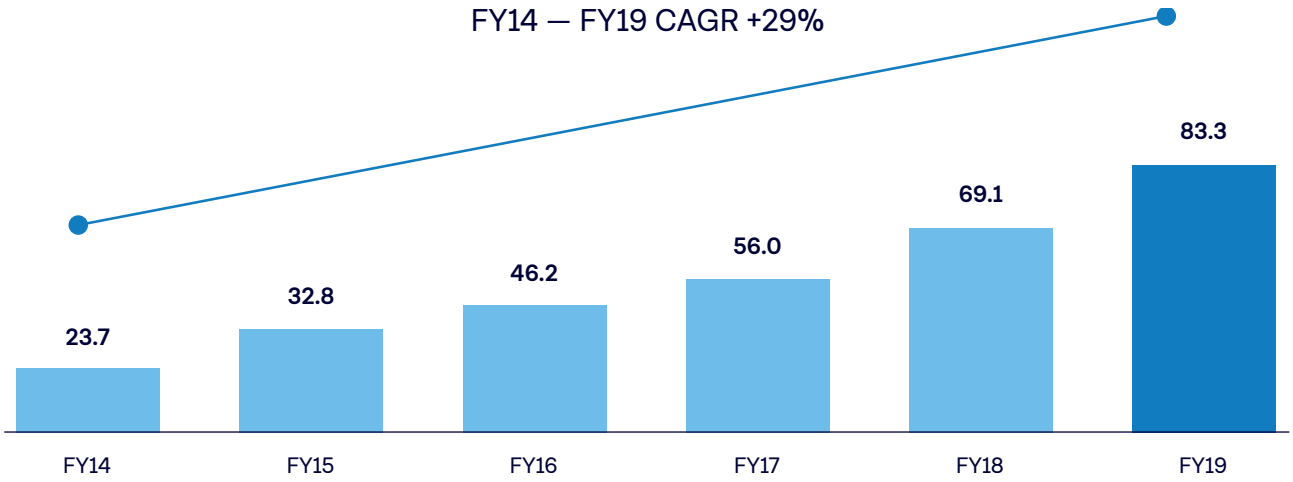
Figure 3.10 Revenue, FY14 – FY19, ($ million)



Note: Years ended 30 June. Historical financial information for the periods presented has been derived from our audited historical financial statements for the relevant financial years ended 30 June.

Gross profit for FY19 from all sources was $83.3 million, an increase of 21% on the prior year (FY18: $69.1 million) and representing a five-year CAGR of 29%.

Figure 3.11 Gross profit, FY14 – FY19, ($ million)



Note: Years ended 30 June. Historical financial information for the periods presented has been derived from our audited historical financial statements for the relevant financial years ended 30 June. Gross profit as presented in this chart has historically been reported as net operating income (FY19) and total operating income (FY14 – FY18).

Net loss after tax for FY19 from all sources was $18.7 million, a decrease of 1% on the prior year (FY18: $18.8 million).

3.3 Product overview

3.3.1 Payments

The provision of payments services to our merchants as a merchant acquirer is our core offering. We have built significant expertise since establishing our payments operations 16 years ago.

We enable credit and debit card acquiring, along with additional functions such as Medicare Easyclaim and private health insurance claims acceptance. We supply our merchants with terminals programmed with our proprietary software, and enable acceptance of payments (specifically the authorisation, and clearing and settlement, of payments). Merchants can also opt for enhancements to the core payments offering, including features such as least-cost routing (Tap & Save) and eCommerce (refer to **Table 3.1** for a comprehensive list of features).

Table 3.1 Features of our payments offering

CORE FEATURES	
Countertop and mobile terminals	We source our terminals from a third party, (Atos) Worldline (refer to **Section 3.7**), and install our proprietary software on these units. Merchants currently have the choice of two terminal types – a countertop terminal which connects to the internet via an Ethernet cable, and a wireless mobile terminal which connects to the internet via Wi-Fi or 3G. Both terminal models can connect to multiple instances of a POS system in a merchant's premises and are equipped with a built-in thermal printer, as well as 3G backup cards which merchants can manually switch to if their internet connection is disrupted. Merchants rent the terminals of their choice from us and pay a recurring monthly fee based on the terminal type, typically without a lock-in term. With the benefit of our proprietary solutions and system architecture, payments processed on our terminals are authorised in sub-1.5[2] seconds on average. Payment authorisation involves sending a message from the terminal to the relevant scheme via our switch engine and receiving a response (refer to **Section 2.3.2.1**). Having control over the software on our terminals allows us to develop and deploy innovative features such as least-cost routing and Pay@Table (see description of Hospitality-specific features below). We continue to assess our terminals and explore ways through which we can add to and improve our terminal offering.

2) This metric captures the average duration from the moment a cardholder has presented the card on the terminal to the return of the authorisation on the terminal from the schemes. This was measured on both the countertop and mobile terminals for approximately 95% of terminal fleet in production between 23 September 2019 and 1 October 2019, for Tier 1 transactions (Visa, Mastercard and eftpos).

CORE FEATURES	
High availability	The 12-month average availability of our core acquiring platform as at 30 June 2019 was above 99.99%.[3] Our availability is assisted by operating two active-active data centres (refer to **Section 3.8.3.1**).
Multiple Point of Sale system integrations	Our application programming interfaces enable Windows, Android and iOS-based Point of Sale systems (refer to **Section 3.4.2**) to integrate with us directly. Consequently, there is no need for third party software and middleware, which can be complex and may result in additional costs for the merchant. We integrate directly to more than 286 POS systems across our core Health, Hospitality and Retail verticals for 'card-present' transactions. POS systems communicate with our integration server via the internet, meaning there are no physical cables required to connect our terminals directly to the POS system (whether that be a PC-based or cloud-based desktop or mobile device). Our terminals can also operate in standalone mode (refer to **Section 2.3.5.2**).
Multiple payment methods	We enable acceptance of major schemes including Visa, Mastercard, eftpos, American Express, Diners Card, JCB and UnionPay International, as well as digital wallets such as Apple Pay, Google Pay and Samsung Pay. We continue to build out our ability to accept alternative payment methods, demonstrated by the launch of our Alipay solution and our planned Zip Pay integration (refer to *Alternative payment types* below).
Multiple pricing options	Pricing structures for determining the Merchant Service Fee vary across the industry (refer to **Section 2.3.3**). We currently offer fixed margin (cost-plus) and variable margin (simple, blended and normalised) pricing structures depending on the requirements and preferences of our merchants. We calculate Merchant Service Fee on a transactional basis with merchants being direct debited monthly for the total fee incurred in the month. *Fixed margin:* • **cost-plus**: a fixed Merchant Acquiring Fee (i.e. margin) is charged on top of the interchange (or interchange and scheme) fees that the merchant acquirer is charged, which together form the total Merchant Service Fee. *Variable margin:* • **simple**: a single Merchant Service Fee is charged for all eligible transactions regardless of circumstances of the transaction (card type, amount or interaction type), for example, calculated as a percentage of transaction value for all eligible transactions; • **blended**: each scheme (for example, Visa) is individually priced with regard to the interchange and scheme fees for that scheme, plus a Merchant Acquiring Fee. These individually priced fees, when aggregated, form the total Merchant Service Fee. For example, scheme 'x' may be priced at 1.0% and scheme 'y' may be priced at 2.0% and, assuming equal transaction value for both schemes, the Merchant Service Fee may be 1.5%; and • **normalised**: card types (for example, a business card or standard personal credit card) sometimes within schemes (for example, Visa) are categorised by the merchant acquirer across all eligible card types and schemes. These categories are individually priced considering interchange and scheme fees for those categories and when aggregated with a Merchant Acquiring Fee, form the total Merchant Service Fee.

3) Our availability is expressed as a percentage of total merchant transactions that are unaffected by a Tyro acquiring service issue. We measure reliability on a transactional rather than a time ('uptime') basis as we believe this more accurately reflects the impact of service disruptions during periods of high frequency transactions (for example, peak trading windows such as lunchtimes).

CORE FEATURES	
Settlement	**Flexible Settlement** Merchants with a Tyro Bank Account are provided with the choice to set the cut-off time for their trading days to as late as 5:00am the following day. This extended settlement cut-off window helps late-trading merchants (such as those operating in the Hospitality vertical) to align their settlements with their trading days. **Standard settlement** Funds can be settled into an Australian bank account of the merchant's choice. Transactions are settled into the merchant's chosen bank generally within two business days. Merchants with a Tyro Bank Account will generally see the funds posted to their account on a daily basis (including weekends and public holidays). Refer to **Sections 3.9.3.3** and **5.2.13** for information on liquidity risks related to settlement.
Dynamic reporting	**Merchant Portal** Merchants can access a range of data and reporting tools through our online Merchant Portal, which is available to all merchants at no additional cost. Our Merchant Portal allows merchants to review terminal usage, transaction value by terminal, transaction types, charges and fees, and historical records in near real time. Data from the Merchant Portal can be downloaded into other business systems (for example, accounting software) or integrated directly to these systems via our reporting API (typically used by larger merchants). The Merchant Portal has various permission levels, enabling larger businesses (for example, corporate groups) to provide data access to individuals selectively (for example, accountants and site managers). As at 30 September 2019, we had approximately 7,250 monthly active users of the Merchant Portal.[4] **Tyro App** Merchants can also keep track of their card transactions in near real time via the Tyro App which is currently available on iOS and Android-based mobile devices. Merchants with a Tyro Bank Account can also view their balance, approve scheduled bills and make transfers in the Tyro App. The Tyro App also allows merchants to check their eligibility for a loan and, if eligible, complete the steps necessary to obtain a loan. As at 30 September 2019, we had approximately 7,500 monthly active users of the Tyro App.[5]
24/7 Australia-based customer support	Our phone-based support team, located in our Sydney office, provides merchants with access to fast and reliable customer service 24 hours a day, 7 days a week. Our dedicated support team assists with enquiries on all aspects of our product suite, from initial setup of terminals through to troubleshooting and account or transaction queries.

4) Monthly active user is defined as a merchant that has used the Merchant Portal at least once during the preceding 30 days.
5) Monthly active user is defined as a merchant that has used the Tyro App at least once during the preceding 30 days.

OPTIONAL ENHANCEMENTS	
eCommerce	In April 2019, we launched an eCommerce solution utilising the Mastercard Payment Gateway Services platform, to enable our merchants to accept online payments (including in-app payments). Merchants can choose to use our eCommerce offering with multiple compatible shopping carts, a hosted payments page or via direct integration with a Mastercard Payment Gateway Services API. Merchants working with us for both their in-store and online transactions benefit from one point of contact and single settlement and reconciliation, thus removing the need to manage multiple payment providers.
Least-cost routing	Merchants can opt into our least-cost routing feature (Tap & Save) to save on fees on eligible contactless debit card transactions. This feature automatically routes eligible transactions through the most economical scheme, either the relevant international scheme (Visa or Mastercard) or eftpos (refer to **Section 2.3.5.3**). As at 31 August 2019, 7,546 merchants had opted into Tap & Save, seeking to take advantage of this cost-saving feature.
Alternative payment types	**Alipay**: In August 2018, we entered into an agreement with Alipay and became the first Australian bank to offer fully integrated Alipay acceptance to merchants, providing better access to the Chinese tourist market. Alipay is one of the world's leading mobile and online payment platforms with over one billion users.[6] The solution allows merchants to initiate transactions on their Point of Sale system (for integrated merchants) or manually key in transaction amounts on their terminal (for standalone merchants) and present a Quick Response code on the terminal display that the consumer can scan using their Alipay app. **Zip Pay**: In May 2019, we entered into an agreement with Zip, a financial services organisation that provides a 'buy-now, pay-later' payment service known as Zip Pay to consumers, enabling them to pay for purchases in instalments. The agreement will, once development is completed, allow our merchants to accept Zip Pay transactions for in-store purchases via their terminal.
Medicare Easyclaim and private health insurance claims processing	We offer integrated health claiming capabilities to medical practitioners (for example, general practitioners, specialists, dentists and physiotherapists) for both public health claiming (Medicare Easyclaim) and private insurance health claiming (DXC HealthPoint). These solutions enable medical practitioners to process claims on behalf of their patients via the Tyro terminal at their practice. For Medicare Easyclaim, the claim amount is refunded onto the patient's eftpos-enabled card immediately via the terminal. We are currently the market leading provider of Medicare Easyclaim, processing 59.5% of all Medicare Easyclaim transactions made between January and March 2019.[7] While not the market leader in private health insurance claiming, our solution, delivered with DXC HealthPoint, covers private health funds used by 98.5% of Australia's insured population (refer to **Section 3.7**).[8]

6) Alipay, as at January 2019.
7) Department of Human Services, 59.5% Medicare Easyclaim market share in the quarter ended March 2019. This contract is currently subject to a public tender process run by the DHS for the period commencing on 1 January 2020.
8) DXC Technology, as at October 2019.

OPTIONAL ENHANCEMENTS	
Hospitality-specific features	We have developed several features designed to address merchant pain points in the Hospitality vertical, including: • **Pay@Table**: our mobile terminals can be taken to cardholders in premises without losing integration with the Point of Sale system. This enables the retrieval of a table's bill remotely by entering the table number into a terminal, eliminating the need to initiate the transaction at the POS system. Other staff members are also able to use the POS system while other transactions are in progress; • **tipping**: cardholders can add a tip to their bill, either as a dollar amount or a percentage of the bill; • **split bills**: the total transaction value owed to the merchant can be split between cardholders using different cards. They also have the option of adding individual tips before they complete their payment; and • **BarTab/GuestTab**: cardholders can pre-authorise a certain transaction value on their credit or debit card at the premises. Food and beverages can be added to their tab over the course of their visit, up to the pre-authorised amount. The cardholder can increase or close the tab at any time via the terminal (assisted by staff). Tabs can also be closed by staff if the cardholder leaves the premises without finalising the bill.
Surcharging	Merchants can set surcharges on Visa, Mastercard, American Express and Diners Club/Discover credit and debit card transactions as a way to recover the cost (Merchant Service Fees) of accepting those transactions. At the time of each card transaction, our terminals apply the surcharge set by the merchant, who is responsible for complying with legislative restrictions (refer to **Section 2.3.3.1**).
Dynamic Currency Conversion	When DCC is enabled, merchants can offer their cardholders the choice of paying in Australian dollars or in their home currency. This feature, provided by a third party, converts the sale price to the cardholder's chosen currency at the time of the sale. This feature currently supports more than 120 foreign currencies.
Mail Order/ Telephone Order	This feature enables merchants to accept payments by manually inputting cardholders' card information received by mail or over the phone

3.3.2 Banking solutions

We offer business banking products to our merchants, including loans in the form of merchant cash advances (Tyro Business Loan) and transaction bank accounts (Tyro Bank Account). We were granted an Australian banking licence (authorised deposit-taking institution licence) in August 2015, becoming the first Australian technology company to achieve this milestone. While still in a build-out phase, the Tyro Bank Account and the Tyro Business Loan have exhibited strong growth since their introduction in October 2015 and July 2016, respectively. These products provide our merchants with transaction banking and unsecured borrowing solutions, and are designed to complement and integrate with our payments offering.

3.3.2.1 Tyro Bank Account

The Tyro Bank Account is a fee-free, interest-bearing transaction account available to our merchants. Since late 2015, each merchant that has taken out a payment facility with us has also generally received a Tyro Bank Account. We do not charge account keeping fees, transaction fees or penalties for accessing funds. Merchants can opt to have their settlements paid into their Tyro Bank Account or into another Australian bank account of their choice. Interest on funds held in the Tyro Bank Account is calculated daily and paid monthly. The longer the funds are held in the account, the higher the interest rate the account earns at the specified tier, with a capped rate after 90 days.

Merchant deposits are protected under the Financial Claims Scheme, which is an Australian Government initiative that protects depositors with locally incorporated authorised deposit-taking institutions from potential losses of up to $250,000 per single customer (as defined by the Australian Prudential Regulation Authority).[9]

The Tyro Bank Account can be linked to Xero accounting software, providing reconciliation through an integrated bank feed and enabling merchants to quickly initiate batch payments and approve payroll and bill payments.

9) APRA, Financial Sector (Collection of Data) (reporting standard) determination No. 40 of 2018, Reporting Standard ARS 910.0 Financial Claims Scheme.

3. COMPANY OVERVIEW

The Tyro Bank Account can be accessed through the Tyro App. The Tyro App is equipped with features designed to improve merchant user experience, including just-in-time reminders for scheduled bill payments and the ability to track daily transactions (with transaction data updating on an hourly basis). Having a Tyro Bank Account is a prerequisite to accessing Flexible Settlement (refer to **Table 3.1**) and Tyro Business Loans (refer to **Section 3.3.2.2**).

As at 30 June 2019, we had $26.9 million in deposits across 2,401 active Tyro Bank Accounts.[10]

3.3.2.2 Tyro Business Loan

The Tyro Business Loan is an unsecured merchant cash advance designed to help merchants finance working capital and investment needs. This product is available to our merchants who meet our credit and product criteria and provide a personal guarantee. Key data points considered currently in determining a merchant's eligibility for a loan include the historic value of transactions processed with us, company director credit scores, standard adverse reporting research and ABN validity. The loan eligibility assessment process is automated; however, where automated eligibility criteria are not met, we may undertake a manual review using additional information collected from the merchant (refer to **Section 3.9.3.2**).

Merchants access the Tyro Business Loan through the Tyro App, which allows them to check their eligibility for a loan and, if eligible, complete the steps necessary to obtain a loan. Once an eligible merchant provides a personal guarantee and accepts the loan terms and conditions in the Tyro App, the loan amount is deposited directly into their Tyro Bank Account within 60 seconds.

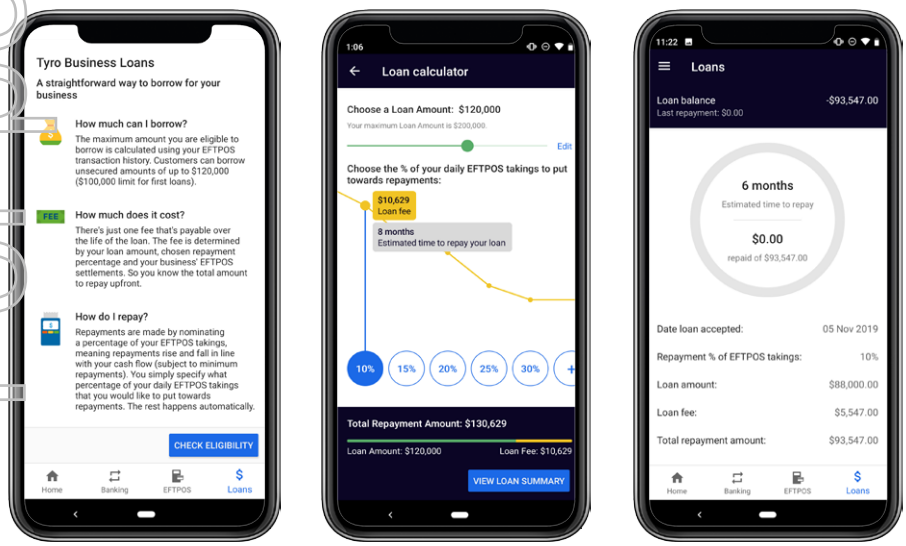
The maximum size of each loan is determined by the merchant's annual card transaction value with us[11] , and is currently capped at 10% of that amount to a maximum of $100,000 for the first loan and $120,000[12] for subsequent loans. A merchant cannot have more than one Tyro Business Loan outstanding at any given time.

Merchants select a percentage (typically between 10% and 30%) of daily transaction value to be repaid each day as part of the loan acceptance process.[13] We provide our loans for a fixed loan fee, which is determined by the size of the loan and the merchant's chosen repayment terms. The fee is calculated at the time the loan is taken out and repaid over the duration of the loan. The total amount the merchant has to repay is equal to the loan amount plus the loan fee. We do not charge early repayment, late repayment, or any other interest or fees.

Loan repayments are made daily, calculated at the nominated percentage of the merchant's card transaction value on each day. Repayments are deducted from settlements payable to the merchant, effectively putting us 'first in line' for loan repayments. The advantage of this product for the merchant is it aligns repayments with their daily card transaction value, thereby helping merchants manage their daily cash flow. Refer to **Figure 3.13** for an illustrative example of Tyro Business Loan mechanics.

In FY19, loans were repaid within approximately 130 days on average and the average loan amount was approximately $35,000.

Figure 3.12 Tyro Business Loan – selected screenshots from the Tyro App



10) Active deposit accounts represents the number of merchant deposit accounts as at the end of each measurement period that have closing balances of greater than $nil.

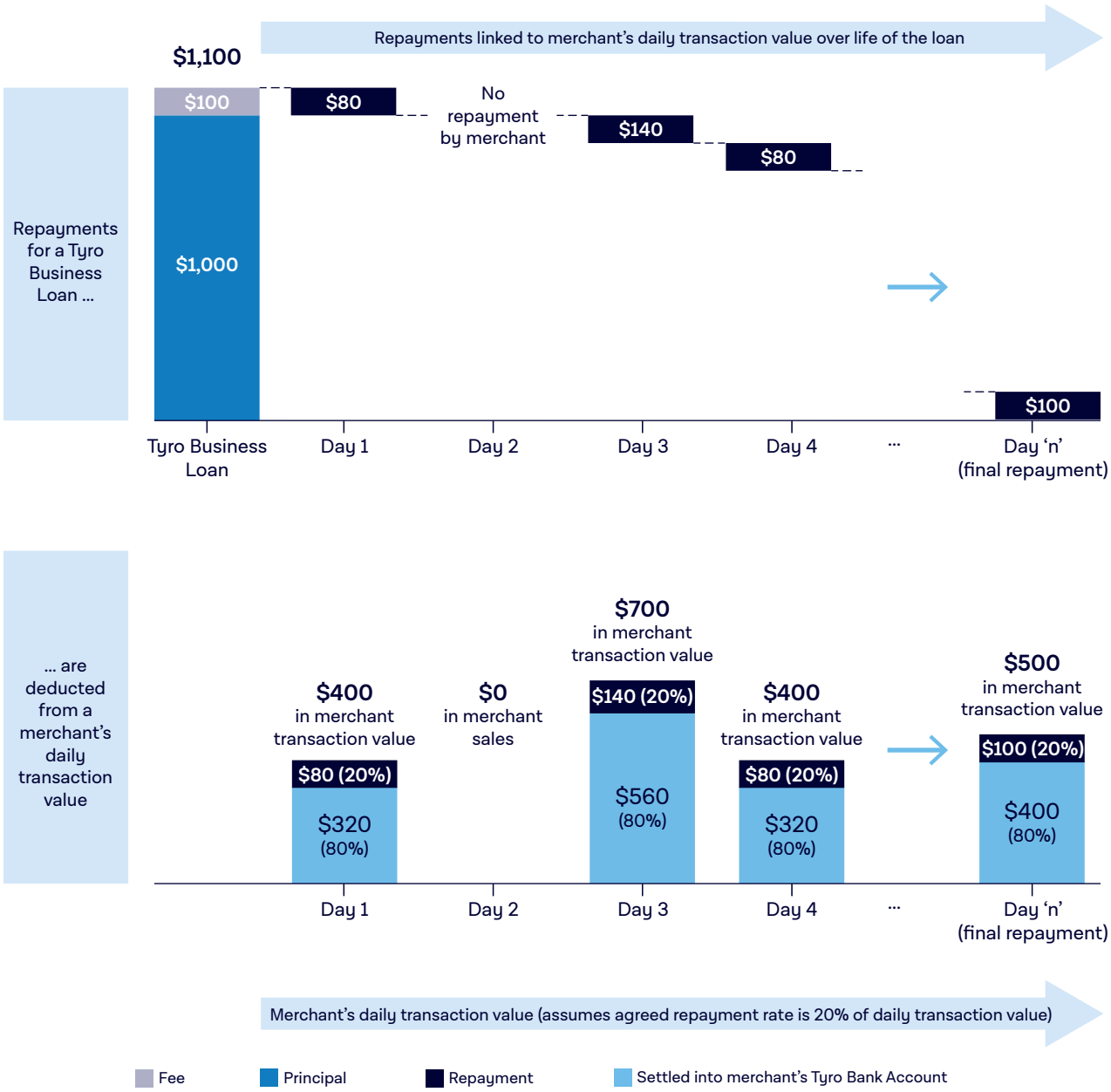
11) Where the merchant has been using our payments offering for less than 12 months, the annual transaction volume is estimated using available data. Merchants must be using our payments offering for at least three months in order to be eligible for a Tyro Business Loan.

12) This can be extended to $200,000 subject to additional credit assessment to our satisfaction.

13) Merchants are required to repay a minimum of 10% of the total repayment amount in each period of 90 days (starting on the date the loan is provided).

Figure 3.13 Illustrative example of Tyro Business Loan mechanics

*Example assumes a merchant agrees to take a **$1,000** principal with a **$100** fee applied, and has chosen to repay 20% of their daily transaction value.*



Demand for the Tyro Business Loan has grown steadily since it launched in July 2016. As at 31 August 2019, approximately 7,000 merchants are eligible to apply for a Tyro Business Loan. Since inception, approximately 1,300 have taken out at least one loan.

We achieved a growth rate of 108% in loan originations in FY19, reaching $52.2 million (FY18: $25.2 million). The loan losses in FY19 were $542,000 (FY18: $411,000). As at 31 August 2019, we had originated $100.6 million in loans.

3.4 Our competitive strengths

Following our inception 16 years ago, we have positioned ourselves as a provider of faster, merchant-driven payments solutions and more streamlined business loans and banking products to support Australian businesses, developing competitive strengths and key points of differentiation including the following:

3.4.1 Software-led approach to payments, based on a core proprietary technology platform

Our in-house technology expertise and culture of software-led innovation, coupled with our core proprietary technology platform, assist us to provide an attractive value proposition.

We have invested significantly to create reliable, scalable and integrated in-house technology infrastructure. The majority of systems required to be a merchant acquirer are built and maintained in-house, giving us an end-to-end solution. Where we select to work with third parties, we do so to strategically complement our in-house capabilities (refer to **Section 3.7**). Our infrastructure is maintained and regularly enhanced with scalability in mind by our technologists (including experts such as quality advocates, solution architects, product designers and security consultants) who comprise approximately half our team.

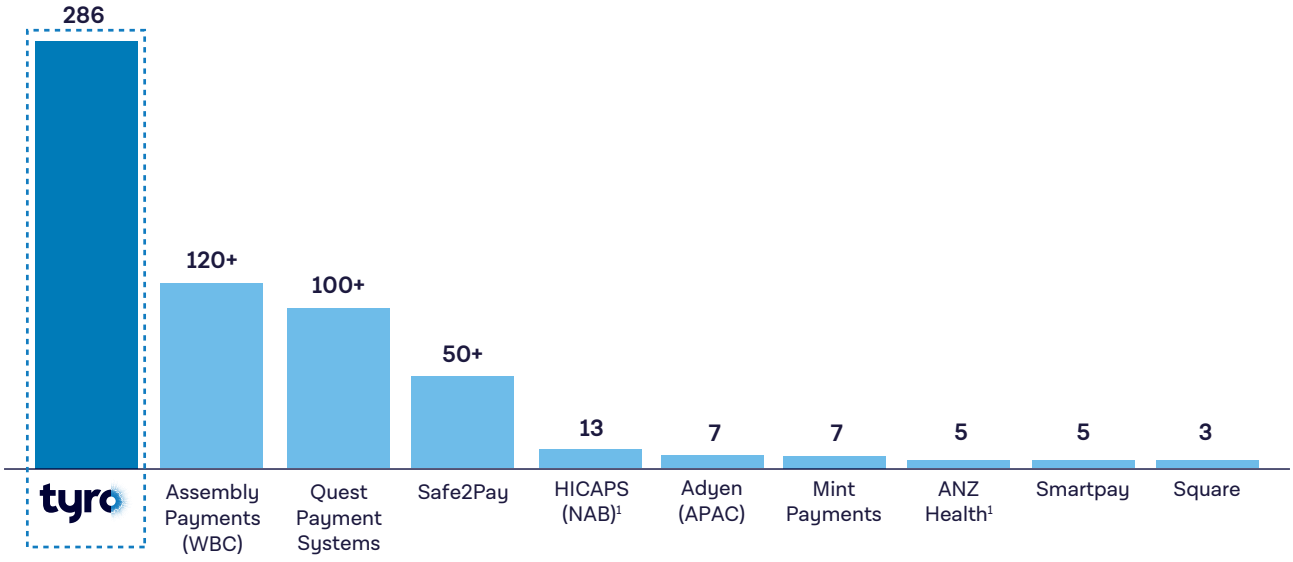
Our software-led approach to payments provides us with the following benefits:

- minimal reliance on third party systems as part of the card acceptance process **assists us in attaining high transaction authorisation speeds** (refer to **Section 3.4.2**);
- end-to-end visibility and control of the various technology functions and applications required for merchant acquiring have **contributed to our high levels of core platform availability** (refer to **Section 3.8.3.1**);
- ownership of our systems and software **enables us to adapt or create new product features and deploy them to market quickly**. For example, we were able to build and deploy our least-cost routing feature (Tap & Save) into production quickly because we were able to modify our terminal software and our software application that manages the logic behind routing transactions to the various schemes (known as the payment switch engine);
- in-house technology expertise and ownership of our core proprietary technology platform **enable us to integrate into other systems and services** to enhance our competitive position. Examples of this include our direct POS system integrations, the integrated repayment function of our merchant cash advance product and our unified eCommerce offering (providing single-settlement and reporting across 'card-present' and 'card-not-present');
- coupling in-house vertical knowledge with our ability to customise our technology **increases our ability to innovate for merchants in our core verticals**. Examples of this include our Hospitality product features such as Pay@Table (refer to **Table 3.1**); and
- a scalable core platform which has been subject to ongoing investment and enhancement, **assists us to realise economies of scale** as the transaction volume from our merchant base grows.

3.4.2 Seamless direct integration with a significant number of POS systems

We have the largest number of direct Point of Sale system integrations among payment providers in Australia, with more than 286 integrations as at 1 October 2019. We have added approximately 25 integrations since January 2019.

Figure 3.14 A leader in direct POS system integrations in Australia (number of direct POS system integrations)



Source: Non-exhaustive list of direct POS system integrations by payment providers. Information extracted from company websites on 30 October 2019. Excludes industry participants who are not payment providers (for example, PC-EFTPOS, who reported having over 540 Point of Sale systems accredited for integration with their software (PC-EFTPOS Update April/May 2019)). Excludes Windcave, a payment facilitator that offers direct integrations to Point of Sale systems globally, as the number of direct POS system integrations that Windcave has established in the Australian market is not publicly available.

Note: 1. Health claiming/billing only.

Our large number of POS integrations assists us in providing several key benefits to merchants, namely:

- **greater choice**: merchants may choose from more than 286 directly integrated POS systems. These systems are often customised to specific sub-verticals or use cases, meaning merchants can select the POS system that offers the features and functionality that best address their specific business needs. As at 31 August 2019, no single POS system partner accounted for more than 10% of our merchant base;
- **quick and easy setup**: merchants using a POS system that we have an integration with can begin using our solution rapidly, without the need for additional development work, hardware or setup costs;
- **high speed**: the in-house internet-based connectivity between our terminal software, our integration server and our software adapter in the POS system (versus relying on another provider's integration software or a cable) assists us deliver high transaction authorisation speeds;
- **improved security**: our terminals have direct internet connectivity to our switch engine, whereas the POS systems (via our software adapter in the POS systems) connect to our integration server. This means that cardholder data never enters a merchant's POS system and is never shared with the merchant or the POS system;
- **less cost, complexity and risk**: as a provider of direct POS system integrations and payments, (without relying on third party middleware) we are able to provide a simple, cost effective solution to our merchants, with no additional integration fees[14]; and
- **fewer errors and faster reconciliation**: our integration with POS systems eliminates the need for merchants to manually input transactions into the terminal, lowering the risk of keying errors and reducing the need to reconcile multiple sources of transaction information.

14) Refer to **Section 2.3.5.2** for more information on integrated and standalone POS system options for merchants.

3. COMPANY OVERVIEW

The high number of direct POS system integrations we have in place affords us a strong competitive position. Payment providers without these capabilities that seek to offer integrated payments are generally compelled to do one or more of the following:

- rely on a third party integration which introduces another participant and piece of technology into the transaction flow;
- develop their own POS systems that integrate to their terminals directly (limiting the merchant's choice of POS system);
- attempt to establish direct integrations with many disparate POS systems; and/or
- continue to offer a standalone solution.

In addition to product feature benefits, our POS system relationships are an effective merchant acquisition channel (refer to **Section 3.5.2**).

3.4.3 A focus on core verticals

Our strategy of focusing on our core verticals has enabled us to produce a suite of features and products that have addressed merchants' needs. These are displayed in **Figure 3.15**:

Figure 3.15 Key feature and product innovations by most relevant vertical

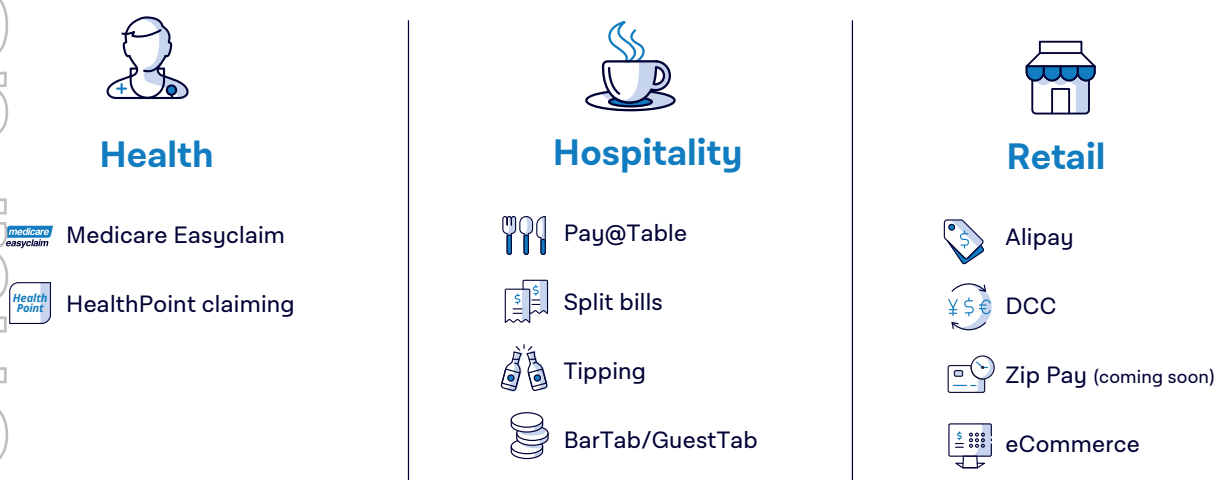
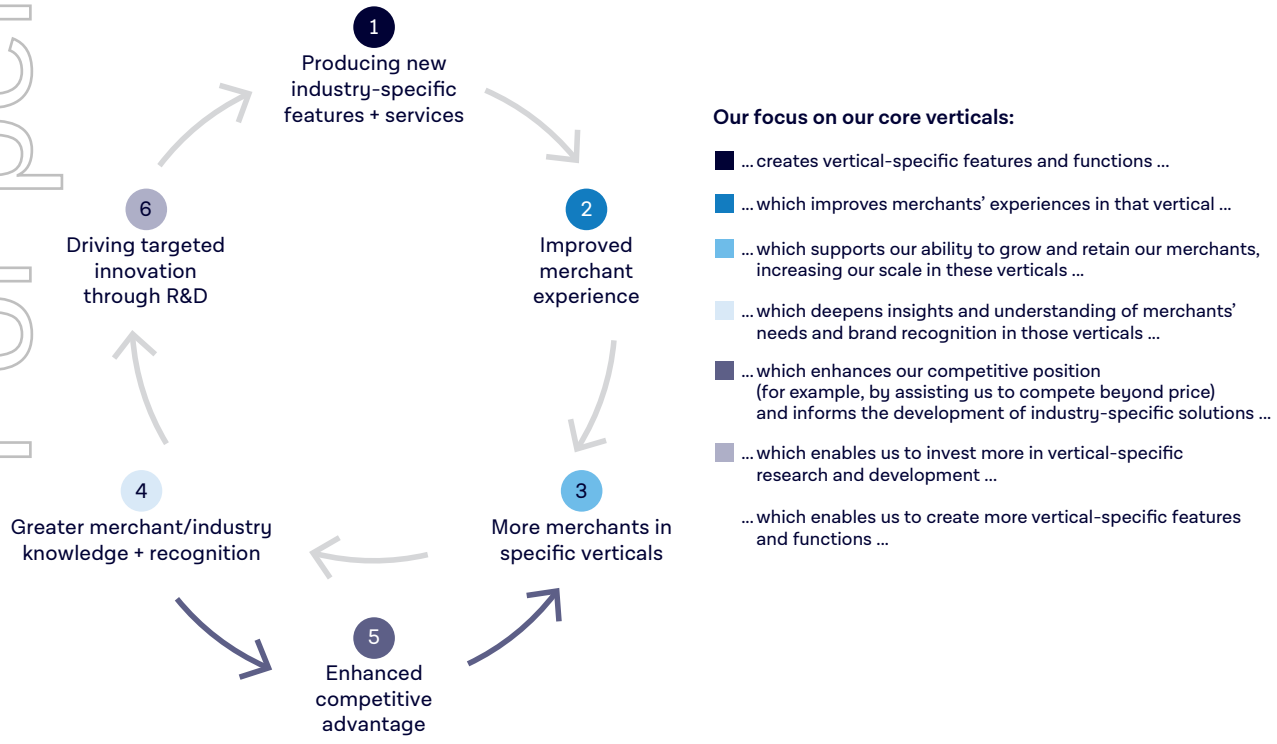


Figure 3.16 Vertical focus flywheel



3.4.4 Broad and direct access to the Australian financial system through licences and memberships

Through various licences and memberships, we have direct access to key stakeholders in the Australian financial system, which provides a number of advantages, including direct access to the payments system. Merchant acquirers in Australia without a domestic banking licence require a commercial relationship with an entity with an ESA (for example, an authorised deposit-taking institution) to access the payments system directly (i.e. settlement).

By virtue of our banking licence, we are currently the only specialised payment provider in Australia with the capacity to provide its own value-adding banking products, including interest-bearing deposit accounts, together with its core payments offering. We do not rely on third party banks to gain access to and settle via the payments system. This expands the scope of our banking-related value creation opportunities beyond what is possible for our non-bank peers (refer to **Sections 2.3.6** and **2.4.4**).

Table 3.2 outlines the licences and memberships that enable our direct access to the payments system.

Table 3.2 Overview of our licences and memberships

LICENCES AND MEMBERSHIPS	DESCRIPTION
Authorised deposit-taking institution licence	• Enables us to conduct banking services (refer to **Section 2.5.4**) and provides deposit protection for our merchants under the Financial Claims Scheme, an Australian Government initiative (refer to **Section 2.5.7**). • Direct access to the Reserve Bank of Australia's payments infrastructure as a Tier 1 member: – enables us to clear and settle funds with other banks using our own Exchange Settlement Account, which is held at the Reserve Bank of Australia; – as a consequence, our merchants that bank with other Tier 1 members (including the four major banks) will typically receive their daily settlements from us on a T+1 basis; and – direct access to the RBA's clearing systems is only available to ADI licence holders and a limited number of licensed central counterparties and securities settlement facilities (for example, ASX Clear and ASX Settlement). Merchant acquirers without a domestic banking licence must partner with an entity with an ESA (for example, an ADI) in order to complete payment settlements with issuing banks. • Satisfies a prerequisite for connecting directly to the New Payments Platform, Australia's domestic infrastructure that facilitates real-time settlement and clearing of payments between banks (refer to **Section 2.6.7**). We are not currently connected to the NPP.
Membership to schemes	• Principal membership of Visa and Mastercard enables us to acquire transactions from these schemes and, under certain circumstances, sponsor scheme access for other organisations. • Membership to the eftpos scheme enables us to acquire eftpos transactions. • We are also a member to other schemes (refer to **Table 3.3**).
Participant member of the Australian Payments Network	• Provides us with the opportunity to contribute to the development of new payments-related policies. • Gives us access to the Community of Interest Network, the network and connectivity required to process domestic eftpos transactions, direct debits and BPAY® payments.

3.4.5 Focus on providing best-in-class service to tens of thousands of Australian businesses

We proudly serve over 29,000 Australian merchants and have consistently sought to provide them with best-in-class service. We had over 150 team members in our customer team as at 30 June 2019 dedicated to servicing our merchants, leading to a Net Promoter Score of +34 and transaction value churn of 9.3% as at 30 June 2019[15]. Internally, we closely track a number of merchant metrics including customer satisfaction and have incentives in place with team members to enhance our merchant advocacy (including an element of all team members' remuneration being linked to NPS outcomes). Our Australia-based in-house customer support teams are available 24 hours a day, 7 days a week.

15) To calculate transaction value churn as at the end of the relevant financial year, we determine 'churned merchants' (being merchants that do not transact for at least the last three consecutive months in the relevant financial year) and their 'churned value' (being the difference between total transaction value in the relevant financial year and total transaction value in the previous year for those churned merchants). Transaction value churn is that churned value as a percentage of the total transaction value for the 12 months preceding the relevant financial year.

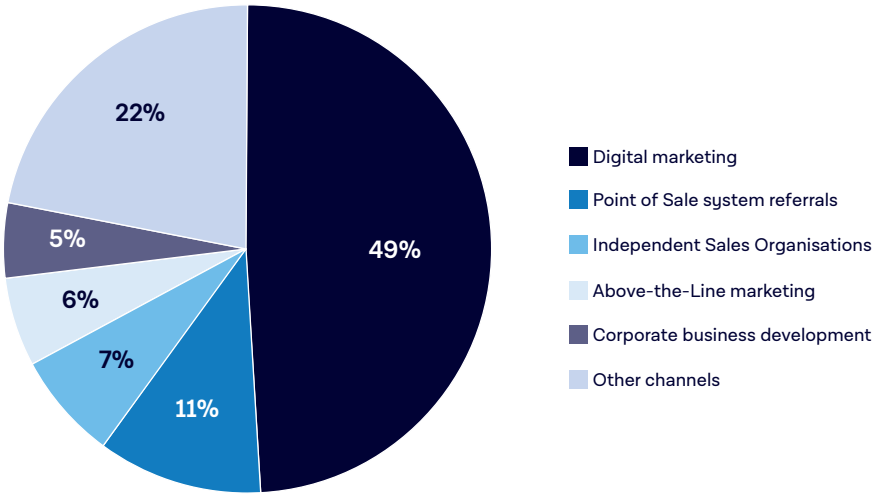
3.4.6 A values-led and talented team

We have a strong emphasis on recruiting and retaining talent that suits and enhances our strong values-driven culture. In establishing our leadership team, we apply the same rigour and have a diverse team with a broad range of experiences and capabilities. These experiences span across both private and publicly listed technology organisations and financial services, including challenger banks, insurance companies and major banks. This is supplemented by our highly credentialled Board, which includes Directors with experience leading some of Australia's most respected organisations (refer to **Section 6.1**).

3.5 Merchant acquisition

We use a number of marketing and sales channels to source leads and convert them into new merchants as described in **Figure 3.17**.

Figure 3.17 Annual merchant applications by lead source, as at 30 June 2019



We have a strong LTV/CAC[16] ratio, which was just over 7x for the year ended 30 June 2019. This ratio estimates the marginal contribution of new merchants to the payments business over an assumed lifetime which assists us in assessing an appropriate level of continued investment in merchant acquisition in the payments business. LTV is calculated by taking the annualised average Merchant Acquiring Fees of new merchants, less the applicable average integration, support and other fees, within a relevant year and dividing by new merchant churn.[17] CAC refers to costs directly attributable to signing up a merchant, including relevant portions of sales, marketing, credit assessment and merchant onboarding costs (but excluding terminal costs).

Our ability to source new merchant leads has been strong despite a low prompted brand awareness of 10%[18], which we are seeking to increase (refer to **Section 3.11**).

3.5.1 Digital marketing

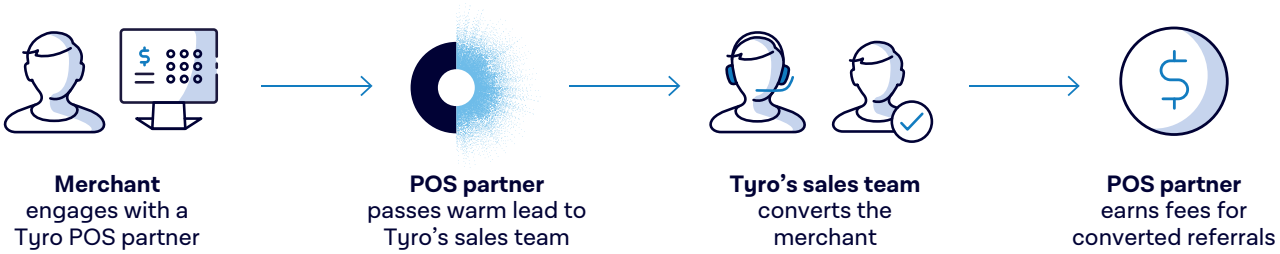
In FY19, digital marketing generated 49% of our applications. Our digital marketing campaigns include paid search, display, programmatic and social media campaigns, with nearly half of all digital marketing leads generated from Google and Facebook. We continue to optimise our accounts on digital platforms to drive increased lead volumes. Leads generated by digital marketing are converted by our phone-based sales team.

16) LTV means Lifetime value and CAC means Customer acquisition costs.
17) For this ratio, new merchant churn is measured as the total value of transactions over a 12 month period attributed to new merchants considered lost or dormant, as a percentage of the total transaction value for new merchants in the preceding 12 month period. New merchants in this instance are those onboarded in the three years to the end of the above period and are considered lost or dormant if they do not transact for at least the last three consecutive months of that period. LTV is based on historical metrics and is not a forecast of revenues that any particular merchant will generate for our business.
18) Survey in April 2019. Prompted brand awareness is the percentage of respondents (card accepting merchants in this case) that indicated that they were aware of us as a terminal provider after having been shown a list of possible terminal providers. Survey results reflect 1,009 respondents.

3.5.2 Point of Sale system referrals

Historically, our network of integrated POS system partners has been a key source of sales opportunities for our business. In 2017, we modified our incentive program to introduce a tiered reward structure for our POS system partners based on successful merchant referrals, known as the Tyro Activate Partner Program.

Figure 3.18 Simplified mechanics of the Tyro Activate Partner Program



We compensate these POS system partners with integration and support fees where a referral provided results in a successful merchant conversion by our phone-based sales team. These integration and support fees may include an upfront fee and, depending on the partner's TAPP tier, may also include an ongoing share of the Merchant Acquiring Fee we derive from that referred merchant. In addition, there are a range of non-financial incentives included in the TAPP, such as training, marketing and reporting.

This program has acted as an effective merchant acquisition mechanism, supporting our growth and generated 11% of our applications in FY19.

3.5.3 Independent Sales Organisations

Independent Sales Organisations are third parties that are authorised to source and sign up new merchants for us. ISOs negotiate their contract terms and incentives and operate as authorised representatives under our Australian financial services licence as they provide general financial advice in respect of our payment products. ISOs are typically compensated by a percentage of Merchant Acquiring Fee generated from merchants sourced under their contract. They set merchant pricing in accordance with our internal parameters. 7% of our applications in FY19 were generated by ISOs. As at 30 September 2019, no single ISO accounted for more than 10% of our merchant base.

3.5.4 Above-the-Line marketing

Brand awareness is important in order for us to capture additional market share and grow our business. We had an unprompted brand awareness of 4% and a prompted brand awareness of 10% as at 30 June 2019. We are increasing our marketing efforts through radio, television and national newspapers to lift our brand awareness. 6% of our applications in FY19 were generated by our Above-the-Line marketing efforts.

In FY19, we ran the second iteration of our '*Born for Business*' marketing campaign and, following our rebrand on 29 July 2019, recently launched our new 'Better business banking' marketing campaign.

3.5.5 Corporate business development

We have a dedicated corporate business development team focused on winning strategic merchants that typically have larger transaction values. 5% of our applications in FY19 were generated by our corporate business development team.

3.5.6 Other channels

3.5.6.1 Other referrals (including merchant referrals)

In mid-2018, we established our Merchant-Get-Merchant referral program. Under this program, we pay merchants a flat fee for referring other merchants to us. These leads are converted by our phone-based sales team and represented 2% of our applications in FY19. There are other referral channels that generate applications for us, such as employee referrals and merchant expansion.

We also have referral agreements with entities other than POS system partners. These include organisations that supply merchants with goods and services that are well placed to refer our services. Deliveroo is an example of a non-POS system referral agreement. These leads are converted to merchants by our phone-based sales team and generated less than 1% of our applications in FY19.

3.5.6.2 Industry events and trade shows

We attend a variety of industry events and trade shows relevant to our core verticals as a way to drive brand awareness, enhance our partner relationships and generate new leads.

3.5.6.3 Field sales

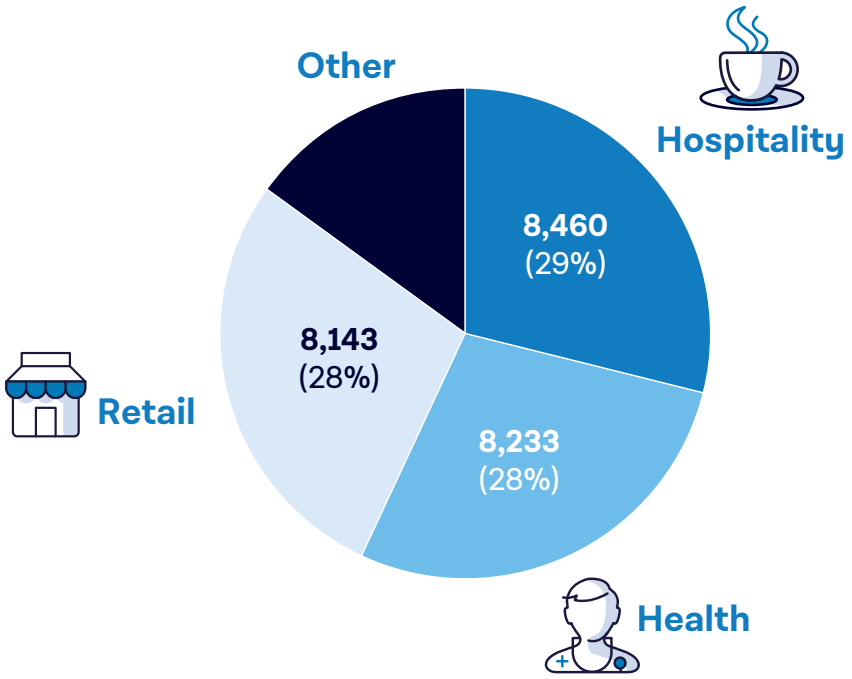
In 2018, we launched a field sales trial in which we deployed sales team members to visit prospective merchants. This trial was undertaken to explore the potential benefits of new, regional distribution strategies beyond our core phone-based sales team based in our Sydney office. We continue to explore the potential for local sales teams in targeted regional hubs (such as the Gold Coast in Queensland) as an acquisition channel.

3.6 Merchants

3.6.1 Merchant base

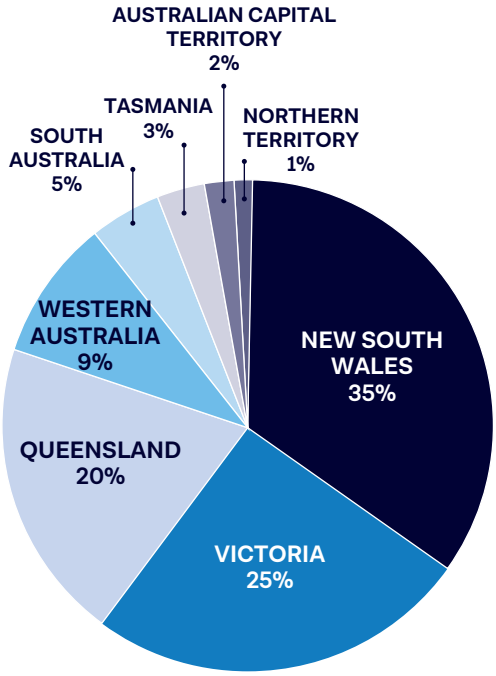
We serve over 29,000 Australian merchants across a range of verticals as illustrated in **Figure 3.19**. We have focused on SMEs in Health, Hospitality and Retail, but also work with merchants of other sizes and verticals where we believe that our capabilities align with their needs. Our merchants are distributed across Australian states and territories as illustrated in **Figure 3.20**.

Figure 3.19 Merchants by vertical, as at 30 June 2019



Note: Other includes Accommodation, Services, education and training and sports and recreation. The count of our merchants by vertical is based on information collected from the merchant at the time of application. Verticals are identified by industry standard Merchant Category Codes, which have been mapped to ABS ANZSIC Industry Classes per our internal classification.

Figure 3.20 Merchants by State and Territory, as at 30 June 2019



Note: The count of our merchants by geography is based on information collected from the merchant at the time of application.

Our top 20 merchants (as measured by payments gross profit) represented approximately 8.8% of our payments gross profit in FY19 and have an average tenure of approximately seven years, as at 30 September 2019. Some examples of our merchants at the Prospectus Date are listed in **Figure 3.21**.

Figure 3.21 Example merchants

EXAMPLE MERCHANTS		
Franck Provost	Gelato Messina	Guzman y Gomez
Healthscope	Heinemann Australia	Le Creuset
Mecca	Merivale	Rockpool Dining Group
Solotel	Sonic Healthcare	Sydney Lyric and Capitol Theatre
The Cheesecake Shop	Vision Group	Westfield (Scentre Group)

3.6.2 Merchant onboarding and contracts

To join us, a merchant must complete an application form that captures key information about their business and specifies their fees and terminals. This form includes our standard terms and conditions (which may be updated from time to time) that cover the provision of our merchant acquiring service and a Tyro Bank Account (which is generally issued to every new merchant). Except in certain cases, our terms and conditions do not lock merchants into a fixed contract period, permitting merchants to terminate their arrangements with us and providing us with the ability to modify pricing, by providing 30 days' notice.

We assess a merchant's eligibility against internal criteria including company and director credit files, internal and scheme watch lists, and documents which provide proof of trade, such as utility bills, leases and social media. The information collected from a merchant is also used to meet our Know Your Customer obligations (refer to **Section 2.5.5**). Merchants receive their Tyro Bank Account when their application is approved and their terminals are configured in-house and shipped via courier. When a merchant receives their terminal they contact our Customer Support team (available 24/7) and a team member will activate the terminal, typically within minutes.

Figure 3.22 Illustrative steps in an example merchant's onboarding journey

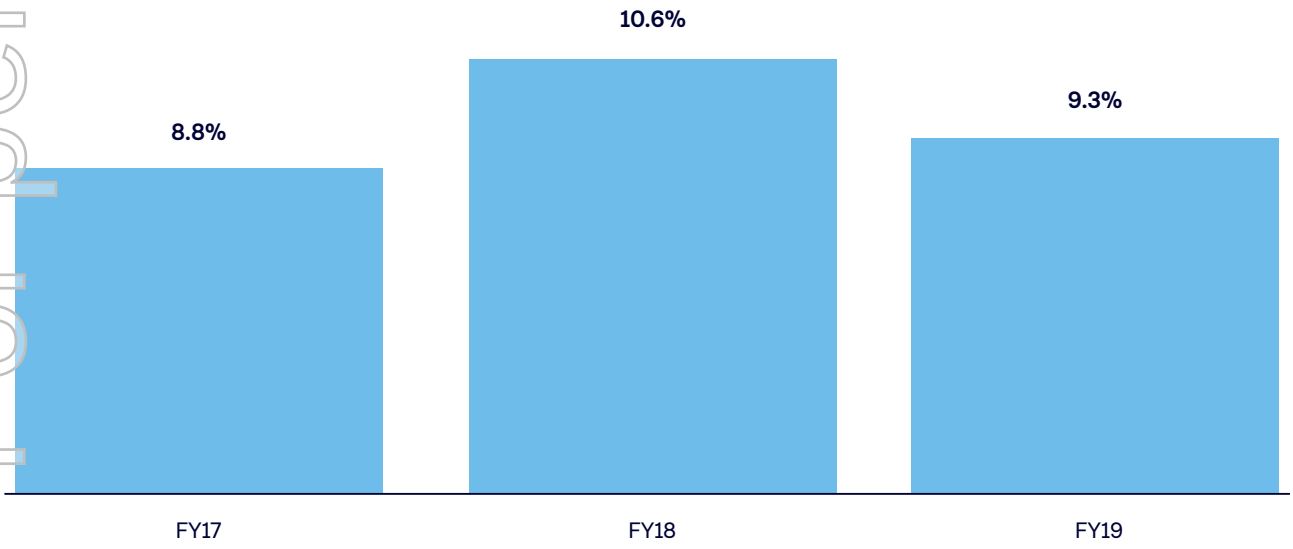
1. Awareness	2. Consideration	3. Lead	4. Application	5. Decision	6. Onboarding	7. Service
• Merchant becomes aware of various payment providers.	• Merchant needs a new payment provider (either new to market or looking to switch providers). • Merchant considers from a set of providers in their awareness set.	• Merchant submits contact details to us (usually via a website or referral partner). • Merchant is contacted by us to discuss their needs.	• Merchant submits application form.	• Our application specialist and risk team review application. • Merchant is informed of our decision.	If successful: • merchant details loaded into our systems; • terminal securely configured with our software and couriered to merchant; and • merchant calls our support team to activate.	Merchant can manage service(s) via: • 24/7 Customer Support team; • Merchant Portal; • Tyro App; and • dedicated account management team for particular merchants.

3.6.3 Merchant retention

We pride ourselves on our relationships with our merchants. As shown in **Figure 3.23**, transaction value churn was 9.3% in FY19, supported by our merchant retention team that monitors trends in potential merchant lapsing behaviour and implements initiatives to re-engage at-risk merchants (refer to **Section 3.4.5**).

We also have a user experience research and design team, devoted to improving the merchant and cardholder experience in relation to our products and services. As part of our agile product delivery framework, this team conducts research using a number of qualitative and quantitative methods, creates merchant personas, and helps to inform product design and development.

Figure 3.23 Transaction value churn, FY17 – FY19, (% transaction value lost from lost or dormant merchants)



Note: Years ended 30 June. To calculate transaction value churn as at the end of the relevant financial year, we determine 'churned merchants' (being merchants that do not transact for at least the last three consecutive months in the relevant financial year) and their 'churned value' (being the difference between total transaction value in the relevant financial year and total transaction value in the previous year for those churned merchants). Transaction value churn is that churned value as a percentage of the total transaction value for the 12 months preceding the relevant financial year.

3.7 Suppliers

We have a number of relationships with third parties that enable us to offer our services, some of which are listed in **Table 3.3**.

Table 3.3 Key third party relationships

SUPPLIER	DESCRIPTION
(Atos) Worldline	(Atos) Worldline is currently the sole supplier of our terminal hardware. The flexibility of (Atos) Worldline hardware has enabled us to develop our own differentiating terminal software. This contract operates on a rolling annual basis.
DXC Technology	DXC Technology's private health fund connectivity enables us to provide merchants with private health insurance claiming. DXC Technology pays us a fee for health claims processed through our terminals. This contract continues until terminated by either party.
Medicare (via the Department of Human Services)	Our direct connectivity to Medicare Easyclaim enables us to provide merchants with public health insurance claiming. The Department of Human Services pays us a fee for Medicare Easyclaim claims processed through our terminals. This contract will expire on 31 December 2019 and is currently subject to a public tender process run by the DHS for the period commencing on 1 January 2020. We intend to participate in this tender process.
Mastercard Payment Gateway Services	This service enables our eCommerce solution and was selected to accelerate our entry into the eCommerce market. We pay Mastercard Payment Gateway Services fees for the use of their technology. The term of this agreement is for 60 months (until March 2024) and then automatically renews on an annual basis unless terminated by either party.
Schemes	We have direct membership to major schemes, including Visa, Mastercard, eftpos, American Express and UnionPay International (refer to **Section 2.3.1**). We contract with each scheme on their specific terms and conditions which vary across the different schemes (refer to **Section 2.5.10**). Arrangements are not for fixed terms and may be terminated by either party on notice. Scheme fees may be altered by the schemes on provision of notice to us.
Alipay	We have a contract with Alipay enabling us to provide their payments solution to our merchants. The agreement automatically renews annually unless either party terminates on 30 days' notice prior to the end of the current term. Either party may also terminate the agreement for convenience with 60 days' written notice.
Snowflake	Snowflake provides data warehousing and analytics services (as referred to in **Section 3.8.3.4**) for payment of agreed fees by us. Snowflake can terminate this agreement if we cease to place orders with them.
Avoka (Tenemos)[19]	Avoka is a digital onboarding SaaS-based platform that we are using to digitise some of our merchant onboarding and service processes. This contract renews annually unless either party terminates on 30 days' notice prior to the end of the current term.
Mambu	Mambu, a SaaS-based banking solution provider, is being piloted for the provision of our banking ledger. This agreement is for a term of five years (until August 2024), followed by 12 month automatic renewals unless either party gives two months' notice of discontinuance. We pay Mambu services fees which it can increase from time to time (although we may terminate the agreement if we do not accept the revised fees).

19) Tenemos announced the acquisition of Avoka in December 2018.

SUPPLIER	DESCRIPTION
Telstra	Telstra provides the 3G SIM cards for our terminals (used by merchants if their internet connection fails or where other means of internet connectivity are unavailable). Telstra also provides the internet protocol-based virtual private network (**Community of Interest Network**) which we and other payment providers must access in order to process eftpos transactions. The agreement rolls monthly until terminated by either party.
Charters Paper	Charters Paper provides the thermal paper rolls that our merchants use in their terminals to issue receipts to cardholders. Charters Paper may vary its pricing as a result of fluctuations in the cost of paper. Either party can terminate the agreement with 120 days' notice.
Amazon Web Services	AWS provides public cloud infrastructure services to us. We pay AWS service fees and may terminate this agreement on notice (AWS may terminate on two years' notice.)
Fujitsu and Equinix	Fujitsu and Equinix provide data centre hosting facilities for payment of services fees by us. Both agreements operate on an automatic annual rolling basis, subject to provision by a party of the requisite notice prior to the end of the current term.
ThoughtWorks and Simple Machines	ThoughtWorks and Simple Machines provide software consultancy services for software development. Intellectual property in developed software is assigned to us upon payment of agreed fees.

We are reliant on these arrangements, many of which are on standard supplier terms and conditions, including provisions entitling counterparties to terminate for cause, indemnities for losses caused by us or breaches of the agreement, and caps on liabilities of the counterparty. For a discussion on risks relating to key third party contracts, refer to **Section 5.2.16**.

3.8 Technology

We operate a core proprietary technology platform to support our merchant acquiring and banking lines of business. The core building blocks include a Linux operating system, virtualisation via VMware and storage via a NetApp Storage Area Network. Our platform is hosted in two active-active co-location facilities in Sydney, meaning that our system is running at two live sites simultaneously to increase its reliability and availability. Recovery of systems and our ability to operate critical services out of only one data centre is periodically tested, in accordance with our Business Continuity Plan. All new development follows 'cloud native' design principles – we are planning to migrate a significant portion of our system to, or redevelop a significant portion of our system for, a public cloud environment over the next three years, subject to strategic priorities and necessary approvals.

3.8.1 Core technologies

The core technologies that underpin the majority of system applications are:

- Linux operating system;
- virtualisation via VMware;
- storage via a NetApp Storage Area Network;
- Java or other languages compatible with running on the Java Virtual Machine;
- MySQL for database management; and
- RabbitMQ for messaging.

3.8.2 Architecture and governance

We have an established architecture function which governs key technology decisions to:

- ensure the architectural integrity, scalability and operability of our systems;
- align our technical roadmaps with our business objectives and initiatives;
- inform our 'build versus buy' decisions; and
- identify opportunities to deploy emerging technologies.

3.8.3 Engineering domains

3.8.3.1 Payments domain

Our payments platform has been developed for availability, performance, resilience, security, scalability and the ability to iterate new features quickly. We believe that, to a large extent, our high core platform availability (refer to **Table 3.1**) is due to the consistent investment in this platform.

We deploy the majority of our payment services in two distinct, separately supplied data centres. The switch engines and integration servers operate out of both data centres simultaneously. Our back office system (responsible for settlement and reporting) operates out of one data centre with data being replicated to the other data centre in real time. We test alternating between the two sites on a quarterly basis. This provides us with redundancy in the event of a disruption in one site and assists us to achieve our high core platform availability.

3.8.3.2 Banking domains

Our deposits platform was the second significant domain we have developed. It was our first explicit use of a microservices architectural style which allows parts of the system to be more easily developed and released independently. In following this approach, we adopted a simple design to assist us launch as soon as practicable, including limiting merchants to one account per distinct ABN and relying on manual exception-handling processes. We plan now to provide more functionality to a larger merchant base by using a third party banking solution (a SaaS product offered by Mambu, a cloud banking platform provider) which will provide our banking ledger and assist us to develop proprietary product modules to differentiate us from other banks. In addition, our selection and implementation of Mambu will assist us in our adoption of Open Banking (refer to **Section 2.6.3**).

The third significant domain we developed was to support our lending product and associated credit risk grade system. Our proprietary lending platform is more flexible and scalable as a result of its architecture and focus on automation.

3.8.3.3 Digital channels

To allow our merchants to interact with our products, we have native mobile applications for both iOS and Android operating systems. In addition, our Merchant Portal (accessible online) provides reporting for our merchants (refer to **Table 3.1**).

Our digital channels team is currently focused on digital onboarding and servicing to progressively replace manual, paper-based processes with assisted and self-service digital processes working with Avoka (Tenemos) (refer to **Section 3.7**).

3.8.3.4 Data platform

Over the last year, we have developed a data platform, supported by Apache Kafka. Kafka is a highly-scalable store of transaction data and provides the mechanism to move data from our operational systems to our reporting and analytics systems.

In addition, we have adopted Snowflake, which is a cloud-based data warehouse. This has assisted us to move the reporting and analytics workloads away from our operational systems with a significant increase in performance in a cost effective way. To date, we have moved three years' of payments data across to Snowflake and we are now working to migrate our lending data.

3.8.4 Public cloud adoption

We are transitioning our workload to public cloud infrastructure rather than dedicated data centres. In April 2017, we started using Amazon Web Services for development and test environments and for a number of our corporate services. We have now moved non-material production workloads to the cloud and, following dialogue with the Australian Prudential Regulation Authority, deployed to the cloud our first material workload (data and analytics platform) in September 2018. We are now utilising AWS for our Alipay transaction processing and plan to continue our public cloud migration.

With the significant growth in the number of our merchants and transactions processed on a daily basis, by mid-2017, we had outgrown the initial design of some of our systems. This required significant investment in a number of our key revenue-generating systems to ensure that we could scale through the next stages of our growth.

An example of this investment in key systems and scalability relates to our switch engines. Our switch engines are critical to the payment authorisation process and in accepting transactions from our terminals. We had a limit of four switch engines capable of operating at any one time. As our business scaled, the need for greater redundancy, especially during peak trading periods such as Christmas, became a business imperative. As such, we undertook a project, which was completed in 2018, to increase the number of switches from four to 12, providing more headroom for future growth and redundancy. The project was executed with no downtime or merchant impact and provided an architecture which permits the addition of switch engines in the future in a more flexible manner.

3.8.5 Team and delivery framework

The engineering team comprised 19 delivery teams as at 30 June 2019. Each team is aligned to a business domain and has architectural and operational ownership of a number of services. To ensure coordination and prioritisation of work across these teams, we use the Tyro Delivery Framework which provides a consistent framework for prioritisation and product delivery. This includes phases that validate merchant desirability, business viability, technical feasibility and success measures.

3.8.6 Distributed development

Historically, we have operated solely out of our Sydney office; however, market conditions in Sydney have made attracting and retaining technology talent challenging. Consequently, we have partnered with ThoughtWorks to provide engineering capacity from their delivery centre in Xi'an, China. This development approach involves personnel in Xi'an and Sydney working in blended teams via 'always on' video conferencing and opportunities for geographic rotations.

3.8.7 Information security

We employ a number of initiatives as part of our information security strategy to mitigate the risks presented largely by cyber crime. Cyber crime can include unauthorised attempts to interrupt or degrade the availability or performance of our services, steal sensitive information such as merchant or employee data, or defraud. We have designed and developed our systems and processes in an effort to protect against these threats and continually invest in enhancing these capabilities. We regularly conduct a number of internal and external control tests and reviews, including penetration testing and incident security drills. We also structure our approach having regard to a number of assurance frameworks and initiatives, such as the Australian Prudential Regulation Authority's Information Security Standard, the National Institute of Standards and Technology Cyber Security Framework and Information Security Registered Assessors Program. Our internal security team, which currently includes security consultants, architects, incident response specialists and application security experts, is supplemented by our engagement with third party domain experts as appropriate.

3.8.8 Payment Card Industry Data Security Standard compliance

The Payment Card Industry Data Security Standard (**PCI DSS**) which applies to all entities involved in payment card processing (including merchants) is a set of security standards designed to ensure that businesses maintain a secure environment. Businesses' PCI DSS compliance reporting obligations (level 1 to 4) will depend on the number and nature of the transactions processed. We assess our merchants' PCI DSS level annually and provide relevant information to the schemes when our merchants have reached certain levels. Merchants in level 1, 2, and 3 (higher number of transactions) are obligated to meet our compliance validation and reporting requirements. We currently do not require merchants in level 4 to attest to PCI DSS compliance; however, they are obligated to comply with the PCI DSS. We accept, process, store and transmit credit card information and are currently undergoing PCI DSS certification with a goal to have this completed before the end of the current financial year.

3.9 Risk management, capital and funding

3.9.1 Introduction

We operate in a complex and constantly changing environment where risk is encountered and managed as part of our day-to-day operations (refer to **Section 2.5**). We are committed to ensuring that a consistent approach to identifying, assessing and managing risk is established across the business and is embedded in our processes and culture, in line with the standard 'three lines of defence' model (refer to **Section 3.9.4**).

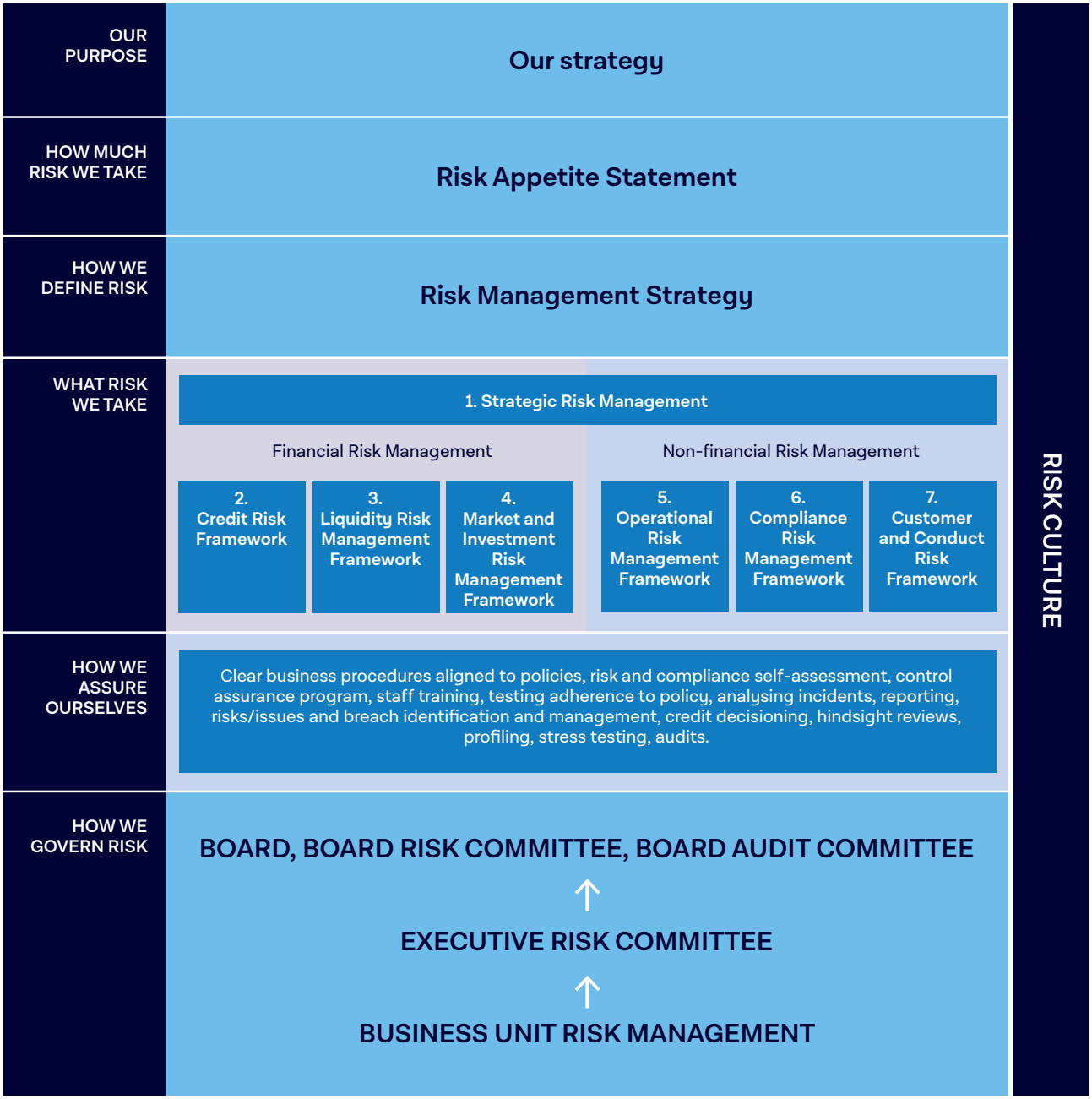
Our approach includes:

- implementing a systematic risk assessment and escalation process;
- managing and reporting risks in line with delegated risk acceptance and escalation authorities and the Board's approved risk appetite; and
- embedding risk culture and awareness, with regular team training and education.

3.9.2 Risk management framework

Our Risk Management Framework outlines the material financial and non-financial risk types that we manage, how we manage risk and how we govern it (refer to **Figure 3.24**).

Figure 3.24 Risk Management Framework

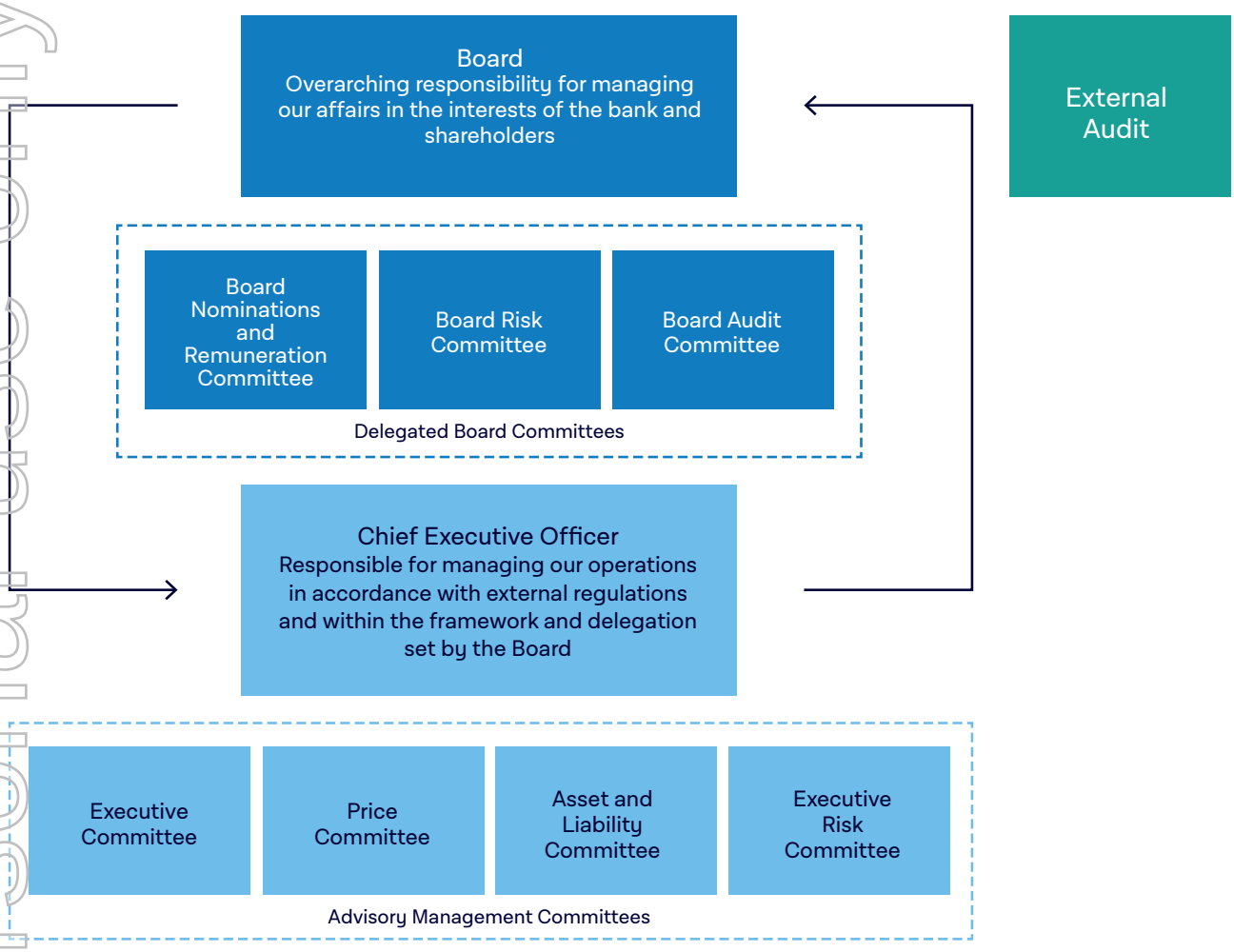


Our Board oversees management's compliance with its policies and procedures and sets its qualitative and quantitative risk appetite (in the form of our Risk Appetite Statement) in pursuit of its business objectives as defined by our strategy. Our Risk Appetite Statement, together with our Risk Management Framework, outlines an approach that establishes how we define risk and how much we are willing to take. Having a risk management framework that is appropriate to the size, mix and complexity of our business and consistent with our strategic objectives is a requirement of the Australian Prudential Regulation Authority.[20]

20) APRA Prudential Standard CPS 220 *Risk Management*.

Our Risk Management Framework is governed by our governance framework and related committees as shown in **Figure 3.25**.

Figure 3.25 Governance framework



3.9.3 Material risk management

The key material risk categories in our Risk Management Framework include strategic risk, credit risk, liquidity risk, market and investment risk, operational risk, compliance risk and customer and conduct risk (refer to **Section 5** for details on our risk factors).

3.9.3.1 Strategic risk management

Strategic risk is presented by our environmental context (such as changes in merchant or cardholder behaviour or demand, or changes in technology), our strategic choices and our ability to appropriately execute on our strategy with regard to these external factors. There are no formal policies that govern strategic risk; however, the strategic planning process governs the development and management of our strategy along with identifying any associated execution risks.

3.9.3.2 Credit risk management

The goal of credit risk management is to ensure we adequately balance the risk-adjusted rate of return and credit risk exposure within commercial and prudential parameters, and the agreed guidance outlined in the Risk Appetite Statement. Our credit risk generally relates to:

- **lending**: the risk of default on a debt that may arise from a borrower failing to repay a loan; and
- **merchant acquiring**: the risk of loss arising from sponsorship of a merchant into the card payments value chain, generally by way of chargebacks, fraudulent activity or scheme fines.

More specifically, credit risk is grouped into four sub-categories as follows:

- **default risk**: a merchant defaults on their loan payment obligations or experiences material credit quality deterioration which increases the likelihood of a loan default;
- **concentration risk**: an adverse development arises with a merchant, industry or geographic region leading to a disproportionate deterioration in the risk profile of our credit exposures to that merchant, industry or geographic region;
- **mitigation risk**: risk controls or mitigation measures do not perform as intended which causes higher incidents of loss; and
- **payments risk**: financial losses arise from a merchant's failure to honour chargebacks raised by cardholders or as a result of financial penalties levied by schemes relating to merchant misconduct (refer to **Section 2.3.2.3** for a description of chargebacks).

Our credit risk management framework comprises risk policies and procedures formulated for the assessment, monitoring and reporting of these credit risk categories.

3.9.3.2.1 Assessment, monitoring and reporting

To help determine eligibility for lending and merchant acquiring services, the credit risk assessment includes a combination of the following components:

- **lending automated decisioning**: our credit risk assessment is mainly determined by our proprietary automated lending system that considers a combination of factors including credit underwriting standards and product eligibility rules;
- **lending manual decisioning**: for loans that fall out of our automated decisioning process, we use manual loan assessments including for policy exceptions and the write-off of bad debts, delegated to specified personnel and committees. The manual decision process undertaken depends on the category of policy exception; however, it may include undertaking further analysis and credit checking to determine financial health; and
- **credit risk grading system**: designed to rank merchants in terms of credit quality aligned with the underlying credit worthiness and likelihood that a merchant will continue to meet their financial obligations.

Our risk management team is responsible for monitoring and regular reporting to the Executive Risk Committee and Board Risk Committee.

3.9.3.2.2 Impaired loan and merchant facility management

A loan is classified as impaired when either the borrower has permanently ceased trading as a business and/or they have failed to meet the minimum loan repayment requirement, which is currently 10% of the loan origination (plus the fee) every 90 days. An impaired loan is classified with a specific risk grade and results in a full provision raised at the time of impairment (refer to **Note 4** in **Appendix A**). In some circumstances we negotiate a mutually-acceptable repayment arrangement which is deemed affordable for the borrower. An impaired loan is deemed to be a bad debt and uncollectible after 30 days from the date of default if debt recovery has been unsuccessful. The number of bad debts written off (lending losses) as a percentage of the size of loan originations remained low and stable in FY19 (refer to **Section 4.9.1.4**).

In our payments business, the provision of a merchant acquiring facility becomes impaired when chargeback claims are received and the merchant is unable to meet its financial obligations. This typically relates to when they are unable to fulfil promises made to cardholders (for example, the provision of goods or services as described when sold) or their activity is deemed fraudulent.

3.9.3.3 Liquidity risk management

3.9.3.3.1 Liquidity risk management

We define liquidity risk as the likelihood of not having sufficient funds available at short notice[21], to meet contractual obligations as they fall due, or to fund assets, without incurring unacceptable losses (refer to **Section 5.2.13**).

We are classified as a Minimum Liquidity Holdings authorised deposit-taking institution for the purposes of the Prudential Standard APS 210 Liquidity. This standard requires an ADI to adopt prudent practices in managing its liquidity risks and to maintain an adequate level of liquidity to meet its obligations as they fall due across a wide range of operating circumstances. We are required to meet the minimum quantitative requirements as defined in this standard on a continuous basis, absent a situation of financial stress. To test for this and to ensure we can operate under a wide range of operating conditions, we conduct stress testing on a regular basis that is appropriate to our business (refer to **Section 5.2.14**).

21) Attachment B of APRA Prudential Standard APS 210 *Liquidity* notes that a Minimum Liquidity Holdings ADI must ensure it has the operational capacity to liquidate any securities held as liquid assets within two business days.

In line with APS 210, we have a liquidity policy which sets out how to allow for having sufficient funds to pay maturing liabilities through a pre-defined time horizon and to meet specific liquidity position requirements.

This policy includes the requirement to maintain:

- a sustainable risk management framework to measure, monitor and manage liquidity risk commensurate with the scale and complexity of our business;
- a portfolio of liquid assets sufficient in size and quality to enable us to withstand a liquidity crisis; and
- a robust funding structure commensurate with the scale and complexity of the business.

Our key liquidity risk management activities include:

- active intraday management of our Exchange Settlement Account with the Reserve Bank of Australia; and
- regular monitoring of our regulatory liquidity requirements.

Our liquidity risk appetite, outlined in our Risk Appetite Statement, has been set in recognition of these activities, and aims to balance the cost of holding low yielding assets with prudent yet sustainable operational practices.

3.9.3.3.2 Types of liquidity risk

Intraday liquidity: our ability to manage operational liquidity risk is reliant upon our ability to manage settlement risk. This arises from the timing of the receipt of settlements owed by participants, such as the schemes.

There are four key intraday liquidity risks:

- a scheme (such as Mastercard) is unable to process its payments run to schedule, causing us to not receive funds on time and therefore potentially delay full settlement to merchants;
- Medicare fails to process settlement to us despite the fact we have pre-funded the rebate amounts to the cardholders;
- for selected eligible merchants we pre-fund settlement to enable these merchants to receive weekend settlements early (i.e. on Monday, rather than Tuesday). This creates the risk that we may not receive funds from relevant schemes on time or at all; and
- we receive scheme payments net of fees but settle with the merchant the full settlement amount (i.e. not deducting fees). This results in pre-funding the Merchant Service Fee, usually for one month in arrears under current arrangements, which creates the risk that merchants may default on their fees owed to us.

Our cash flow forecasting, regular assessment of exposures, internal experts and minimum liquidity holdings are important measures to manage this intraday risk.

Future cash flows of assets and liabilities: we also generate cash flow from our balance sheet activities in the form of fees earned on loans and interest paid on merchant deposits. Our liquidity forecast model takes account of:

- the inflow and outflow schedule of interest amounts;
- the schedule of principal payments and repayments;
- anticipated asset funding (for example, loan originations); and
- the inflow of fees from merchant direct debits.

With respect to our banking business, it should be noted that merchants who make repayments above the contractual minimum on their outstanding business loan balances are not permitted to redraw prepaid amounts and that we do not currently offer forward-funded or line of credit loan products.

Reserve Bank of Australia repurchase facilities: as a member of the Reserve Bank Information and Transfer System and a full participant of the Austraclear System of the Australian Securities Exchange, we are eligible to participate in certain facilities that help us manage our liquidity. We are an eligible counterparty to participate in the Reserve Bank of Australia's Open Market Operations and Standing Facilities.

3.9.3.3.3 Funding

Our principal sources of funding are merchant deposits and capital.

The Australian Prudential Regulation Authority requires us to maintain adequate levels of regulatory capital to act as a buffer against the risk associated with our activities, as defined in the Prudential Standard APS 110 Capital Adequacy. We adopt the standardised approach to the measurement of the credit and operational risk capital requirements in accordance with:

- APS 112 Capital Adequacy: Standardised Approach to Credit Risk; and
- APS 114 Capital Adequacy: Standardised Approach to Operational Risk.

APRA requires us to maintain capital levels above a minimum Prudential Capital Requirement with additional buffers as appropriate, at all times. Minimum adequate levels of regulatory capital may be adjusted by APRA at any time due to changes in risk profile or due to any significant changes to APRA's policy framework (refer to **Section 2.5.7**).

We forecast future capital requirements and available capital resources to manage the business to our required levels of regulatory capital, target adequacy levels and internal capital triggers, over a forecast period. This is an annual exercise with the Senior Leadership Team and the Board, performed in conjunction with the business planning and budgeting process.

The actual capital ratio is calculated on a monthly basis, with the movements and variances analysed against target. As part of capital planning, the financial results are stress tested for specific and market related assumptions both in the short and long term.

3.9.3.4 Market and investment risk management

Market and investment risk relates to the risk of loss arising from adverse changes in interest rates, foreign exchange rates, equity prices, commodity prices and other relevant parameters, such as market volatility. The Asset and Liability Committee oversees management of this risk.

We have exposure to interest rate risk primarily on our variable interest-bearing cash and cash equivalent balances, term deposits, floating rate notes, loans and variable deposits (bank account for businesses). We are not exposed to foreign currency risk in the settlement of merchant transactions as all monies received and paid are in Australian dollars. The settlement of fees with card schemes and the purchases of terminals from foreign suppliers are transacted in foreign currencies at the exchange rate prevailing at the transaction date. We have immaterial US dollar and Euro exposure. We do not engage in financial market trading activities nor assume any foreign exchange, interest rate or other derivative positions and do not have a trading book. We do not undertake any hedging around the values of our financial instruments as any risk of loss is considered insignificant to our operations at this stage.

3.9.3.5 Operational risk management

We define operational risk as the risk of loss resulting from inadequate or failed internal processes, human error and systems failures or external events (refer to **Section 5.2.6**).[22] We manage this risk by designing and maintaining operational risk profiles developed through the risk and controls self-assessment (**RCSA**) process. The RCSA process provides a structured approach to the identification, assessment, management, testing, monitoring and reporting related to these risks. The controls assurance program confirms the integrity of the control environment through periodic testing of the design and operating effectiveness of key controls, identification of control gaps and determination of remediation and action plans as required.

In addition to the operational risk team members, we have specialist cyber security and technology risk teams in place to manage and mitigate ongoing cyber security risks (refer to **Section 5.2.8**).

We manage operational risk according to sub-categories including: internal fraud, external fraud, employment practices and workplace safety, customers, products and business practice, damage to physical assets, business disruption and systems failures, and execution, delivery and process management.

3.9.3.6 Compliance risk management

We are committed to complying with all internal and external obligations, through the development and maintenance of a risk and compliance framework that is embedded in the way we conduct business. Our compliance obligations are documented in an obligations register which is kept up to date by tracking the progress of new or changed relevant legislation and regulations.

These obligations can include:

- legislation and regulations (refer to **Sections 5.2.5** and **5.2.18**);
- licences;
- mandatory regulatory standards, guides, policies, rules or material regulatory correspondence; and
- mandatory external codes and voluntary codes that we may subscribe to in the future (noting that we do not subscribe to any external code to date).

22) International Organization for Standardization 31000:2018 Risk Management – Guidelines, 4. Principles.

We have compliance policies and supporting documentation which are subject to regular review to ensure they remain current and we have a compliance monitoring program in place to monitor adherence to policies. The RCSA process is also used to identify, evaluate and manage compliance risks and for developing associated controls.

Compliance risks are reassessed whenever there are changes to the business environment, which include products, processes, systems, third parties, regulations and the organisation.

3.9.3.7 Customer and conduct risk management

We attempt to ensure that any action of ours or our team members does not cause merchant detriment or have an adverse effect on market stability or effective competition. We define the risk of this happening as customer and conduct risk. To manage this risk, we have aligned the management of this material risk type with the compliance risk management framework, leveraging the RCSA process. Specifically, we have a number of activities in place to manage customer and conduct risk:

- **staff training and awareness**: a range of face-to-face and mandatory online training is distributed across the entire team, including more specific training for particular roles, such as training to assist sales staff ensure their interactions with our merchants are fair and values-focused;
- **measurement**: conduct metrics are included in the Risk Appetite Statement and monitored regularly by the Board, Board Risk Committee and the Executive Risk Committee;
- **product management**: certain policies and procedures are in place that set out expectations and requirements for product development, offers and ongoing disclosures to merchants and other stakeholders; and
- **merchant feedback**: we have a number of mechanisms in place to measure and monitor our merchant satisfaction and interactions to identify improvement opportunities, such as Net Promoter Score, complaints and in-house quality assurance monitoring.

Our values (refer to **Section 3.10.2**) and risk culture (refer to **Section 3.9.4**) are central to the way we manage our customer and conduct risk and help reinforce the controls and procedures we have in place.

3.9.4 Risk culture

We are a values-driven business which informs our approach to recruitment, retention and performance management as well as the ethics and behaviour of our team members. Our risk culture is a product of this broader values-led culture. This is exemplified by one of our four organisational values – '*Be good*' – which reads '*We're open and transparent, and we do the right thing – even when nobody's watching or it's really hard*' (refer to **Section 3.10.2**).

The foundations of our approach to key risk management are as follows:

- leadership;
- governance and control;
- accountability; and
- behaviour.

To help ensure we operate within the defined risk appetite set by the Board, our risk culture is underpinned by a three lines of defence model:[23]

- **First Line of Defence (1LoD): risk owners** – business managers have primary responsibility for identification and management of risk in the performance of their day-to-day responsibilities;
- **Second Line of Defence (2LoD): risk appetite, oversight and insight** – risk management and compliance functions are accountable for risk oversight, insight and support, including the development and regular review of the risk management framework and appetite, advising the business on risk management tools and strategies, and monitoring and reporting on the risk profile; and
- **Third Line of Defence (3LoD): independent assurance** – internal and external audit is accountable for independently assuring that the risk management framework is operating effectively.

This structured approach to risk management is key to the development of our effective risk culture.

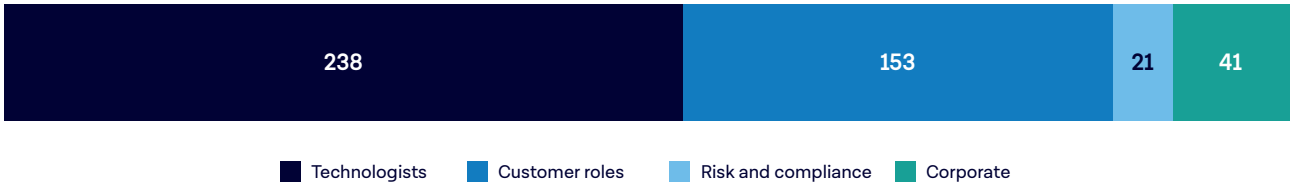
23) The Australian Prudential Regulation Authority describes the three lines of defence risk governance model in more detail in its Prudential Practice Guide CPG 220 – Risk Management, April 2018.

3.10 People and culture

3.10.1 Employees

We are headquartered in Sydney with a team of 453 as at 30 June 2019, of whom approximately half are employed in technology roles. We lease our Sydney office with the current term of our lease expiring in January 2022 and we have an option to extend the lease for another three years (refer to **Section 4.5.4.2**). Our team operates in the divisions set out in **Figure 3.26**.

Figure 3.26 Headcount by function, as at 30 June 2019



We have the advantage of a diverse workforce, providing different views and perspectives which assist us in understanding our merchants. Advancing our diversity, inclusion and belonging priorities is an ongoing focus for us. Our team members come from 43 countries, speak 56 languages and have an average age of 34. Currently, 31% of our total employee base, 38% of our managers and 33% of our Senior Leadership Team are female. We continue to improve our gender diversity initiatives to increase our female participation.

3.10.2 Values

We are proud of our open, inclusive and collaborative culture which has as its foundation our guiding values as described below. We foster a high performance, values-driven culture and our most recent employee survey showed that 80% of our team members are proud to work at Tyro and 80% would recommend it as a great place to work.

As a team, we are driven by making a real difference to Australian businesses – we support them and provide solutions to their business challenges.

Figure 3.27 Our values

3.10.3 People and culture initiatives

With a strong emphasis on our people and culture, we have a range of initiatives designed to support our people's learning and development and increase employee engagement and retention. These include bespoke leadership development programs (through the Tyro Leader Program, in partnership with the Australian Institute of Management), career pathways to provide promotion opportunities, and reward and recognition initiatives (through our peer recognition program that encourages appreciation in the workplace and rewards those who exhibit our core values). We also host events regularly to support our culture of collaboration and innovation, such as our quarterly innovation days known as Blitz, quarterly tribe days to encourage effective teamwork across functions and monthly company all-hands, known as Mindshare, to enable the effective flow of pertinent organisational information.

3.10.4 Employee engagement

We hold annual all-company employee surveys and more frequent departmental pulse surveys, to measure our employee engagement. Our employee engagement increased from 60% to 66% from FY18 to FY19 through our targeted initiatives.[24] These included the design and delivery of leadership development programs, creation of career development pathways to increase promotion opportunities, access to additional employee training and the creation of dedicated 'culture crews' across the business focused on promoting the best aspects of our culture and developing the areas that need more attention. From FY18 to FY19, our employee engagement scores improved in all four factors on motivation, pride and present and future commitment.

3.10.5 Remuneration and performance

Our approach to remuneration seeks to strike the right balance between:

- attracting, motivating and retaining the best talent;
- reflecting the interests of our shareholders as the owners of our business; and
- respecting and '*Wow[ing] the customer*'.

To enable our values-driven approach, our performance reviews include an assessment of how our team members live our values when delivering against the expectations of their roles. This contributes to the overall performance rating which impacts the team member's remuneration outcome. In relation to our FY20 incentive program, a new component relates to overall merchant satisfaction levels which applies to all team members irrespective of whether they hold a merchant-facing role or not. In addition, all of our sales incentive programs involve a 'balanced scorecard' approach which is designed to ensure the appropriate balance is set between financial outcomes and doing the right thing by our merchants.

3.11 Growth strategy

We have a clear strategy which underpins our growth ambitions. This includes a number of key initiatives as set out below:

3.11.1 Grow merchant share in existing core verticals

A focus on our core verticals has been one of the pillars of our business model and success (refer to **Section 3.4.3**). This approach has enabled us to better understand each vertical and the needs of merchants that operate within it, informing the development of better solutions, and resulting in market share growth. We believe that there is still significant opportunity in these verticals. We have over 29,000 Australian merchants, the significant majority of which are SMEs in the Health, Hospitality and Retail verticals. This compares to a total of 312,000 SMEs in the Health, Hospitality and Retail verticals as at 30 June 2018.[25] Key drivers for continued market share growth include increased marketing to drive brand awareness, more Point of Sale system integrations, additional payments methods and the development of more industry-specific solutions.

3.11.2 Add new core verticals

We are seeking to develop Accommodation and Services into core verticals (estimated to represent approximately 700,000 businesses in total as at 30 June 2019) as we believe merchants in these verticals will benefit from a merchant acquirer with the technical capability to produce specialised solutions and the preparedness to build domain expertise. We intend to use our technical capability to produce specialised solutions, including in eCommerce, to align with the identified needs in these verticals and to expand our terminal offering to provide more choice to merchants to enhance our attractiveness in these verticals. We intend to adopt a similar approach that has proven successful in servicing Health, Hospitality and Retail verticals and will leverage our existing platform and payments domain knowledge.

24) Tyro Engagement Survey as at February 2019. 90% participation rate. Over the last two years in measuring our employee engagement, we have utilised the Culture Amp people analytics platform which is designed by organisational psychologists and data scientists. The survey process is anonymous and has 60 questions that measure employee engagement in detail and assess a broad range of other contributing factors such as company performance, leadership, learning and development and feedback and recognition. We are able to benchmark our results against other similar companies (from a database including over 2,000 companies) which provides us additional insights on our results.

25) ABS 8165 (Count of Australian Businesses including Entries and Exits) as at June 2018 (released in February 2019). The total number of businesses in each vertical has been calculated by summing the number of businesses in ABS ANZSIC Industry Classes that have been categorised per our internal classification of verticals. We define SMEs as businesses that reported annual turnover between $50,000 and $5 million.

3.11.3 Drive expansion into eCommerce and other payment types

We will continue to drive the take-up of our unified payments solution by our merchants, particularly the approximately one third of them that we estimate to conduct online sales. Within our current merchant base, we believe that there is a significant opportunity to drive growth in eCommerce and that our merchants will benefit from our unified payments solution, which provides single-settlement and reporting across 'card-present' and 'card-not-present'. We also believe that our merchants will find this attractive as it will enable them to provide their cardholders with a more seamless experience across online and offline channels (for example, where customers purchase online and seek a refund in-store).

As the first Australian bank to provide a fully integrated Alipay solution, we intend to continue to innovate and provide multiple new and emerging payment types. In the near term, we plan to introduce payment methods like WeChat Pay and Zip Pay. We believe that having these features will position us ahead of the four major banks and assist us in retaining and growing our merchant base.

3.11.4 Cross-sell and drive expansion in lending and other value-adding services

We believe that there is significant cross-sell opportunity within our current product suite. By promoting a greater take-up of our ancillary value-adding offerings, including loans in the form of merchant cash advances (refer to **Section 3.3.2.2**), we will seek to enhance our unit economics through greater share of merchant wallet and merchant retention. We also consider that there are opportunities to offer certain value-adding products decoupled from our payments solution, including Tyro Connect as discussed below.

3.11.5 Launch Tyro Connect

In recent years, there has been growth in the number of customer-facing apps participating in the payments ecosystem. These include loyalty, booking and order-ahead apps, designed to meet customer demands for enhanced convenience and service. These apps typically seek to integrate with multiple Point of Sale systems to distribute their services into merchants' operations which can create duplication, costs and other inefficiencies for POS suppliers, merchants and apps. In the current configuration, some Hospitality app solutions require additional hardware including printers and tablet devices at the premises.

The proliferation of apps has resulted in friction for merchants, POS systems and app providers, including:

- **merchants**: face pressure from their customer base to accept more apps. If these apps are not integrated into the POS system, the merchant may have to maintain multiple devices such as standalone tablets and printers, causing manual entry, processing and reconciliation complexity;
- **POS systems**: face multiple integration requests and increased costs to accommodate apps which are driven by merchant demand; and
- **app providers**: face a need to build numerous POS system integrations, or distribute a fleet of standalone devices.

We are well placed to develop a solution, given our technology expertise, integration experience and existing network of POS system partners. This solution will aim to solve these inefficiencies via an API-based integration platform, distinct from merchant acquiring.

We are currently in the pilot phase of this solution, which is known as Tyro Connect. Tyro Connect is designed to be an integration hub for apps and POS systems – a 'plug and play' platform software solution designed to address merchant pain points around 'counter clutter' and manual processes. It also aims to make it easier for POS system partners and app providers to meet customer needs.

Tyro Connect seeks to reinforce our value proposition to merchants, while embedding us more deeply into the commerce ecosystem and enhancing our ability to capture data and insights. We also intend for this to be a standalone solution for businesses, irrespective of whether they are currently using any other of our products. If a business adopts Tyro Connect, it presents us with an opportunity to cross-sell other products. We are currently focused on use cases relevant to our core verticals, starting with Hospitality.

In six instances, we have offered specific POS system partners under Tyro Connect POS Partner Agreements the opportunity to receive Shares depending on the satisfaction of certain conditions relating to the Tyro Connect platform including, execution of the platform agreement, satisfying us that our technology has satisfactorily integrated with the POS system technology and activating certain amounts of users (refer to **Table 9.1** in **Section 9.4** and **Note 24** in **Appendix A**).

3.11.6 Investment in me&u

We are continually looking for ways to enhance merchants' ability in our core verticals to conduct commerce, whether that be through technological innovation in-house or via industry-leading third parties.

We have executed agreements to make a strategic equity investment in me&u (which is conditional on other parties entering into final documentation). me&u is a leading Australian mobile order and pay in venue solution for the hospitality industry. Established by the founder of Dimmi[26] (one of Australia's first online restaurant booking and review platforms), me&u enables patrons to view menus, order and pay for meals via their mobile phone, instead of queuing to place an order directly, or via wait-staff. The solution seeks to improve restaurant-goers' experience, free up wait staff for higher value tasks and increase order value and frequency.

As part of our investment case, following completion, we would provide the in-app payment solution for me&u. me&u would be one of the first key apps on the Tyro Connect platform. This will leverage our significant Point of Sale system integration expertise and ability to provide omni-channel payment solutions.

3.11.7 M&A and strategic partnerships

We have an appetite to pursue growth through acquisitions where it presents an opportunity to gain scale, leverage our platform or capabilities, enhance our market position in our core verticals or supplement our ecosystem (refer to **Figure 3.1**). The Australian merchant acquiring market has not experienced significant consolidation to date, but we will assess potential opportunities and to this end may also enter into strategic partnerships to accelerate development and growth. We maintain a disciplined approach to inorganic growth, and will only pursue opportunities where we believe there is significant alignment around valuation, strategy and culture.

26) Dimmi was rebranded to TheFork in January 2019.

Financial information

4. FINANCIAL INFORMATION

4.1 Introduction

The financial information contained in this **Section 4** includes:

- **Historical Financial Information** comprising:
  - the **Statutory Historical Financial Information**, being the:
    - statutory historical income statements for the financial years ended 30 June 2017, 30 June 2018 and 30 June 2019 (**FY17, FY18** and **FY19** respectively) (**Statutory Historical Income Statements**);
    - statutory historical statements of cash flows for FY17, FY18 and FY19 (**Statutory Historical Cash Flows**); and
    - statutory historical statement of financial position as at 30 June 2019 (**Statutory Historical Statement of Financial Position**); and
  - the **Pro Forma Historical Financial Information**, being the:
    - pro forma historical income statements for FY17, FY18 and FY19 (**Pro Forma Historical Income Statements**);
    - pro forma historical statements of cash flows for FY17, FY18 and FY19 (**Pro Forma Historical Cash Flows**); and
    - pro forma historical statement of financial position as at 30 June 2019 (**Pro Forma Historical Statement of Financial Position**); and
- **Forecast Financial Information** comprising:
  - the Statutory **Forecast Financial Information**, being the:
    - statutory forecast income statement for the year ending 30 June 2020 (**FY20f**) (**Statutory Forecast Income Statement**); and
  - statutory forecast statement of cash flows for FY20f (**Statutory Forecast Cash Flows**); and
  - the **Pro Forma Forecast Financial Information**, being the:
    - pro forma forecast income statement for FY20f (**Pro Forma Forecast Income Statement**); and
    - pro forma forecast statement of cash flows for FY20f (**Pro Forma Forecast Cash Flows**).

The Historical Financial Information and the Forecast Financial Information together form the **Financial Information**. The Statutory Historical Financial Information and the Statutory Forecast Financial Information are collectively referred to as the **Statutory Financial Information** and the Pro Forma Historical Financial Information and the Pro Forma Forecast Financial Information are collectively referred to as the **Pro Forma Financial Information**.

Also summarised in this **Section 4** is:

- the basis of preparation and presentation of the Financial Information, including the application of new accounting standards to the Financial Information and areas of critical accounting judgements and estimates (refer to **Section 4.2**). **Appendix A** also contains a discussion of our significant accounting policies;
- an explanation of certain non-IFRS financial measures in the context in which they are presented in this **Section 4** (refer to **Section 4.3**);
- details of our liquidity and capital resources, guarantees and commitments (refer to **Sections 4.5.3** and **4.5.4**);
- a presentation of key operating metrics (refer to **Section 4.7**);
- an analysis of our operating segments (refer to **Section 4.8**);
- management's discussion and analysis of the Financial Information (refer to **Section 4.9**);
- the general and specific assumptions underlying the Forecast Financial Information (refer to **Section 4.9.4**);
- an analysis of the sensitivity of the Forecast Financial Information to changes in certain key assumptions (refer to **Section 4.10**);
- our proposed dividend policy (refer to **Section 4.11**); and
- our approach to financial risk management (refer to **Section 4.12**).

The Financial Information presented in this **Section 4** should be read in conjunction with the 'Company overview' set out in **Section 3**, the 'Risk factors' set out in **Section 5**, our significant accounting policies and critical areas of accounting judgements and estimates set out in **Appendix A** and other information contained in this Prospectus.

The Financial Information is presented in Australian dollars, which is our functional and presentation currency for statutory financial reporting purposes. All amounts disclosed in the tables in this **Section 4** are presented in Australian dollars in thousands and, unless otherwise noted, are rounded to the nearest thousand. Any discrepancies between totals and the sum of components in tables, figures and diagrams contained in this Prospectus are due to rounding.

4.2 Basis of preparation and presentation of the Financial Information

4.2.1 Overview

We are responsible for the preparation of the Financial Information. The Financial Information in this Prospectus is intended to present investors with financial information to assist them in understanding our historical financial performance, financial position and cash flows together with forecast financial performance and cash flows for FY20f.

The Historical Financial Information has been prepared and presented in accordance with the recognition and measurement principles of Australian Accounting Standards, issued by the Australian Accounting Standards Board, which are consistent with International Financial Reporting Standards and Interpretations issued by the International Accounting Standards Board. Our significant accounting policies and critical areas of accounting judgements and estimates are set out in **Appendix A**.

The Historical Financial Information has been reviewed by PricewaterhouseCoopers Securities Ltd (**PwCS**) in accordance with the Australian Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information* as stated in its Independent Limited Assurance Report on the Historical Financial Information contained in **Section 8**. The Forecast Financial Information is unaudited and has been reviewed and reported on in accordance with that same Australian Standard by PwCS as set out in the Independent Limited Assurance Report on the Forecast Financial Information contained in **Section 8**. Investors should note the scope and limitations of the respective Independent Limited Assurance Report contained in **Section 8**.

The Forecast Financial Information is based on the general and specific assumptions set out in **Section 4.9.4**. The basis of preparation and presentation of the Forecast Financial Information, to the extent applicable, is consistent with the basis of preparation and presentation for the Historical Financial Information. Our accounting policies have been consistently applied in the preparation of the Financial Information, including, in relation to the Pro Forma Historical Financial Information, the retrospective application of Australian Accounting Standard AASB 16 *Leases* (refer to **Section 4.2.4** for impact of new accounting standards).

The Financial Information is presented in an abbreviated form and does not include all the disclosures, statements or comparative information as required by AAS and other mandatory professional reporting requirements applicable to annual financial reports prepared in accordance with the Corporations Act.

4.2.2 Preparation of the Historical Financial Information

The Statutory Historical Financial Information used in the preparation of the Pro Forma Historical Financial Information was extracted from our audited general-purpose financial statements for FY19, which include restated comparatives for FY18, FY17 and FY16 (Audited Financial Statements). FY16 is presented in the Audited Financial Statements for comparative purposes only and was not required to be reissued or reaudited by EY. EY has audited the Audited Financial Statements in accordance with Australian Auditing Standards. EY issued an unqualified audit opinion in respect of FY19, FY18 and FY17 and its audit report on those periods includes an emphasis of matter paragraph that highlights the revised and reissued financial report in respect of those periods. The Audited Financial Statements are available at https://events.miraqle.com/Tyro-IPO/Home/. We restated our Audited Financial Statements after identifying in October 2019 an error in our 2017, 2018 and 2019 financial statements relating to a payroll tax underpayment as a result of incorrectly attributing zero tax values to certain options issued between FY08 and FY11 (which are now expensed in employee benefits expense in FY19 ($52,000) FY18 ($776,000) and FY17 ($2,045,000)). The majority of these options were exercised between FY17 and FY19 with no payroll tax liability under the original valuation. As this error only impacts prior year financial statements, there is no impact on the FY20f forecast income statement as presented in this Prospectus. However, FY20f cash flows assume that the estimated liability of $2,900,000 will be settled in full within the FY20f period.

The Pro Forma Historical Financial Information has prepared for the purpose of inclusion in this Prospectus and has been derived from the Statutory Historical Financial Information.

In preparing the Pro Forma Historical Income Statements, pro forma adjustments have been made to reflect:

- certain incremental costs to be incurred upon us becoming a publicly listed company, as though we were a publicly listed company from 1 July 2016;
- the elimination of certain non-recurring items of expenditure including the exercise and vesting of Liquidity Event Performance Rights triggered by the IPO (noting that the expensing of the Liquidity Event Performance Rights does not affect cash flows);
- the retrospective application of AASB 16, as if AASB 16 had been adopted from 1 July 2016; and
- the tax effect of these adjustments where applicable.

A reconciliation of the Pro Forma Historical Income Statements to the Statutory Historical Income Statements, including explanations of these adjustments, is set out in **Section 4.4.4**.

The Pro Forma Historical Statement of Financial Position as at 30 June 2019 is based on the audited Statutory Historical Statement of Financial Position as at that date, adjusted to reflect:

- the retrospective application of AASB 16, as if AASB 16 had been adopted on 30 June 2019; and
- the impact of the Offer, as if Completion occurred on 30 June 2019.

A reconciliation between the Statutory Historical Statement of Financial Position and Pro Forma Historical Statement of Financial Position, including explanations of these adjustments, is set out in **Section 4.5.2**.

In preparing the Pro Forma Historical Cash Flows, pro forma adjustments have been made to reflect:

- certain incremental costs to be incurred upon us becoming a publicly listed company, as though we were a publicly listed company from 1 July 2016; and
- reclassification of lease payments from operating cash flows to financing cash flows, in accordance with AASB 16, as if it had been adopted from 1 July 2016.

A reconciliation of the Pro Forma Historical Cash Flows to the Statutory Historical Cash Flows, including explanations of these adjustments, is set out in **Section 4.6.3**.

Investors should note that past results are not a guarantee of future performance.

4.2.3 Preparation of the Forecast Financial Information

The Forecast Financial Information is presented on both a statutory and pro forma basis and has been prepared for inclusion in this Prospectus. The basis of preparation and presentation of the Statutory Forecast Financial Information and the Pro Forma Forecast Financial Information is consistent with the basis of preparation and presentation of the Statutory Historical Financial Information and the Pro Forma Historical Financial Information, respectively. The Forecast Financial Information reflects two months of actual results from our unaudited management accounts for the period from 1 July 2019 to 31 August 2019 prior to the lodgement of this Prospectus.

The Statutory Forecast Financial Information for FY20f assumes Completion will occur on 11 December 2019, and reflects seven months of incremental public company costs associated with us operating as a publicly listed entity and includes costs of the Offer, part of which have been expensed. The Statutory Forecast Income Statement and Statutory Forecast Cash Flows have been adjusted for the effects of pro forma adjustments to derive the Pro Forma Forecast Financial Information, including:

- incremental costs upon becoming a publicly listed company, for the five months prior to Completion;
- the elimination of certain non-recurring items of expenditure including the exercise and vesting of Liquidity Event Performance Rights triggered by the IPO and costs of the Offer expensed (noting that the expensing of the management performance rights do not affect cash flows); and
- the tax effect of these adjustments where applicable.

Reconciliations of the Pro Forma Forecast Income Statement and Pro Forma Forecast Cash Flows to the Statutory Forecast Income Statement and Statutory Forecast Cash Flows, including explanations of these adjustments, are set out in **Section 4.4.4** and **Section 4.6.3**, respectively.

The Forecast Financial Information has been prepared by us based on an assessment of current economic and operating conditions and general and specific assumptions regarding future events and actions as set out in **Section 4.9.4**. The Forecast Financial Information is subject to the risks set out in **Section 5** and the sensitivity analysis in **Section 4.10**. The inclusion of these assumptions, sensitivities and risks is intended to assist investors in assessing the reasonableness and likelihood of the assumptions occurring, and is not intended to be a representation that the assumptions will occur.

Investors should be aware that the timing of actual events and the magnitude of their impact might differ from that assumed in preparing the Forecast Financial Information, and that this may have a material positive or material negative effect on our actual financial performance, financial position or cash flows. In addition, the assumptions upon which the Forecast Financial Information is based are by their very nature subject to significant uncertainties and contingencies, many of which will be outside of our control, or the control of our Directors and management, and are not reliably predictable. Accordingly, none of our employees, the Directors, or any other person can give investors assurance that the outcomes discussed in the Forecast Financial Information will arise.

We believe the assumptions, when taken as a whole, to be reasonable at the time of preparing this Prospectus. However, this information is not fact, and investors are cautioned not to place undue reliance on the Forecast Financial Information.

We do not intend to update or revise the Forecast Financial Information or other forward-looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus, except where required by law.

4.2.4 Significant accounting policies and application of new accounting standards to the Financial Information

The significant accounting policies applied consistently in the preparation of the Financial Information are set out in **Appendix A**. We adopted AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers* from 1 July 2018, and AASB 16 from 1 July 2019.

The adoption of AASB 9 and AASB 15 did not materially impact our financial performance or cash flows, and accordingly no pro forma adjustments have been retrospectively applied to reflect these standards. The retrospective application of AASB 16 has been reflected in relation to the Pro Forma Historical Financial Information, as discussed further below.

4.2.4.1 AASB 16 *Leases*

We will apply AASB 16 to our statutory financial statements from 1 July 2019. This standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of greater than 12 months, unless the underlying asset is of low value. This affects how we account for our corporate office leases. Under previous AAS, we accounted for our corporate office leases as rent expense on a straight-line basis over the lease term. Lease incentives received were initially recorded in trade payables and other liabilities in the statement of financial position and subsequently recorded on a straight-line basis over the lease term through rent expense in the income statement.

AASB 16 instead requires these leases to be accounted for as a right-of-use asset, net of lease incentives, in non-current assets and the relevant lease obligation measured at the present value of the liability in the statement of financial position. The right-of-use asset is then amortised over its useful life with the expense included in depreciation and amortisation expense in the income statement. Interest expense on lease liabilities is recognised in the income statement as a portion of each lease payment made. The timing of expense recognition materially changes as a greater amount of interest expense is recognised in the earlier periods of the lease liability.

Furthermore, one of the corporate office floors is sub-let to a third party. Under previous AAS, the sublease income would have been recognised in the income statement as other income. AASB 16 requires the sublease to be accounted for as a receivable and presented as a net investment in lease in the statement of financial position. Interest income on this asset is recognised in the income statement as a portion of each lease payment received from the sub-lessee.

AASB 16 has no effect on our overall cash flows. Under previous AAS, rent payments and receipts were included in operating cash flows. AASB 16 instead requires that lease payments or receipts be classified and presented between the interest portion of the payment or receipt, included in interest paid or received, and the principal portion of the payment or receipt, included in financing cash flows and investing cash flows, respectively.

AASB 16 has been applied to the preparation of the Pro Forma Historical Financial Information and the Forecast Financial Information on a consistent basis as if this standard applied from 1 July 2016.

AASB 16 also significantly affects measures (including non-IFRS measures) of revenue and income, earnings before interest, tax and depreciation and amortisation as well as net profit after tax, operating cash flows and financing cash flows. In order to assist investors with an understanding of the financial effect of AASB 16, certain selected information has been presented in this **Section 4** as if AASB 16 had not been applied. This information is identified as 'pre AASB 16' where applicable.

4.2.5 Critical accounting judgements and estimates

Preparing financial statements in accordance with AAS requires management to make judgements, estimates and assumptions about the application of accounting policies that affect the reported revenues and expenses, carrying values of assets and liabilities and the disclosure of contingent liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both the current and future periods. Judgements that management has made in the application

of AAS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next financial year are disclosed, where applicable, in the relevant notes to our financial statements when these are prepared. The key areas in which critical estimates and judgements are applied are in respect of share-based payments transactions, classification of and valuation of investments, valuation of loans, capitalisation of internally generated software, estimation of useful lives of assets, long service leave and taxation, as described in the significant accounting policies outlined in **Appendix A**.

4.3 Explanation of certain non-IFRS and other financial measures

We use certain measures to manage and report on our business that are not recognised under AAS. These measures are collectively referred to in this **Section 4** as 'non-IFRS financial measures' consistent with their meaning under ASIC's Regulatory Guide 230 *Disclosing non-IFRS financial information*.

We believe that these non-IFRS measures provide useful information about our financial and operating performance because they provide management with an ability to analyse and understand key underlying drivers of financial performance and trends therein relative to budgets and our strategic objectives. However, they should be considered as supplements to the statutory income statement measures that have been presented in accordance with AAS and not as a replacement for them. Investors should note that these non-IFRS measures are not defined by AAS, and the way that we calculate them may differ from the same or similarly titled measures used by other companies. Accordingly, investors should not place undue reliance on these non-IFRS measures.

The principal non-IFRS measures referred to in this Prospectus include the following:

- **direct expenses** include:
  - interchange fees and scheme fees;
  - integration, support and other fees that directly relate to Merchant Service Fees;
  - cost of terminal accessories sold; and
  - interest expense on merchant deposits; and
- **EBITDA** (as presented in **Section 4.4.2**) is earnings before share-based payments expense, net lease interest expense (as recognised under AASB 16), tax and depreciation and amortisation. EBITDA includes interest income from merchant loans (lending income), interest expense on merchant deposits and interest income from financial investments (investments income). EBITDA is used by us as part of our assessment of business performance. EBITDA in this Prospectus refers to this definition of EBITDA, unless the two alternative measures of EBITDA below are specified. A reconciliation of EBITDA to net loss after tax and to the alternative definitions of EBITDA below is included in **Section 4.4.2**;
- **EBITDA including share-based payments expense** (as presented in **Section 4.4.2**) is EBITDA adjusted to include share-based payments expense;
- **EBITDA pre AASB 16** (as presented in **Section 4.4.2**) is EBITDA adjusted to include rent expense and sublease income that would have been recognised under previous AAS;
- **gross profit** is revenue and income less direct expenses;
- **gross profit margin** is gross profit divided by revenue and income, expressed as a percentage;
- **lending losses as percentage of loan originations** is the cumulative lending losses for the financial year as a percentage of the total value of loan originations in that financial year;
- **net working capital** is total current assets excluding cash and cash equivalents, net investment in lease and income tax receivables, less total current liabilities excluding income tax and lease liabilities. For clarity, net working capital includes loans in the form of merchant cash advances and merchant deposits, with the net movement in these items shown separately in the statement of cash flows from the movement in other net working capital items included in net working capital;
- **payments direct expenses** include:
  - interchange fees and scheme fees;
  - integration, support and other fees that directly relate to Merchant Service Fees; and
  - cost of terminal accessories sold;
- **payments gross profit** is payments revenue and income less payments direct expenses;
- **payments gross profit margin** is payments gross profit divided by payments revenue and income, expressed as a percentage; and
- **payments gross profit margin to total transaction value** is payments gross profit as a percentage of transaction value, expressed as the number of basis points.

4.4 Historical and forecast income statements

4.4.1 Pro forma historical and forecast income statements and Statutory Forecast Income Statement

Table 4.1 sets out the Pro Forma Historical Income Statements for FY17, FY18, FY19 and the Pro Forma and Statutory Forecast Income Statement for FY20f. The Pro Forma Historical Income Statements and the Pro Forma Forecast Income Statement are reconciled to the Statutory Historical Income Statements and the Statutory Forecast Income Statement in **Section 4.4.4**. Investors are referred to **Section 4.9** that provides a description and management discussion and analysis of the income statement line items.

Table 4.1 Pro forma historical and forecast income statements, and Statutory Forecast Income Statement

		PRO FORMA HISTORICAL			PRO FORMA FORECAST	STATUTORY FORECAST
$'000, YEAR ENDED 30 JUNE	**NOTE**	**FY17**	**FY18**	**FY19**	**FY20f**	**FY20f**
Payments revenue and income		115,780	143,023	183,685	233,704	233,704
Lending income		450	1,567	2,938	5,054	5,054
Investments income		2,866	2,498	2,333	1,779	1,779
Other revenue and income		1,479	1,143	814	95	95
Revenue and income		**120,575**	**148,231**	**189,770**	**240,633**	**240,633**
Payments direct expenses		(64,505)	(79,053)	(106,234)	(140,300)	(140,300)
Interest expense on deposits		(33)	(110)	(276)	(548)	(548)
Total direct expenses		**(64,538)**	**(79,163)**	**(106,510)**	**(140,849)**	**(140,849)**
Gross profit		**56,037**	**69,068**	**83,260**	**99,784**	**99,784**
Lending and non-lending losses		(252)	(482)	(797)	(1,966)	(1,966)
Employee benefits expenses		(48,297)	(54,577)	(61,245)	(68,632)	(68,452)
Share-based payments expense	1	(1,841)	(1,411)	(2,593)	(6,949)	(9,360)
Other operating expenses	2	(14,345)	(21,381)	(27,360)	(30,495)	(41,269)
Depreciation and amortisation	3	(9,107)	(10,187)	(10,987)	(12,641)	(12,641)
Net lease interest expense	4	(1,327)	(1,142)	(919)	(546)	(546)
Loss before income tax		**(19,131)**	**(20,113)**	**(20,641)**	**(21,445)**	**(34,450)**
Income tax benefit		2,486	1,265	1,965	2,195	5,460
Net loss after tax		**(16,646)**	**(18,848)**	**(18,675)**	**(19,251)**	**(28,990)**

Note:

1. Share-based payments expense shown in the Income Statement above relates to employee share option plans. We also incur non-employee related share-based payments expense that is included in other operating expenses (refer to **Section 4.4.2**). Share-based payments expense in the Statutory Forecast Income Statement for FY20f includes $2,411,000 attributable to Liquidity Event Performance Rights awarded to certain Senior Leadership Team members that vest in three equal tranches on Completion, twelve months after Completion and 24 months after Completion (refer to **Section 6.4.3.2** and **Table 6.13** in **Section 6.4.4.4**). Refer to **Section 4.4.4** for pro forma adjustments made to the Statutory Forecast Income Statement for FY20f.
2. Other operating expenses in the Statutory Forecast Income Statement for FY20f include expensed Offer costs of $11,212,000. Refer to **Section 4.4.4** for pro forma adjustments made to the Statutory Forecast Income Statement for FY20f.
3. Depreciation and amortisation includes amortisation of right-of-use assets arising under AASB 16. Pro forma amortisation of right-of-use assets amounts to $3,123,000 in each year from FY17 through FY19, and statutory amortisation of right-of-use assets of $2,832,000 in FY20f. Refer to **Section 4.9.1.8**.
4. Net lease interest expense includes interest expense on lease liabilities and income from net investment in lease arising under AASB 16. Lease interest expense amounts to $1,327,000 in FY17, $1,142,000 in FY18, $919,000 in FY19 and $659,000 in FY20f. Income from net investment in lease amounts to $113,000 in FY20f.

4.4.2 Reconciliation of EBITDA

We use EBITDA (as defined in **Section 4.3** to exclude share-based payments expense) as a measure of business performance, particularly as it provides an indication of the operating cash flows of the business. EBITDA is affected by AASB 16 due to the removal of rent expense and sublease income. EBITDA is reconciled from loss before income tax in **Table 4.2**, including presentation of EBITDA including share-based payments expense and EBITDA pre AASB 16:

Table 4.2 Reconciliation of EBITDA

		PRO FORMA HISTORICAL			PRO FORMA FORECAST	STATUTORY FORECAST
$'000, YEAR ENDED 30 JUNE	**NOTE**	**FY17**	**FY18**	**FY19**	**FY20f**	**FY20f**
Loss before income tax		**(19,131)**	**(20,113)**	**(20,641)**	**(21,445)**	**(34,450)**
Net lease interest expense		1,327	1,142	919	546	546
Depreciation and amortisation		9,107	10,187	10,987	12,641	12,641
EBITDA including share-based payments expense		**(8,697)**	**(8,784)**	**(8,735)**	**(8,258)**	**(21,263)**
Share-based payments expense	1	1,841	1,411	2,593	7,639	10,050
EBITDA	2	**(6,857)**	**(7,373)**	**(6,142)**	**(620)**	**(11,213)**
Rent expense pre AASB 16	3	(3,836)	(3,934)	(3,952)	(3,978)	(3,978)
Sublease income pre AASB 16	3	–	–	–	635	635
EBITDA pre AASB 16		**(10,693)**	**(11,307)**	**(10,094)**	**(3,963)**	**(14,556)**

Note:

1. Share-based payments expense includes expense attributable to employee share option plans in each year from FY17 through FY19. In FY20f, share-based payments expense includes $6,949,000 in relation to employee share option plans and a non-employee related share-based expense of $690,000 included in other operating expenses in line with the terms of the POS Partner Agreements, which are discussed in **Section 3.11.5**. Pro forma share-based payments expense in FY19 and FY20f exclude Liquidity Event Performance Rights triggered by the IPO. This pro forma adjustment is discussed in **Section 4.4.4**.
2. We use EBITDA as a non-IFRS measure of business performance, which excludes the non-cash impact of share-based payments expense.
3. Under previous AAS, rent expense was included in other operating expenses in the income statement and hence within EBITDA. Similarly, sublease income was included in other revenue and income in the income statement, also within EBITDA.

4.4.3 Statutory Historical Income Statements

Table 4.3 sets out the Statutory Historical Income Statements for FY17, FY18 and FY19 extracted from the Audited Financial Statements.

Table 4.3 Statutory Historical Income Statements

	STATUTORY		
$'000, YEAR ENDED 30 JUNE	**FY17**	**FY18**	**FY19**
Payments revenue and income	115,780	143,023	183,685
Lending income	450	1,567	2,938
Investments income	2,866	2,498	2,333
Other revenue and income	1,479	1,143	814
Revenue and income	**120,575**	**148,231**	**189,770**
Payments direct expenses	(64,505)	(79,053)	(106,234)
Interest expense on deposits	(33)	(110)	(276)
Total direct expenses	**(64,538)**	**(79,163)**	**(106,510)**
Gross profit	**56,037**	**69,068**	**83,260**
Lending and non-lending losses	(252)	(482)	(797)
Employee benefits expenses	(47,865)	(54,146)	(60,813)
Share-based payments expense	(1,841)	(1,411)	(3,788)
Other operating expenses	(17,128)	(24,262)	(30,261)
Depreciation and amortisation	(5,984)	(7,064)	(7,864)
Loss before income tax	**(17,033)**	**(18,297)**	**(20,263)**
Income tax benefit	2,213	1,151	1,824
Net loss after tax	**(14,820)**	**(17,146)**	**(18,439)**

4.4.4 Reconciliation of the pro forma adjustments to the Statutory Historical Income Statements and the Statutory Forecast Income Statement

The Pro Forma Historical Income Statements and the Pro Forma Forecast Income Statement are reconciled to the Statutory Historical Income Statements and the Statutory Forecast Income Statement in **Table 4.4**.

Table 4.4 Reconciliation of pro forma adjustments to the Statutory Historical Income Statements and Statutory Forecast Income Statement

$'000, YEAR ENDED 30 JUNE	NOTE	FY17	FY18	FY19	FY20f
Statutory revenue and income		**120,575**	**148,231**	**189,770**	**240,633**
Pro forma revenue and income	1	**120,575**	**148,231**	**189,770**	**240,633**
Statutory loss after tax		**(14,820)**	**(17,146)**	**(18,439)**	**(28,990)**
Impact of AASB 16:	2				
Remove rent expense net of lease incentives		3,836	3,934	3,952	–
Amortisation of right-of-use asset		(3,123)	(3,123)	(3,123)	–
Lease interest expense		(1,327)	(1,142)	(919)	–
Incremental listed public company costs	3	(1,484)	(1,484)	(1,484)	(619)
Performance rights triggered by IPO	4	–	–	1,196	2,411
Costs of the Offer expensed	5				11,212
Tax effect of above adjustments	6	273	114	142	(3,265)
Pro forma loss after tax		**(16,646)**	**(18,848)**	**(18,675)**	**(19,251)**

Note:

1. No pro forma adjustments were made to statutory revenue and income.
2. **Impact of AASB 16**: We will adopt AASB 16 in the preparation of its statutory financial statements from 1 July 2019. This adjustment retrospectively applies AASB 16 from FY17 to FY19 so these periods are presented on a consistent basis to FY20f.
3. **Incremental listed public company costs**: upon becoming a listed public company, we will incur additional operating expenses quantified at $1,484,000 per annum. These include ASX listing fees, incremental insurance premiums and additional staff. These are included in employee benefits expenses and other operating expenses as appropriate in the pro forma income statements as if these costs were being incurred from the start of FY17.
4. **Performance rights triggered by the IPO**: the IPO will trigger the exercise and vesting of Liquidity Event Performance Rights, details of which are set out in **Section 6.4**. These rights were conferred on certain Senior Leadership Team members during FY19, with the issue of a tranche of Shares under those rights to be made on a liquidity event, such as a sale of the Company, a sale of our business or an IPO. This pro forma adjustment excludes these IPO-related costs as non-recurring items.
5. **Costs of the Offer expensed**: the Statutory Forecast Income Statement will be impacted by $11,212,000 relating to a portion of the costs of the Offer that will be expensed. Costs of the Offer include advisor fees, initial ASX listing fees, insurance and other incidental costs. This pro forma adjustment excludes these costs as non-recurring items.
6. **Tax effect of above adjustments**: this represents the cumulative income tax effect of the above pro forma adjustments using our effective tax rate in each financial year.

4.5 Financial position

4.5.1 Statutory and pro forma historical statements of financial position

Table 4.5 sets out the audited Statutory Statement of Financial Position as at 30 June 2019, and adjustments (as explained in **Section 4.5.2**) to reflect the adoption of AASB 16 and the effect of Completion, as if all the pro forma transactions had occurred or were in place as at 30 June 2019. The Pro Forma Statement of Financial Position is provided for illustrative purposes only and is not necessarily indicative of our view of our financial position upon Completion or at a future date. Further information on the sources and uses of funds of the Offer is set out in **Section 7.1.3**.

Table 4.5 Statutory and pro forma historical statements of financial position

$'000, AS AT 30 JUNE 2019	STATUTORY HISTORICAL STATEMENT OF FINANCIAL POSITION	RETROSPECTIVE ADJUSTMENT FOR AASB 16	IMPACT OF THE OFFER	PRO FORMA HISTORICAL STATEMENT OF FINANCIAL POSITION
Cash and cash equivalents	23,900		107,684	131,584
Receivables from other financial institutions	7,910			7,910
Trade and other receivables	27,762			27,762
Loans receivable from merchants	15,665			15,665
Prepayments	1,943	(120)		1,823
Net investment in lease	–	521		521
Inventories	60			60
Current assets	**77,240**	**401**	**107,684**	**185,326**
Financial investments	37,159			37,159
Property, plant and equipment	18,734			18,734
Right-of-use assets	–	7,263		7,263
Net investment in lease	–	1,356		1,356
Intangible assets	2,503			2,503
Deferred tax assets	13,028		4,754	17,782
Non-current assets	**71,424**	**8,619**	**4,754**	**84,797**
Total assets	**148,664**	**9,020**	**112,439**	**270,123**
Merchants deposits	26,918			26,918
Trade payables and other liabilities	24,469	(2,654)	(1,101)	20,714
Provisions	3,162			3,162
Lease liabilities	–	4,136		4,136
Current liabilities	**54,549**	**1,482**	**(1,101)**	**54,931**
Provisions	1,046			1,046
Lease liabilities	–	7,397		7,397
Non-current liabilities	**1,046**	**7,397**	**–**	**8,443**
Total liabilities	**55,595**	**8,879**	**(1,101)**	**63,373**
Net assets	**93,069**	**141**	**113,540**	**206,750**
Contributed equity	141,856		121,498	263,354
Reserves	17,492			17,492
Accumulated losses	(66,279)	141	(7,958)	(74,096)
Total equity	**93,069**	**141**	**113,540**	**206,750**

Note: Our liquid assets include cash and cash equivalents and liquid financial investments (comprising floating rate notes) and other liquid receivables. We are also subject to capital adequacy requirements. Information on our liquidity and capital adequacy is set out in **Section 4.5.3**.

4.5.2 Adjustments to the Statutory Historical Statement of Financial Position

4.5.2.1 Retrospective adjustment for AASB 16

We adopted AASB 16 with effect from 1 July 2019 for statutory reporting purposes. The Statutory Historical Statement of Financial Position has been adjusted as if AASB 16 had been applied as at 30 June 2019. The effect of this adjustment is to recognise:

- current net investment in lease of $521,000 and non-current net investment in lease of $1,356,000;
- a decrease in prepayments by $120,000;
- right-of-use asset of $7,263,000;
- current lease liabilities of $4,136,000 and non-current lease liabilities of $7,397,000;
- an adjustment of lease incentive provision in trade payables and other liabilities of $2,654,000 against the right-of-use asset; and
- the pro forma net effect of the recognition of the above items as a decrease in accumulated losses of $141,000.

4.5.2.2 Impact of the Offer

Assuming Completion occurs on 11 December 2019 consistent with the sources and uses of funds set out in **Section 7.1.3**, the pro forma effect of those transactions as if they occurred on 30 June 2019 is to recognise:

- an increase in contributed equity of $121,498,000, being proceeds from the issue of Shares of $125,000,000 less tax effected costs of the Offer of $3,502,000;
- an increase in accumulated losses of $7,958,000, being tax effected costs of the Offer expensed;
- an increase in the deferred tax assets of $4,754,000;
- a decrease in trade payables and other liabilities of $1,101,000 (primarily being claimable GST input tax credits); and
- an increase in cash of $107,684,000.

4.5.3 Liquidity and capital adequacy

Following Completion, our principal sources of funds are expected to be cash and cash equivalents and liquid financial investments. Our main use of cash is to fund operations, working capital and capital expenditure and to further strengthen regulatory capital. Historical and forecast cash flows are described in **Section 4.6**.

Table 4.6 sets out a summary of our capital adequacy and liquidity as at 30 June 2019 as extracted from our Audited Financial Statements and adjusted on a pro forma basis to reflect the impact of the Offer as if Completion occurred on 30 June 2019.

Table 4.6 Capital adequacy and liquidity

$'000, AS AT 30 JUNE 2019	NOTE	STATUTORY HISTORICAL	PRO FORMA TRANSACTIONS	PRO FORMA HISTORICAL
Capital adequacy				
Common equity Tier 1 capital		75,410	108,786	184,196
Total Tier 2 capital		977	517	1,494
Total capital		**76,387**	**109,303**	**185,690**
Total risk weighted assets	1	85,827	41,325	127,152
Risk weighted capital ratios:				
Common equity Tier 1		88%		145%
Tier 1 capital		88%		145%
Total capital ratio		89%		146%
Liquidity				
Cash and cash equivalents		23,900	107,684	131,584
Financial investments		36,948	–	36,948
Total specified liquid assets		**60,848**	**107,684**	**168,532**
Total liabilities		55,595	7,778	63,373

Note:

1. Risk weighted assets have been calculated assuming net proceeds from the Offer are invested in financial instruments that carry a higher risk weight.

We expect that we will have sufficient cash and cash equivalents and liquid financial investments to meet our operational requirements and business needs during the forecast period while maintaining our capital adequacy obligations.

4.5.4 Contingent liabilities and lease commitments

4.5.4.1 Standby letters of credit and bank guarantees

We pay merchants via the Reserve Bank of Australia through the Bulk Electronic Clearing System which is administered by Australian Payments Network. As a result of BECS' intraday settlements, all merchant commitments are processed on the same day. Contingent liabilities arising from these commitments are secured by way of standby letters of credit or bank guarantees. We have provided an irrevocable standby letter of credit of approximately $3,900,000 secured through fixed charges over term deposits to Visa, Mastercard and UnionPay. These automatically renew on an annual basis. Visa and Mastercard may, at their discretion and dependent on their view of their risk exposure to us, increase the required amounts of the standby letters of credit.

A bank guarantee of approximately $4,525,000 has been provided to the lessor of our corporate office. The guarantee is refundable upon expiry of the lease agreement, subject to satisfactory vacation of the leased premises.

4.5.4.2 Lease commitments

Our corporate office is leased under non-cancellable leases ending 21 January 2022, with options to extend for another three years. Lease payments are subject to an annual increase of 4%. The future minimum rentals payable under these leases as at 30 June 2019 were $4,721,000 within one year and $7,703,000 payable after one year but not more than five years.

One of the floors of corporate office is subleased to a third party. It is a non-cancellable lease ending 20 January 2022, with no options to extend and an annual increase in lease payments of 4%. The future minimum rentals receivable under this non-cancellable sublease as at 30 June 2019 were $635,000 within one year and $1,436,000 receivable after one year but not more than five years.

4.5.5 Deferred tax assets and unrecognised tax losses

As at 30 June 2019, the deferred tax assets of $13,028,000 recorded in the Statutory Historical Statement of Financial Position included carry forward tax losses and other deductible temporary timing differences.

We recognise an income tax benefit in accordance with our accounting policies set out in **Appendix A**. Deferred tax assets are recognised for deductible temporary differences as we consider that it is probable that future taxable profits will be available to utilise those temporary differences. Similarly, an assessment is made by us to support the recognition of any carry forward tax losses and research and development credits. We do not recognise deferred tax assets where utilisation is not considered probable.

4.5.6 Off-balance sheet arrangements

During FY17 through FY19, we had no off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial performance, cash flows or our financial position, or on our liquidity and capital resources.

4.6 Historical and forecast cash flows

4.6.1 Pro forma historical and forecast cash flows, and Statutory Forecast Cash Flows

Table 4.7 sets out the Pro Forma Historical Cash Flows for FY17, FY18 and FY19 and the Pro Forma Forecast Cash Flows for FY20f. The Pro Forma Historical Cash Flows and the Pro Forma Forecast Cash Flows are reconciled to the Statutory Historical Cash Flows and the Statutory Forecast Cash Flows in **Section 4.6.3**. Investors are referred to **Section 4.9** that provides a management discussion and analysis of the cash flows line items.

Table 4.7 Pro Forma Historical Cash Flows, Pro Forma Forecast Cash Flows and Statutory Forecast Cash Flows

		PRO FORMA HISTORICAL			PRO FORMA FORECAST	STATUTORY FORECAST
$'000, YEAR ENDED 30 JUNE	NOTE	FY17	FY18	FY19	FY20f	FY20f
Loss before income tax		**(19,131)**	**(20,113)**	**(20,641)**	**(21,445)**	**(34,450)**
Non-cash items:						
Net lease interest expense		1,327	1,142	919	546	546
Depreciation and amortisation		9,107	10,187	10,987	12,641	12,641
Share-based payments expense		1,841	1,411	2,593	7,639	10,050
Loan impairments		230	411	542	1,536	1,536
Other non-cash items	1	64	10	(383)	(78)	(78)
Change in working capital:						
Net change in merchant loans		(4,741)	(3,489)	(8,061)	(10,898)	(10,898)
Net change in merchant deposits		3,489	7,616	15,355	25,136	25,136
Payments for terminals	2	(5,060)	(6,688)	(8,103)	(10,276)	(10,276)
Change in other net working capital	3	(238)	(576)	(4,137)	2,666	2,666
Operating cash flows		**(13,114)**	**(10,088)**	**(10,930)**	**7,466**	**(3,127)**
Capital expenditure excluding terminals		(1,822)	(2,891)	(1,045)	(1,640)	(1,640)
Payments for internally developed assets		–	–	(2,518)	(5,568)	(5,568)
Net proceeds from/(investment in) term deposits		(24,417)	35,013	10,037	–	–
Purchases of financial investments	4	(20,125)	(17,668)	(3,500)	(7,845)	(127,843)
Proceeds from sale of financial investments		–	–	5,691	4,969	4,969
Payment for investment in an entity	5	–	–	–	(3,500)	(3,500)
Lease interest income received	6	–	–	–	113	113
Net investment in lease received	6	–	–	–	521	521
Cash flows after operating and investing cash flows		**(59,478)**	**4,366**	**(2,264)**	**(5,483)**	**(136,074)**
Lease interest paid	6	(1,327)	(1,142)	(919)	(659)	(659)
Lease principal paid	6	(2,615)	(3,054)	(3,569)	(4,136)	(4,136)
Proceeds from exercise of share options		3,815	2,877	598	1,613	1,613
Proceeds from the Offer net of capitalised Offer costs	4				–	119,997
Net cash flows		**(59,605)**	**3,048**	**(6,153)**	**(8,665)**	**(19,259)**

Note:

1. Other non-cash items primarily include fair value gains or losses and foreign exchange gains or losses.
2. We classify purchases of terminals as operating cash flows and not as capital expenditure in investing cash flows. Purchased terminals that are rented to merchants are included in property, plant and equipment in the statement of financial position.

3. The change in other net working capital includes changes in receivables, payables, accruals and provisions and can be significantly affected by the timing of scheme receivables and merchant payables. The forecast FY20f cash flows assume a significant cash contribution from forecast lower scheme receivables as at 30 June 2020 due to the timing effect of 30 June 2020 falling on a Tuesday compared to Sunday for 30 June 2019 where scheme receivables are not cash settled during a weekend. This is explained in **Section 4.9.5.8**.
4. The Statutory Forecast Cash Flows for FY20f assume that the net proceeds from the Offer will be invested in financial investments (floating rate notes).
5. The statutory and pro forma forecast cash flows for FY20f include an investment of $3,500,000 in me&u. This investment is assumed to not materially affect our financial performance, financial position or cash flows in FY20f, other than for this initial investment. Further information on me&u is provided in **Section 3.11.6**.
6. As explained in **Section 4.2.4.1**, AASB 16 requires cash flows relating to lease liabilities to be included in financing cash flows, whereas under previous AAS these cash flows, represented as rent, were included in operating cash flows. Cash received from the sublease of one of the floors of the corporate office, presented as lease interest income and net investment in lease received, is included in investing cash flows. Under previous AAS, this sublease income would have been included in operating cash flows. Refer also to **Section 4.6.3**.

4.6.2 Statutory Historical Cash Flows

Table 4.8 sets out the Statutory Historical Cash Flows for FY17, FY18 and FY19 extracted from the Audited Financial Statements.

Table 4.8 Statutory Historical Cash Flows

	STATUTORY		
$'000, YEAR ENDED 30 JUNE	**FY17**	**FY18**	**FY19**
Loss before income tax	**(17,033)**	**(18,297)**	**(20,263)**
Non-cash items:			
Depreciation and amortisation	5,984	7,064	7,864
Share-based payments expense	1,841	1,411	3,788
Loan impairments	230	411	542
Other non-cash items	64	10	(383)
Change in working capital:			
Net change in merchant loans	(4,741)	(3,489)	(8,061)
Net change in merchant deposits	3,489	7,616	15,355
Payments for terminals	(5,060)	(6,688)	(8,103)
Change in other net working capital	(345)	(837)	(4,670)
Operating cash flows	**(15,571)**	**(12,799)**	**(13,931)**
Capital expenditure excluding terminals	(1,822)	(2,891)	(1,045)
Payments for internally developed assets	–	–	(2,518)
Net proceeds from/(investment in) term deposits	(24,417)	35,013	10,037
Purchases of financial investments	(20,125)	(17,668)	(3,500)
Proceeds from sale of financial investments	–	–	5,691
Cash flows after investing cash flows	**(61,935)**	**1,655**	**(5,266)**
Proceeds from exercise of share options	3,815	2,877	598
Net cash flows	**(58,120)**	**4,532**	**(4,668)**

4.6.3 Reconciliation of the pro forma adjustments to the Statutory Historical Cash Flows and the Statutory Forecast Cash Flows

The Pro Forma Historical Cash Flows and the Pro Forma Forecast Cash Flows are reconciled to the Statutory Historical Cash Flows and the Statutory Forecast Cash Flows in **Table 4.9**.

Table 4.9 Reconciliation of the pro forma adjustments to the Statutory Historical Cash Flows and the Statutory Forecast Cash Flows

$'000, YEAR ENDED 30 JUNE	NOTE	FY17	FY18	FY19	FY20f
Statutory net cash flows		**(58,120)**	**4,532**	**(4,668)**	**(19,259)**
Offer costs in operating cash flows	1				11,212
Incremental listed public company costs	2	(1,484)	(1,484)	(1,484)	(619)
Pro forma net cash flows		**(59,605)**	**3,048**	**(6,153)**	**(8,665)**
Statutory operating cash flows		**(15,571)**	**(12,799)**	**(13,931)**	**(3,127)**
Offer costs in operating cash flows	1				11,212
Incremental listed public company costs	2	(1,484)	(1,484)	(1,484)	(619)
Reclassification of lease cash flows to financing cash flows as required by AASB 16	3	3,942	4,195	4,487	
Pro forma operating cash flows		**(13,114)**	**(10,088)**	**(10,930)**	**7,466**

Note:

1. Refer to Note 5 in **Table 4.4**.
2. Refer to Note 3 in **Table 4.4**.
3. Refer to Note 6 in **Table 4.7**.

4.7 Key operating metrics

Table 4.10 sets out a summary of our key operating metrics derived from the Pro Forma Historical Income Statements and the Pro Forma Forecast Income Statement, and underlying operational and financial information used by management to monitor and assess the financial and operational performance for these periods.

4. FINANCIAL INFORMATION

Table 4.10 Pro forma historical and forecast key operating metrics

	PRO FORMA HISTORICAL			PRO FORMA FORECAST	GROWTH ON PRIOR YEAR %		
YEAR ENDED 30 JUNE	FY17	FY18	FY19	FY20f	FY18	FY19	FY20f
Revenue and income ($'000)	120,575	148,231	189,770	240,633	22.9%	28.0%	26.8%
Gross profit ($'000)	56,037	69,068	83,260	99,784	23.3%	20.5%	19.8%
Operating expenses excluding share-based payments expense ($'000)	62,894	76,440	89,401	100,404	21.5%	17.0%	12.3%
EBITDA ($'000)	(6,857)	(7,373)	(6,142)	(620)	(7.5)%	16.7%	89.9%
Payments business							
Transaction value ($ billion)	10.6	13.4	17.5	22.5	26.0%	31.0%	28.6%
Payments revenue and income ($'000)	115,780	143,023	183,685	233,704	23.5%	28.4%	27.2%
Payments revenue and income to transaction value (bps)	109.2 bps	107.1 bps	105.0 bps	103.9 bps	(2.1) bps	(2.1) bps	(1.1) bps
Payments gross profit ($'000)	51,275	63,970	77,451	93,404	24.8%	21.1%	20.6%
Payments gross profit to transaction value (bps)	48.3 bps	47.9 bps	44.3 bps	41.5 bps	(0.4) bps	(3.6) bps	(2.8) bps
Payments gross profit ex Medicare Easyclaim ($'000)	48,890	61,578	74,973	91,922	26.0%	21.8%	22.6%
Payments gross profit (ex Medicare Easyclaim) to transaction value (bps)	46.1 bps	46.1 bps	42.9 bps	40.9 bps	0 bps	(3.2) bps	(2.0) bps
Number of merchants as at 30 June	18,329	23,245	29,031	36,000	26.8%	24.9%	24.0%
Transaction value churn rate (%)	8.8%	10.6%	9.3%	9.1%			
Number of terminals as at 30 June	31,828	40,479	51,317	65,000	27.2%	26.8%	26.7%
Banking business							
Banking gross profit ($'000)	417	1,457	2,662	4,506	250.0%	82.7%	69.3%
Loan originations ($'000)	11,142	25,172	52,249	85,083	125.9%	107.6%	62.8%
Number of loan originations	234	656	1,594	2,445	180.3%	143.0%	53.4%
Lending losses as a percentage of loan originations	2.1%	1.6%	1.0%	1.8%			
Merchant loan balances as at 30 June ($'000)	4,511	7,590	15,665	25,027	68.3%	106.4%	59.8%
Merchant deposits as at 30 June ($'000)	3,948	11,563	26,918	52,054	192.9%	132.8%	93.4%
Number of active deposit accounts as at 30 June	355	1,285	2,401	3,147	262.0%	86.8%	31.1%
Investments							
Investments income ($'000)	2,866	2,498	2,333	1,779	(12.9)%	(6.6)%	(23.7)%
Headcount (number of employees as at 30 June)	371	384	453	502	3.5%	18.0%	10.8%

4.8 Segment information

Our operating segments for the purposes of AASB 8 Operating Segments comprise payments, banking and other/corporate. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker, which is the CEO and Managing Director.

We operate in one geographic segment being Australia.

The segment information presented for FY17 to FY19 has been extracted from our Audited Financial Statements, adjusted for the pro forma adjustments set out in **Section 4.4.4** as applicable. The segment information presented for FY20f has been prepared on a consistent basis with the historical periods.

Table 4.11 Pro forma segment information

		PRO FORMA HISTORICAL			PRO FORMA FORECAST
$'000, YEAR ENDED 30 JUNE	**NOTE**	**FY17**	**FY18**	**FY19**	**FY20f**
Revenue and income					
Payments		115,780	143,023	183,685	233,704
Banking		450	1,567	2,938	5,054
Other/corporate		4,345	3,641	3,147	1,874
Revenue and income		**120,575**	**148,231**	**189,770**	**240,633**
Gross profit					
Payments	1	51,275	63,970	77,451	93,404
Banking	2	417	1,457	2,662	4,506
Other/corporate	3	4,345	3,641	3,147	1,874
Gross profit		**56,037**	**69,068**	**83,260**	**99,784**
Reconciliation of gross profit to net loss after tax:					
Gross profit		56,037	69,068	83,260	99,784
Operating expenses (including share-based payments expense)		(64,735)	(77,851)	(91,994)	(108,042)
Depreciation and amortisation		(9,107)	(10,187)	(10,987)	(12,641)
Net lease interest expense		(1,327)	(1,142)	(919)	(546)
Income tax benefit		2,486	1,265	1,965	2,195
Net loss after tax		**(16,646)**	**(18,848)**	**(18,675)**	**(19,251)**

Note:

1. Gross profit of the payments segment is payments revenue and income less payments direct expenses.
2. Gross profit of the banking segment is lending income less interest expense on merchant deposits.
3. Gross profit of other/corporate includes investments income and other revenue and income.

4.9 Management discussion and analysis of the Pro Forma Historical Financial Information and the Pro Forma Forecast Financial Information

4.9.1 General factors affecting the operating and financial performance, including key measures and their drivers

This **Section 4.9.1** sets out our discussion of the significant factors that have driven our operating and financial performance and cash flows for FY17 through FY19, and a discussion of the key factors that are expected to drive our operating and financial performance and cash flows for FY20f. This discussion is based on the Pro Forma Historical Financial Information and the Pro Forma Forecast Financial Information. Investors should also refer to **Section 4.7** for key operating metrics and **Section 4.8** for segment information.

The discussion of these general factors is intended to provide a brief summary to assist investors in understanding the Financial information and does not detail all the factors that affected our financial performance and cash flows, nor everything that may affect our financial performance and cash flows in the future. This discussion of general factors is followed by a year-on-year discussion in **Sections 4.9.2** (FY18 compared to FY17), 4.9.3 (FY19 compared to FY18) and 4.9.5 (FY20f compared to FY19) that outline factors discrete to the relative periods presented. **Section 4.9.4** sets out the general and specific forecast assumptions which should be read in conjunction with the comparison of FY20f to FY19 in **Section 4.9.5**.

4.9.1.1 Revenue and income

Our primary sources of income are derived from:

- acquiring and associated payments services for merchants (payments revenue and income);
- lending income (from merchants);
- investments income; and
- other revenue and income.

4.9.1.1.1 Payments revenue and income

Our primary source of revenue and income is from the acquiring for merchants of credit, debit, charge and prepaid card transactions made by their cardholders. We earn Merchant Service Fees, terminal rental income, other fee income (which includes currently Medicare Easyclaim fees and other income from merchants), and revenue from sales of terminal accessories. A summary of payments revenue and income is provided in **Table 4.12**:

Table 4.12 Payments revenue and income

	PRO FORMA HISTORICAL			PRO FORMA FORECAST
$'000, YEAR ENDED 30 JUNE	FY17	FY18	FY19	FY20f
Merchant Service Fees	101,092	125,618	162,174	209,047
Terminal rental income	9,643	11,793	15,452	19,349
Other fee income	4,718	4,802	5,161	4,200
Terminal accessories sales	327	810	898	1,107
Payments revenue and income	**115,780**	**143,023**	**183,685**	**233,704**

The main factors driving our payments revenue and income are:

- continued growth in our merchant base, reflecting greater focus on merchant acquisition, new value-adding products launched supporting the SME sector, and improved marketing for brand awareness and lead generation mainly through digital platforms and incentives for existing merchants to refer new merchants. The number of merchants (net of churn) has grown from 18,329 as at 30 June 2017 to 29,031 as at 30 June 2019, and is forecast to grow (net of churn) to approximately 36,000 as at 30 June 2020;
- our ability to retain merchants once signed. We monitor merchants who ceased using our services, expressed as a transaction value churn. Our transaction value churn has improved since FY18 due to initiatives including an improved focus on merchant engagement and retention, launch of new features such as our least-cost routing feature (Tap & Save) in March 2018 and continued integration of POS systems to reduce friction;

- Merchant Service Fees and other fees which are based on contracted rates with each merchant and are applied based on either transaction value or number of transactions (refer to **Section 2.3.3** for further information on Merchant Service Fees). Transaction value has increased in each year, with corresponding growth in Merchant Service Fees income and other fee income (refer to **Figure 3.3** for further information on our transaction by merchant size category). Payments revenue and income as a percentage of transaction value has decreased by 1.9% in both FY18 and FY19 and is forecast to decrease by 1.1% in FY20f, primarily reflecting our focus on growth, strategic pricing for larger merchants and competitive factors; and
- the majority of terminals are rented to merchants on a monthly basis. Terminal rental income has grown with the increase in the merchant base. The rate of growth of terminal rental income is also affected by the number of terminals that a merchant requires, that is, one merchant may result in multiple terminal rentals and accessories sales.

4.9.1.1.2 Lending income

Lending income primarily consists of interest earned on merchant cash advances. We commenced lending to merchants in FY17 as a complementary service to merchants who use us for payments acquiring. Merchants can only take up this service if they are eligible and then approved by us (i.e. merchants that meet our lending criteria).

From a zero base at the commencement of FY17, the balance of loans reached $15,665,000 at 30 June 2019 and is forecast to increase to $25,027,000 by 30 June 2020. These increases reflect the following main drivers:

- the number of merchants who are eligible for loans in the form of merchant cash advances, which has increased in each period through a combination of new merchants and improved take-up of the Tyro App by existing merchants;
- the number and total value of loan originations, which have increased in each year; and
- an increase in the loan repeat rate, defined as the number of subsequent loans to merchants in a financial year divided by the total number of loans to merchants originated in that financial year.

4.9.1.1.3 Investments income

Investments income includes interest income earned on term deposits and financial investments, primarily held as floating rate notes. Investments income is affected by a combination of the level of funds invested and changes in interest rates. Investments income has been declining in each year consistent with declining interest rates in Australia and lower levels of funds invested as cash was used to fund operations.

4.9.1.1.4 Other revenue and income

Other revenue and income primarily includes, in relation to FY17 to FY19, fees earned from a fintech-focused co-working space. During FY17 to FY19, one floor of the corporate office was dedicated for this purpose. Third parties, mainly startups, applied to become members in order to gain access to 'desks'. Members generally paid a monthly fee with no fixed term. The co-working space ceased during FY19 and this floor of the corporate office was sublet to another third party subsequent to FY19. The accounting for the sublease income in FY20f is affected by the adoption of AASB 16 as discussed in **Sections 4.9.1.8** and **4.9.1.9**.

4.9.1.2 Total direct expenses

Table 4.13 provides a summary of total direct expenses from FY17 to FY20f.

Table 4.13 Total direct expenses

	PRO FORMA HISTORICAL			PRO FORMA FORECAST
$'000, YEAR ENDED 30 JUNE	**FY17**	**FY18**	**FY19**	**FY20f**
Interchange fees and scheme fees	57,656	71,863	97,259	128,864
Integration, support and other fees	6,105	6,648	8,230	10,569
Terminal accessories cost of sales	744	542	745	867
Payments direct expenses	64,505	79,053	106,234	140,300
Interest expense on deposits	33	110	276	548
Total direct expenses	**64,538**	**79,163**	**106,510**	**140,849**

Interchange and scheme fees, and integration, support and other fees, are generally based on a contracted fixed fee or a fixed percentage per transaction. These fees in total represented 63.1% of Merchant Service Fees in FY17, 62.5% in FY18 and 65.0% in

FY19 and are forecast to represent 66.7% of Merchant Service Fees in FY20f. The main factors affecting direct expenses include:

- the growth in merchant numbers;
- increases in interchange fees and scheme fees, which are largely outside of our control;
- increases in fees paid to POS system partners;
- the type of payments acquired, with a shift in card mix toward debit cards (where debit card costs are generally lower than credit card costs); and
- the progressive move from bilateral to multilateral interchange arrangements over the period.

At the same time as offering merchants loans in the form of merchant cash advances, we also offer merchants fee-free, interest-bearing transaction accounts as a complementary service to merchant acquiring. Interest expense on merchant deposits has increased in each year in line with the growth in the balance of merchant deposits, reflecting the appeal of this service to many merchants. Starting from a near-zero base at the commencement of FY17, active deposit accounts were 2,401 at 30 June 2019 and are forecast to reach 3,147 by 30 June 2020.

4.9.1.3 Gross profit

Gross profit represents revenue and income less total direct expenses. Gross profit has increased in each year, broadly consistent with the growth achieved in all of our revenue streams as discussed above.

Gross profit as a percentage of revenue and income (gross profit margin) was 46.5% in FY17, 46.6% in FY18 and 43.9% in FY19 and is forecast to be 41.5% in FY20f. Gross profit margin has primarily been affected by decreased Merchant Acquiring Fees in the payments business. We monitor payments gross profit margin to total transaction value, which was 48.3 bps in FY17, 47.9 bps in FY18, 44.3 bps in FY19 and is forecast to be 41.5 bps in FY20f.

The main factors affecting gross profit include:

- our ability to pass on increased costs to merchants – we primarily offer two pricing options to merchants – cost-plus (with a fixed margin) and normalised (with a variable margin) (refer to **Section 2.3.3** and **Table 3.1** for further information). Hence, the overall mix of pricing structures contracted by merchants can affect gross profit margin. Larger merchants tend to opt for cost-plus pricing. A higher proportion of transaction value processed on cost-plus terms has provided some offset to the effect of increased charges from schemes and issuers as it is passed onto the respective merchants;
- the timing of passing on cost increases to merchants – we can pass on direct payments expense increases to merchants (in some cases after giving 30 days' notice), but the process to calculate, manage and implement changes can take time, during which the changes are absorbed by us. In FY19 in particular, we staggered issuer cost increases to merchants over the course of four months;
- our ability to maintain competitively priced services to merchants; and
- the type of payment acquired, with a shift in card mix toward debit cards (where debit card margins are generally lower than credit card margins) – refer to **Section 3.3.1** for further information on our pricing structures and product mix.

4.9.1.4 Lending and non-lending losses

Table 4.14 Lending and non-lending losses

	PRO FORMA HISTORICAL			PRO FORMA FORECAST
$'000, YEAR ENDED 30 JUNE	FY17	FY18	FY19	FY20f
Lending losses	230	411	542	1,536
Non-lending losses	22	71	255	431
Lending and non-lending losses	**252**	**482**	**797**	**1,966**

Lending losses relate to merchant loans written off and fair value adjustments to the loan portfolio applied in accordance with AASB 9. Under previous AAS, we provided for specific loans identified as impaired, whereas AASB 9 requires application of the expected credit loss model, with the resulting fair value gain or loss recognised in the income statement. The application of AASB 9 is not expected to materially impact our financial performance.

Lending losses have increased in each year, reflective of the increased lending to merchants. Lending losses as a percentage of loan originations have ranged from approximately 1% to 2% from FY17 to FY19. We consider that the relatively low lending losses as a percentage of loan originations primarily reflects a decision to limit loans to merchants considered by us to be eligible while this service was in its infancy, and an increase in the proportion of loans that were a second or further take-up of this service by merchants.

Non-lending losses primarily include chargeback losses in our payments business. Chargebacks are transactions disputed by the cardholder and not resolved with the merchant. The increase in this expense in each year is reflective of the growth in transaction value. We also estimate future losses from chargebacks with a general reserve for credit losses in accordance with our accounting policies (refer to **Section 2.3.2.3** for a description of chargebacks). The appropriation is made directly in reserves and not in the income statement.

4.9.1.5 Employee benefits expenses

We have continued to invest in our team, consistent with our strategy of continued growth of our payments business and building our value-adding banking services. Our team is structured along four functions comprising sales and marketing, product delivery, product development and management and corporate office. **Table 4.15** below provides a breakdown of employee costs by team.

Table 4.15 Employee benefits expenses

	PRO FORMA HISTORICAL			PRO FORMA FORECAST
$'000, YEAR ENDED 30 JUNE	**FY17**	**FY18**	**FY19**	**FY20f**
Sales and marketing	5,960	8,621	11,492	13,919
Product delivery	7,801	10,184	11,432	12,947
Product development and management	24,754	26,780	30,693	34,416
Corporate office	9,782	8,993	10,145	12,668
Employee benefits expenses before share-based payments expense and capitalised employee benefits expenses	**48,297**	**54,577**	**63,763**	**73,950**
Share-based payments expense	1,841	1,411	2,593	6,949
Capitalised employee benefits expenses	–	–	(2,518)	(5,318)
Employee benefits expenses	**50,138**	**55,988**	**63,838**	**75,581**

Factors that have contributed to the increased investment in personnel include:

- increased headcount across all areas of the business. Headcount was 371 staff as at 30 June 2017 and is forecast to be 502 staff by 30 June 2020;
- additional sales and marketing staff to increase brand awareness, develop a broader range of sales and marketing channels, improve cross-selling capabilities and improve merchant acquisition, experience and retention;
- additional product delivery staff to service the increasing merchant base and consequent increase in merchant support, investment in security capabilities and additional staff to service the growing lending and deposit services established in FY17;
- in relation to product development and management, continued investment in technology specialists to research and develop new systems, improve and maintain the efficiency, availability and security of existing systems and to increase direct integration efforts with POS systems. Approximately 200 team members are in technology roles (refer to **Section 3.10.1** for further information); and
- FY18 saw a change in CEO, FY19 saw the establishment of new legal and strategy departments, and additions to corporate staff were made in each year to support the maturing operations of the business.

Employee benefits expenses after share-based payments expense and capitalised employee benefits expenses, represented 89.5% of gross profit in FY17, 81.1% in FY18 and 76.7% in FY19 and are forecast to represent 75.7% of revenue in FY20f. These decreases in the percentage of employee benefits expenses to gross profit from FY17 through FY19 reflect the scalability of the employee cost base.

While share-based payments expense decreased in FY18 due to the departure of a number of senior executives, this expense has increased since then reflecting a number of new share option schemes provided to the Senior Leadership Team, Non-executive Directors and staff (refer to **Section 6.4** for further information).

Prior to FY19, while we invested substantially in the development of various technologies, the requirements of AAS were not met in order to capitalise distinct software development costs. In FY19, we were able to meet these requirements, resulting in $2,518,000 of employee benefits expenses capitalised as intangible assets. The forecast for FY20f assumes that $5,318,000 of employee benefits expenses will be eligible for capitalisation into intangible assets. The ability to capitalise development costs reflects the increasing maturity in our process capabilities and provides greater granularity on how investments are being made. The aggregate of our capitalised software development costs and our employee benefits expenses relating to product research and development reflects our planned investment in innovation, our technology platform and scalability.

4.9.1.6 Other operating expenses

Table 4.16 provides a breakdown of other operating expenses from FY17 through FY20f. Investors should note that the application of AASB 16 results in rent expense no longer recorded in other operating expenses. As explained in **Section 4.2.4.1**, AASB 16 requires the lease for our corporate office to be accounted for as a right-of-use asset with a corresponding lease liability. Amortisation expense and interest expense are accounted for within these line items, as discussed in **Sections 4.9.1.8** and **4.9.1.9**. The rent expense that would have been recorded in other operating expenses under previous AAS is shown below **Table 4.16**.

Table 4.16 Other operating expenses

	PRO FORMA HISTORICAL			PRO FORMA FORECAST
$'000, YEAR ENDED 30 JUNE	**FY17**	**FY18**	**FY19**	**FY20f**
Contractor and consulting expenses	1,531	5,201	7,715	6,799
Marketing expenses	2,000	2,899	4,771	5,775
Communications, hosting and licensing costs	3,098	4,132	5,532	7,909
Terminal management and logistics	1,162	1,671	2,162	1,882
Recruitment	1,453	957	387	719
Other administrative expenses	5,099	6,522	6,793	6,722
Non-employee share-based payments expense	–	–	–	690
Other operating expenses	**14,345**	**21,381**	**27,360**	**30,495**
Rent expense under previous AAS	*3,836*	*3,934*	*3,952*	*3,978*

The main factors that have affected other operating expenses are:

- supplementing our in-house technology expertise with specialist information technology contractors as required to support individual research and development projects. We have invested substantially in employees and contractors in the development of technologies in each year. Significant spend on contractors and consultants has also been incurred as we have invested in our back office and administrative systems to support the growth in both the payments and banking businesses. A decrease in contractor and consulting expenses is forecast for FY20f with more development work to be undertaken by our in-house staff;
- increase in marketing expenses each year consistent with the strategic growth objectives. The increased spend reflects investment in promoting our brand, including a brand refresh in FY19, increased use of 'Above-the-Line' marketing and increased use of digital marketing (refer to **Section 3.5** for further information on our approach to merchant acquisition). We have also invested in customer retention and engagement initiatives (refer to **Section 3.6.3**);

- increase in communications costs each year consistent with the increased number of terminals, together with increased data usage and connection charges from network providers;
- use of software and technologies that are owned by third parties, for which we pay licence fees and other charges. Licensing costs have increased in each year consistent with investment in systems as noted above;
- increase in terminal management and logistics costs (primarily comprised of terminal maintenance and distribution costs). These costs have increased broadly in line with the growth in merchants and the corresponding increase in terminals;
- decrease in recruitment costs from FY17 through FY19 despite the increased headcount, which reflects the establishment of our in-house People team in the first half of FY17, resulting in less reliance on external recruiting agencies. An increase in recruitment costs for FY20f reflects an assumed increase in staff hired from overseas, giving rise to increased relocation expenses. This reflects a current shortage of technology specialists in Australia; and
- other administrative expenses consisting of legal, accounting, audit, credit risk, subscriptions, utilities, office supplies, travel and training costs. These costs have generally increased to support the growth in our business, with some decrease expected in FY20f due to legal and taxation functions being performed in-house by our staff rather than by external providers.

Further information on specific factors affecting each of the above other operating expenses is provided in the year-on-year comparisons in the following Sections. Refer to **Section 4.9.4.2.8** for a discussion of the non-employee share-based payments expense forecast for FY20f.

Shown under **Table 4.16** is the rent expense that was recorded in other operating expenses in FY17 to FY19 under previous AAS, or would have been recorded in the case of FY20f. Under AASB 16, rent expense is no longer recognised in the income statement, effectively replaced by amortisation of right-of-use asset and interest expense on lease liability, as discussed in **Sections 4.9.1.8** and **4.9.1.9**.

4.9.1.7 EBITDA

EBITDA is a key non-IFRS metric used by us to assess operating and financial performance. EBITDA was negative $6,857,000 in FY17, negative $7,373,000 in FY18 and negative $6,142,000 in FY19 and is forecast to be negative $620,000 in FY20f.

The main drivers impacting EBITDA include:

- the following factors attributable to revenue and income and gross profit:
  - sustained growth in new merchants and organic transaction value growth from existing merchants, with corresponding growth in total transaction value and Merchant Service Fees;
  - payments gross profit increased along with Merchant Service Fees albeit at a lower margin, reflecting a combination of variations in the timing of passing on direct expenses in FY19, our growth strategy and competitive pricing for larger merchants considered strategically beneficial to the overall portfolio; and
  - increased contribution of gross profit from banking revenue, reflecting the increased take-up of our value-adding lending and deposit services to merchants since the launch of these services at the commencement of FY17; and
- the following factors attributable to operating expenses:
  - increased lending losses as the loan book continues to grow, albeit the rate of lending losses as a percentage of loan originations declined from FY17 to FY19. The forecast assumes an increase in lending losses reflecting continued economic conditions affecting merchants and an increase in the number of merchants eligible for being offered loans in the form of merchant cash advances for the first time;
  - continued substantial investment in personnel across all teams consistent with our strategic growth objectives and technology imperatives, albeit that employee benefits expenses (excluding share-based payments expense) have continued to decline as a percentage of gross profit;
  - increased communications and licensing costs as the merchant base grows as well as more licences required in conjunction with additional technology platforms;
  - reduction in contractor and consultant costs, legal costs and recruitment costs where some functions or services previously provided by external providers have been largely brought in-house;
  - increased marketing spend consistent with our strategic objectives to grow our brand awareness, including through 'Above-the-Line' marketing, and increasing reach through digital channels;
  - increased information security costs and credit assessment costs; and
  - increased compliance and governance costs (in common with many businesses in the industry regulated by the Australian Prudential Regulation Authority).

4.9.1.8 Depreciation and amortisation

Table 4.17 Depreciation and amortisation

	PRO FORMA HISTORICAL			PRO FORMA FORECAST
$'000, YEAR ENDED 30 JUNE	FY17	FY18	FY19	FY20f
Depreciation	5,984	7,064	7,849	9,246
Amortisation of intangible assets	–	–	15	563
Amortisation of right-of-use asset	3,123	3,123	3,123	2,832
Depreciation and amortisation	**9,107**	**10,187**	**10,987**	**12,641**

Depreciation relates to terminals, office and computer equipment and leasehold improvements. Terminals comprise the largest proportion of property, plant and equipment and are depreciated over three years. The number of terminals purchased and rented to merchants in each year (and the relevant depreciation expense) has increased in line with payments revenue and income and merchant growth.

As discussed in **Section 4.9.1.5**, certain development projects in FY19 met the requirements of AAS for the related employee benefits expenses to be capitalised as internally generated software in intangible assets. These assets are amortised to the income statement in accordance with our accounting policies.

Amortisation of right-of-use asset represents the expense arising as a result of the adoption of AASB 16, as explained in **Section 4.2.4.1**, and which has been applied to the Pro Forma Historical Financial Information as if AASB 16 commenced from 1 July 2016. The decrease in this expense in FY20f reflects the subleasing of one floor of the corporate office to a third party. In accordance with AASB 16, this requires the right-of-use asset to be proportionately reduced, with the sublease recognised as net investment in lease (a receivable) in current and non-current assets in the statement of financial position. Interest income is recognised on this sublease as discussed in **Section 4.9.1.9**.

4.9.1.9 Net lease interest expense

Net lease interest expense represents interest expense on lease liabilities net of interest income on net investment in lease, both recognised in accordance with AASB 16. Interest expense on the lease liability is higher in the earlier periods of the lease term.

4.9.1.10 Income tax benefit

Pro forma income tax benefit in each financial year is based on our statutory effective tax rate in each financial year. These effective tax rates are lower than the corporate tax rate of 30% because we have not fully recognised the benefit of tax losses in each year. The effective tax rate was 13% in FY17, 6% in FY18 and 9% in FY19 and is forecast to be 10% in FY20f.

4.9.1.11 Foreign exchange

We are not exposed to material foreign currency risk in the settlement of merchant transactions as all monies received and paid are in Australian dollars. However, our settlement of fees with schemes and the purchase of terminals from foreign suppliers are transacted in foreign currencies at the exchange rate prevailing at the transaction date. We have some exposure to the United States dollar and the euro. We incurred a foreign exchange loss of $53,000 in FY17, a foreign exchange gain of $20,000 in FY18 and a foreign exchange loss of $4,000 in FY19 and the FY20f forecast assumes a foreign exchange gain of $59,000.

4.9.1.12 Operating cash flows

Table 4.18. Operating cash flows

$'000, YEAR ENDED 30 JUNE	PRO FORMA HISTORICAL			PRO FORMA FORECAST
	FY17	FY18	FY19	FY20f
Loss before income tax	**(19,131)**	**(20,113)**	**(20,641)**	**(21,445)**
Non-cash items:				
Net lease interest expense	1,327	1,142	919	546
Depreciation and amortisation	9,107	10,187	10,987	12,641
Share-based payments expense	1,841	1,411	2,593	7,639
Loan impairments	230	411	542	1,536
Other non-cash items	64	10	(383)	(78)
Change in working capital:				
Net change in merchant loans	(4,741)	(3,489)	(8,061)	(10,898)
Net change in merchant deposits	3,489	7,616	15,355	25,136
Payments for terminals	(5,060)	(6,688)	(8,103)	(10,276)
Change in other net working capital	(238)	(576)	(4,137)	2,666
Operating cash flows	**(13,114)**	**(10,088)**	**(10,930)**	**7,466**

Operating cash flows are affected by the following key factors:

- increased cash contribution from increased gross profit in each year;
- increased cash expenditure on employees and other operating expenditure to support business growth and operations (as discussed in **Section 4.9.1.6**);
- net increased cash contribution from the banking business as growth in merchant deposits is greater than growth in loans to merchants;
- increased spend on terminals consistent with the growth in merchants; and
- change in other net working capital, particularly scheme receivables and payables. The change in other net working capital in each year has generally experienced an increase reflective of higher receivables. The day of the week upon which 30 June in each year falls can significantly affect operating cash flows. The settlement of scheme receivables for payments processed on a Saturday, Sunday and Monday is not done until Tuesday. Similarly, settlement of scheme receivables for payments processed on a Friday is not done until Monday. The forecast for FY20f assumes a significant decrease in receivables due to this factor, which is explained in **Section 4.9.5.8**.

Further discussion of specific factors affecting operating cash flows is provided in the following Sections.

4.9.1.13 Capital expenditure and other investing cash flows

Table 4.19 Capital expenditure and other investing cash flows

	PRO FORMA HISTORICAL			PRO FORMA FORECAST
$'000, YEAR ENDED 30 JUNE	FY17	FY18	FY19	FY20f
Operating cash flows	**(13,114)**	**(10,088)**	**(10,930)**	**7,466**
Capital expenditure excluding terminals	(1,822)	(2,891)	(1,045)	(1,640)
Payments for internally developed assets	–	–	(2,518)	(5,568)
Net proceeds from/(investment in) term deposits	(24,417)	35,013	10,037	–
Purchases of financial investments	(20,125)	(17,668)	(3,500)	(7,845)
Proceeds from sale of financial investments	–	–	5,691	4,969
Payment for investment in an entity	–	–	–	(3,500)
Lease interest income received	–	–	–	113
Net investment in lease received	–	–	–	521
Cash flows after operating and investing cash flows	**(59,478)**	**4,366**	**(2,264)**	**(5,483)**

Capital expenditure included in investing cash flows comprises expenditure on computer and office equipment, furniture and furnishings and leasehold improvements. We classify purchases of terminals as operating cash flows.

Terminals are recorded as property, plant and equipment in the statement of financial position and, under the current business model, are rented to merchants mainly on a monthly basis. Terminals purchased in each year have grown consistently with increased merchants.

Payments for internally developed assets include capitalised employee benefits expenses on eligible projects, as discussed in **Section 4.9.1.5**.

Other investing cash flows include the investment of cash, not presently required for business operations, in current term deposits or non-current floating rate notes (recorded as financial investments in the statement of financial position).

Investing cash flows for FY20f also assume our investment in me&u. We expect to complete our investment in this entity in the first half of FY20f for $3,500,000. Further details of this investment are set out in **Section 3.11.6**.

From the commencement of FY20f, one of the corporate office floors was sub-let to a third party. Lease interest income received and net investment in lease received together represent the sublease rent received.

4.9.1.14 Financing cash flows

Table 4.20 Financing cash flows

$'000, YEAR ENDED 30 JUNE	PRO FORMA HISTORICAL FY17	PRO FORMA HISTORICAL FY18	PRO FORMA HISTORICAL FY19	PRO FORMA FORECAST FY20f
Cash flows after operating and investing cash flows	**(59,478)**	**4,366**	**(2,264)**	**(5,483)**
Lease interest paid	(1,327)	(1,142)	(919)	(659)
Lease principal paid	(2,615)	(3,054)	(3,569)	(4,136)
Proceeds from exercise of share options	3,815	2,877	598	1,613
Net cash flows	**(59,605)**	**3,048**	**(6,153)**	**(8,665)**

Lease interest paid and lease principal paid together represent rent paid on the corporate office lease. In accordance with the lease agreements, the rent is subject to an increase of 4% per annum.

Proceeds from exercise of share options reflect share options exercised under the various employee share option plans. Cash received from the exercise of share options varies in each period according to the number of options that vest and/or are exercised.

4.9.2 Comparison of the pro forma historical income statements and cash flows for FY17 to pro forma historical income statements and cash flows for FY18

Table 4.21 Pro Forma Historical Income Statements

$'000, YEAR ENDED 30 JUNE	PRO FORMA HISTORICAL FY17	PRO FORMA HISTORICAL FY18
Merchant Service Fees	101,092	125,618
Terminal rental income	9,643	11,793
Other fee income	4,718	4,802
Terminal accessories sales	327	810
Payments revenue and income	115,780	143,023
Lending income	450	1,567
Investments income	2,866	2,498
Other revenue and income	1,479	1,143
Revenue and income	**120,575**	**148,231**
Payments direct expenses	(64,505)	(79,053)
Interest expense on deposits	(33)	(110)
Total direct expenses	**(64,538)**	**(79,163)**
Gross profit	**56,037**	**69,068**
Lending and non-lending losses	(252)	(482)
Employee benefits expenses	(48,297)	(54,577)
Share-based payments expense	(1,841)	(1,411)
Other operating expenses	(14,345)	(21,381)
Depreciation and amortisation	(9,107)	(10,187)
Net lease interest expense	(1,327)	(1,142)
Loss before income tax	**(19,131)**	**(20,113)**
Income tax benefit	2,486	1,265
Net loss after tax	**(16,646)**	**(18,848)**

4.9.2.1 Revenue and income

Revenue and income increased from $120,575,000 in FY17 to $148,231,000 in FY18, an increase of 22.9%. This reflects the following factors:

- an increase in payments revenue and income from $115,780,000 in FY17 to $143,023,000 in FY18, an increase of 23.5%, due primarily to:
  - total merchants increasing from 18,329 in FY17 to 23,245 in FY18, an increase of 26.8%. Transaction value churn increased from 8.8% in FY17 to 10.6% in FY18, partially attributed to the loss of a single large merchant;
  - transaction value increasing by 26.0% from $10.6 billion in FY17 to $13.4 billion in FY18. This increase is consistent with the increase in Merchant Service Fees which increased by 24.3% from $101,092,000 in FY17 to $125,618,000 in FY18. Organic growth in transaction value (merchants that have been with us for a full 12 months in the previous financial year) from FY17 to FY18 was 6.7%; and
  - terminal rental income increased with the growth in the merchant base, with growth of 22.3% from $9,643,000 in FY17 to $11,793,000 in FY18. The number of terminals increased from 31,828 as at 30 June 2017 to 40,479 as at 30 June 2018;
- from a zero base at the commencement of FY17, lending income increased from $450,000 in FY17 to $1,567,000 in FY18, an increase of 248.5%, due to:
  - the number of loan originations increasing from 234 in FY17 to 656 in FY18, an increase of 180.3%, and the value of loan originations of $11,142,000 in FY17 growing by 125.9% to $25,172,000 in FY18;
  - the balance of loans increasing from $4,511,000 as at 30 June 2017 to $7,590,000 as at 30 June 2018; and
  - an increase in the loan repeat rate from 23% in FY17 to 53% in FY18;
- investments income decreased from $2,866,000 in FY17 to $2,498,000 in FY18, a decrease of 12.9%. This decrease primarily reflects a net decrease in cash held in term deposits and financial investments from FY17 to FY18 of approximately $18,000,000, with that cash applied to fund business operations; and
- fintech-focused co-working space fees included in other revenue and income decreased from $1,310,000 in FY17 to $1,124,000 in FY18.

4.9.2.2 Total direct expenses

Total direct expenses increased from $64,538,000 in FY17 to $79,163,000 in FY18, an increase of 22.7%. Payments direct expenses increased by 22.6% from $64,505,000 in FY17 to $79,053,000 in FY18, consistent with the growth in payments revenue and income. Interchange and scheme fees, and integration, support and other fees, represented 63.1% of Merchant Service Fees in FY17 compared to 62.5% in FY18. Increased scheme fees were offset by the effect of caps placed on interchange fees by the Reserve Bank of Australia in July 2017.

Interest expense on merchant deposits increased from $33,000 in FY17 to $110,000 in FY18. This reflects:

- merchant deposits increased by 192.9% from $3,948,000 at 30 June 2017 to $11,563,000 at 30 June 2018; and
- active deposit accounts were 355 at 30 June 2017 growing to 1,285 at 30 June 2018.

4.9.2.3 Gross profit

Gross profit increased by 23.3% from $56,037,000 in FY17 to $69,068,000 in FY18. These increases are broadly consistent with the growth achieved in all of our revenue and income streams as discussed above.

Gross profit margin was similar at 46.6% in FY18 compared to the 46.5% achieved in FY17. Payments gross profit margin to transaction value declined from 48.3 bps in FY17 to 47.9 bps in FY18, reflecting our growth focus and competitive pricing.

4.9.2.4 Lending and non-lending losses

Lending losses increased from $230,000 in FY17 to $411,000 in FY18, reflective of increased lending to merchants. Loan originations increased from $11,142,000 in FY17 to $25,172,000 in FY18. Lending losses as a percentage of loan originations were 2.1% in FY17 compared to 1.6% in FY18. This improved loss rate primarily reflects an increase in the proportion of loans that were a second or further repeat take-up of this service by merchants. The loan repeat rate was 53% in FY18 compared to 23% in FY17.

Non-lending losses primarily include chargeback losses in our payments business. The increased incidence of chargeback losses in both FY17 and FY18 reflects the inherent risk of these losses, as explained in **Section 2.3.2.3**.

4.9.2.5 Employee benefits expenses

Employee benefits expenses, including share-based payments expense, increased by 11.7% from $50,138,000 in FY17 to $55,988,000 in FY18, which represented 89.5% of gross profit in FY17 compared to 81.1% in FY18.

Employee benefits expenses, before share-based payments expense and capitalised employee benefits expenses, increased by 13.0% from $48,297,000 in FY17 to $54,577,000 in FY18. This reflects the following factors:

- 371 staff as at 30 June 2017 increased to 384 staff at 30 June 2018;
- additional sales and marketing staff to increase brand awareness;
- additional product delivery staff to service the growing lending and deposit services established in FY17;
- continued investment in technology specialists for research and development; and
- FY18 saw a change in CEO and the departure of some other members of the Senior Leadership Team.

Share-based payments expense decreased from $1,841,000 in FY17 to $1,411,000 in FY18, primarily due to the departure of a number of senior executives, including the former Chief Executive Officer, during FY18. Two new Senior Leadership Team members (including the current CEO and Managing Director) joined us in the latter half of FY18.

4.9.2.6 Other operating expenses

Other operating expenses increased from $14,345,000 in FY17 to $21,381,000 in FY18, an increase of 49.0%. The main factors driving this increase include:

- contractor and consulting expenses increasing by $3,670,000 from $1,531,000 in FY17 to $5,201,000 in FY18, reflecting the use of technology specialists on building a digital and analytics platform, Tyro Connect research, Mastercard Payment Gateway Services connectivity, system scalability work and various other initiatives. Additional contractors were also engaged to assist with various projects in product development and management;
- marketing expenses increasing from $2,000,000 in FY17 to $2,899,000 in FY18 primarily due to the development of a brand awareness campaign, 'Born for Business', which was launched toward the end of FY18;
- communications, hosting and licensing costs increasing from $3,098,000 in FY17 to $4,132,000 in FY18 primarily reflecting additional licenses to support development of internal systems, data management infrastructure and reporting and scalability work. Communications costs increased consistent with the increased number of terminals;
- terminal management and logistics costs increasing from $1,162,000 in FY17 to $1,671,000 in FY18 broadly in line with the growth in merchants and the corresponding increase in terminals;
- other administrative expenses increased from $5,099,000 in FY17 to $6,522,000 in FY18 largely due to increased legal fees for advice on employment contracts and incentive schemes, increased credit assessment costs due to growth in loan applications, additional software subscriptions, increased staff training and events; offset by
- the decrease in recruitment costs from $1,453,000 in FY17 to $957,000 in FY18, despite the increased headcount, reflecting the establishment in the first half of FY17 of our in-house People team, resulting in less reliance on external recruiting agencies.

4.9.2.7 Depreciation and amortisation

Depreciation and amortisation increased from $9,107,000 in FY17 to $10,187,000 in FY18. This is primarily due to increased depreciation charge on an increased number of terminals. The number of terminals grew from 31,828 as at 30 June 2017 to 40,479 as at 30 June 2018.

4.9.2.8 Cash flows

Table 4.22 Pro Forma Historical Cash Flows

$'000, YEAR ENDED 30 JUNE	PRO FORMA HISTORICAL FY17	PRO FORMA HISTORICAL FY18
Loss before income tax	**(19,131)**	**(20,113)**
Non-cash items:		
Net lease interest expense	1,327	1,142
Depreciation and amortisation	9,107	10,187
Share-based payments expense	1,841	1,411
Loan impairments	230	411
Other non-cash items	64	10
Change in working capital:		
Net change in merchant loans	(4,741)	(3,489)
Net change in merchant deposits	3,489	7,616
Payments for terminals	(5,060)	(6,688)
Change in other net working capital	(238)	(576)
Operating cash flows	**(13,114)**	**(10,088)**
Capital expenditure excluding terminals	(1,822)	(2,891)
Payments for internally developed assets	–	–
Net proceeds from/(investment in) term deposits	(24,417)	35,013
Purchases of financial investments	(20,125)	(17,668)
Cash flows after operating and investing cash flows	**(59,478)**	**4,366**

Operating cash flows improved from negative $13,114,000 in FY17 to negative $10,088,000 in FY18. This improvement of $3,026,000 was largely due to increased contributions from merchant deposits of $4,127,000 and lower net cash outflow for merchant loans of $1,252,000, partly offset by a higher EBITDA cash loss of $389,000, an increase in other net working capital of $338,000 and an increased level of payments for new terminals by $1,628,000.

Capital expenditure excluding terminals increased from $1,822,000 in FY17 to $2,891,000 in FY18 mainly due to increased spend on computer equipment.

In FY17, cash used to invest in term deposits and floating rate notes were $44,542,000, resulting in balances of $44,698,000 invested in term deposits and $20,265,000 invested in floating rate notes as at 30 June 2017. In FY18, $35,013,000 was received from term deposits reducing the balance of term deposits as at 30 June 2018 to $10,000,000. Funds of $17,668,000 were invested in floating rate notes and the balance used to fund business operations.

4.9.3 Comparison of the pro forma historical income statements and cash flows for FY18 to pro forma historical income statements and cash flows for FY19

Table 4.23 Pro Forma Historical Income Statements

	PRO FORMA HISTORICAL	
$'000, YEAR ENDED 30 JUNE	FY18	FY19
Merchant Service Fees	125,618	162,174
Terminal rental income	11,793	15,452
Other fee income	4,802	5,161
Terminal accessories sales	810	898
Payments revenue and income	143,023	183,685
Lending income	1,567	2,938
Investments income	2,498	2,333
Other revenue and income	1,143	814
Revenue and income	**148,231**	**189,770**
Payments direct expenses	(79,053)	(106,234)
Interest expense on deposits	(110)	(276)
Total direct expenses	**(79,163)**	**(106,510)**
Gross profit	**69,068**	**83,260**
Lending and non-lending losses	(482)	(797)
Employee benefits expenses	(54,577)	(61,245)
Share-based payments expense	(1,411)	(2,593)
Other operating expenses	(21,381)	(27,360)
Depreciation and amortisation	(10,187)	(10,987)
Net lease interest expense	(1,142)	(919)
Loss before income tax	**(20,113)**	**(20,641)**
Income tax benefit	1,265	1,965
Net loss after tax	**(18,848)**	**(18,675)**

4.9.3.1 Revenue and income

Revenue and income increased from $148,231,000 in FY18 to $189,770,000 in FY19, an increase of 28.0%. This reflects the following factors:

- an increase in payments revenue and income from $143,023,000 in FY18 to $183,685,000 in FY19, an increase of 28.4%, due primarily to:
  - total merchants increasing from 23,245 in FY18 to 29,031 in FY19, an increase of 24.9%, while transaction value churn decreased from 10.6% in FY18 to 9.3% in FY19. The lower transaction value churn in FY19 reflects initiatives such as improved focus on merchant engagement and retention, launch of our least-cost routing feature (Tap & Save) in March 2018 and continued integration of POS system partners to reduce friction, combining to improve merchant satisfaction with our services;
  - transaction value increasing by 31.0% from $13.4 billion in FY18 to $17.5 billion in FY19. This increase is consistent with the increase in Merchant Service Fees which increased by 29.1% from $125,618,000 in FY18 to $162,174,000 in FY19. Organic growth in transaction value from FY18 to FY19 was 5.5%; and
  - terminal rental income increased with the growth in the merchant base, with growth of 31.0% from $11,793,000 in FY18 to $15,452,000 in FY19. The number of terminals increased from 40,479 as at 30 June 2018 to 51,317 as at 30 June 2019, an increase of 26.8%.

- lending income increased from $1,567,000 in FY18 to $2,938,000 in FY19, an increase of 87.4%, due to:
  - the number of loan originations increasing from 656 in FY18 to 1,594 in FY19, an increase of 143.0%, and the value of loan originations of $25,172,000 in FY18 growing by 107.6% to $52,249,000 in FY19;
  - the balance of loans increasing from $7,590,000 as at 30 June 2018 to $15,665,000 as at 30 June 2019;
  - the increase in the loan repeat rate from 53% in FY18 to 57% in FY19; and
  - the introduction of a product feature in FY19 which automated visibility of loans for eligible customers;
- investments income decreased from $2,498,000 in FY18 to $2,333,000 in FY19, a decrease of 6.6%. The decrease from FY18 is mainly due to the drawing of $10,000,000 held in term deposits used to fund business operations; and
- other revenue and income decreased from $1,124,000 in FY18 to $600,000 in FY19, reflecting cessation of a sublease arrangement and winding-down of the fintech-focused co-working space during FY19.

4.9.3.2 Total direct expenses

Total direct expenses increased from $79,163,000 in FY18 to $106,510,000 in FY19, an increase of 34.5%. Payments direct expenses increased by 34.4% from $79,053,000 in FY18 to $106,234,000 in FY19. Interchange and scheme fees, and integration, support and other fees represented 62.5% of Merchant Service Fees in FY18 compared to 65.0% in FY19. POS system partner fees continued to grow in line with the growth in merchants and transaction value.

The increase in payments direct expenses as a percentage of Merchant Service Fees in FY19 primarily reflects increased charges from schemes and issuers in the second quarter of FY19. Over the course of four months in FY19, we staggered issuer cost increases to merchants under the variable margin (for example, normalised) pricing structures by way of higher Merchant Service Fees. Some offset to these increased costs was provided by a shift in card mix toward debit cards and also to a cost-plus pricing structure.

Interest expense on merchant deposits increased from $110,000 in FY18 to $276,000 in FY19. This reflects:

- merchant deposits increasing by 132.8% from $11,563,000 at 30 June 2018 to $26,918,000 at 30 June 2019;
- active deposit accounts were 1,285 at 30 June 2018 growing to 2,401 at 30 June 2019; and
- the attractiveness of our deposit account product was further enhanced in FY19 through the launch of recurring linked account transfers that allows customers to sweep their money into their linked accounts on a recurring basis.

4.9.3.3 Gross profit

Gross profit increased by 20.5% from $69,068,000 in FY18 to $83,260,000 in FY19. These increases are broadly consistent with the volume growth achieved in all of our revenue and income streams as discussed above.

Gross profit margin was 46.6% in FY18 compared to 43.9% achieved in FY19. Payments gross profit margin to transaction value declined from 47.9 bps in FY18 to 44.3 bps in FY19 with continued focus on growth, acquisition of larger strategic merchants and competitive pricing.

The decreased gross profit margin in FY19 primarily reflect increased charges from schemes and issuers in the second quarter of FY19. Over the course of four months in FY19, we staggered issuer cost increases to merchants under the variable margin pricing structures by way of higher Merchant Service Fees. Some offset to these increased costs was provided by a shift in card mix toward debit cards and also to a cost-plus pricing structure.

4.9.3.4 Lending and non-lending losses

Lending losses increased from $411,000 in FY18 to $542,000 in FY19, reflective of increased lending to merchants. Loan originations increased from $25,172,000 in FY18 to $52,249,000 in FY19, an increase of 107.6%. Lending losses as a percentage of loan originations were 1.6% in FY18 compared to 1.0% in FY19. This improved loss rate primarily reflects an improved loan repeat rate from 53% in FY18 to 57% in FY19 and improved credit assessment systems and procedures implemented during the year.

The increase in non-lending losses in both FY18 and FY19 reflects the increased incidence of chargeback losses as the payments business has grown.

4.9.3.5 Employee benefits expenses

Employee benefits expenses, including share-based payments expense and net of capitalised employee benefits expenses, increased by 14.0% from $55,988,000 in FY18 to $63,838,000 in FY19, which represented 81.1% of gross profit in FY18 compared to 76.7% in FY19.

Employee benefits expenses, before share-based payments expense and capitalised employee expenses, increased by 16.8% from $54,577,000 in FY18 to $63,763,000 in FY19. This reflects the following factors:

- 384 staff as at 30 June 2018 increased to 453 staff at 30 June 2019;
- additional sales and marketing staff to increase brand awareness, develop a broader range of sales and marketing channels, improve cross-selling capabilities and improve merchant acquisition, experience and retention;
- additional product delivery staff to service the larger merchant base and consequent increase in merchant support;
- continued investment in team members in technology roles to research and develop new systems, to improve and maintain the efficiency, availability and security of existing systems and to increase direct integration efforts with POS system partners. Major technology projects in FY19 included automated loan servicing with an employee spend of $1,002,000 and Tyro Connect employee spend of $2,255,000; and
- additional corporate staff and in each year investment in information security capabilities to support the maturing operations of the business.

Share-based payments expense increased from $1,411,000 in FY18 to $2,593,000 in FY19. As noted in **Section 4.9.2.5**, FY18 share-based payments expense decreased from FY17 primarily due to the departure of a number of senior executives. Two new members of the Senior Leadership Team (including the current CEO and Managing Director) joined us in the latter half of FY18 and the new Remuneration Sacrifice Rights Plan was established in FY19.

Prior to FY19, while we invested substantially in the development of various technologies, the requirements of AAS were not met in order to capitalise distinct software development costs. In FY19, we were able to meet these requirements for three projects (public cloud technology migration work, switch engine scalability and new payment types) resulting in $2,518,000 of employee benefits expenses capitalised as intangible assets.

4.9.3.6 Other operating expenses

Other operating expenses increased from $21,381,000 in FY18 to $27,360,000 in FY19, an increase of 28.0%. The main factors driving this increase include:

- contractor and consulting expenses increasing from $5,201,000 in FY18 to $7,715,000 in FY19, reflecting technology specialists engaged to primarily assist with the research and development of products, improvement in efficiency, resilience and security of systems, continued development of Tyro Connect, alternative payment types (Alipay and Zip Pay), merchant digital onboarding, data tools and infrastructure. Consultants were also engaged to help implement a new planning tool, advise on the implementation of new accounting standards and conduct risk assessments and security testing;
- marketing expenses increasing from $2,899,000 in FY18 to $4,771,000 in FY19 primarily due the 'Born for Business' marketing campaign launched toward the end of FY18 focused on building brand awareness, as well as tradeshow presence, trade press, radio and media sponsorship, and appointment of new creative and media agencies. In FY19, our rebranding promoted our expansion beyond payments into complementary value-adding offerings. Increased marketing expenditure was also incurred from new website development, customer retention and engagement initiatives and increased digital marketing;
- communications, hosting and licensing costs increasing from $4,132,000 in FY18 to $5,532,000 in FY19 primarily reflecting additional licences to support development of the systems and other systems used in operations. Communications costs increased with the increased number of terminals, together with increased data usage and connection charges from network providers;
- terminal management and logistics costs increasing from $1,671,000 in FY18 to $2,162,000 in FY19 partly in line with the growth in merchants and the corresponding increase in terminals;
- other administrative expenses increasing from $6,522,000 in FY18 to $6,793,000 in FY19 largely due to increased travel relocation costs for hire of staff from overseas, new subscription costs for product reporting software, a new people management and performance system, and increased staff recognition rewards and events, offset by:
- the decrease in recruitment costs from $957,000 in FY18 to $387,000 in FY19 reflects further savings from less reliance on external recruiting agencies with most recruitment functions conducted by our in-house People team.

4.9.3.7 Depreciation and amortisation

Depreciation and amortisation increased from $10,187,000 in FY18 to $10,987,000 in FY19. This is primarily due to increased depreciation charge on terminals. The number of terminals grew from 40,479 as at 30 June 2018 to 51,317 as at 30 June 2019.

As discussed in **Section 4.9.1.5**, certain development projects in FY19 met the requirements of AAS for the related employee benefits expenses to be capitalised as internally generated software in intangible assets. These assets are amortised to the income statement in accordance with our accounting policies. The FY19 amortisation expense of $15,000 represents the amortisation of the capitalised employee benefits expenses of $2,518,000 in that year from the date of commencement of when future economic benefits flowed to us.

4.9.3.8 Cash flows

Table 4.24 Pro Forma Historical Cash Flows

	PRO FORMA HISTORICAL	
$'000, YEAR ENDED 30 JUNE	**FY18**	**FY19**
Loss before income tax	**(20,113)**	**(20,641)**
Non-cash items:		
Net lease interest expense	1,142	919
Depreciation and amortisation	10,187	10,987
Share-based payments expense	1,411	2,593
Loan impairments	411	542
Other non-cash items	10	(383)
Change in working capital:		
Net change in merchant loans	(3,489)	(8,061)
Net change in merchant deposits	7,616	15,355
Payments for terminals	(6,688)	(8,103)
Change in other net working capital	(576)	(4,137)
Operating cash flows	**(10,088)**	**(10,930)**
Capital expenditure excluding terminals	(2,891)	(1,045)
Payments for internally developed assets	–	(2,518)
Net proceeds from/(investment in) term deposits	35,013	10,037
Purchases of financial investments	(17,668)	(3,500)
Proceeds from sale of financial investments	–	5,691
Cash flows after operating and investing cash flows	**4,366**	**(2,264)**

Operating cash flows decreased from negative $10,088,000 in FY18 to negative $10,930,000 in FY19. This decrease of $842,000 was largely due to an increase in other net working capital (primarily trade receivables) of $3,561,000, higher net cash outflow for merchant loans of $4,572,000 and an increased level of payments for new terminals of $1,415,000, partly offset by merchant deposits contributing additional net cash inflow of $7,739,000.

Capital expenditure excluding terminals decreased from $2,891,000 in FY18 to $1,045,000 in FY19 mainly due to decreased spend on computer equipment.

Payments for internally developed assets include capitalised employee benefits expenses on eligible projects, as discussed in **Section 4.9.1.5**.

In FY19, the remaining balance of term deposits of approximately $10,000,000 was converted to cash, which was used to fund business operations. Net proceeds from the purchase and sale of floating rate notes in FY19 was $2,191,000, resulting in a balance of floating rate notes as at 30 June 2019 of $36,948,000.

4.9.4 Key assumptions underlying the preparation of the Forecast Financial Information

4.9.4.1 General assumptions

The general assumptions adopted in preparing the FY20f forecast are set out below:

- no material change in the competitive and operating environments in which we operate;
- no material changes in current market and economic conditions including economic growth, employment levels and consumer spending;
- no significant deviation from current market expectations of global or Australian economic or geopolitical conditions (including financial market stability or trade) relevant to us;
- no material changes in Commonwealth, State or Territory, local or foreign government legislation (including tax legislation), regulatory requirements or government policy (including taxation and monetary policies providing support to consumer and business confidence) that will have a material impact on our financial performance, cash flows, financial position, accounting policies, financial reporting or disclosure;
- no material changes in applicable Australian Accounting Standards, other mandatory professional reporting requirements or the Corporations Act that have a material effect on our reported financial performance, financial position, accounting policies, financial reporting or disclosure, other than those discussed in **Section 4.2.4**;
- no business acquisitions or strategic partnerships undertaken which have a material impact on our FY20f financial performance, cash flows or financial position;
- no material industrial or employee relations disputes, strikes, acts of terrorism or other disturbances, environmental costs or legal claims which have a material impact on us;
- key personnel, particularly the Senior Leadership Team, are retained and we maintain our ability to recruit and retain required personnel;
- no material changes to the our markets or industry sectors other than any known as at the Prospectus Date that would have a material impact on the demand for or prices of our services;
- no change in our capital structure other than as set out in, or contemplated by, this Prospectus;
- retention of our significant merchants (for example, top 20 merchants as measured by payments gross profit) and no material losses of other merchants, partners or material contracts;
- no material amendment to any material agreement or arrangement relating to us other than as set out in, or contemplated by, this Prospectus;
- no significant disruptions to our operations and no material changes in our business;
- no material adverse changes to the performance of our merchant acquisition channels or costs;
- no material changes in foreign exchange rates;
- no material cash flow or income statement or financial position impact in relation to litigation (existing or otherwise);
- no material contingent liabilities arise or be realised to our detriment;
- none of the risks listed in this **Section 5** has a material adverse impact on our operations; and
- the Offer proceeds to Completion in accordance with the timetable set out in the Key Offer dates table in the **Important information**.

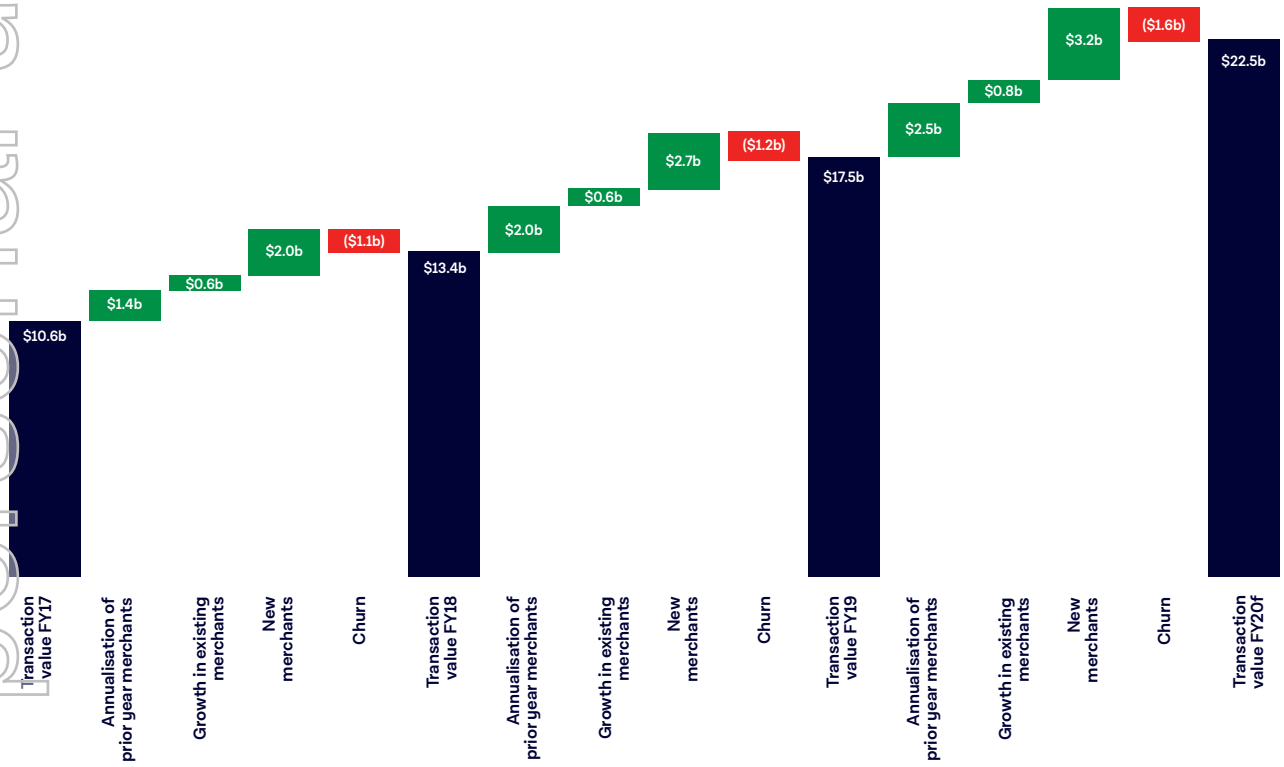
4.9.4.2 Specific assumptions

The Forecast Financial Information is based on the following specific assumptions:

4.9.4.2.1 Payments revenue and income

- merchant acquiring transaction value will reach approximately $22.5 billion in FY20f, up from $17.5 billion in FY19 (refer to **Figure 4.1**), driven by:
  - annualisation of prior year merchants: an increase of $2.5 billion from merchants onboarded over the course of the prior year;
  - growth in existing merchants: an increase of approximately 6% in transaction value for existing merchants consistent with increases over the historical period, contributing an additional $0.8 billion;
  - new merchants: a contribution of an additional $3.2 billion reflecting a forecast of approximately 36,000 merchants by 30 June 2020, consistent with growth rates over historical periods; and
  - churn: a reduction of $1.6 billion, which represents a transaction value churn rate of 9.1% (against 9.3% in FY19); and
- the components of our assumed increase in transaction value from FY19 to FY20f are illustrated in **Figure 4.1**, along with the comparable components from FY17:

Figure 4.1 Transaction value bridge, FY17 – FY20f



- Merchant Service Fees for existing merchants are calculated in accordance with current terms, with Merchant Service Fees for new merchants to trend in line with average FY19 new merchant rates;
- any interchange fees, scheme fees or other third party fee rate changes are passed onto merchants on a timely basis;
- the Medicare Easyclaim processing contract continues until its expected expiry on 31 December 2019 and is not renewed; and
- approximately 14,000 new terminals will be rented to merchants progressively over the course of FY20f at terminal rental rates consistent with those in FY19.

4.9.4.2.2 Lending income

- in relation to merchant lending and deposits:
  - a total of 11,200 merchants to be eligible for our loans, in the form of merchant cash advances, by 30 June 2020 (an increase of 4,829 on 30 June 2019); and
  - total loan originations of $85,083,000 (an increase of 62.8% on FY19), based on 2,445 loan originations in FY20f and an average loan origination of $35,000.

4.9.4.2.3 Investments income

- interest income from financial investments is based on the funds forecast to be invested at the interest rates expected to apply to the investments during the year (being an effective rate of approximately 1.5%). This forecast assumes one further RBA rate reduction by 25 bps in FY20f.

4.9.4.2.4 Other revenue and income

- sales of terminal accessories are consistent with purchasing patterns over the historical period from existing and new merchants.

4.9.4.2.5 Total direct expenses

- interchange fees, scheme fees and integration, support and other fees (including to POS system partners and Independent Sales Organisations) are based on current agreed rates with counterparties and interchange fee rates increasing in line with trends over the historical period; and
- in relation to interest expense on merchant deposits, the number of active deposit accounts reaches 3,147 by 30 June 2020 with an average balance of approximately $16,500 per account and a weighted average interest expense of 1.40%.

4.9.4.2.6 Lending and non-lending losses

- lending losses are based on a loss rate (lending losses as a percentage of loan originations) of 1.8% for FY20f (against 1.0% in FY19) increasing in line with our expected loan lending growth; and
- non-lending loss rates are based on the incidence of losses over the historical period.

4.9.4.2.7 Employee benefits expenses

- the number of employees is forecast to increase from 453 as at 30 June 2019 to 502 as at 30 June 2020 based on planned positions required by each team to meet business objectives, less an allowance for staff departures consistent with FY19 staff turnover rates;
- employee remuneration (including base pay, incentives and entitlements) is based on current employment agreements, a general increase of 2.5% and the remuneration expected to be paid to new staff pursuant to the roles that they will be hired to fulfil;
- share-based payments expense is based on the cost of our share option and incentive schemes determined in accordance with our accounting policies; and
- capitalised employee benefits expenses to be included in intangible assets is based on detailed project-by-project estimates of employee time and cost for those projects (refer to **Section 3.8** for further information on our information technology) expected to be eligible for capitalisation in accordance with our accounting policies.

4.9.4.2.8 Other operating expenses

- contractor and consulting expenses are based on agreed contracts with contractors and consultants currently engaged on projects, together with contracts or quoted estimates for projects to commence during FY20f with expenses where no contracts or quotes have been obtained to be consistent with equivalent historical costs for similar services provided by contractors and consultants in the historic periods;
- marketing spend is primarily based on planned marketing initiatives, in particular digital marketing spend and building brand awareness for which approximately $5,000,000 is forecast;
- communications, hosting and licensing costs are primarily based on existing contracts, adjusted where applicable for expected increases in fees, together with fees for new hosting and licences (mainly Amazon Web Services, Avoka and Salesforce) and increased communications costs due to increased connectivity required by the increased number of terminals;
- terminal management and logistics costs are based on the expected need for maintenance of terminals based on historical incidence rates adjusted for the expected increase in terminals distributed to new merchants and new terminals issued to existing merchants;

- recruitment costs for planned new staff and relocation costs for staff sourced from overseas to be consistent with FY19 rate;
- other administrative expenses are assumed to increase in line with inflation of 2%, together with increased cost for information security and merchant credit assessments consistent with growth rates in FY19; and
- share-based payments expense relating to the POS Partner Agreements assumes that shares in the Company to be issued to the partners, if they meet the contract milestones expected to be reached within FY20f, will be the number of Shares to which they will be entitled, multiplied by the assumed fair value of the Shares at the time they are expected to be issued.

4.9.4.2.9 Depreciation and amortisation

- depreciation of property, plant and equipment in accordance with our accounting policy set out in **Note 17** in **Appendix A**;
- amortisation of intangible assets in accordance with the accounting policy set out in **Note 18** in **Appendix A**;
- amortisation of right-of-use assets in accordance with AASB 16; and
- no impairment write-downs of non-current assets.

4.9.4.2.10 Net lease interest expense

- lease interest expense is recognised in accordance with AASB 16 based on the underlying lease agreement for the corporate office. Lease interest income is recognised in accordance with AASB 16 based on the underlying sublease agreement for one floor of the corporate office.

4.9.4.2.11 Income tax benefit

- the forecast statutory income tax benefit for FY20f is based on an effective tax rate of 16%. The pro forma forecast income tax benefit for FY20f is based on an effective tax rate of 10% (which reflects the exclusion on a pro forma basis of the tax benefit of the Offer costs).

4.9.4.2.12 Operating cash flows

- no significant change in payment terms from schemes or issuers and no significant change in our settlement of payments to merchants;
- no significant change in payment terms from other debtors;
- no significant defaults of merchant loans beyond that forecast to be impaired and included in lending losses;
- cash flows attributable to merchant loans and deposits are in line with the assumptions set out in **Sections 4.9.4.2.2** and **4.9.4.2.5**;
- payments for terminals are in line with the assumed number of new terminals as set out in **Section 4.9.4.2.1**; and
- no significant change in payment terms from us to our suppliers and other creditors.

4.9.4.2.13 Capital expenditure and other investing cash flows

- expenditure on property, plant and equipment (excluding terminals) of $1,640,000;
- capitalised employee benefits expenses recorded in intangible assets in line with the assumptions set out in **Section 4.9.4.2.7**;
- net purchases of financial instruments of $2,876,000; and
- settlement of the investment in me&u for $3,500,000. The forecast cash flows for FY20f also assume that no further equity or other cash will be contributed to me&u, that there will be no cash distributions from me&u.

4.9.4.2.14 Lease payments and receipts

- forecast lease payments (included in financing cash flows) and sublease receipts (included in investing cash flows) for FY20f (which are split between principal and interest payments or receipts in the statutory and pro forma historical and forecast cash flows) are based on contractual payment obligations under the lease agreements for the corporate office and the sublease agreement, respectively. The split between the interest and principal component of each lease payment or receipt is determined in accordance with AASB 16.

4.9.5 Comparison of the pro forma historical income statements and cash flows for FY19 to pro forma forecast income statements and cash flows for FY20f

The discussion of the comparison of income statements and cash flows in this **Section 4.9.5** should also be read in conjunction with the key metrics set out in **Section 4.7** and the key assumptions set out in **Section 4.9.4**.

Table 4.25 Pro Forma Historical Income Statements

$'000, YEAR ENDED 30 JUNE	PRO FORMA HISTORICAL FY19	PRO FORMA FORECAST FY20f
Merchant Service Fees	162,174	209,047
Terminal rental income	15,452	19,349
Other fee income	5,161	4,200
Terminal accessories sales	898	1,107
Payments revenue and income	183,685	233,704
Lending income	2,938	5,054
Investments income	2,333	1,779
Other revenue and income	814	95
Revenue and income	**189,770**	**240,633**
Payments direct expenses	(106,234)	(140,300)
Interest expense on deposits	(276)	(548)
Total direct expenses	**(106,510)**	**(140,849)**
Gross profit	**83,260**	**99,784**
Lending and non-lending losses	(797)	(1,966)
Employee benefits expenses	(61,245)	(68,632)
Share-based payments expense	(2,593)	(6,949)
Other operating expenses	(27,360)	(30,495)
Depreciation and amortisation	(10,987)	(12,641)
Net lease interest expense	(919)	(546)
Loss before income tax	**(20,641)**	**(21,445)**
Income tax benefit	1,965	2,195
Net loss after tax	**(18,675)**	**(19,251)**

4.9.5.1 Revenue and income

Revenue and income are forecast to increase from $189,770,000 in FY19 to $240,633,000 in FY20f, an increase of 26.8%. This reflects the following factors:

- a forecast increase in payments revenue and income from $183,685,000 in FY19 to $233,704,000 in FY20f, an increase of 27.2%, due primarily to:
  - total merchants are forecast to increase from 29,031 in FY19 to approximately 36,000 in FY20f, an increase of 24.0%, while transaction value churn is forecast to improve from 9.3% in FY19 to 9.1% in FY20f;
  - transaction value is forecast to increase by 28.6% from $17.5 billion in FY19 to $22.5 billion in FY20f. This increase is consistent with the forecast increase in Merchant Service Fees by 28.9% from $162,174,000 in FY19 to $209,047,000 in FY20f. Organic growth in transaction value from FY19 to FY20f is forecast to be 6%; and

- terminal rental income is forecast to increase with the growth in the merchant base, with growth of 25.2% from $15,452,000 in FY19 to $19,349,000 in FY20f. The number of terminals is forecast to increase from 51,317 as at 30 June 2019 to approximately 65,000 as at 30 June 2020;

- lending income is forecast to increase from $2,938,000 in FY19 to $5,054,000 in FY20f, an increase of 72.0%, due to:
  - a planned increase in the number of merchants that will be eligible for our loans, in the form of merchant cash advances, for the first time;
  - the number of loan originations is forecast to increase from 1,594 in FY19 to 2,445 in FY20f, an increase of 53.4%, and the value of loan originations is forecast to increase by 62.8% from $52,249,000 in FY19 to $85,083,000 in FY20f;
  - the balance of loans is forecast to increase from $15,665,000 as at 30 June 2019 to $25,027,000 as at 30 June 2020, an increase of 59.8%; and
  - the loan repeat rate is forecast to increase from 57% in FY19 to 66% in FY20f;
- investments income is forecast to decrease from $2,333,000 in FY19 to $1,779,000 in FY20f. This decrease, despite a substantial increase in funds invested as a result of net proceeds from the Offer, is mainly due to declines in interest rates in Australia that are expected to prevail during FY20f (average rate forecast in FY20f is approximately 1.6% compared to an average of approximately 2.8% in FY19); and
- other revenue and income are forecast to be negligible in FY20f due to the cessation of the fintech-focused co-working space fees in FY19. The floor of the corporate office that the fintech-focused co-working space occupied was sub-let to another third party from the commencement of FY20f. The accounting for the sublease income in FY20f is affected by the adoption of AASB 16 as discussed in **Sections 4.9.1.8** and **4.9.1.9**.

4.9.5.2 Direct expenses

Total direct expenses are forecast to increase from $106,510,000 in FY19 to $140,849,000 in FY20f, an increase of 32.2%. Payments direct expenses are forecast to increase by 32.1% from $106,234,000 in FY19 to $140,300,000 in FY20f, consistent with growth in transaction value. Interchange and scheme fees, and integration, support and other fees represented 65.0% of Merchant Service Fees in FY19 compared to a forecast of 66.7% in FY20f.

The forecast increase in these costs as a percentage of Merchant Service Fees in FY20f primarily reflects the full year impact from increased charges from major issuers in the second quarter of FY19.

Interest expense on merchant deposits is forecast to increase from $276,000 in FY19 to $548,000 in FY20f. This reflects:

- merchant deposits are forecast to increase by 93.4% from $26,918,000 at 30 June 2019 to $52,054,000 at 30 June 2020; and
- active deposit accounts are forecast to grow from 2,401 at 30 June 2019 to 3,147 at 30 June 2020, an increase of 31.1%.

4.9.5.3 Gross profit

Gross profit is forecast to increase by 19.8% from $83,260,000 in FY19 to $99,784,000 in FY20f.

Gross profit margin was 43.9% in FY19 compared to a forecast margin of 41.5% for FY20f.

Payments gross profit margin to transaction value is forecast to decline from 44.3 bps in FY19 to 41.5 bps in FY20f, driven by:

- a continued shift in card mix toward debit and merchant pricing mix from merchants qualifying for the cost-plus pricing structure; and
- a continued focus on growth, ongoing competition and an allowance for appropriate pricing for strategic merchants in our core verticals.

The full year impact of cost increases from issuers in FY19 is expected to be partly mitigated by the full year impact of pricing increases to merchants implemented in the fourth quarter of FY19 for merchants under the variable pricing structure.

4.9.5.4 Lending and non-lending losses

Lending losses are forecast to increase from $542,000 in FY19 to $1,536,000 in FY20f, an increase of 183.4%. Loan originations are forecast to increase from $52,249,000 in FY19 to $85,083,000 in FY20f, an increase of 62.8%. Lending losses as a percentage of loan originations are forecast to increase from 1.0% in FY19 to 1.8% in FY20f. This higher loss rate primarily reflects an assumption by us that continuing economic conditions in the Retail and Hospitality verticals give rise to an increased incidence of impaired loans, together with a planned increase in the number of eligible merchants that will be offered the loan service for the first time.

The forecast increase in non-lending losses in FY20f reflects the expected increased incidence of chargeback losses as the payments business is forecast to grow.

4.9.5.5 Employee benefits expenses

Employee benefits expenses, including share-based payments expense and net of capitalised employee expenses, is forecast to increase by 18.4% from $63,838,000 in FY19 to $75,581,000 in FY20f. Employee benefits expense is forecast to represent 75.7% of gross profit in FY20f compared to 76.7% in FY19.

Employee benefits expenses, before share-based payments expense and capitalised employee benefits expenses, is forecast to increase by 16.0% from $63,763,000 in FY19 to $73,950,000 in FY20f. This increase reflects a planned increase in headcount from 453 staff as at 30 June 2019 to 502 staff at 30 June 2020 across all areas of the business, particularly sales, marketing and merchant support staff, information security experts and credit assessment staff.

Share-based payments expense relating to employee share options and performance rights plans is forecast to increase from $2,593,000 in FY19 to $6,949,000 in FY20f. The forecast increase in share-based payments expense for FY20f of $4,356,000 primarily reflects:

- increased expense from the full year effect of plans established in FY19, being the annual linear vesting of various equity-settled instruments issued to employees; and
- expense of new plans established in FY20f, in particular Remuneration Sacrifice Rights issued to the Senior Leadership Team and Non-executive Directors, Performance Rights and ongoing linear vesting of new and historical equity-settled instruments issued to employees. Details of the various employee share options and performance rights plans are set out in **Section 6.4.4**.

Capitalised employee benefits expenses are forecast to increase from $2,518,000 in FY19 to $5,318,000 in FY20f. The forecast for FY20f assumes that the relevant employee benefits expenses will be eligible for capitalisation into intangible assets.

4.9.5.6 Other operating expenses

Other operating expenses are forecast to increase from $27,360,000 in FY19 to $30,495,000 in FY20f, an increase of 11.5%. The main factors driving this increase include:

- marketing expenses are forecast to increase from $4,771,000 in FY19 to $5,775,000 in FY20f due to a planned increase in direct marketing focused on increasing merchant acquisition and brand awareness including advertising through radio and other media;
- communications, hosting and licensing costs are forecast to increase from $5,532,000 in FY19 to $7,909,000 in FY20f primarily reflecting further spend to be incurred on licenses for cloud-based services used for storage, servers and processing, platform, systems scalability work, digital merchant onboarding, increased security and data infrastructure. In addition, communication costs are forecast to increase in line with the forecast increase in terminals;
- the forecast increase in recruitment costs from $387,000 in FY19 to $719,000 in FY20f reflects an assumed increase in staff sourced from overseas giving rise to increased relocation expenses. This reflects current challenges faced in sourcing technology specialists in Australia;
- share-based payments expense of $690,000 arise for the first time in FY20f relating to the POS Partner Agreements, as discussed in **Section 4.9.4.2.8**; and
- other administrative expenses are forecast to decrease slightly from $6,793,000 in FY19 to $6,722,000 in FY20f due to lower legal and taxation costs where certain external legal and taxation services have been completed or reduced, instead being performed by our legal team and taxation specialist, respectively, offsetting inflation increases in other administrative expenses; offset by
- contractor and consulting expenses are forecast to decrease from $7,715,000 in FY19 to $6,799,000 in FY20f. While our investment of resources in development projects and other initiatives continues at higher levels in FY20f, a lower level of spend on external contractors is forecast as certain development work will instead be conducted in-house; and
- terminal management and logistics costs forecast to decrease from $2,162,000 in FY19 to $1,882,000 in FY20f.

4.9.5.7 Depreciation and amortisation

Depreciation is forecast to increase from $7,849,000 in FY19 to $9,246,000 in FY20f. This is primarily due to an increased depreciation charge on forecast new terminals. The number of terminals is forecast to increase from 51,317 as at 30 June 2019 to approximately 65,000 as at 30 June 2020.

Amortisation on intangible assets (employee benefits expenses capitalised as internally generated software) is forecast to increase from $15,000 in FY19 to $563,000 in FY20f reflecting a full year amortisation charge on projects completed in FY19 and the commencement of amortisation on the capitalised expenditure on eligible projects expected to be completed during FY20f.

Amortisation of right-of-use asset represents the expense arising as a result of the adoption of AASB 16, as explained in **Section 4.2.4.1**, and which has been applied to the Pro Forma Historical Financial Information as if AASB 16 commenced from 1 July 2016. For each of FY17 to FY19, this expense was $3,123,000. This expense is forecast to decrease in FY20f to $2,832,000 due to the subleasing of one floor of the corporate office to a third party. In accordance with AASB 16, this requires the right-of-use asset to be proportionately reduced, with the sublease recognised as net investment in lease (a receivable) in current and non-current assets in the statement of financial position.

4.9.5.8 Cash flows

Table 4.26 Pro Forma Historical and Forecast Cash Flows

	PRO FORMA HISTORICAL	PRO FORMA FORECAST
$'000, YEAR ENDED 30 JUNE	**FY19**	**FY20f**
Loss before income tax	**(20,641)**	**(21,445)**
Non-cash items:		
Net lease interest expense	919	546
Depreciation and amortisation	10,987	12,641
Share-based payments expense	2,593	7,639
Loan impairments	542	1,536
Other non-cash items	(383)	(78)
Change in working capital:		
Net change in merchant loans	(8,061)	(10,898)
Net change in merchant deposits	15,355	25,136
Payments for terminals	(8,103)	(10,276)
Change in other net working capital	(4,137)	2,666
Operating cash flows	**(10,930)**	**7,466**
Capital expenditure excluding terminals	(1,045)	(1,640)
Payments for internally developed assets	(2,518)	(5,568)
Net proceeds from/(investment in) term deposits	10,037	–
Purchases of financial investments	(3,500)	(7,845)
Proceeds from sale of financial investments	5,691	4,969
Payment for investment in an entity	–	(3,500)
Lease interest income received	–	113
Net investment in lease received	–	521
Cash flows after operating and investing cash flows	**(2,264)**	**(5,483)**

Forecast operating cash flows of positive $7,466,000 for FY20f compare to negative operating cash flows of $10,930,000 in FY19. This improvement of $18,396,000 is primarily due to an improvement in cash from EBITDA of approximately $6,822,000, an increase in merchant deposits contributing additional net cash inflow of $9,781,000, an increase from lower other net working capital of $6,803,000, partly offset by an increase net cash outflow for merchant loans of $2,837,000 and an increased level of payments for new terminals of $2,173,000.

The increased contribution to cash flows from other net working capital primarily reflects a significant operating cash contribution from the change in trade receivables due to the timing of settlement of scheme receivables and merchant payables. Transactions processed on a Saturday, Sunday and Monday are not settled until Tuesday. Scheme receivables were higher as at 30 June 2019 because 30 June 2019 was a Sunday. For FY20f, 30 June 2020 will be a Tuesday and hence will only represent one day of scheme receivables rather than three days as was the case in FY19. Scheme receivables are forecast to decrease by $2,408,000 from FY19 to FY20f compared to an increase in scheme receivables of $12,263,000 from FY18 to FY19. Conversely, merchant payables are forecast to decrease by $2,275,000 from FY19 to FY20f compared to an increase in merchant payables of $4,974,000 from FY18 to FY19, together with a net decrease in other payables.

Capital expenditure excluding terminals is forecast to increase from $1,045,000 in FY19 to $1,640,000 in FY20f, primarily being computer equipment.

Payments for internally developed assets include capitalised employee benefits expenses on eligible projects, as discussed in **Section 4.9.1.5**.

Other investing cash flows (on a pro forma basis) for FY20f assumes net sales of floating rate notes of $2,876,000 compared to net purchases of floating rate notes in FY19 of $2,191,000.

Investing cash flows for FY20f also assume our investment in me&u will be completed in the first half of FY20f for $3,500,000 (refer to **Section 3.11.6**).

Lease interest income received and net investment in lease received together represent the rent received from the sublease discussed in **Section 4.9.1.13**. The sublease commenced in FY20f.

4.10 Sensitivity analysis

The Forecast Financial Information is based on a number of estimates and assumptions described in **Section 4.9.4**. These estimates and assumptions are subject to business, economic and competitive uncertainties, many of which are beyond our control. These estimates are also based on assumptions in relation to future business developments that are subject to change.

Investors should be aware that future events cannot be predicted with certainty and as a result, deviations from the figures forecast in this Prospectus are to be expected. To assist investors in assessing the impact of these assumptions on the forecast period, set out below is a summary of the sensitivity of certain Forecast Financial Information to changes in a number of key variables. The changes in key variables as set out in the sensitivity analysis are not intended to be indicative of the complete range of variations that may be experienced. Care should be taken in interpreting these sensitivities. The sensitivity analysis is intended as a guide only and variations in actual performance could exceed the range shown.

Table 4.27 Sensitivity analysis

SENSITIVITY	FY20f ASSUMPTION	SENSITIVITY RANGE	FY20f REVENUE IMPACT +/– $'000	FY20f NET LOSS AFTER TAX IMPACT +/– $'000
Transaction value ($ billion)	22.5	+/– 1%	2,277	798
Payments gross profit margin to transaction value (bps)	41.5	+/– 1 bps	2,227	1,999
Loan originations ($'000)	85,083	+/– $5m	212	191
Interest rates (bps)	146.3	+/– 25 bps	278	249

The key sensitivities comprise:

- **transaction value**: effect of a positive or negative 1% change in transaction value on revenue, primarily the effect on Merchant Service Fees, and payments gross profit in relation to loss after tax;
- **payments gross profit margin to transaction value**: effect of a positive or negative 1 bps change in payments gross profit margin;
- **loan originations**: effect of positive or negative $5,000,000 in loan originations, primarily the effect on lending income assuming the effect is spread evenly over FY20f; and
- **interest rates**: effect of a positive or negative 25 bps change in interest rates on investments income.

The estimated impact of changes in each of the variables has been calculated in isolation from changes in other variables, in order to illustrate the likely impact on the forecast. Variations in actual performance could exceed the ranges shown. In practice, changes in variables may offset each other or may be additive and a change in one variable is likely to have a flow-on effect to other variables and may also affect the way in which we respond to one or more of these variables. In addition, the sensitivities set out in **Table 4.27** do not reflect any action that management might take to manage the impact of the change.

4.11 Dividend policy

We plan to invest all cash flow into the business in order to maximise growth. Accordingly, no dividends are expected to be paid in the foreseeable future following our listing on ASX.

The payment of a dividend by us is subject to the discretion of the Directors and will be a function of a number of factors including the general business environment, the operating results, cash flows and our financial condition, future funding requirements, capital management initiatives, taxation considerations (including the level of Australian franking credits), any contractual, legal or regulatory restrictions on the payment of dividends by us and any other factors the Directors may consider relevant.

No assurance can be provided about the level of future dividends or the extent to which any of the dividends will be franked. The Directors do not, however, envisage that we will pay dividends or make other distributions for the foreseeable future.

4.12 Financial risk management

We are exposed to a variety of financial risks including credit risk (refer to **Section 3.9.3.2**), liquidity risk (refer to **Section 3.9.3.3**), market and investment risk (including interest rate risk, foreign currency risk and other price risk) (refer to **Section 3.9.3.4**) and operational risk (refer to **Section 3.9.3.5**). A discussion of our risk management policies and processes, including how we manage these financial risks is set out in **Section 3.9**.

Risk factors

5. RISK FACTORS

5.1 Introduction

This Section describes some of the potential risks associated with our business and the industry in which we operate and risks associated with an investment in Shares. We are subject to a number of risks both specific to our business activities and of a general nature, which may either individually or in combination adversely impact our business, its financial performance, or operations (including our financial performance, reputation or prospects) and the impact may be material. This may impact the value of Shares. The occurrence or consequences of some of these risks are partially or completely outside of our control.

We do not purport to list every risk that may be associated with our business or the industry in which we operate, or an investment in Shares, now or in the future. The selection of risks has been based on our assessment of the probability of the risk occurring, the ability to mitigate the risk and the impact of the risk if it did occur. This assessment is based on our knowledge as at the Prospectus Date, but there is no guarantee or assurance that the risks will not change or that other risks will not emerge.

There can be no guarantee that we will deliver on our business strategy, or that the Forecast Financial Information or any forward-looking statement contained in this Prospectus will be achieved or realised. Similarly, there can be no guarantee or assurance that any mitigation measures that we may take will succeed. You should note that past performance may not be a reliable indicator of future performance.

Before applying for Shares you should be satisfied that you have a sufficient understanding of the risks involved in making an investment in the Company and whether it is a suitable investment for you, having regard to your investment objectives, financial circumstances and taxation position. You should seek advice from your accountant, financial adviser, stockbroker, lawyer or other independent professional adviser before investing in Shares.

5.2 Business risks

5.2.1 Deterioration in macroeconomic conditions

The Australian payments and business banking industries in which we operate depend heavily upon the overall level of consumer and business spending in Australia. A decline in general economic conditions or changes in certain macroeconomic factors (including rising unemployment, lack of income growth, reduced consumer confidence, inflation, volatility in local or global financial markets, economic tensions, and government intervention, including with respect to changes in interest rates) may adversely affect our financial performance by reducing transaction volumes and the average purchase amount of transactions that our merchants process.

Two of our existing core verticals (Hospitality and Retail), which accounted for 76% of our transaction value in FY19, are particularly exposed to discretionary spending in Australia. In addition, our growth plans into new verticals (Accommodation and Services) could also be impacted by adverse changes in consumer confidence and spending. Accordingly, any reduction in discretionary spending in these verticals could result in a decrease of our revenue and profitability.

A sustained weakening of the Australian economy could affect the financial performance of our merchants, cause a reduction in transaction volumes, and in some instances, lead to some merchants closing their business. This could materially affect demand for our products and services through reduced merchant numbers, declines in transaction volumes and reduced earnings on transactions. Further, higher interest rates or inflation, or deterioration in Australian economic conditions, may increase the likelihood that merchants and their cardholders have insufficient income to pay their debts, and could lead to increased lending losses in our banking business or an increased level of chargebacks and non-lending losses. Additionally, credit card issuers may reduce credit limits and become more selective in their card issuance practices, which could further constrain our merchants' transaction volumes and values. Any of these developments could have an adverse impact on our business, financial performance and operations.

Any of these developments, including a divergence from the macroeconomic and market assumptions (refer to **Section 4.9.4**) or an expectation that macroeconomic conditions may deteriorate, could result in an unexpected change to our future financial performance.

5.2.2 Increased competitive pressures

We operate primarily in the payments and business banking industries in Australia, which are highly competitive and subject to significant change driven by factors including advancements in technology, changing consumer behaviours, new products and services, evolving industry standards, regulation, and the changing needs of our merchants (refer to **Section 2.3.5**). Some of our existing and potential competitors (refer to **Section 2.3.6**) (Australia-based and international) possess significant market share and resources. We face the risks that:

- existing competitors could increase their competitive position, including through increased marketing activity, product innovation, or price discounting. Existing competitors may also engage in strategic partnerships, M&A or other business combinations to improve their comparable competitive positioning;
- large international competitors and/or global technology leaders (refer to **Section 2.3.6**), could enter the Australian payments and business banking industries or expand their existing presence. These competitors may have greater financial resources to apply to: R&D; sales and marketing; or access to a large existing Australian merchant base, which may enable them to expand or enter into the payments and business banking industries. In addition, new or existing competitors that are not subject to Australian banking regulations (e.g. non-bank lenders) may be able to develop and operate business models with lower compliance costs;
- large competitors may have access to greater financial, technological, operational and marketing resources than us. This advantage, coupled with their scale and ability to secure more favourable terms from third parties like payment schemes, may enable them to offer a more attractive value proposition to merchants;
- some Australian banks are issuers (refer to **Table 2.1**) which potentially provides them the ability to subsidise Merchant Service Fees from their interchange fee revenue;
- we may fail to anticipate and respond to technology changes as quickly as our competitors or at all;
- our competitors may increase their product offering to compete with us on a larger scale. For example, other payment providers may offer products that more readily integrate with Point of Sale systems;
- competitors could develop new products or expand functionality or promotion of existing products which compete with our products at a more competitive price or with greater functionality, or cause our products to become less appealing; and
- relationships with our competitors (including the major Australian banks with whom they maintain their business bank accounts) held by certain prospective merchants in our core verticals may make it difficult or cost-prohibitive for us to acquire such merchants and grow our business.

If any of these risks arise, we may compete less effectively against our competitors, and our business, financial performance and operations could be adversely affected.

5.2.3 Pricing competition

In order to stay competitive, we may need to lower our prices or invest significantly more in product innovation and development. Further, increases in interchange and scheme fees (or other costs) may decrease the margin we can earn under our pricing models (other than cost-plus) if we are unable to pass on those increases to our merchants as a result of competitive pressures. In the event that fee changes are passed on, there is a risk that our transaction value churn may increase. Changes in consumer behaviour, including categories of cards used (for example, further movement from credit to debit – refer to **Section 2.3.5.1**), payment channels (for example, 'card-present' versus 'card-not-present') or interaction method (for example, contact versus contactless) may adversely impact on the margin we are able to achieve on our transactions (refer to **Sections 3.2.2** and **3.3.1**). Any of these factors may lead to lower profitability. Regulatory outcomes may also give rise to risks in relation to pricing (refer to **Section 2.3.5.5**).

5.2.4 Disruption, failure, obsolescence of technology or inability to scale processes

Our ability to deliver fast and easy payments solutions and access to finance for our merchants (and to successfully assess credit risk) depends on the efficient and uninterrupted operation of our technology platform, technology used by others and the internet generally. There is a risk that these technologies and systems may experience downtime or interruption from system failures, service outages, corruption of information technology network or information systems as a result of computer viruses, bugs, worms or cyber-attacks, as well as natural disasters, fire, power outages or other events outside of our control, and that measures implemented by us to protect against such events are ineffective. Any systemic failure could cause significant damage to our reputation (particularly if the failure relates to our platform), our ability to facilitate payments transactions, our ability to make informed credit decisions and assess the credit performance of our loan book, our ability to service merchants in a timely manner, and our ability to retain existing merchants and generate new merchants, any of which could have an adverse impact on our business, financial performance and operations.

Our technology platform or product offering may also become obsolete or outdated (for example, through a lack of appropriate investment or the investment of peers in superior technology and/or product offerings). This could necessitate the undertaking of additional investment in updating or improving our current technology platform and product offering, which could have an adverse impact on our business, financial performance and operations.

There is a risk that the system and platform architecture, technology or processes that we have developed to support our business operations, become unsuitable or incapable of scaling in line with the growth profile of our business.

There is also a risk that the need for standalone terminal hardware to process transactions in a 'card-present' environment alters or consumer behaviour changes (for example, as a result of a change in regulations) with the result that significant numbers of Point of Sale systems process payments directly, which could adversely affect our terminal rental revenue and/or cause us to lose market share if we do not maintain our payment relationships via Point of Sale systems for the relevant merchants.

5.2.5 Regulatory change

We are subject to a range of laws and regulations across our business and operate in an industry and alongside competitors that have been subject to increasing regulatory oversight and reform in recent years. Operating in an evolving regulatory environment means that regulatory developments may occur in the future that impact our business or the products that we currently offer, or may require us to make changes to products, processes or systems that have an adverse impact on our business or financial performance.

Merchant business performance may be affected by factors beyond general economic conditions (as discussed in **Section 5.2.1**), including changes to laws and regulations in the industries in which they operate (for example, laws relating to permitted trading hours). If such risks arise, they may adversely impact our business, financial performance and operations.

5.2.6 Operational risk events

Operational risk relates to the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events which affect our business. Our business is exposed to operational risks such as external and internal fraud, processing errors, system or hardware failure and failure of information security systems.

Loss from operational risk events could divert investment from new products into remediation of existing systems and processes, damage merchant relations or our reputation, adversely affect our financial results or position, as well as divert staff away from their core roles to remediation activity. In addition, losses could include legal or remediation costs and loss of property and/or information.

Fraud

We are exposed to the risk that our merchants, employees or partners may seek to commit fraud against us or our merchant network. Fraudulent behaviours could include:

- merchants undertaking identity theft, providing fraudulent information, misrepresenting their transaction history, or misrepresenting their ability to service loans; and
- employees or partners, individually or in collusion with others, obtaining a financial or other benefit (for example, by submitting unauthorised loan applications or tampering with our systems, processes or financial instructions).

Fraudulent behaviour could arise where we currently rely on manual processes (for example, in manual input of data). There can be no assurance that our internal controls will prevent the incidence of fraud. Failure of our internal controls to detect fraud may result in damage to our reputation or standing with funding providers, significant losses due to non-repayment of loan obligations, or impact our ability to attract merchants, each of which could have an adverse impact on our business, financial performance and operations.

Errors from manual systems

Non-compliance with manual systems and processes, or human error in manual processing, may expose our business to operational risks including process error and system failure, and regulatory non-compliance, and may result in loss or damage to our business or our merchants. In particular, our payments business depends heavily on the reliability of our processing systems and data quality.

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.

The risk of failure of our information security systems is separately addressed in **Section 5.2.8**.

Terminal issues

There is a risk that merchants experience issues with their terminals that disrupt their business. These can be the result of reasons within or outside of our control, for example, internet or network connectivity, integration with their Point of Sale system, charging the terminal or incorrect usage. Notwithstanding the availability of our merchant support team for setup and ongoing maintenance, disruptions to merchants may lead to dissatisfaction, transaction value churn and reputational damage, which may have an adverse impact on our business, financial performance and operations.

5.2.7 Failure to retain existing merchants and attract new merchants

Our financial performance is dependent on our ability to retain existing merchants and to attract new merchants, along with our ability to cross-sell other products (including banking products such as the Tyro Business Loan) to these merchants. This depends in part on: the functionality, reliability, pricing, client support and value that our products deliver; our ability to deliver products as promised when compared to competing products; and our ability to adapt and respond to changes in the needs of merchants.

Potential new merchants may be reluctant to switch to a new payment provider. This may be driven by switching costs imposed by their existing provider, the time and resources needed to set up the new system, or the work required to introduce new systems to their employees. Merchants may cease their relationship with us for reasons within or outside of our control (for example, a significant number of SMEs cease to trade every year).

We use several referral channels to grow our merchant base, which include Point of Sale system partners, ISOs and merchants. Our ability to grow could be adversely impacted by these channels if (among other things): our brand reputation is damaged; our referral partners experience reduced interest from merchants; our referral partners are no longer sufficiently incentivised by us; our referral partners form exclusive or preferred arrangements with other payment providers; our Independent Sales Organisations perform below expectations; or our marketing efforts fail to increase brand awareness.

If we are unable to retain existing merchants or attract new merchants, at the pricing, size, frequency, and with the costs we currently forecast, our business, financial performance and operations may be adversely impacted.

5.2.8 Breach of information security and data privacy

Information security

We use technology platforms to host a number of our key systems, processes and confidential information, including merchant data such as transaction records, cardholder payment details and information regarding merchants' financial position and performance. We have people and processes in place to maintain the confidentially and security of the personal and confidential data that we collect, and to ensure the integrity of our systems (including through third party service providers). The measures we take include firewalls, cyber security and anti-virus software programs, network separation, penetration testing, vulnerability scanning, restricted access to confidential personal data, and physical security and separation where appropriate.

Despite our efforts, there is a risk that we are exposed to an external or internal cyber security breach or failure, a successful cyber-attack, data theft or misplaced data, computer viruses, acts of vandalism and programming errors and similar events. Such events may result in a significant disruption to our systems and operations, reputational damage, significant legal and financial exposure and a loss of intellectual property and confidential information. In addition, such events may give rise to breaches of our obligations under applicable laws (including applicable data privacy laws and the Australian Prudential Regulation Authority Prudential Standard CPS 234 *Information Security*), supervisory liability and an obligation under privacy laws to notify individuals and the Office of the Australian Information Commissioner of such a breach.

Further, there is a risk that we may be unable to provide critical business processes due to a potential distributed denial-of-service attack, resulting in disruption of services, loss of merchants, financial loss or reputational damage (refer to **Section 3.8**).

Any of these individual events could result in a loss of confidence in the security of our systems, reduce our ability to retain existing merchants and attract new merchants, and may have an adverse impact on our business, financial performance and operations.

Data privacy

As part of our ordinary business operations, we collect, use and hold a significant amount of personal information relating to our merchants and cardholders, including transaction records and cardholder payment details. Laws relating to data privacy are evolving across multiple jurisdictions. If more stringent data privacy standards are adopted in Australia, or the data privacy standards of another jurisdiction become applicable to us that we do not currently comply with, this could result in a higher cost of compliance and may have an adverse impact on our business, financial performance and operations.

5.2.9 Failure to attract and retain talent

Our continued success is partially dependent upon our ability to attract and retain skilled and qualified employees. We are based in Australia in a competitive and specialised industry as a technology and vertically-focused financial services business. There is a risk that we may not be able to attract and retain adequately skilled employees, or be able to find effective replacements for individuals who leave us due to tighter talent markets potentially resulting in longer recruiting processes and increased staff costs. Since we rely on the technological and vertical expertise of our employees to maintain and develop our intellectual property, the loss of key personnel may lead to a loss of operational knowledge, technology capabilities, key partner and merchant relationships, and industry expertise, as well as delays in the development and launch of new offerings. There is also a risk that a failure to retain certain managers and executives could lead to an increase in conditions attached to our Australian financial services licence and increase our compliance costs.

The above circumstances, in isolation or combination, may have an adverse impact on our business, financial performance and operations.

5.2.10 Compliance with existing key regulations and laws

Overview

We are subject to laws, regulations and prudential standards covering, among other things, governance, disclosure, capital, risk management, licensing, anti-money laundering, privacy, cyber security, sales practices, conduct, liquidity and business continuity.

We are expected to conduct our business in accordance with all compliance obligations. To achieve this, we have policies, processes and procedures in place to endeavour to ensure we:

- understand and meet our compliance obligations;
- understand the effect of compliance obligations upon our business activities and the products and services we are responsible for; and
- achieve ongoing compliance by identifying and responding to business changes, new products, services or service providers.

Nevertheless, there is a risk that our activities, including current or future activities, may cause us to contravene laws (including, in particular, laws relating to employment terms and conditions, occupational health and safety and intellectual property and banking activities), regulations or prudential standards and that this could result in fines, penalties, injunctions or suspensions of certain activities, and the payment of compensation to affected parties and affect the enforceability of contracts. There is a risk that we may not become aware of such contraventions for some time, which may exacerbate the nature of the contravention or their consequences. A contravention may relate to a new law, regulation or prudential standard that is established after the Prospectus Date, or a new or altered interpretation of an existing law, which may require us to reconsider how we conduct our business. The impact may also extend to the loss of our Australian financial services licence or our authorisation as an authorised deposit-taking institution which would impact our ability to offer our products; prevent us from realising our investment in our banking capabilities; result in our reliance on external parties for settling merchant transactions; and lead to reputation damage and erosion of our overall value. If any of the above events occurred, they may have an adverse impact on our business, financial performance and operations. Refer also to **Section 5.2.29** for further discussion about risks that we may be subject to from regulatory investigations and sanctions or fines by governmental agencies in the event of non-compliance with relevant statutory or regulatory requirements.

Anti-hawking provisions

Anti-hawking provisions under the Corporations Act are potentially triggered when we make an offer to our merchants to issue/sell our products, or when our employees make an unsolicited offer in a telephone call or meeting with a merchant. We maintain a 'No Contact/No Call' register to ensure that we do not communicate with merchants that have opted out of communications with us. There is a risk we may inadvertently breach our anti-hawking obligations, which may lead to civil or criminal penalties and adversely impact our reputation.

Financial Sector (Shareholdings) Act 1998 (Cth)

As an authorised deposit-taking institution, we are subject to the FSSA, which imposes a 20% limit on stakeholdings in ADIs. In order to possess stakeholdings above this threshold, the Federal Treasurer must approve an application under the FSSA. There is a risk that this limit could impact the attractiveness of purchasing Shares. Further, if a Shareholder were to purchase or hold a stake above 20%, there is a risk they could breach the FSSA and face divestment or penalty proceedings. Refer also to **Section 5.3.8** in relation to the potential impact of a breach or a removal of the 2015 Instrument issued by APRA as discussed in **Section 9.14.2**.

5.2.11 Failure to identify, manage or mitigate our risk exposures

We are responsible for developing and maintaining a comprehensive and effective Risk Management Framework and Risk Appetite Statement (refer to **Section 3.9.2**). Our Risk Management Framework describes the policies we have established to identify, manage and mitigate identified risks to our business. Our Risk Appetite Statement outlines the key metrics that we measure on an ongoing basis to ensure that our business is operating within our Board approved risk appetite. Failure to abide by our risk management policies may lead to an inability to mitigate our risk exposures and/or breaches of regulatory obligations. This could result in, but is not limited to, losses, liabilities reputational damage, fines, penalties, remediation costs, regulatory scrutiny and dissatisfaction among merchants. These consequences may have an adverse and material impact on our reputation, business position, financial performance, results of operations and future growth. Other examples of material risk types discussed in this **Section 5** include operational risk (refer to **Sections 5.2.6** and **5.2.8**), compliance risk (refer to **Section 5.2.10**) and credit risk (refer to **Section 5.2.19**).

5.2.12 Failure to comply with ASIC legislation relating to small business loan contracts

As referred to in **Section 2.6.4**, we are required to comply with the Australian Securities and Investments Commission Act 2001 (Cth) when dealing with our small business contracts. Terms in standard form small business contracts that are 'unfair' under the ASIC Act are void.

As part of a broad industry-wide review, ASIC has been reviewing standard form small business loan contracts. As part of that review, ASIC issued Report 565 *Unfair contract terms and small business loans* in March 2018. Report 565 outlines changes that the four major banks had made to their small business loan contracts to reduce the risk of non-compliance with the unfair contract terms law, and provides guidance on terms relating to small business loan contracts ASIC considers raise concerns under unfair contract terms law in this context. If any of our contractual terms or conditions are found to have breached unfair contract terms legislation, the terms will be void and we may suffer reputational and commercial consequences.

In September 2018, we received a letter from ASIC requesting information relating to our terms and conditions, as part of its broader industry-wide review of standard form small business loan contracts. In that letter, ASIC identified a number of provisions in our terms and conditions and requested confirmation from us as to why the relevant terms did not constitute unfair terms. In our response to ASIC's letter, we indicated that while we did not consider that many of the provisions identified by ASIC constituted unfair terms, we confirmed that simultaneously with expanding our loan book, we would seek to amend certain terms and conditions identified by ASIC. We also confirmed that we would undertake a broader review of our terms and conditions to incorporate any changes identified in Report 565, to ensure consistency with ASIC's published guidance.

Following completion of a full review, we updated our standard terms and conditions on 17 September 2019 to address amendments arising from consideration of the clauses identified by ASIC in its letter, broader industry practice, ASIC's published guidance in Report 565 and associated media releases.

If any of our terms are 'unfair' and therefore void, we will not be able to rely on them. ASIC may also review our contract terms again, specifically in relation to our contracts or as part of its industry-wide review, and publish adverse findings against us or bring an action against us for a breach of the unfair contract provisions of the ASIC Act, which may lead to reputational damage and commercial consequences. If a current or previous provision in our contracts is found to be void, we may also be required to remediate those situations if we had relied upon that provision. Remediation could include compensation orders (for example being required to return funds claimed by us on a default under a term that is found to be unfair) or damages (for example if a merchant established they had sustained losses as a result of us listing a default on their credit file which arose from a term subsequently found to be unfair). There is also a risk that a merchants may bring an action (for example, to the Australian Financial Complaints Authority or a court) including if we have previously sought to rely on a term that was 'unfair'.

5.2.13 Ineffective management of our capital and liquidity

Effective management of our capital and liquidity is important to operate and grow our business. As an authorised deposit-taking institution, we are required to maintain adequate capital resources and liquidity. In particular, we are subject to the capital and liquidity requirements described in **Section 3.9.3.3**.

We may be required to raise additional regulatory capital or hold additional liquidity buffers. This may be due to changes to applicable current or future capital and/or liquidity requirements and/or changes in the methods for calculating risk exposure, qualifying regulatory capital or liquidity requirements.

If we are unable to raise the requisite regulatory capital, we may be required to reduce the quantum of our risk exposure. This could have an adverse impact on our reputation and prospects and may lead to, for example, a loss of merchants. Stricter liquidity requirements may require us to alter our funding composition and/or maintain increased liquidity buffers, which may result in lower returns.

If we are unable to adequately manage our liquidity position, we may not meet our short-term financial obligations. We are subject to minimum liquidity holdings by APRA, which require us to hold liquid assets to match a specified proportion of our liabilities. APRA may require us to hold more liquid assets as a proportion of liabilities, or subject us to additional liquidity and/or stable funding requirements. This may result in higher funding costs or lower returns.

The above changes and any other changes that limit our ability to manage our balance sheet, liquidity position and capital resources or to access funding sources, could have a material adverse impact on our financial position, liquidity or regulatory capital position. In addition, a perceived or actual shortage of capital held by us could result in actions by regulatory authorities. These circumstances could have an adverse effect on our business, financial performance and operations.

5.2.14 Impact of stress testing

We are subject to periodic stress testing under APRA and other regulatory enquiries in respect of our resilience to adverse market developments. The outcome of stress tests and other regulatory enquiries could adversely affect financing costs and trigger an increase in capital and liquidity requirements by regulatory authorities, which could have an adverse effect on our business, financial performance and operations.

5.2.15 Emergence of alternative payment methods or technologies or changes in consumer behaviour

The emergence of alternative payment methods or technologies, or changes in consumer behaviour or expectations, could lead to a decrease or suspension in the use of card payments, particularly 'card-present' payments. Alternative payment methods or technologies (including those referenced in **Section 2.3.5.4**) could be developed by established or new competitors (refer to **Section 5.2.2**). If we fail to anticipate and respond to technology changes or consumer preferences, our business and operating and financial results may be materially impacted.

New payments products, services and technologies may continue to emerge and such changes may limit the competitiveness of, and demand for, our products and services. Further, our merchants continue to rely on us to ensure that we continue to develop products and services that meet the changing needs and requirements of their businesses. We may be unable to respond in a timely and cost effective manner to compete with these new payment methods, requirements or system integrations. Failure to do so may result in our core offering becoming less relevant or obsolete which could have an adverse effect on our business, financial performance and operations.

5.2.16 Failure of third party service providers

Our ability to deliver our payments and banking offering is reliant on the performance and availability of our technology and communication systems and that of our suppliers and other third parties. Providers may choose to cease to do business, or change the terms on which they do business, with us. We are dependent on a number of key providers, including:

- schemes (refer to **Section 2.3.1**);
- participants who allow us access to the payments system (including the Reserve Bank of Australia) (refer to **Section 2.3.1**);
- issuers (refer to **Section 2.3.1**);
- our terminal hardware vendor (Atos) Worldline (refer to **Section 3.7**);
- telecommunication and network providers (particularly Telstra);
- Point of Sale system partners who integrate with our terminals;

- data centre providers (Fujitsu and Equinix);
- cloud service providers (for example, Amazon Web Services);
- third party credit agencies (for example, Equifax) – we rely on the availability and accuracy of their information to assist in making informed credit assessments and in our Know Your Customer onboarding process to fulfil our anti-money laundering and counter-terrorism financing obligations;
- third party software providers that are critical in delivering our services (including those referred to in **Section 3.7**);
- Mastercard Payment Gateway Services, our eCommerce solution provider (refer to **Section 3.7**);
- our health claiming solution providers (including the Medicare via the Department of Human Services (**DHS**), and DXC Technology and their connected private health funds) (refer to **Section 3.7**); and
- our logistics providers who deliver our terminals.

The absence of any one or more of the services above, or the non-adherence to contract terms, could impact our ability to provide some or all of our services for a period of time, which may adversely affect our reputation, financial position, performance or prospects. In particular, lack of access to: the payments system; schemes; telecommunications; key technology; facilities (including the data centres); and software providers, would significantly impact the ability to continue to operate our business in the absence of a substitute service being available on acceptable terms or at all.

In addition, any change, interruption, reduced availability or reduced accuracy in relation to a key vendor (including software suppliers or infrastructure providers) may disrupt our business operations, require us to update our general business processes, change our product offering or invest to build an alternate solution. Operational or business delays, damage to reputation and loss of merchants, may result from such disruptions and may arise due to matters outside of our influence or control.

Many of our existing supplier contracts, including contracts in relation to our technology platform, are based on suppliers' standard terms and conditions and are short-term contracts, for example on rolling 12 month terms, month-by-month terms or open length terms. Suppliers may maintain the right to amend their standard terms and conditions from time to time. There is a risk that we will not be able to renew contracts on similar or not less favourable terms. While some of these services could be replaced, other services are fundamental to the provision of our services and are highly integrated in, or form a core part of, our platform (for example, schemes). As a result, any change to these relationships could have an adverse impact on our business, financial performance and operations.

Schemes and settlement systems

We rely on memberships with schemes (for example Visa, MasterCard, eftpos, American Express and UnionPay International) and membership to the Australian Payments Network and Reserve Bank of Australia payments systems to enable our merchants to accept payments and receive their funds. The counterparties may terminate arrangements with us on notice which would materially affect our transaction volumes, merchant numbers and our business, financial performance and operations (refer to **Section 3.7**).

Schemes require us to comply with their operating rules, including special rules that apply to us as a merchant acquirer. The schemes set these rules and have discretion to interpret them and change them. Any changes to or interpretations of the scheme rules that are inconsistent with the way we currently operate may require us to make changes to our business that could be costly or difficult to implement. If we fail to make such changes or otherwise resolve the issue with the schemes, the schemes could fine us or prohibit us from processing payments. In addition, non-compliance with scheme rules or any failure to maintain good relationships with the schemes could impact our ability to receive incentives from them, could increase our costs, or could otherwise harm our business. If we were unable to accept payments or were limited in our ability to do so, our business, financial performance and operations would be adversely affected.

We also have relationships with 'non-card' schemes such as Alipay. Similar issues to those described above for schemes may also arise in relation to these 'non-card' schemes.

Terminal device supply

(Atos) Worldline is currently the sole supplier of our terminals. We are heavily dependent on the (Atos) Worldline supplier relationship which can be terminated by either party on at least 90 days' notice prior to the end of each rolling 12-month term. If this relationship ends without us having arranged for an alternative provider, we will be unable to provide new or replacement terminals (or accessories) and will need to re-engineer our software to operate on a new supplier's terminals. This will likely take time and result in us incurring material costs. (Atos) Worldline may also, at any time amend its prices with any price change becoming effective within 30 days of notice.

We also rely on (Atos) Worldline for certain repair and maintenance activities (including any arising from underlying faults in terminals) in relation to our existing terminal fleet and accessories. Further, under our (Atos) Worldline arrangements, we face the risk of potential price changes, and delivery disruptions, all of which may inhibit our ability to serve our merchants in a timely manner. Any of these events may lead to lower merchant satisfaction, the loss of merchants, and the erosion of our reputation, or an adverse impact on our business, financial performance or operations.

Health claiming

We have contracts with third parties (including Medicare via DHS and private health funds via DXC Technology) that enable us to offer health claiming services (refer to **Table 3.1**). Our Medicare Easyclaim contract with the DHS is due to expire on 31 December 2019. On 2 October 2019, the DHS announced its intention to seek proposals for the provision of the Medicare Easyclaim service via an open tender process. If we are unsuccessful in securing an ongoing contractual relationship with the DHS on commercially attractive terms or at all, our financial performance may be adversely impacted from the loss of revenue directly generated from the provision of the Medicare Easyclaim service and from the diminution of our overall service offering to merchants in the Health vertical. It is currently unknown whether we will be successful in maintaining a contractual arrangement with the DHS on the same terms, less favourable terms or at all. If our contract with DXC Technology ceases (or is renewed on less favourable terms), our ability to profitably deliver health claiming could be adversely and materially impacted. Either of the above scenarios may also cause us to lose merchants or limit our ability to attract new merchants.

5.2.17 Dependence on our payments business

Our payments operations represented 93% of FY19 gross profit, predominantly generated from 'card-present' transactions (given that eCommerce solution was only introduced in April 2019). In these circumstances, any action (including implementation of future developments) that results in a real or perceived:

- reduction in functionality or quality of our terminals;
- lower reliability of our terminals and speed of transaction acceptance;
- changes in consumer behaviour or adoption by consumers or cardholders of new payments methods that reduce usage of cards; or
- reduction in support or merchants satisfaction with our terminals,

could adversely impact merchant satisfaction with our payments product, merchant numbers, transaction value and our future operations and financial performance, particularly while payments continue to represent our core offering.

5.2.18 Recent or potential regulations related to our payment and financial services

The Australian financial services sector is undergoing a significant period of regulatory reform and scrutiny and regulators are showing a heightened willingness to take action. We are unable to predict future regulatory changes (including relating to the interpretation of existing regulation) and what the impact of those changes may be on existing and future products, what the future compliance costs may be as a result of any changes, nor the impact of changes on existing processes, systems or procedures. Future changes to law or regulation, or potential changes to law or regulation or the interpretation of law and regulation, or regulator action could have an adverse effect on our business, financial performance and operations.

There have been certain recent developments that could affect our business and operations:

- in February 2019, the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry handed down its report and final recommendations. Although the report did not have a direct impact on our operations, we continue to monitor how the Government and regulators respond;
- in March 2019, the Australian Prudential Regulation Authority released draft amendments to authorised deposit-taking institution Prudential Standard 220 *Credit Quality*, which among other things, proposes new credit assessment requirements for business lending. The draft amendments would have a significant impact to the credit assessment process supporting our merchant cash advance facility, including introducing the need for assessing a borrower's historical financial and future cash flows and equity capital. This would require us to invest in our technology systems supporting our merchant cash advance product. Submissions to APRA closed on 28 June 2019. The standard is not yet finalised; however, APRA has indicated that all amendments will have an effective date of 1 July 2020;
- with effect from 5 April 2021, new design and distribution obligations set out in the Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Act 2019 (Cth) (**DDO Act**) are expected to apply to certain financial products offered by us and other Australian financial service providers. We will need to determine the target market for

certain financial products offered to 'retail clients' (as defined in the Corporations Act), and take reasonable steps to distribute consistently with those determinations. In September 2019, draft regulations complementing the DDO Act were released by Treasury for comment. They extend coverage of the requirements to additional persons and products and exclude a range of products (including credit for business purposes). The design and distribution obligations will impact our product development and management processes and sales/distribution practices, particularly for our deposit offering to meet the target market determination requirements. If we fail to comply with those obligations, it will be an offence and may give rise to civil penalties. ASIC will also have powers such as to issue stop orders. In addition a person who suffers loss or damage because of a contravention of the design and distribution obligations may recover that loss or damage from us by civil action;

- since April 2019, ASIC has had product intervention powers. They give ASIC the power to intervene by making orders to prohibit specified conduct where ASIC is satisfied that providing the financial product has resulted in, will result in, or is likely to result in, significant detriment to 'retail clients'. ASIC's product intervention powers apply to products of ours and failure to comply could result in ASIC proactively intervening through an intervention order, and prohibiting specific conduct related to a product;
- APRA issued a new mandatory regulation, Prudential Standard CPS 234 *Information Security* which commenced on 1 July 2019 (or in the case of information assets managed by a third party, the earlier of the next renewal date of the contract and 1 July 2020). CPS 234 aims to ensure that an APRA-regulated entity takes measures to be resilient against information security incidents (including cyber-attacks) by maintaining an information security capability commensurate with information security vulnerabilities and threats. A breach of CPS 234, and in turn, the Banking Act 1959 (Cth) could lead, for example, to APRA issuing a direction under that Act, including for us to comply with CPS 234, to undertake an audit of our compliance with CPS 234 or to make changes to our systems, business practices or operations. Failure to comply with such a direction may lead to an offence under the Banking Act which may result in monetary fines, legal proceedings and reputational damage;
- we are a member of the Australian Financial Complaints Authority. AFCA has jurisdiction to hear disputes between us and our merchants, and if it determines there is a systemic issue it is obliged to refer the issue to ASIC. While we have not had any AFCA matters referred to ASIC before the Prospectus Date, if a matter were referred to ASIC and ASIC decides to investigate or bring an action against us in respect of the systemic issue, this may result in monetary fines, remediation actions, legal proceedings and reputational damage; and
- in August 2019, the Australian Government passed the Treasury Laws Amendment (Consumer Data Right) Bill 2019. The Bill details the proposed framework of the CDR regulation, which will be initially applied to the banking sector (commonly referred to as 'Open Banking'). It also grants power to the ACCC (with input from other parties) to determine how the CDR will function in each sector. A degree of engineering and system development as well as investment will be needed to meet Open Banking requirements. Currently, we will be required to share limited product reference data from July 2020 and customer data from February 2021. There is a risk that we may not be able to integrate on time, resulting in us not meeting the required timeframe and realising the value of our investment. If we are required to disclose information on our merchants (gained via our products) publicly, there is a risk that competitors use this information to design products and services to target our merchant base, potentially affecting our growth.

5.2.19 Increase in credit losses

We face lending credit risk in granting unsecured loans in the form of merchant cash advances to our merchants. If our merchants do not repay the principal and fees owing under their loan contract, we may experience a decrease in revenue, increase in expenses (including an increase in impairment expenses and an increase in funding costs), and/or decrease in operating cash flows received. As our loan book grows over time, this may have a material adverse impact on our business, financial condition and operating and financial performance.

There is a risk that our credit risk framework (refer to **Section 3.9.2**) may not appropriately define credit assessment processes, eligibility criteria, risk grades or settings or effectively monitor portfolio risk. If our framework and policies fail to mitigate credit risk and losses from credit exceed expectations, we may experience losses that may adversely impact our financial performance, position and prospects. This risk is untested given that there has not been material financial downturn since we launched our merchant cash advance product.

Since we rely on guarantees from the directors or principals of merchants, and do not take security on our loans, we have less ability to successfully recover against a director, principal or merchant who may have other financiers and creditors with a superior security position. In addition, it may not be economical to pursue repayment of some loans through legal claims even where we have rights against the borrower or their guarantor(s) due to the amount outstanding on a particular loan.

We are also exposed to credit risk from our merchant acquiring activities. For instance, we may be liable for chargebacks (refer to **Section 2.3.2.3**), which may lead to losses. If schemes fail to honour the settlement funds for acquired transactions, we may be unable to honour our merchants' settlement positions. This may lead to merchant dissatisfaction, loss of merchants, reputational damage, and adverse impacts on our business, financial performance and operations.

5.2.20 Loss of key merchants

We generate a large percentage of our gross profit and transaction value from our largest merchants (in FY19, approximately 8.8% of payments gross profit was generated from our top 20 largest merchants by payments gross profit). With limited exceptions, our merchants are not required to commit to fixed term contracts and may choose to terminate their contract on short notice. Given our level of merchant concentration, the loss of one or more of our top merchants may have an adverse impact our business, financial performance or operations.

5.2.21 Damage to brand reputation

Our brand reputation and awareness are critical to maintaining and growing our merchant base and Point of Sale system partner network. As referred to in **Section 3.5**, our brand awareness was relatively low at 10% (and 4% unprompted) as at 30 June 2019, which can affect our ability to attract new merchants. Further, our brand and our business more generally, could be negatively impacted by a number of factors, including: adverse performance of our products; third party actions such as disputes or litigation; actions of our employees or non-compliance with laws (including in relation to data security breaches or unlawful disclosure of confidential information); and the occurrence of other risk factors described in this **Section 5**. Damage to our reputation or brand may result in existing or potential merchants seeking services from competitors.

These factors may result in adverse impacts on our business, financial performance and operations.

5.2.22 Failure of Tyro Connect

We have invested capital and resources into Tyro Connect (refer to **Section 3.11.5**) which is designed to provide an additional merchant acquisition and retention path. The platform is currently in its development phase. In order to realise benefits from our development costs and support our growth strategy, we would need to launch, operate and scale Tyro Connect successfully. There is a risk that it is not successful, for example, due to a lack of traction with app providers, Point of Sale system providers or our merchants, or because competitors provide more attractive alternatives. In addition, it remains uncertain whether a sustainable revenue model can be developed over time. If Tyro Connect does not launch successfully, the value of this investment may not be realised, which would hinder our ability to execute on one of our growth initiatives.

5.2.23 Failure to realise value from innovation and product development investment

Developing software and technology is expensive and the development of our product offerings often involves an extended period of time to achieve a return on investment. An important element of our business strategy is continued investment in innovation and related product opportunities. We believe that we must continue to dedicate resources to our innovation efforts to develop our software and technology product offering to maintain our competitive position. Our growth strategy is summarised in **Section 3.11**. However, we may not receive significant revenues from our growth strategy and the associated investments for several years, or may not realise such benefits at all. Failure to successfully execute our growth strategy may unfavourably impact the market's perception of our business and may adversely impact our business, financial performance, and operations.

5.2.24 Failure to identify, execute and realise benefits from M&A or strategic partnerships

We may pursue M&A or joint ventures, or enter into strategic partnerships, in order to realise benefits including inorganic growth, accelerated development or delivery of our products, increased merchant base, or the provision of new product offerings.

There is a risk that we may not be successful in identifying attractive opportunities. Furthermore, the identification, evaluation and negotiation of these opportunities may require significant time and effort from key management and employees, and may result in disruptions to our business. Additionally, there is a risk that our competitors have a greater willingness and ability to pay for opportunities that we are interested in.

There is also a risk that we are unsuccessful in integrating new businesses or assets into our existing platform in a timely manner, or that the new businesses or assets do not result in the benefits we anticipated. We cannot guarantee that every acquisition, joint venture or partnership that we make or enter into will result in favourable outcomes for our business.

5.2.25 Inability to protect intellectual property

We rely on our intellectual property rights and there is a risk that we may fail to adequately protect our rights for a number of reasons. There is also a risk that certain intellectual property rights (for example, in our payments technology) may be obtained by third parties (for example, through certain breaches of agreements, fraud or theft by third parties). It is possible that employees or third party partners may inappropriately disclose confidential information on our systems, policies and procedures. Third party partners may also inappropriately leverage our intellectual property for their own offering, eroding our differentiation and competitive advantage. We have historically used a mixture of legal (for example, intellectual property assignment, confidentiality and escrow agreements) and technological (for example, software development, data encryption, access controls, information classification, staff controls, training and awareness) methods to protect our intellectual property. There is a risk that these actions may not be adequate in all circumstances and may not prevent the misuse or misappropriation of our intellectual property or deter independent development of similar products by others.

We also face the risk that our intellectual property is improperly disclosed or accessed without authorisation. This may affect our competitive position, which may have an adverse impact on our business, financial performance and operations.

5.2.26 Breach of third party intellectual property rights

A risk exists that third parties may allege that our products use their intellectual property without their consent or permission. In such circumstances, we may be subject to claims, disputes or litigation, which could result in the payment of damages, or cause delays and increase costs. This could have an adverse impact on our business, financial performance and operations.

5.2.27 Inadequate insurance cover

Our insurance policies may not comprehensively cover our risks and liabilities. Appropriate coverage may not be available (or may not adequately cover all losses) or we may elect not to insure against certain risk where we consider the applicable premiums to be excessive in relation to the perceived risks and benefits that may accrue (for example, in relation to cyber security which we currently do not insure against). As a result, we may be held liable for material claims beyond our insurance coverage limits that could materially and adversely impact our financial performance and reputation. In addition, any significant claim against such policies may lead to increased premiums on renewal and/or additional exclusions to the terms of future policies. If insurance (including cyber insurance) is not available to cover a claim or the quantum of a claim exceeds policy limits, we will be exposed to the financial impact of the event which could have an adverse impact on our business, financial performance and operations.

5.2.28 Inability to generate profit in the foreseeable future

We are not currently profitable and we are forecasting this will remain the case in FY20. We intend to continue to invest in our business as discussed in **Section 3.11**. These investments include merchant acquisition, product development and delivery, the entry into new verticals and brand awareness and marketing. However, these investments may be more costly than expected and may not generate the expected benefits or any benefits at all. We cannot guarantee that we will be able to achieve and maintain profitability (for example, by increasing our revenue to offset operating expenses) for the foreseeable future.

5.2.29 Impact of litigation, claims, disputes and regulatory investigations

We have agreements or arrangements with employees, contractors, partners, customers, suppliers and other entities or government agencies, across various industries. There is a risk we may be subject to litigation and other claims and disputes in the course of our business, including contractual disputes and indemnity claims, misleading and deceptive conduct claims, intellectual property disputes and employment related claims. There is also a risk we may be subject to regulatory investigations and sanctions or fines by governmental agencies in the event of non-compliance with relevant statutory or regulatory requirements. These may, for example, involve our internal risk and compliance measures or how we advertise our products, or in relation to licensing or other compliance requirements. Such litigation, claims, disputes or investigations, including the costs of settling claims or paying fines, and any associated operational impacts, may be costly and damaging to our reputation and business relationships, any of which could have an adverse effect on our business, financial performance and operations.

5.2.30 Inability to raise future capital

We may require additional equity or debt capital to fund our operations, regulatory requirements (or changes to those requirements) or growth strategy. As a licensed authorised deposit-taking institution, the Australian Prudential Regulation Authority requires us to hold a certain level of equity (as referred to in **Section 5.2.12**). Our business is currently loss-making and there is no certainty our organic capital generation will meet the future requirements of our business. We may not be able raise additional capital when required or at cost effective rates or on competitive terms. An inability to raise debt or equity in the future may impact our ability to operate or grow our business. This may result in regulatory scrutiny from APRA or adverse impacts on our business position, financial performance and results of operations (refer to **Section 5.2.29**).

5.2.31 Change in share price impact on payroll tax

Historically, we have opted to defer payment of payroll tax on certain options at exercise rather than at grant. There is a risk that the market value of shares may increase significantly when the options are exercised, which will lead to a payment of higher than expected payroll tax in the future.

5.3 Investment risk factors

5.3.1 Inability to meet forecasts and other forward-looking information

The forward-looking statements, opinions and estimates provided in this Prospectus, including the Forecast Financial Information, are based on assumptions, some of which are set out in **Section 4**. Various factors, both known and unknown, may impact our performance and cause actual performance to vary significantly from what was expected. There can be no guarantee that we will achieve its stated objectives or that any forward-looking statement or forecast will eventuate.

5.3.2 Impact of general market developments

Once we are listed on ASX, we will be exposed to general market risk that is inherent for all entities whose securities are listed on a securities exchange. We cannot guarantee that the price of Shares will increase following listing.

We may experience fluctuations in Share price that are not explained by our fundamental operations. This may be driven by factors beyond our control, including general economic conditions such as consumer confidence, interest rates, inflation rates and changes to government policies. These factors may cause Shares to trade at prices below that at our listing and affect our ability to pay dividends. As a result of the factors mentioned above, we are unable to forecast the market price for Shares and whether they may trade on ASX at a price that is below the Final Price.

5.3.3 Shareholder dilution

In the future, we may decide to issue Shares and engage in capital raisings to fund corporate activities or growth initiatives. While we will be subject to the constraints of the ASX Listing Rules regarding the percentage of capital we are able to issue within a 12 month period (other than where exceptions apply), investors may be diluted as a result of such issues of Shares.

5.3.4 No payment of dividends

We plan to invest all cash flow into the business in order to maximise growth. Accordingly, no dividends are expected to be paid in the foreseeable future following our listing on ASX. In the long term, the payment and amount of any potential future dividends declared by us are subject to the discretion of the Directors and will depend upon, among other things, financial position, tax position, capital requirements, general economic conditions and other factors that the Directors deem significant from time to time.

5.3.5 Force majeure events

Events may occur within or outside of Australia that could impact upon our operations and the price of Shares. These events include, but are not limited to, acts of terrorism, an outbreak of international hostilities, fires, floods, earthquakes, labour strikes, civil wars and other natural or man-made events or occurrences that may have an adverse effect on the demand for our business offering and our ability to conduct business.

5.3.6 Economic and government risks

Our future viability is also dependent on a number of other factors affecting performance of all industries and not just the payments and business banking industries, including, but not limited to:

- general economic conditions in industries in which we and our merchants operate;
- changes in government policies, taxation and other laws in jurisdictions in which we operate;
- the strength of the equity and share markets in Australia and throughout the world, and in particular, investor sentiment toward the technology sector; and
- the movement in, or outlook on, interest rates and inflation rates in jurisdictions in which we operate.

Any or all of these factors could have an adverse impact on our business, financial performance and operations.

5.3.7 Lack of Share liquidity

From our ASX listing, there can be no guarantee that an active market will develop. There may be relatively few or many potential buyers or sellers of the Shares on ASX at any time, which may increase the volatility of the market price of the Shares, prevent investors from acquiring more Shares or disposing of Shares they acquire under the Offer, or result in Shareholders receiving a market price for their Shares that is less than the price that Shareholders paid.

Following Completion, it is expected that the existing Shareholders will hold up to 77.5% of the Shares at the Mid-Point Price, which may also impact liquidity. For example, 242,931,900 of the Shares on issue at the Mid-Point Price will be held by existing Shareholders who have entered into voluntary escrow arrangements in relation to all of their Shares as described in **Section 6.5**. The absence of any sale of Shares by these existing Shareholders during the escrow period (expected to be until the FY20 Results Date) may cause, or at least contribute to, limited liquidity in the market for Shares.

5.3.8 Specific circumstances that may adversely affect our Share price

Based on the Example Offer Structure, up to 28.69% of the Shares on issue at the Mid-Point Price will be held by existing Shareholders who will be free to sell their Shares following Completion if they wish. This could impact the prevailing market price at which Shareholders are able to sell their Shares. Further, following release from escrow, Shares held by the existing Shareholders that were previously subject to escrow will be able to be freely traded on ASX. A significant sale of Shares by the existing Shareholders, or the perception that such sales have occurred or might occur, could adversely impact the price of Shares. The interests of the existing Shareholders may be different from the interests of investors who acquire Shares in the Offer.

APRA has issued the 2015 Instrument. As at the Prospectus Date, the 2015 Instrument operates to permit the stakeholdings of the members of our officer group, which is broadly defined and includes officers of the Company, their relatives and associated corporate entities, to exceed 20% without breaching the FSSA. APRA is entitled to revoke the 2015 Instrument. If members of our officer group are relying on that instrument and a condition of that reliance is breached, or APRA revokes the instrument without adequate time for the officer group to adjust their stakeholdings, members of the officer group could be in breach of the FSSA. If members of the officer group dispose of all or part of their stakeholdings to avoid a breach (or following a breach) of the FSSA where APRA proposes to remove (or has removed) the instrument, or because of a court order that requires them to do so, this could affect the Share price (and may also result in negative publicity which could have an adverse effect on our business, financial performance and operations).

5.3.9 Changes in tax law

Any change (including a change in interpretation) in tax legislation, including, but not limited to, the imposition of new taxes or increases in tax rates, availability of tax credits, or any change in the tax treatment of assets or liabilities held by us may have an adverse impact on our business, financial performance and operations.

5.3.10 Possible changes in accounting standards

Changes to the Australian Accounting Standards are determined by the Australian Accounting Standards Board. The AASB may, from time to time, introduce new or refined AAS. It is also possible for interpretations of existing AAS to evolve over time. This may affect the way we measure and recognise accounting items, which could have adverse impacts on our business, financial performance and position reported in our financial statements. This may also affect the comparability of our results from year to year.

Key people, interests and benefits

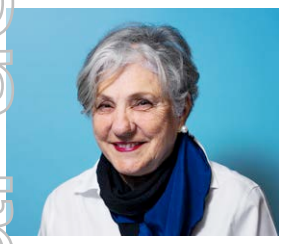
6.1 Board of Directors

Our Board has expertise across financial services, technology, retail and health sectors, and is actively engaged and passionate about our business.

Table 6.1 Biographies of Directors

DIRECTOR	EXPERIENCE AND BACKGROUND
 **David Thodey AO** *Non-executive Chairman* Member of the Nominations and Remuneration Committee	David joined the Board in 2018 and became Chairman in 2019. David is currently a director of Ramsay Health Care Ltd, Vodafone Group Plc and Xero Limited. He is also Chair of the Commonwealth Scientific and Industrial Research Organisation (CSIRO). David has more than 40 years' of experience in the technology and telecommunications industries. He has a track record of creating brand and shareholder value, and has been successfully involved in innovation across a wide range of sectors. David has held roles as CEO of Telstra and CEO of IBM Australia/New Zealand. In 2017, David was appointed an Officer of the Order of Australia for integrity and leadership in business. David holds a Bachelor of Arts in Anthropology and English from the Victoria University of Wellington, and attended the post-graduate General Management program at Kellogg, Northwestern University in Chicago.
 **Robbie Cooke** *CEO and Managing Director*	Robbie joined us in 2018 as Chief Executive Officer and was appointed as Managing Director in October 2019. Robbie has over 30 years' experience in the oil and gas, mining, lotteries, wagering and online travel industries. Prior to Tyro, Robbie was the Managing Director and CEO of Tatts Group Limited. This role concluded upon Tatts merging via a scheme of arrangement with its Australian peer, Tabcorp Holdings Limited. Prior to Tatts, Robbie served initially as Chief Operating Officer, and then as CEO and Managing Director of one of Australia's leading online travel groups, Wotif.com Holdings Limited. During his seven years at Wotif, Robbie oversaw the group's significant scale up from startup mode, achieving a circa fivefold increase in profits and undertaking a successful IPO on the ASX in 2006. Robbie is a member of the Australian Institute of Company Directors, an associate of the Governance Institute of Australia and a solicitor of the Supreme Court of Queensland. Robbie also sits on the advisory board of in-home care provider Five Good Friends. Robbie holds a Bachelor of Laws (Honours) from The University of Queensland Law School, a Bachelor of Commerce from The University of Queensland and a Graduate Diploma in Company Secretarial Practice from the Governance Institute of Australia.
 **Hamish Corlett** *Non-executive Director (Non-independent)* Member of the Audit and Nominations and Remuneration Committees	Hamish joined the Board in 2019. He has been a shareholder in us since 2015. He is a founder and partner of TDM Growth Partners, a private investment firm specialising in high growth companies globally. Hamish also serves on the board of ASX-listed Somnomed Ltd. Hamish has over 20 years' experience in investing and investment banking. Prior to TDM, Hamish worked as an Investment Manager at Caledonia Investments, a global fund manager, and an Analyst at Caliburn Partnership (now Greenhill). Hamish holds a Bachelor of Commerce with Honours Class 1 (Accounting and Finance) from the University of Sydney and a Graduate Diploma of Counselling from the Australian College of Applied Psychologists.

6. KEY PEOPLE, INTERESTS AND BENEFITS

DIRECTOR	EXPERIENCE AND BACKGROUND
 **David Fite** *Non-executive Director (Non-independent)* Member of the Risk Committee	David joined the Board in 2018. He has been a shareholder in and consultant to us since 2008. He is currently a Director of Judo Capital Holdings Ltd, Judo Bank Pty Ltd, Evari Insure Pty Ltd and associated entities, Marsello Ltd and ETA Australia Holdings Pty (the parent of MYOB). He is an active investor in various credit, financial services and technology businesses. David has over 25 years' experience in the financial services industry. David has held various roles at Westpac Banking Corporation, including Treasurer, Assistant Chief Financial Officer and the Group Executive responsible for all retail and business banking products in Australia. David has also worked at Japan's Shinsei Bank (formerly known as The Long-Term Credit Bank of Japan) as Senior Corporate Executive Officer, Chief Financial Officer and a member of its Board. David holds a Bachelor of Arts in Government (magna cum laude) from Harvard College, and a Master of Business Administration and Masters in Economics from Stanford University.
 **Catherine Harris AO** *Non-executive Director* Chair of the Nominations and Remuneration Committee	Catherine joined the Board in 2015. Catherine is currently Chair of Harris Farm Markets Pty Ltd, and a director of The Australian Ballet, the University of New South Wales School of Business and Cox's River Rest Pty Ltd. Catherine has over 40 years' experience in the retail industry. She has held roles at the Affirmative Action Agency, the University of NSW, the Sydney Cricket Ground Trust, the National Gallery of Australia, the Australian Defence Force Academy, The Museum of Contemporary Art Australia, St Margaret's Public Hospital, The Australian Rugby League Commission, the Australia Japan Foundation and the Sports Australia Hall of Fame. Catherine is an Officer in the Order of Australia and was awarded the Australian Public Service Medal and The Centenary Medal. Catherine holds a Bachelor of Commerce (with merit) and an Honorary Doctorate in Business from the University of New South Wales
 **Fiona Pak-Poy** *Non-executive Director* Member of the Audit and Risk Committees	Fiona joined the Board in 2019. Fiona is currently a director for iSentia, Novotech and the Sydney School of Entrepreneurship. Fiona has over 25 years' experience in a variety of industries, for companies ranging from startups to large public companies and not-for-profits. She has served on various boards, including MYOB, StatePlus, and the commercialisation office of The University of Adelaide, Adelaide Research and Innovation. She was a strategy consultant for the Boston Consulting Group in the US and Australia, and was also a partner in an Australian venture capital fund focused on technology startups. Fiona holds an Honours degree in Engineering from The University of Adelaide and a Master of Business Administration from the Harvard Business School.

DIRECTOR	EXPERIENCE AND BACKGROUND
 **Paul Rickard** *Non-executive Director* Chair of the Audit and Risk Committees	Paul joined the Board in 2009. Paul is currently a director of OpenInvest Ltd, OpenInvest Holdings Pty Ltd, Switzer Financial Group Pty Ltd and ASX-listed WCM Global Growth Ltd. He also has board positions with several other Australian private companies. Paul has over 25 years' experience in the financial services industry. Paul was previously Executive General Manager, Payments & Business Technology for Commonwealth Bank of Australia. During his 20-year career at CBA, Paul was the founding Managing Director of CommSec, which he led from 1994 through to 2002. In 2005, Paul was named Stockbroker of the Year and admitted to the Industry Hall of Fame. Paul holds Bachelor of Science degrees in Mathematics and Computer Science from the University of Sydney.

6.1.2 Director disclosures

Each Director has confirmed to us that he or she anticipates being available to perform his or her duties as a Director without constraints from other commitments. The Directors will continually evaluate their other commitments, including the number of boards on which they serve, to ensure that proper time and attention is given to their appointment, and role, as a director of the Company.

Directors may have business interests other than those of the Company, and are expected to declare any conflict (or potential conflict) of interest or material personal interests at appointment, or as soon as apparent.

The conflict (or potential conflict) of interest or material personal interest may require them to not be present at a Board or Board Committee meeting or vote on a matter which concerns the conflict or material personal interest.

6.2 Senior Leadership Team members

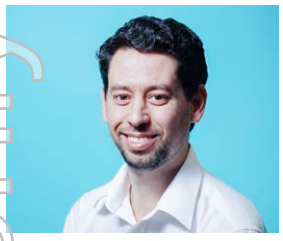
Table 6.2 Biographies of Senior Leadership Team members

EXECUTIVE	EXPERIENCE AND BACKGROUND
Robbie Cooke CEO and Managing Director	Refer to **Section 6.1**.
 **Steve Chapman** *Head of Internal Audit*	Steve joined us in 2019 and leads the internal audit function, providing an independent view on whether we have an appropriate risk and control environment. Steve has over 17 years' experience in project management, audit, and risk. Steve began his career with a large UK utility firm before working for Woolworths Group, Insurance Australia Group and QBE Insurance Group. He is a Chartered Global Management Accountant (CGMA) and Certified Information Systems Auditor (CISA). He also holds a Master of Arts in History (Honours) from the University of Glasgow.

6. KEY PEOPLE, INTERESTS AND BENEFITS

EXECUTIVE	EXPERIENCE AND BACKGROUND
 **Dave Coombes** *Chief Technology Officer*	Dave joined us in 2017 in the role of Chief Technology Officer. Dave has over 20 years' experience building and leading teams that develop and operate large-scale mission-critical systems for high profile organisations across a range of industries including financial services, wagering, retail and telecommunications. Prior to Tyro, Dave held senior technology roles at BT Financial Group, Tabcorp and Insurance Australia Group. Dave also worked as a principal consultant at ThoughtWorks while they were pioneering the use of agile development methods for software delivery. Dave holds a PhD in Theoretical Physics from the University of Sheffield, UK and a first class honours degree in Theoretical Physics from the University of Birmingham, UK.
 **Angela Green** *Chief Risk Officer*	Angela joined us in 2019 in the role of Chief Risk Officer. Angela has over 30 years' experience in banking and finance, management consulting and the Royal Australian Air Force. Angela has held numerous senior financial and non-financial risk management, commercial and business lending product and distribution roles at both Commonwealth Bank of Australia and the National Australia Bank. Angela holds a Master of Business Administration from Victoria University.
 **Sascha Hess** *Chief Security and Operations Officer*	Sascha joined us in 2008 and holds the role of Chief Security and Operations Officer, where he leads teams to deliver our non-stop core acquiring platform. Sascha has nearly 20 years' experience in information security, including frameworks, assessments, testing, operations and consulting across a number of industries. Sascha commenced his career as a security and software engineer at Open Systems, one of Switzerland's leading managed security service providers, was the Head of System Security at UPC Switzerland (formerly Cablecom) and after relocating to Australia, Sascha was a manager in Ernst & Young's Technology and Security Risk Services. Sascha holds a Master of Science from the Swiss Federal Institute of Technology (ETH Zurich).
 **Yvette Mandanas** *Chief People Officer*	Yvette joined us in 2016 to establish the HR function in the role of Chief People Officer. Yvette has over 15 years' experience in HR in fast growth technology organisations. Yvette specialises in the design and delivery of HR operational, talent acquisition, leadership development and culture development initiatives to drive business strategy. Yvette has held HR leadership roles during her time at Avanade, the Microsoft technology consulting arm of Accenture, and at Nearmap, an ASX-listed market leader in geospatial map technology. Yvette holds a Graduate Diploma in Human Resource Management from the University of Technology Sydney, has completed an Executive Program in People, Performance and Culture from Stanford University, and is a professional member of the Australian Human Resources Institute (CAHRI).

EXECUTIVE	EXPERIENCE AND BACKGROUND
 **Praveenesh Pala** *Chief Financial Officer*	Praveenesh (Prav) joined Tyro in 2014 in the role of Chief Financial Officer. Prav has over 20 years' experience gained in professional consulting, property funds management and financial services. Since starting his career at PricewaterhouseCoopers, Prav has held several senior positions at QBE Insurance Group, Westfield Trust, Domaine Mirvac Funds Management and ING Direct, and has managed large integration and strategic finance related projects. Prav holds a Bachelor of Commerce from the University of New South Wales. He is a qualified CPA and member of the CFA Institute.
 **James Revell** *Chief Strategy Officer*	James joined us in 2017 to establish the corporate strategy function, and was appointed to the leadership team a year later. James is passionate about driving growth by facilitating strategic conversations using rigorous analysis, market awareness and structured problem-solving. Prior to Tyro, James had roles at Deloitte S&O Consulting and Telstra Digital. James holds a first class Honours degree from the University of Cambridge and a Master of Commerce from the University of Sydney Business School.
 **Lisa Vitaris** *Chief Marketing Officer*	Lisa joined us in 2017 to drive both brand and acquisition, and in 2018 was appointed as Chief Marketing Officer. Lisa has over 15 years' experience in marketing, specialising in financial services. She has extensive experience in branding and high growth acquisition, and has held roles both client-side at Aussie Home Loans and CMC Markets, as well as at advertising agencies working across Citibank, Bankwest, CommSec and IMB. Lisa holds a Master of Business in International Marketing from the University of Technology, Sydney.
 **Josh Walther** *Chief Customer Officer*	Josh joined us in 2017 in the role of Director of Sales, becoming Chief Customer Officer in 2018. Josh has more than 20 years' experience in financial services and management consulting with ING Direct, Aussie Home Loans, KPMG Consulting and Arthur Andersen Business Consulting. He has extensive experience delivering sales growth and customer experiences for financial services businesses across multiple distribution formats including direct, digital and partnerships. In his eight years at ING Direct, Josh's leadership in growing and developing consumer sales and service channels culminated in him being awarded Australian Customer Experience Executive of the Year and his team awarded Best Contact Centre in Australia. Josh holds a Bachelor of Business (Honours – First Class) from the University of Technology, Sydney and completed the Stanford University Executive Program for Growing Companies in 2019.

EXECUTIVE	EXPERIENCE AND BACKGROUND
 **Sami Wilson** *General Counsel, Company Secretary*	Sami is our General Counsel and Company Secretary and joined us in 2018 to establish the in-house legal function, having initially advised us on our $100 million capital raising transaction undertaken in 2015. Sami has over 10 years' legal experience in a diverse range of areas, including advising ASX-listed entities on corporate law and M&A and working on private equity, venture capital and banking and finance transactions. Before he joined us, Sami was a Senior Associate at Herbert Smith Freehills. Sami holds a Bachelor of Laws (Honours) from the University of Melbourne and a Bachelor of Commerce from The University of Adelaide. Sami is admitted as a solicitor of the Supreme Courts of New South Wales and South Australia.
 **Bronwyn Yam** *Chief Product Officer*	Bronwyn joined us in 2017 and is our Chief Product Officer. Bronwyn has over 20 years' experience in financial services and consulting. She has extensive experience in challenging the status quo and delivering on innovative processes and solutions. Bronwyn has a passion for driving transformational change in organisations and teams leveraging on technology and disruptive thinking to deliver desired customer outcomes. Prior to joined us, Bronwyn held several senior roles in strategy, lending and payments within Commonwealth Bank of Australia since 2005. Bronwyn also had a consulting career with Arthur Andersen Business Consulting in the US and across Asia, working with clients from multiple industries from manufacturing to financial services. Bronwyn holds a Bachelors of Arts, Business Economics from the University of California, Los Angeles (UCLA) and a Masters of Business Administration from the Hong Kong University of Science and Technology (HKUST).

6.3 Interests in Shares of existing and new investors

Details of interests in Shares of key investor types at the Prospectus Date and as expected on Completion, are set out in **Table 6.3**.

Table 6.3 Shareholding structure[1]

	AT PROSPECTUS DATE		ON COMPLETION	
SHAREHOLDER[1]	SHARES	%	SHARES	%
Mike Cannon-Brookes[2]	68,119,528	15.12%	68,119,528	13.69%
Tiger Global[3]	66,064,904	14.67%	39,638,943	7.96%
TDM Growth Partners[4]	66,017,538	14.66%	66,017,538	13.26%
David Fite[5]	49,576,577	11.01%	45,576,577	9.16%
Hans-Josef (Jost) Stollmann[6]	35,920,679	7.97%	19,920,679	4.00%
Other Directors[7]	3,658,635	0.81%	4,207,694	0.85%
Other existing Shareholders[8]	161,114,562	35.77%	142,246,638	28.58%
New Shareholders[9]	–	–	112,008,957	22.50%
Total	**450,472,423**	**100.00%**	**497,736,554**	**100.00%**

Note:

1. Based on the Example Offer Structure and Mid-Point Price for each Shareholder as described in **Section 7**.1. Certain of these Shareholders hold Liquidity Event Performance Rights, Options and Remuneration Sacrifice Rights (refer to **Sections 6.4.3.2, 6.4.4.1**, and **6.4.4.4**).
2. Mike Cannon-Brookes' holding reflects Shares held personally and by Abyla Pty Ltd and Grokco Pty Ltd, entities controlled by Mike Cannon-Brookes.
3. Tiger Global's holding reflects Shares held through Internet Fund III Pte. Ltd.
4. TDM Growth Partners represents the aggregate shareholdings of TDM Growth Partners' clients on whose behalf TDM Growth Partners manages their investment (including voting rights) in the Company. This includes 932,444 Shares in respect of which Hamish Corlett, Director, has a beneficial interest, held through associated entities. TDM Growth Partners intends to bid for a further $5.5 million of Shares under the Institutional Offer at the Final Price if it is within the Indicative Price Range. This table does not include Shares which may be allocated to TDM Growth Partners under this bid.
5. David Fite's holding reflects Shares held personally and by Danita Lowes. Euclid Capital Partners LLC, an entity controlled by David Fite as sole shareholder, holds 2,625,000 Loan Options (each over one Share) which are exercisable at a price of $0.08 per Option at any time before their expiry on 17 December 2020.
6. Hans-Josef (Jost) Stollmann's holding reflects Shares held personally and by Sophia-Konstantina Fiona Stollmann.
7. Other Director holdings reflect Shares held personally by the relevant Director and entities associated with the Director. Directors may take up additional Shares under the Offer (refer to **Table 6.4**).
8. Existing Shareholders may take up additional Shares under the Offer (which would form part of the new Shareholder total). For details on voluntary escrow arrangements in respect of certain Shares held by existing Shareholders (including Directors) on Completion, refer to **Section 6.5**.
9. Comprises Shares offered under the Offer and 300,000 Shares issued between the Prospectus Date and Completion under POS Partner Agreements referred to in **Section 3.11.5**.

6.4 Interests and benefits

This **Section 6.4** sets out the nature and extent of the interests and fees of certain persons involved in the Offer. Other than as set out below or elsewhere in this Prospectus, no:

- Director or proposed director of the Company;
- person named in this Prospectus and who has performed a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus;
- promoter of the Company; or
- underwriter to the Offer or financial services licensee named in this Prospectus as a financial services licensee involved in the Offer,

holds at the time of lodgement of this Prospectus with ASIC, or has held in the two years before lodgement of this Prospectus with ASIC, an interest in:

- the formation or promotion of the Company;
- property acquired or proposed to be acquired by the Company in connection with its formation or promotion; or
- the Offer,

and no amount (whether in cash, Shares or otherwise) has been paid or agreed to be paid, nor has any benefit been given or agreed to be given, to any such person for services in connection with the formation or promotion of the Company or the Offer or to any Director or proposed director to induce them to become, or qualify as, a Director.

6.4.1 Interests of advisers

We have engaged the following professional advisers in relation to the Offer:

- J.P. Morgan Securities Australia Limited and Morgan Stanley Australia Securities Limited have acted as Joint Lead Managers in relation to the Offer. We have agreed to pay the Joint Lead Managers the fees described in **Section 9.7.1** for these services;
- Clayton Utz has acted as Australian legal adviser to us in relation to the Offer. We have paid or agreed to pay approximately $790,000 (excluding disbursements and GST) for these services up until the Prospectus Date. Further amounts may be paid to Clayton Utz in accordance with normal time-based charges;
- PricewaterhouseCoopers Securities Ltd has acted as Investigating Accountant in relation to the Offer and performed work in relation to due diligence enquiries in connection with the Offer. PricewaterhouseCoopers Securities Ltd has prepared the Independent Limited Assurance Reports included in this Prospectus. We have paid, or agreed to pay the Investigating Accountant $595,500 (excluding disbursements and GST) for these services up until the date of this Prospectus and a further $125,000 (excluding disbursements and GST) for other advisory services; and
- PricewaterhouseCoopers has acted as tax adviser to us in relation to the Offer. We have paid, or agreed to pay, up to approximately $103,500 (excluding disbursements and GST) for the above services up until the Prospectus Date. Further amounts may be paid for engagements agreed separately.

These funds, and other expenses of the Offer, will be paid by us out of funds raised under the Offer or available cash (unless otherwise indicated). Further information on the use of proceeds and payment of expenses of the Offer is set out in **Section 7.1.3**.

6.4.2 Directors' interests and benefits

6.4.2.1 Non-executive Director appointment letters

Each Non-executive Director has entered into an appointment letter with us, confirming the terms of their appointment, roles and responsibilities and our expectations of them as Directors.

The letters also set out a restraint clause that prohibits the Non-executive Directors from being connected with or interested in any business in competition with us, except with prior written consent.

Non-executive Directors may resign at any time. They will also cease to be a Director if they are not re-elected at the relevant annual general meeting, or if any of the disqualifying events prescribed in our Constitution or as prescribed by law occur.

6.4.2.2 Remuneration of Non-executive Directors

Directors are to be paid or provided remuneration for services provided to the Company on terms decided by the Board. Under the ASX Listing Rules, the total amount or value of remuneration paid to Non-executive Directors in any year may not exceed the amount approved by Shareholders at the Company's general meeting. This amount has been fixed at $1,400,000 per annum. For FY20f, it is expected that the fees payable to the current Non-executive Directors will be approximately $865,000 (inclusive of superannuation) in aggregate.

As at the Prospectus Date, the Non-executive Director base fee agreed to be paid by us is $108,000 per annum. Non-executive Directors are also paid additional base fees for the following roles:

- Chair of the Board: $72,000 per annum (for total remuneration of $180,000 per annum); and
- Chair of a Board Committee: $20,000 per Committee Chair (for total remuneration of $128,000 per annum), not payable if the Committee Chair is also the Board Chair.

Other than the Chair of a Board Committee, Non-executive Directors are not paid an additional fee for being a member of a Board Committee.

In addition to the remuneration above, the Company will contribute statutory superannuation to a complying superannuation fund.

Remuneration is reviewed annually and any increase to it will be at the discretion of the Board but will not exceed the aggregate amount approved by Shareholders.

6.4.2.3 Remuneration of CEO and Managing Director

Robbie has entered into an employment agreement with us to govern his employment. Robbie is employed as CEO and Managing Director. Robbie's remuneration is comprised of:

- base salary and superannuation of $862,000 per annum;
- a discretionary annual short-term incentive (**STI**) bonus of up to 50% of his base salary based on the performance of the Company and his achievement of key performance indicators. The award and payment of the STI is at the discretion of the Board. In respect of FY20, the target maximum STI is $415,000. Robbie has sacrificed 100% of his awarded STI relating to FY19 to acquire performance rights that convert into Shares on a pre-tax basis (see further discussion at **Section 6.4.4.4**); and
- participation in our long-term incentive plan (**LTI Plan**) to a value equal to 64.5% of his base salary. In respect of FY20, the value of the LTI granted to Robbie is $535,350.

In addition to the Option Plan, Robbie may participate in the Remuneration Sacrifice Rights Plan and the Liquidity Event Performance Rights Plan. Details of options and rights held by Robbie are set out in **Table 6.5**.

The notice period for termination under Robbie's employment agreement is six months by either Robbie or us. We may terminate Robbie's employment without notice for serious misconduct. Robbie is subject to a post-employment restraint period of 12 months, enforceability of which is subject to all usual legal requirements.

6.4.2.4 Deeds of indemnity, insurance and access

We have entered into deeds of indemnity, insurance and access with each Director, in accordance with the Constitution. Deeds of indemnity, insurance and access have also been entered into with the Secretary, Chief Financial Officer and certain former officers.

Under the Constitution, every Director and Company Secretary is indemnified out of the assets of the Company, to the maximum extent permitted by law, against any liability incurred by the Director or Company Secretary in his or her capacity as an officer of the Company or of a related body corporate.

We may pay premiums in respect of a contract insuring a Director, Company Secretary or other officer of the Company, to the maximum extent permitted by law, against any liability incurred in his or her capacity as an officer of the Company or a related body corporate.

Directors have the statutory right to access the Company's financial and other records, which continues for seven years after they cease to be a Director.

6.4.2.5 Other information about Directors' interests and benefits

Directors are also entitled to be reimbursed for all reasonable travel, accommodation and other expenses incurred while attending meetings of the Company, the Board or a Board Committee, or when otherwise engaged on business of the Company on in carrying out their duties as a Director.

Directors who serve on any Board Committee, who devote special attention to the business of the Company, who otherwise perform services which, in the opinion of the Board, are outside of the scope of the ordinary duties of a Director or who, at the request of the Board, travel on the business of the Company, may be paid extra remuneration as the Board decides.

Additionally, subject to the Corporations Act, any person (including an officer of the Company) may be paid a benefit in connection with the retirement from office (including loss of office, resignation from office or death of a person who held office at the time immediately preceding his or her death) of any officer of the Company. The Board may make arrangements with any officer with respect to providing for or making payment of benefits in accordance with this.

6.4.2.6 Directors' interests

Directors are not required by the Constitution to hold any Shares. On Completion, the Directors are expected to hold the Shares and interests either personally, or through entities or persons associated with the Director as set out in **Table 6.4** based on the Mid-Point Price and the Example Offer Structure. These Shares will be subject to voluntary escrow arrangements. Refer to **Section 6.5** for further information on escrow arrangements in relation to the Offer.

Final Directors' shareholdings at the Final Price will be notified to ASX following listing.

Table 6.4 Summary of Directors' shareholdings[1]

DIRECTOR	SHARES ON THE PROSPECTUS DATE	%	SHARES TO BE SOLD UNDER THE OFFER	SHARES TO BE ACQUIRED UNDER THE OFFER	SHARES HELD ON COMPLETION[2]	%
David Thodey AO[3]	750,000	0.17%	–	113,208	863,208	0.17%
Robbie Cooke	106,604	0.02%	–	113,208	219,812	0.04%
Hamish Corlett[4]	932,444	0.21%	–	188,680	1,121,124	0.23%
David Fite[5]	49,576,577	11.01%	4,000,000	–	45,576,577	9.16%
Catherine Harris AO[6]	518,735	0.12%	–	94,340	613,075	0.12%
Fiona Pak-Poy	–	–	–	39,623	39,623	0.01%
Paul Rickard	2,283,296	0.51%	–	–	2,283,296	0.46%

Note:

1. Based on the Example Offer Structure and Mid-Point Price as described in **Section 7.1**. Certain of these Directors also hold Options, Remuneration Sacrifice Rights and Liquidity Event Performance Rights as referred to in **Sections 6.4.3.2** and **6.4.4**.
2. All Shares held by Directors on Completion will be escrowed, excluding any Shares acquired under the Offer. For details on voluntary escrow arrangements, refer to **Section 6.5**.
3. David Thodey AO's holding reflects Shares held by Aspiring Co Pty Ltd.
4. Hamish Corlett's holding reflects Shares held beneficially through associated entities plus 188,680 Shares to be acquired under the Offer which he will hold personally.
5. David Fite's holding reflects Shares held personally and by Danita Lowes. Euclid Capital Partners LLC, an entity controlled by David Fite as sole shareholder, holds 2,625,000 Loan Options (each over one Share) which are exercisable at a price of $0.08 per Option at any time before their expiry on 17 December 2020.
6. Catherine Harris AO's holding reflects Shares held personally and held by HFM Superannuation Pty Ltd.

6.4.2.7 Directors' options and rights

Directors have historically participated in the Option Plan and are entitled on an ongoing basis to participate in the Remuneration Sacrifice Rights Plan (described in **Sections 6.4.4.1** and **6.4.4.4** respectively). The Remuneration Sacrifice Rights Plan allows Directors to sacrifice a proportion of their Director fees in exchange for Remuneration Sacrifice Rights that automatically convert into Shares after a specified period. The Shares issued on conversion of the Remuneration Sacrifice Rights will be restricted for a period following the date of the grant.

Table 6.5 Summary of Directors' Remuneration Sacrifice Rights, Loan Options and Options on Completion

DIRECTOR	REMUNERATION SACRIFICE RIGHTS GRANTED IN RESPECT OF FY20[1]	LOAN OPTIONS	OPTIONS[8] AND LIQUIDITY EVENT PERFORMANCE RIGHTS[9]
David Thodey AO	131,905[2]	–	14,286 FY18 Annual Linear 68,000 FY19 Performance
Robbie Cooke	270,583[3]	–	1,818,180 Sign-on options (Monthly Linear) 380,952 FY18 Annual Linear 1,567,813 FY19 Performance 1,737,585 FY20 Performance 1,200,000 Liquidity Event Performance Rights
Hamish Corlett	89,658[4]	–	68,000 FY19 Performance
Catherine Harris AO	106,262[2]	–	67,140 FY16 and FY17 Monthly Linear 14,286 FY18 Annual Linear 83,200 FY19 Performance
David Fite	89,658[5]	2,625,000[6]	212,032 FY13 to FY17 Monthly Linear 14,286 FY18 Annual Linear 68,000 FY19 Performance
Fiona Pak-Poy	73,692[7]	–	83,000 FY20 Performance
Paul Rickard	61,432[3]	–	141,354 FY13 to FY17 Monthly Linear 14,286 FY18 Annual Linear 98,300 FY19 Performance

Note:

1. Granted on 16 October 2019 at a volume-weighted average Share price of $1.319.
2. Shares issued on conversion to be restricted for a period of three years from the date of the grant of the Remuneration Sacrifice Rights (**Rights Grant Date**).
3. Shares issued on conversion to be restricted for a period of five years from the Rights Grant Date.
4. Shares issued on conversion to be restricted for a period of one year from the Rights Grant Date.
5. Shares issued on conversion to be restricted for a period of 15 years from the Rights Grant Date.
6. Euclid Capital Partners LLC, an entity controlled by David Fite as sole shareholder, holds 2,625,000 Loan Options (each over one Share) which are exercisable at a price of $0.08 per Option at any time before their expiry on 17 December 2020. Assumes no Loan Options are exercised before Completion.
7. Shares issued on conversion to be restricted for a period of two years from the Rights Grant Date.
8. Refer to **Section 6.4.4.1** for further description of the types of Options. Assumes no Options are exercised before Completion.
9. Refer to **Section 6.4.3.2** and **Table 6.13** for further detail on Liquidity Event Performance Rights.

6.4.3 Interests and compensation of the Senior Leadership Team

6.4.3.1 Remuneration of Senior Leadership Team members

Annual remuneration for Senior Leadership Team members is comprised of their fixed annual remuneration, being base salary, superannuation and any fringe benefits. Remuneration for members of the Senior Leadership Team is reviewed annually by the Board.

At the Company's discretion, we may choose to pay Senior Leadership Team members a STI (comprising cash and rights) based on the employee's performance, our performance as a company and any key performance indicators. Excluding the CEO and Managing Director (refer to **Section 6.4.2.3**), a maximum bonus of between 20% and 40% of an employee's fixed annual remuneration may be paid at our discretion. Additionally, variable remuneration for the Senior Leadership Team that are 'Accountable Persons' under the Banking Executive Accountability Regime (**BEAR**) is subject to deferral requirements under BEAR.

In respect of FY19, the Board approved a cash bonus payable to the Senior Leadership Team (excluding the CEO and Managing Director) in an aggregate amount of $879,127. Senior Leadership Team members were invited to sacrifice a percentage (up to 100%) of this incentive under the Remuneration Sacrifice Rights Plan (refer to **Section 6.4.4.4**). All Senior Leadership members team chose to participate in the Remuneration Sacrifice Rights Plan in respect of their FY19 STI grant.

Senior Leadership Team members are also eligible to participate in LTI arrangements which currently take the form of Options issued under the Option Plan (as described in **Section 6.4.4.1**). The FY20 grant of Options is based on a percentage of the employee's (excluding the CEO and Managing Director – refer to **Section 6.4.2.3**) fixed annual remuneration, between 20% and 40% (refer to **Section 6.4.4.3**).

The Remuneration Sacrifice Rights, Options and Liquidity Event Performance Rights held by Senior Leadership Team members on the Prospectus Date are set out in **Table 6.5** and **Table 6.13**.

We or the employee may terminate the employee's employment, after the expiry of either three or six months' notice in writing. Senior Leadership Team members are also subject to a restraint of trade period for either three or six months following expiry of the notice period, enforceability of which is subject to all usual legal requirements.

Table 6.6 Summary of remuneration for Senior Leadership Team members

EXECUTIVE	DESCRIPTION OF REMUNERATION
Robbie Cooke *CEO and Managing Director*	Refer to **Section 6.4.2.3**.
Praveenesh Pala *Chief Financial Officer*	Prav will receive fixed remuneration (including superannuation) of $430,000 in FY20. Prav is entitled to performance-based incentives (STI and LTI) as determined by the Board as follows: • **STI:** in respect of FY20, Prav's target maximum STI is $172,000 (40% of Prav's fixed remuneration). In relation to FY19, Prav's awarded STI was $141,450 of which Prav elected to sacrifice 80% to acquire Remuneration Sacrifice Rights that convert into Shares on a pre-tax basis. The number of rights acquired was calculated at a volume-weighted average Share price of $1.319. The award and payment of the STI are at the discretion of the Board; and • **LTI:** Prav is entitled to participate in the Company's LTI Plan up to a value equal to 40% of his fixed remuneration. In respect of FY20, the value of the LTI granted to Prav is $172,000. The notice period for termination under Prav's employment agreement is six months by either Prav or us. We may terminate Prav's employment without notice for serious misconduct. Prav is subject to a post-employment restraint period of six months, enforceability of which is subject to all usual legal requirements.

EXECUTIVE	DESCRIPTION OF REMUNERATION
Angela Green *Chief Risk Officer*	Angela will receive fixed remuneration (including superannuation) of $400,000 in FY20. Angela is entitled to performance-based incentives (STI and LTI) as determined by the Board as follows: • **STI:** in respect of FY20, Angela's target maximum STI is $140,000. In relation to FY19, Angela's awarded STI was $9,963 of which Angela elected to sacrifice 100% to acquire Remuneration Sacrifice Rights that convert into Shares on a pre-tax basis. The number of rights acquired was calculated at a volume-weighted average Share price of $1.319. The award and payment of the STI are at the discretion of the Board; and • **LTI:** Angela is entitled to participate in the LTI Plan up to a value equal to 35% of her fixed remuneration. In respect of FY20, the value of the LTI granted to Angela is $140,000. The notice period for termination under Angela's employment agreement is six months by either Angela or us. We may terminate Angela's employment without notice for serious misconduct. Angela is subject to a post-employment restraint period of six months, enforceability of which is subject to all usual legal requirements.
Other members of the Senior Leadership Team	Other members of the Senior Leadership Team have entered into contracts of employment with the Company.

6.4.3.2 Liquidity Event Performance Rights

A limited number of employees of the Company have been granted performance rights under the Liquidity Event Performance Rights Plan. The number of Liquidity Event Performance Rights on the Prospectus Date is set out in **Table 6.13**. A liquidity event includes the Offer.

Table 6.7 Summary of key terms of the Liquidity Event Performance Rights Plan

TERM	DESCRIPTION
Administration	The plan is administered by the Board (or the Board's delegate).
Eligibility	Board determined.
Price	Liquidity Event Performance Rights granted under the plan are issued for nil consideration.
Expiry	Liquidity Event Performance Rights issued under the plan will lapse 10 years after the date on which the relevant Liquidity Event Performance Right vests.
Vesting dates	Vesting will occur in three equal tranches, as follows: • one third on the date of the liquidity event (**Initial Vesting Date**); • one third on the date that is 12 months after the Initial Vesting Date; and • one third on the date that is 24 months after the Initial Vesting Date. The Board may resolve that any unvested Liquidity Event Performance Rights cease to vest for the duration of any unpaid leave of absence. A liquidity event includes the Offer. On Completion, the first tranche of the Liquidity Event Performance Rights will vest and become exercisable.

TERM	DESCRIPTION
Vesting condition	The holder of the rights must be employed by us or provide services to us as a contractor or consultant on the date of vesting.
Exercise	Following satisfaction of the vesting condition on each vesting date, the relevant number of Liquidity Event Performance Rights may be exercised at nil consideration.
Rights	Each Liquidity Event Performance Right granted entitles the holder to one Share on exercise. Shares resulting from an exercise of Liquidity Event Performance Rights rank equally with other Shares, and Shareholders are entitled to the same dividend and voting rights specified in our Constitution.
Holding lock period	A holder must not dispose of any Share issued, allotted or transferred on exercise of a Liquidity Event Performance Right from the date that is 12 months from the date of issue, allotment or transfer.
Amendments	The Board may amend the terms of the plan without consent of the participants if the amendment does not reduce the rights of the participants.
Other terms	The rules of the plan include other terms relating to the administration, transfer, termination and variation of the plan.

6.4.4 Employee remuneration and incentives

We recognise that an effective remuneration and incentive system is essential to the success of our business. We are committed to a policy of a market-related and individually-negotiated remuneration structure for all employees and contractors of the Company.

Employee remuneration is typically comprised of fixed annual remuneration (being base salary, superannuation and any fringe benefits), together with potential participation in equity and/or incentive plans.

Key determinants in all remuneration decisions are the Company's overall financial performance, customer satisfaction outcomes and individual performance (against individual key performance indicators).

To help inform this process, we conduct employee reviews in accordance with the terms of individual contracts, or at least once a year. These reviews promote open and honest communication, and are designed to provide the information we need to allocate incentives fairly, and to identify goals, areas for development, and training requirements for our team.

6.4.4.1 Option Plan

Historically, share-based compensation benefits have been granted under the Option Plan, adopted by the Company in October 2016. The Option Plan was established to grant options over Shares to Directors, Senior Leadership Team members and other employees of the Company.

Following Completion, no further Options will granted under the Option Plan. Key terms of the Option Plan are set out in **Table 6.8**:

Table 6.8 Key terms of the Option Plan

TERM	DESCRIPTION
Administration	The plan is administered by the Board.
Eligibility	Participation in the plan is by invitation, and subject to Board approval. Eligible participants are full or part-time employees of the Company (provided that they hold a salaried employment or office in the Company) and Directors.

TERM	DESCRIPTION
Entitlements	In determining entitlements of eligible participants to Options (if any), the Board will consider: • the skills and experience of the eligible participant; • the eligible participant's length of service with the Company; • the contribution made by the eligible participant to the Company; • the potential contribution of the eligible participant to the Company; and • any other matters the Board considers relevant. The number of Options (if any) to be offered to an eligible participant will be determined by the Board in its discretion and in accordance with the rules and any applicable law.
Term	An Option will lapse 10 years after the date of the grant of that Option, cessation of employment (see below in this **Table 6.8** for detail on terms relating to cessation of employment) or such earlier date as determined by the Board.
Vesting	Options granted pursuant to the plan may be exercised, in whole or in part, subject to the vesting terms and conditions of the specific grant of Options. Terms of the FY20 grant of Options are described in **Table 6.10**. Current Options have been granted with the following vesting terms and conditions: • *monthly linear vesting schedule:* Options vest in equal proportions on a monthly basis during the vesting schedule (60 months in each case), subject to maintaining continuous status as an employee with the Company; • *annual linear vesting schedule:* Options vest similarly to the monthly linear vesting schedule, except they vest in equal 20% tranches annually over the vesting term; • *performance linear vesting schedule:* Options vest in equal tranches annually over the vesting term, and are subject to our financial performance; and • *fully vested at time of grant:* Options may be exercised from the date of the grant.
Price	The exercise price of Options is set out in the invitation to participants. The latest grant of Options in reference to FY20 has an exercise price of $1.79.
Rights	Each Option entitles the Option holder to one Share on exercise of the Option. Shares resulting from an exercise of Options rank equally with other Shares, and Shareholders are entitled to the same dividend and voting rights specified in our Constitution.
Exercise	The Board may impose exercise conditions, including performance-related conditions, on the right of a participant to exercise any Options.
Cessation of employment	If a participant ceases to be an employee of the Company or Director for any reason (including termination for cause) before the lapsing date and any exercise conditions have been met, the participant will be entitled to exercise those Options in accordance with the terms of the grant of the Options during the 30 days after the cessation of employment or directorship.
Minimum holding period	Options (and Shares issued upon exercise) are subject to a minimum holding period, during which they must not be sold or transferred. This period commences on the date on which the Options are granted, and continues until the earlier of the date: • which is three years after the date on which Options are granted; or • on which the participant ceases employment.

TERM	DESCRIPTION
Holding lock	An invitation to participate in the plan may specify a holding lock, which is a period during which the Options (and Shares issued upon exercise) cannot be transferred, sold, encumbered or otherwise dealt with. A 24-month holding lock applies to Options (and Shares issued upon exercise) with annual linear or performance linear vesting schedules: • for annual linear Options, the lock period applies following the relevant vesting date; and • for performance linear Options, the lock period applies from exercise date. Options issued to Directors and Senior Leadership Team members under grants in respect of FY19 and FY20 are structured as performance linear options and are subject to a 24-month holding lock from the date of exercise of the relevant Options.
Amendments	The Board may amend the terms of the plan, without consent of the participants, provided that the amendments do not reduce the rights of the holders of Options.
Other terms	The rules of the plan include other terms relating to the administration, transfer, termination and variation of the plan.

At the Prospectus Date, the following Options are on issue:

Table 6.9 Options[1] on issue as at Prospectus Date

RELEVANT FINANCIAL YEAR[2]	EXERCISE PRICE	VESTING CONDITIONS	VESTING SCHEDULE								EXPIRY DATE
			VESTED	2019	2020	2021	2022	2023	2024	TOTAL	
FY13 – FY17	$0.375 –$1.76	Monthly linear[2]	14,115,002	587,563	3,122,122	2,234,820	1,686,311	218,453	–	21,964,272	17 Oct 20 – 22 Jul 24
FY18	Nil	Annual linear[3]	–	462,378	462,378	462,378	462,378	462,378	–	2,311,889	30 Dec 24 – 25 Jun 25
FY19	Nil	Annual linear[3]	–	–	302,384	302,384	302,384	302,384	302,384	1,511,918	31 Aug 25
FY19	$1.50	Performance[4]	–	–	–	1,538,606	1,538,606	1,538,606	1,538,606	6,154,423	30 Apr 26
FY20	$1.79	Performance[5]			–	1,955,649	1,955,649	1,955,649	1,955,649	7,822,596	30 Sep 26
Totals			**14,115,002**	**1,049,941**	**3,886,883**	**6,493,836**	**5,945,327**	**4,477,470**	**3,796,638**	**39,765,098**	

Note:

1. Excludes the Loan Options held by Euclid Capital Partners LLC, an entity controlled by David Fite as sole shareholder, and referred to in **Table 6.5**. Options on Completion may differ from the amounts in this table, in particular if vested Options are exercised and Shares are issued in respect of those Option before that time.
2. Options granted to Directors, Senior Leadership Team members and employees vesting monthly in equal tranches over a period of 5 years, commencing 1 July 2011 and ending on 31 July 2023 and are not subject to any performance conditions.
3. Options granted to Directors, Senior Leadership Team members and employees vesting annually in equal 20% tranches over a period of five years, commencing 12 months after the grant date and are not subject to any performance conditions.
4. Options granted to Directors and Senior Leadership Team members vesting annually in equal 25% tranches over a period of four years, commencing 24 months after the grant date and subject to the following performance conditions: (i) 25% compound gross revenue growth per annum; and (ii) a positive net profit result (before tax and share-based expenses). If a tranche does not satisfy both performance criteria on the relevant vesting date, the tranche will be retested at the next vesting date (if any).
5. Options granted to Directors, Senior Leadership Team members and certain nominated senior employees vesting annually in equal 25% tranches over a period of four years, commencing 24 months after the grant date and subject to the following performance conditions: (i) 20% compound gross revenue growth per annum; and (ii) a positive net profit result (before tax and share-based expenses). If a tranche does not satisfy both performance criteria on the relevant vesting date, the tranche will be retested at the next vesting date (if any).

The Board has approved the grant of Options as the LTI in respect of FY20 as set out in **Table 6.10**:

Table 6.10 Key terms of the FY20 grant of Options to Directors and Senior Leadership

TERM	DESCRIPTION
Eligibility	Eligible participants are Directors, Senior Leadership Team members as well as other nominated employees of the Company.
Conditions	Options granted in respect of FY20 (**FY20 Options**) must satisfy two performance hurdles to qualify for exercise: • 20% compound gross revenue growth per annum; and • a positive net profit result (before tax and share-based expenses). If a tranche does not satisfy both performance criteria on the relevant vesting date, the tranche will be retested at the next vesting date (if any).
Vesting	FY20 Options vest in equal tranches of 25%, commencing 24 months after the grant date.
Exercise price	$1.79 per FY20 Option.
Rights	Each FY20 Option entitles the Option holder to one Share. Shares issued on exercise of FY20 Options rank equally with other Shares, and Shareholders are entitled to the same dividend and voting rights specified in our Constitution.
Forfeiture	FY20 Options are subject to forfeiture prior to vesting and thereafter – any Shares issued will be subject to forfeiture for a nominated period sufficient to satisfy the BEAR deferral requirements.
Expiry	30 September 2026.
Minimum holding period and holding lock	FY20 Options must be held for a minimum period of three years from the date of the grant or until the holder ceases employment with us in accordance with the rules of the Option Plan. Shares issued on exercise are subject to a holding lock for 24 months from the date the FY20 Option is exercised.

6.4.4.2 STI Plan

The Board has endorsed a new STI plan (**STI Plan**) which provides the STI framework for the CEO and Managing Director, other Senior Leadership Team members and employees of the Company. The STI percentage targets for the CEO and Managing Director, and other Senior Leadership Team members are described in **Sections 6.4.2.3** and **6.4.3.1**. All other employees are allocated a potential target incentive amount of between 5% and 10%.

Grant of an STI is at the discretion of the Board and is assessed following the conclusion of the relevant financial year and publication of our audited accounts. Whether an STI is granted will depend on satisfaction of various criteria, including individual performance against key performance indicators, customer satisfaction outcomes and Company financial performance outcomes, as determined by the Board.

STIs will be paid party in cash and partly in service rights, with Senior Leadership Team members receiving a majority in cash and all other employees receiving a majority in service rights. Service rights once granted will have no performance hurdles and will vest a number of years following the grant of the right. In relation to the Senior Leadership Team, vesting is in a single instalment, four years after grant with no holding lock, and for all other employees, vesting is in equal tranches over five years, with a 24-month holding lock post vesting of each tranche.

6.4.4.3 LTI Plan

We have adopted a new LTI plan (**LTI Plan**) which provides the framework under which individual grants of equity incentives (awards) may be made to employees of the Company (including the CEO and Managing Director, and Senior Leadership Team members). The LTI Plan has been designed to attract and retain employees, and to provide additional incentive to employees of the Company to promote our success. No grants under the LTI Plan will have been made on Completion. The key terms of the LTI Plan are set out below.

Table 6.11 Key terms of the LTI Plan

TERM	DESCRIPTION
Administration	The LTI Plan will be administered by the Board.
Eligibility	Full-time and part-time employees of the Company are eligible to receive awards under the LTI Plan. The Board will select eligible employees to whom awards are to be granted from time to time.
Aggregate share limit	The maximum number of Shares issuable under the LTI Plan will be five percent (5%) of our total issued share capital from time to time.
Awards	The LTI Plan provides us with flexibility to grant the following types of awards: • options to subscribe for Shares (**Options**); • rights to be paid a cash amount determined by the price of Shares at a specified time or the movement in price over a period of time (**Incentive Rights**); • ability to subscribe for Shares that are subject to restrictions, including on transfer, until specified conditions are satisfied (**Restricted Shares**); or • rights to receive Shares or cash, based on specified performance factors (**Performance Rights**), (together **Awards**).
Shares	Shares issuable under the LTI Plan may be newly issued Shares or already issued Shares acquired and held by an employee benefit trust established by us.
Conditions	The Board will determine the terms and conditions of each award, including: • the type of Award; • the number or value of Shares or other consideration subject to the Award; • if the Award is an Option, the exercise price of the Option, or if it is any other type of Award, the purchase price (if any) payable for the Shares under the Award; and • any vesting conditions, including service and/or performance conditions. The terms and conditions of each award will be set out in an award agreement.
Exercise price or purchase price	The exercise price or purchase price will be determined by the Board.
Vesting and exercise	Options will become exercisable when the applicable vesting conditions have been satisfied. Incentive Rights and Performance Rights will vest and be settled by the delivery of Shares (or, where applicable, cash) when the applicable vesting or performance conditions have been satisfied. Restricted Shares will cease to be restricted when the applicable vesting conditions have been satisfied in accordance with the award agreement.

TERM	DESCRIPTION
Lapsing and forfeiture	An Option will lapse on the date specified in the grant (or three years after vesting if not specified), or any earlier date specified in the Award agreement (for example, upon failure to satisfy a vesting condition). Restricted Shares will become subject to forfeiture or compulsory transfer, and Incentive Rights and Performance Rights will lapse, on the occurrence of a date or circumstance specified in the award agreement (for example, upon failure to satisfy a vesting or performance condition).
Dealing restrictions	A participant may not dispose of an award in any manner, other than on his or her death or if permitted by us or under an award transfer program approved by us that permits transfers in specified circumstances.
Cessation or change of employment	Vested Options may be exercised within three months after the holder's employment with us ends, or 12 months in the case of death, retirement or termination due to disability. If the holder's employment terminates for cause, his or her vested and unvested Options lapse. Unvested awards (other than Restricted Shares) lapse when the holder's employment ends. Restricted Shares become subject to forfeiture or compulsory transfer when the holder's employment ends.
Change of control	Where there is a change of control event (for example, a takeover bid, scheme of arrangement, merger or any other transaction or event that in the Board's opinion is a change of control event for us), we may determine, subject to the Listing Rules, with respect to each award, that: • Options, to the extent not fully vested, will become vested and exercisable in full or in part; • Incentive Rights or Performance Rights will be settled in full or in part; • performance conditions applicable to Awards will be waived in full or in part or performance will be measured at the time of or before the change of control event and/or the number of Shares to vest may be prorated to such time; • awards having an exercise or purchase price that is equal to or greater than the value of consideration payable for a Share in the change of control event will be cancelled, without payment of consideration to the holder; • Restricted Shares will be exchanged for or replaced with substantially similar shares or other property of the surviving entity; • the award will be assumed or be replaced by an equivalent award; or • any other action will be taken in relation to the award that is equitable and substantially delivers or preserves the value of the award.
Award adjustments	In order to minimise material advantage or disadvantage to a participant resulting from a variation in our issued share capital, before the delivery of Shares or payment to a participant, we may adjust the following terms of an Award appropriately and proportionately, subject to the Listing Rules: • the exercise price and/or number and/or class of Shares subject to each outstanding Option or Award; and • the purchase price paid for Restricted Shares, provided that the exercise price or purchase price of any Share may not be less than the nominal value of a Share, and a fraction of a Share will not be issued.
Deferral	In order to comply with the BEAR, we may defer allocation of a proportion of Shares or cash, to whatever period is required.
Amendments	The Board may amend or supplement the LTI Plan, but not without approval of more than 50% of the participants holding Awards affected by an amendment.
Listing Rules	The LTI Plan and awards made under it are always subject to the Listing Rules and applicable law.

6.4.4.4 Remuneration Sacrifice Rights Plan

Employees and Directors may participate in the Remuneration Sacrifice Rights Plan, following invitation by the Board. Historically, Senior Leadership Team members and Directors have been invited to participate in the Remuneration Sacrifice Rights Plan.

Under the plan, the Board invites participants to apply for Remuneration Sacrifice Rights by sacrificing a percentage of their pre-tax remuneration (or pre-tax fees in the case of Directors) in exchange for rights that automatically convert into Shares.

Remuneration Sacrifice Rights on issue on the Prospectus Date are set out in **Table 6.13** (in respect of Senior Leadership Team members) and **Table 6.5** (in respect of Directors). No payment is required to be made on conversion of these rights. The Remuneration Sacrifice Rights on issue at the Prospectus Date are not subject to performance or employment related hurdles or conditions. The Shares issued on conversion of the Remuneration Sacrifice Rights will be restricted for a period following the date of the grant of the rights.

Table 6.12 Key terms of the Remuneration Sacrifice Rights Plan

TERM	DESCRIPTION
Administration	The plan is administered by the Board.
Eligibility	Participation in the plan is by invitation, and subject to Board approval. Eligible participants are any Director, full or part-time employees of the Company, or any other person so designated by the Board.
Entitlements	The Board may in its discretion invite Directors and employees of the Company to sacrifice a percentage of their remuneration or STI (as determined by the participant) for a certain number of Remuneration Sacrifice Rights which convert automatically to Shares. The number of Remuneration Sacrifice Rights to be granted to an eligible participant will be determined by the method or formula specified in the invitation letter.
Rights	Each Remuneration Sacrifice Right entitles the holder to one Share. Remuneration Sacrifice Rights do not carry a right to vote or dividends or any right to participate in corporate actions and are not transferable.
Conversion	Following satisfaction of any conditions imposed by the Board, on the conversion date, each Remuneration Sacrifice Right will automatically convert into a Share.
Exercise price	Nil.
Ranking of Shares	Shares resulting from conversion of Remuneration Sacrifice Rights may be subject to trading restrictions but otherwise rank equally with other Shares, and Shareholders are entitled to the same dividend and voting rights specified in our Constitution.
Trading Restrictions	An invitation to participate in the plan may specify a trading restriction, which is a period during which the Shares issued on conversion of Remuneration Sacrifice Rights cannot be transferred, sold, encumbered or otherwise dealt with. The minimum Trading Restriction period is one year from the date of grant of the rights, with a maximum Trading Restriction period being 15 years for the date of the grant of the rights. The Trading Restriction period will be lifted on the earlier of the date in the invitation letter, or the date the participant ceases to be an employee, or the Director ceases to hold that role.

TERM	DESCRIPTION
Ceasing of employment	Subject to the terms of an invitation and unless the Board determines otherwise, where an employee ceases to be employed before the date of conversion, the Board can determine, at its discretion, for one of the following treatments to occur: • all Remuneration Sacrifice Rights will convert to Shares on the cessation date; • lapse all Remuneration Sacrifice Rights and pay the participant a cash amount equal in value to the Shares that would have been allocated on cessation if the Board had chosen to convert the rights to Shares; • all Remuneration Sacrifice Rights will remain 'on-foot' and convert to Shares at the relevant conversion date; or • all Remuneration Sacrifice Rights will remain 'on-foot' and pay the participant a cash amount equal in value to the Shares that would have been allocated at the conversion date if the Board had chosen to convert the rights to Shares.
Ceasing to hold office as a Director	Subject to the terms of an invitation and unless the Board determines otherwise, where a Director ceases to hold that role, before the date of conversion, the Board can determine, at its discretion, for one of the following treatments to occur: • a pro-rata number of Remuneration Sacrifice Rights will convert to Shares on the cessation date; • a pro-rata number of Remuneration Sacrifice Rights will remain 'on-foot' and convert to Shares at the relevant conversion date; or • pay the participant a cash amount equal in value to the Shares that would have been allocated on cessation if the Board had chosen to convert the Remuneration Sacrifice Rights to Shares; or • all Remuneration Sacrifice Rights lapse on cessation and corresponding amount of remuneration sacrificed is paid out.
Amendments	The Board may amend the terms of the plan, provided that the amendments do not materially reduce the rights of any participant attaching to rights granted under the plan.
Other terms	The Board has full discretion to impose other conditions on the conversion of Remuneration Sacrifice Rights. The rules include other terms relating to the administration, transfer, termination and variation of the plan.

Table 6.13 Details of Remuneration Sacrifice Rights[1] and Liquidity Event Performance Rights

NAME	REMUNERATION SACRIFICE RIGHTS GRANTED IN RESPECT OF FY19[2]	LIQUIDITY EVENT PERFORMANCE RIGHTS[3]			OPTIONS[4]
		VEST ON COMPLETION	VEST 12 MONTHS AFTER COMPLETION	VEST 24 MONTHS AFTER COMPLETION	
Robbie Cooke	270,583[5]	400,000	400,000	400,000	• 1,818,180 granted as sign-on options Monthly Linear • 380,952 FY18 Annual Linear • 1,567,813 FY19 Performance • 1,737,585 FY20 Performance
Praveenesh Pala	85,792[6]	167,000	167,000	166,000	• 768,800 FY14 – FY17 Monthly Linear • 71,428 FY18 Annual Linear • 634,681 FY19 Performance • 558,830 FY20 Performance
Angela Green	7,553[7]	100,000	100,000	100,000	• 39,607 FY19 Performance • 454,437 FY20 Performance
Other employees	409,651[8]	700,000	700,000	700,000	• 2,592,095 FY13 – FY17 Monthly Linear • 490,472 FY18 Annual Linear • 3,413,422 FY19 Performance • 3,187,256 FY20 Performance

Note:

1. Excludes Remuneration Sacrifice Rights granted to Directors in respect of FY20 director fees (refer to **Table 6.5**).
2. Granted on 16 October 2019 (**Rights Grant Date**) at a volume-weighted average Share price of $1.319.
3. Shares issued on exercise of Liquidity Event Performance Rights to be restricted for a period of 12 months from the date of exercise of the right.
4. Refer to **Section 6.4.4.1** for further description of the types of Options. Options on Completion may differ from the amounts in this table, in particular if vested Options are exercised and Shares are issued in respect of those Options before that time.
5. Shares issued on conversion of the Remuneration Sacrifice Rights to be restricted for a period of five years from the Rights Grant Date.
6. Shares issued on conversion to be restricted for a period of two years from the Rights Grant Date.
7. Shares issued on conversion to be restricted for a period of one year from the Rights Grant Date.
8. Shares issued on conversion to be restricted for a period of two to three years from the Rights Grant Date.

6.5 Escrow

The parties listed in **Table 6.14** have agreed to enter into voluntary escrow arrangements in relation to all of their Shares under which they will be restricted from dealing with those Shares from Completion until 4.15pm on the date on which our preliminary financial report on the financial results for the 12 month period ending 30 June 2020 is released on ASX.

The restriction on 'dealing' is broadly defined and includes, among other things, selling, assigning, transferring or otherwise disposing of any interest in the Shares, encumbering or granting a security interest over the Shares (except to the extent outlined in this **Section 6.5**), doing, or omitting to do, any act if the act or omission would have the effect of transferring effective ownership or control of any of the Shares or agreeing to do any of those things. There are limited circumstances in which the escrow may be released, or escrowed securities otherwise dealt with, early including:

- to allow the Escrowed Shareholder to accept an offer under a takeover or similar transaction in relation to its Shares if holders of at least half of the securities the subject of the transaction that are not subject to similar escrow arrangements have accepted the transaction or relevant offer and the takeover is unconditional or all its conditions have been satisfied or waived (subject to a requirement to return the escrowed Shares to escrow if the offer does not proceed);
- to allow the Escrowed Shareholder to tender Shares into a bid acceptance facility established in connection with a takeover, provided that holders of not less than half of the securities to which the takeover relates that are not subject to similar escrow arrangements have either accepted the takeover or tendered their securities into the bid acceptance facility (subject to a requirement to return the escrowed Shares to escrow if the offer does not proceed);
- to allow the Shares held by the Escrowed Shareholders to be transferred or cancelled as part of a merger;
- to allow Escrowed Shareholders to participate in an equal share buy-back, capital return or capital reduction in accordance with applicable law;
- the grant of securities over any or all of their escrowed Shares to a bona fide third party financial institution as security for a loan, hedge or other financial accommodation, provided that the encumbrance does not in any way constitute a direct or indirect disposal of the economic interests, or decrease an economic interest, that the relevant Escrowed Shareholder has in any of its escrowed Shares and no escrowed Shares may be transferred to the financial institution in connection with the encumbrance (with the documentation for such an encumbrance making clear that the escrowed Shares remain in escrow and subject to the voluntary escrow arrangements for the term of those arrangements);
- a transfer (in one or more transactions) of any or all escrowed Shares to a member of the wholly-owned corporate group which includes the Escrowed Shareholder provided such member transferee agrees to be bound by the voluntary escrow arrangements for the term of those arrangements, or in the case of certain limited reorganisations involving the Escrowed Shareholder;
- to the extent required by applicable law (including an order of a court of competent jurisdiction); or
- on the death, serious disability or permanent incapacity through ill health of the Escrowed Shareholder.

Table 6.14 Expected escrowed Shares on Completion[1]

NAME	ESCROWED SHARES[1]
David Thodey AO[2]	750,000
Robbie Cooke	106,604
Catherine Harris AO[3]	518,735
David Fite[4]	45,576,577
TDM Growth Partners[5]	66,017,538
Mike Cannon-Brookes[6]	68,119,528
Tiger Global[7]	39,638,943
Paul Rickard	2,283,296
Hans-Josef (Jost) Stollmann	19,920,679
Total escrowed Shares	**242,931,900 (48.81% of Shares)**

Note:

1. Based on the Example Offer Structure and Mid-Point Price as described in **Section 7.1**. Final numbers of escrowed Shares will be notified to ASX following Completion.
2. David Thodey AO's holding reflects Shares held by Aspiring Co Pty Ltd.
3. Catherine Harris AO's holding reflects Shares held personally and held by HFM Superannuation Pty Ltd.
4. David Fite's holding reflects Shares held personally and by Danita Lowes.

5. TDM Growth Partners represent aggregate shareholdings of TDM Growth Partners' clients on whose behalf TDM Growth Partners manages their investment (including voting rights) in the Company. This includes 932,444 Shares in respect of which Hamish Corlett, Director, has a beneficial interest, held through associated entities. TDM Growth Partners intends to bid for a further $5.5 million of Shares under the Institutional Offer at the Final Price if it is within the Indicative Price Range. This table does not include Shares which may be allocated to TDM Growth Partners under this bid.
6. Mike Cannon-Brookes' holding reflects Shares held personally and by Abyla Pty Ltd and Grokco Pty Ltd, entities controlled by Mike Cannon-Brookes.
7. Tiger Global's holding reflects Shares held through Internet Fund III Pte. Ltd.

6.6 Corporate and prudential governance

6.6.1 Overview

This **Section 6.6** explains how the Board oversees the management of our business. The main policies and principles adopted by us, which will take effect from listing on ASX, are summarised below. Details of our key policies and principles and the charters for the Board and each of the Board Committees will be available on our website **www.tyro.com** from listing on ASX.

We are governed by the Board of Directors. The Board is responsible for our overall corporate governance, including establishing and monitoring key performance goals, and is committed to maximising performance, generating appropriate levels of Shareholder value and financial returns, and sustaining our long-term growth and success. In conducting our business in accordance with these objectives, the Board seeks to ensure that we are properly managed to protect and enhance Shareholder interests, and that we, and our Directors, officers and team operate in an appropriate environment of corporate governance. Accordingly, the Board has created a framework for managing our business, including adopting relevant internal controls, risk management processes and corporate governance policies, principles and practices which it believes are appropriate for our business and which are designed to promote the responsible management and conduct of our business. The overarching responsibility of the Board is to manage our affairs in the best interest of our Shareholders.

The Board accomplishes this by:

- setting the Company's strategic direction and priorities;
- testing management actions; and
- ensuring that adequate controls are in place to enable the ultimate goal of sustainably increasing the long-term value of the Company.

The ASX Corporate Governance Council has developed and released its corporate governance principles and recommendations for ASX-listed entities (**ASX Recommendations**) in order to promote investor confidence and to assist companies in meeting stakeholder expectations. The ASX Recommendations are not prescriptions, but guidelines. Under the ASX Listing Rules, we are required to provide the statements below, and in our annual report will be required to provide a statement, disclosing the extent to which we intend not to follow the ASX Recommendations. Where we do not follow a recommendation, we will identify the recommendation that has not been followed and give reasons for not following it. We intend to comply with all of the ASX Recommendations from the time of listing on ASX.

6.6.2 Board composition

We require that the following conditions be reflected in the composition of our Board:

- the Board must have a minimum of three Directors at all times per our Constitution; however, we maintain a minimum of five Directors at all times to meet our obligation under Australian Prudential Regulation Authority's Prudential Standard CPS 510 *Governance*;
- a majority of Directors must be independent;
- a majority of Directors present and eligible to vote at all Board meetings must be Non-executive Directors; and
- the Chair of the Board must be independent and cannot have been the CEO at any time during the previous three years. If the position of CEO is unexpectedly vacated, the Chair may serve as interim CEO – APRA approval is required to continue this arrangement after 90 days.

As at the Prospectus Date, our Board is comprised of six Non-executive Directors, of which four are independent, and one executive Director, being the CEO and Managing Director. Refer to **Section 6.1** for detailed biographies of each Director.

Board independence

The Board considers an independent Director to be a Non-executive Director who is not a member of our management team and who is free of any business or other relationship that could materially interfere with or reasonably be perceived to interfere with the unfettered and independent exercise of their judgement. The Board conducts an 'independence assessment' on Directors every year. The outcome of the test also provides guidance to the Board in appointing the Chair for each Board Committee. The Board Charter sets out factors relevant to assessing the independence of Directors in accordance with the ASX Recommendations. The Board considers quantitative and qualitative principles of materiality for the purpose of determining 'independence' on a case-by-case basis.

We have adopted a definition of independence that is in line with ASX and APRA guidelines. As at the Prospectus Date, Robbie Cooke, Hamish Corlett and David Fite are not considered independent Directors.

Paul Rickard joined the Board in 2009. Despite his length of service, the Board considers that Paul Rickard is an independent Director, free from any business or any other relationship that could materially interfere with, or reasonably be perceived to interfere with, the independent exercise of his judgement and is able to fulfil the role of an independent Director for the purposes of the ASX Recommendations.

The Board (absent Paul) does not consider that Paul's length of service to be a factor sufficiently dominant or influential in the circumstances so as to conclude he is not independent. In particular, the Board has had regard to his conduct to date on the Board, his significant experience and the lack of other factors referred to in the ASX Recommendations and Board Charter which might lead the Board to query his independence.

The Board has considered our immediate requirements as we transition to an ASX-listed company and is satisfied that the composition of the Board reflects an appropriate range of independence, skills and experience after listing on ASX.

6.6.3 Board Charter

We have approved a revised Board Charter to apply upon listing on ASX. The Board Charter sets out:

- the composition and operation of the Board;
- the roles and responsibilities of the Board, Chairman, Company Secretary, Board Committees and management; and
- the delegation of authority by the Board to management and Board Committees.

The Board's role is to:

- represent and serve the interests of Shareholders by overseeing and appraising our strategies, policies and performance;
- optimise our performance and build sustainable value for Shareholders;
- set, review and ensure compliance with our values and governance framework (including establishing and observing high ethical standards); and
- ensure that Shareholders are kept informed of our performance and major developments.

Matters which are specifically reserved for the Board or the Board Committees include:

- appointment of a Chair;
- appointment and removal of the CEO and Managing Director and Company Secretary;
- nominations of Directors and Senior Leadership Team members;
- ratifying the appointment and removal of senior executives;
- approving the remuneration policies and framework and determining whether the remuneration and conditions of service of senior executives are appropriate and consistent with the approved remuneration policies and framework;
- establishing and monitoring succession planning;
- setting the specific limits of authority for management;
- calling meetings of Shareholders; and
- approving criteria for assessing performance of senior executives and monitoring and evaluating their performance.

The CEO and Managing Director is responsible for running our day-to-day affairs under delegated authority from the Board and to implement the policies and strategy set by the Board. In carrying out these responsibilities, the CEO and Managing Director must report to the Board in a timely and clear manner and ensure all reports to the Board present a true and fair view of our financial condition and operational results.

The role of the Senior Leadership Team is to support the CEO and Managing Director and implement the running of our general operations and financial business, in accordance with the delegated authority of the Board.

6.6.4 Board Committees

There are three Board Committees: Audit, Risk and Nominations and Remuneration. Members of Board Committees are required to involve themselves in the activities and fulfil the obligations of those committees as set out in the relevant Board Committee charter. This includes, at a minimum, attendance and participation at committee meetings. Responsibilities of the Board Committees are as follows:

- **Audit Committee:** assist the Board in fulfilling its oversight responsibilities as regards to:
  - the adequacy of accounting and financial reporting policies, internal control and the compliance system;
  - the update of internal and external audit plans;
  - the integrity of the financial statements and the reliability of disclosures;
  - the appointment, remuneration, qualifications, independence and effectiveness of the external auditors; and
  - the independence and effectiveness of the internal audit function;
- **Risk Committee:** assist the Board in discharging its risk-related responsibilities outlined in the Risk Management Framework, as described in the Risk Management Strategy:
  - consider and recommend the Company's risk policies and risk appetite to the Board;
  - review the effectiveness of our compliance and risk functions;
  - monitor the Company's risk profile for all types of risks; and
  - oversee the Risk Management Framework and assess its effectiveness; and
- **Nominations and Remuneration Committee:** assist the Board in maintaining a set of incentives for Senior Leadership Team members and employees that are focused on performance and values. Its roles include overseeing:
  - our compensation policy, including as it applies to Directors;
  - compensation packages of Senior Leadership Team members and Non-executive Directors and executive Directors, equity-based incentive plans, along with general employee remuneration outcomes and other employee benefit programs;
  - our superannuation arrangements;
  - the process for the evaluation and performance of the Board, the Board Committees and individual Directors; and
  - the review of the performance of senior executives and members of the Board.

Our Board Committees are as follows:

- **Audit Committee**:
  - Chair: Paul Rickard;
  - Members: Hamish Corlett (non-independent), Fiona Pak-Poy;
- **Risk Committee**:
  - Chair: Paul Rickard;
  - Members: David Fite (non-independent), Fiona Pak-Poy
- **Nominations and Remuneration Committee**:
  - Chair: Catherine Harris AO (Committee Chair);
  - Members: David Thodey AO, Hamish Corlett (non-independent).

We require that the following conditions be reflected in the composition of our Board Committees, in line with ASX and APRA guidelines:

- all Committee members must be Non-executive Directors;
- the Risk Committee should have at least three members, a majority of whom are independent, and be chaired by an independent Director – the Chair of the Board may be a member, but may not chair the Committee;
- the Audit Committee should have at least three members, a majority of whom are independent, and be chaired by an independent Director – the Chair of the Board may be a member, but may not Chair the Committee; and
- the Nominations and Remuneration Committee should have at least three members, a majority of whom are independent, and be chaired by an independent Director.

As at the Prospectus Date, the composition of our Board and Board Committees complies with our governance policy, and with guidelines from ASX and APRA.

6.6.5 Corporate governance policies

We favour principles over policy where appropriate, and have implemented a principles-based governance model whereby practical sets of principles are provided to guide behaviour where appropriate. These principles are designed to give direction on our approach to business conduct. More structured policies are implemented where appropriate. This combination of principles and policies provides us with a governance model that we believe both provides Shareholders with confidence as to the responsible management of our business while at the same time allows innovation to flourish by minimising processes and bureaucracy.

6.6.5.1 Purpose, strategy and values

Our business was founded in 2003 with an ambition to be the most efficient acquirer of electronic payments in Australia. We have stayed true to this ambition, reflected in our track record of innovation, creating purpose-built solutions and being first to market.

Our purpose is to set businesses free to get on with business by simplifying payments and banking solutions.

Our mission is to eliminate friction through payments and banking solutions that businesses trust, partners advocate, employees are proud of, and our community backs.

Our vision is to be Australia's fastest growing, most loved and trusted, and sustainable payments and business banking partner.

Our purpose, mission and vision have guided our strategy, which is described in **Section 3.1**.

Our values guide the way we do business. We seek to *'Wow the customer'*, *'Be good'*, *'Commit to greatness'* and *'Stay hungry'*.

6.6.5.2 Continuous Disclosure Policy

As an ASX-listed entity, we will be required to comply with the continuous disclosure requirements of the ASX Listing Rules and the Corporations Act. Subject to exceptions contained in the ASX Listing Rules, we will be required to disclose as soon as practicable to ASX any information concerning us that a reasonable person would expect to have a material effect on the price or value of our securities.

Information will be disclosed to Shareholders through the lodgement of all relevant financial and other information to ASX, and through copies of lodgements made available on our website. Our Continuous Disclosure Policy reinforces our commitment to these obligations, and describes the procedures and guidelines developed to enable us to comply with these obligations and meet the information needs of Shareholders.

6.6.5.3 Conflicts of Interest Policy

Our Conflicts of Interest Policy provides a framework for us to manage our conflicts management obligation under the Australian financial services licence regime, in order to:

- meet our regulatory obligations intended to assist in the promotion of consumer protection and market integrity;
- ensure the quality of our financial services are not significantly compromised by any conflicts of interest; and
- help minimise the potential adverse impact of conflicts of interest on customers who are the main recipients of financial product advice and arranging services.

We have adopted, among other arrangements, the three mechanisms for managing conflicts of interest as prescribed by ASIC – *'controlling', 'avoiding'* and *'disclosing'* conflicts of interest – in our policy. The Audit Committee plays a significant role in the management and implementation of this policy.

6.6.5.4 Securities Trading Policy

Our Securities Trading Policy regulates trading by our Directors, employees and their closely connected persons in our securities or securities of other companies. This policy sets out general principles in relation to trading in securities, and describes procedures and restrictions relevant to those who wish to trade in our Shares or securities of other companies.

The purpose of this policy is to help our Directors and employees understand and comply with their obligations under the insider trading prohibitions of the Corporations Act, and to protect the reputation of our business and our people by establishing clear best practices for securities dealing.

Subject to certain exceptions, and any additional periods imposed by the Board from time to time, Directors and restricted employees [1] are prohibited from trading in our Shares:

- from our year end until the business day after the release of the full year results; and
- from our half year end until the business day after the release of the half year results.

However, even if a prohibited period is not operating, Directors and Restricted Employees must not trade in our securities if they possess inside information. In all cases, Directors and Restricted Employees must seek written approval before undertaking any trading in our securities.

1) Restricted employees refers to the CEO and Managing Director, the Chief Financial Officer, the Company Secretary, the general counsel, employees involved with preparing our monthly financial reports, direct reports to the above positions and other employees nominated by the Board.

6.6.5.5 Code of Conduct

Everyone at Tyro is expected to live and breathe the standards set out in our Code of Conduct in carrying out their everyday work. This code sets the framework under which all our people are expected to behave. We expect all our Directors and employees to abide by the principles and spirit of this code.

Our Code of Conduct is a broad set of guidelines, and is not intended to cover every situation that may arise. It complements other policies, procedures and guidelines we have and is intended to be consistent with them. It sets out a practical set of principles giving direction and reflecting our approach to business conduct, rather than defining a prescriptive set of rules.

Our Code of Conduct principles are summarised in **Table 6.15**:

Table 6.15 Code of Conduct principles

Wow the customer

- Ensuring that all business decisions with customers and suppliers are made solely on sound commercial grounds having regard to the quality, price and service.
- Maintaining the highest standard of business principles, conduct and service at all times.
- Never carrying out an act which may damage the reputation of, or bring into disrepute, the Company or our clients.
- Promoting the Company in a professional and ethical manner.

Be good

- Acting honestly and with high standards of personal integrity.
- Complying with all laws, regulations and statutes that apply to our operations.
- Observing at all times, our policy on the use of the internet, email, computer systems and social media.

Commit to greatness

- Never engaging in dishonourable, unethical or unprofessional conduct likely to deceive, defraud or harm us or our customers.
- Never carrying out any action, verbal or written, which is likely to discriminate, abuse, torment, harass or bully any person at any time as an employee.

Stay hungry

- Acting ethically and responsibly.
- Disclosing and dealing appropriately with any conflicts between personal interests and duties as a Director or employee. A conflict of interest arises when a person is in a position which requires them to balance their own interests or the interests of others against the interests of our business.
- Never taking advantage of our property, information or merchants or suppliers for personal gain or to cause detriment to us or our merchants.

6.6.5.6 Whistleblower Policy

We encourage our employees to speak up if they see behaviours that do not align with our values and policies. As such, we have committed to a Whistleblower Policy that fosters a safe environment for the timely reporting of such behaviours.

Our Whistleblower Policy provides guidance on what is considered to be disclosable matters, sets out persons that qualify for whistleblower protections, describes how to lodge a whistleblower report, details how submitted reports are addressed, and explains how whistleblowers are protected.

6.6.5.7 Fit and Proper Policy

As an Australian authorised deposit-taking institution licensee, we are required to comply with the Australian Prudential Regulation Authority's Prudential Standard CPS 520 *Fit and Proper*. This standard sets out minimum requirements that we must undertake in determining the fitness and propriety of individuals that hold positions of responsibility within our business. Our Fit and Proper Policy has been developed to comply with the CPS 520 and sets out our policy relating to fitness and proprietary of our Responsible Persons. This policy forms part of our compliance risk management framework.

The purpose of our fit and proper assessment is to ensure that Responsible Persons have the required qualities to properly perform their duties; are not disqualified under the Banking Act from holding such a position; and do not have a conflict of interest or if there is a conflict of interest, it will not create a material risk to our business.

The Fit and Proper Policy applies to Directors, the Company Secretary, the appointed Auditor, any person determined by the CEO and Managing Director who fills the role of a Senior Leadership Team member and any person determined by the CEO and Managing Director who plays a significant role in our management or control of the Company or whose activities may materially impact on prudential matters. The policy is reviewed at least every two years.

6.6.5.8 Diversity principles

Having a strong and diverse team is important to our business. We aim to achieve diversity among our Directors and employees through:

- promoting the principles of merit and fairness when making decisions about recruitment, development, promotion, remuneration and flexible work arrangements;
- recruiting from a diverse pool of qualified candidates, making efforts to identify prospective employees who have diversity attributes and seeking to ensure diversity of those involved in selection processes when selecting and appointing new employees and Board members;
- embedding the importance of diversity within our culture by encouraging and fostering a commitment to diversity by leaders at all levels; and
- reinforcing with our people that in order to have a properly functioning and diverse workplace, discrimination, harassment, vilification and victimisation will not be tolerated.

6.6.5.9 Remuneration policy

Our remuneration policy outlines the structure and objectives of our remuneration arrangements, including, but not limited to, performance-based remuneration components.

Remuneration arrangements set out measures of performance; the mix of fixed and variable remuneration components; cash and equity-related benefits, and the timing of payments. All forms of remuneration are captured by this policy.

The purpose of the policy is to ensure that remuneration encourages behaviour that supports the achievement of our financial and business goals, long-term financial soundness and the risk management framework. In addition, the policy seeks to align remuneration with prudent risk-taking.

6.6.5.10 Risk Management Framework

Our comprehensive Risk Management Framework provides a robust foundation for risk appetite setting and risk management. A key element of our Risk Management Framework is a detailed statement of the Risk Appetite Statement. Our Risk Appetite Statement is aligned to our strategic financial and capital plans, and defines the degree of risk we are prepared to take in pursuit of our objectives. Our Risk Management Framework also establishes the policies, processes and systems for assessing the appropriate level of risk required to manage our overall risk profile, and procedures to follow in the event of breaches.

The Board is responsible for the annual review and approval of our Risk Appetite Statement, and the Chief Risk Officer manages the timing and process for this annual review. The Risk Committee is responsible for ensuring that the Risk Management Framework delivers systematic and effective risk management that meets our objectives and complies with contractual and regulatory obligations.

Beyond these specific responsibilities, every person in our team contributes to prudent risk management in their day-to-day affairs by assessing and monitoring the risks for which they are responsible, and escalating issues where appropriate.

6.6.5.11 Complaints Handling and Dispute Resolution Policy

Exceptional customer service is key to our value proposition, and core to our values. To that end, we have developed a Complaints Handling and Dispute Resolution Policy that prioritises merchant satisfaction through accessibility, responsiveness, fairness, confidentiality, accountability, and continual improvement. Our customer-focused approach aims to result in a mutually agreeable solution for every issue, where possible.

We seek to accomplish this by:

- ensuring all staff who deal with customers are aware of, and educated about, our current policy and procedures;
- encouraging staff to strive to resolve complaints when first raised to maintain a harmonious relationship between us and the merchant;
- appointing key responsible persons;
- implementing management systems and reporting procedures to ensure timely and effective complaints handling and monitoring; and
- providing adequate resources, including reference materials and training.

We will at all times abide by the relevant legislation and industry codes in dealing with complaints and disputes.

6.6.5.12 Anti-Bribery and Corruption Policy

We are committed to our Anti-Bribery and Corruption Policy that aligns with our corporate values, complies with all applicable legislation, manages bribery and corruption risk and prevents conduct that involves, or could be perceived as involving, acts of bribery or corruption. Our policy applies to all our Directors and employees.

The purpose of our policy is to describe what constitutes bribery and corruption; outline our approach to managing bribery and corruption risk; describe the way the risk is embedded, recorded and monitored on an ongoing basis; outline how we will respond to any known or suspected corrupt activity; and reduce the potential for business disruption and reputational damage arising from such activity.

We have a zero-tolerance stance on all forms of bribery and corruption, and have disciplinary procedures in place which are enforced in instances where employees are in breach of our policy. Our policy is communicated to all employees through mandatory training.

6.6.5.13 Communications strategy

We aim to provide our Shareholders with sufficient information to assess our performance, and to keep them informed of major developments that affect our state of affairs, in accordance with all applicable laws. To this end, we will communicate relevant information and updates in a timely manner through our website and through lodgements with the ASX.

6.7 Related party transactions

As at the Prospectus Date, we are not a party to any material related party arrangements other than as set out in this Prospectus. For completeness, we note that certain Directors have connections with certain counterparties who have contracts with us. None of those contracts are material to us and have been negotiated on arm's length terms. For example, we have an integration agreement with Marsello Limited (previously named Collect Limited) pursuant to which the parties agree to integrate the Marsello app with Tyro Connect. David Fite is a non-executive director and significant shareholder of Marsello Limited. To date, no revenue has been earned by the Company or Marsello Limited under the integration agreement. David Thodey AO is a non-executive director of Xero, and David Fite is a non-executive director of the holding company of MYOB. We have data supply agreements with these companies.

Details of the Offer

7.1 The Offer

7.1.1 Offer structure

This Prospectus relates to an initial public offering of new Shares by the Company and the sale of existing Shares by SaleCo. The number of Shares to be offered and issued or transferred under the Offer, and their price, will vary as described below.

For example:

- the Company will offer to issue new Shares at the Final Price to raise approximately $125 million; and
- the number of new Shares the Company will issue will depend on the Final Price (and the take up under the Employee Offer as described in **Section 7.5**).

Further, provided the Final Price is at or above the bottom of the Indicative Price Range:

- SaleCo will offer 46,425,961 existing Shares at the Final Price, representing the aggregate sell-down of the Initial Selling Shareholders (i.e. Tiger Global, David Fite and Hans-Josef (Jost) Stollmann[1]);
- SaleCo will also offer existing Shares held by other existing Shareholders at the Final Price pursuant to accepted sell-down elections from those Shareholders;
  - the Company and SaleCo may cap the total value of Shares sold by other existing Shareholders at an amount up to $50 million (or such higher number as the Company and SaleCo determine in consultation with the Joint Lead Managers); and
  - if accepted sell-down elections from other existing Shareholders exceed $50 million of total value, the Company and SaleCo may accept some or all of that excess and scale back the number of shares to be sold by the Initial Selling Shareholders by that amount or any amount up to that excess at their discretion with the agreement of the Initial Selling Shareholders.

The proceeds of sale of existing Shares by SaleCo will depend on the Final Price and the number of existing Shares sold by the Initial Selling Shareholders and other existing Shareholders.

Initial Selling Shareholders and other existing Shareholders who sell existing Shares through SaleCo are referred to as **Selling Shareholders**.

The minimum Offer size, based on the offer of new Shares by the Company and existing Shares by SaleCo acquired from the Initial Selling Shareholders (and assuming no other existing Shareholders offer to sell any Shares) across the Indicative Price Range will be between approximately 91,971,406 and 96,525,951 Shares, for total proceeds of between $241,064,903 and $252,671,392.[2]

As the actual number of Shares available under the Offer and on issue on Completion, and the amount raised by the Company and sold by SaleCo, at prices through the Indicative Price Range or outside, depend on the matters referred to above (and also if vested Options are exercised and Shares are issued in respect of the exercise of those Options before Completion), we use an 'Example Offer Structure' in this Prospectus to illustrate these matters based on certain assumptions. The Example Offer Structure assumes:

- 450 employees take up $5,000 of Shares under the Employee Offer at a 10% discount to the Final Price; and
- SaleCo offers and sells 65,293,885 existing Shares, comprising 46,425,961 existing Shares in respect of the Initial Selling Shareholders and $50 million of the Shares held on the Prospectus Date by other existing Shareholders;
- all Options at the Prospectus Date remain on issue on Completion and none have been exercised; and
- 300,000 Shares issued between the Prospectus Date and Completion under POS Partner Agreements (refer to **Section 3.11.5**).

Successful applicants under the Offer will pay the Final Price (other than for certain Shares under the Employee Offer as described in **Section 7.5**). The Final Price will be determined as part of the Bookbuild and may be set at a price below, within or above the Indicative Price Range. We will announce the Final Price and the matters referred to above following the Bookbuild for the Institutional Offer and prior to commencement of trading of Shares on ASX.

1) Tiger Global – 26,425,961 shares, David Fite – 4,000,000 shares and Hans-Josef (Jost) Stollmann – 16,000,000 shares.
2) At the Mid-Point Price the minimum Offer size would be approximately $248 million (comprising $125 million new Shares offered by us and $123 million existing Shares offered by SaleCo (i.e. 46,425,961 Shares at $2.65).

For example, assuming the Final Price is within the Indicative Price Range, in the Example Offer Structure:

- the Company will offer between approximately 45,545,445 and 50,099,990 new Shares (including those issued under the Employee Offer) to raise total proceeds of approximately $125,000,000; and
- SaleCo will offer between approximately 64,607,779 and 66,425,961 existing Shares for total proceeds of between $166,064,903 and $177,671,393,

representing a total Offer of between approximately 110,153,224 and 116,525,951 Shares, for total proceeds of between approximately $291,064,903 and $302,671,392.

Further, assuming the Final Price is within the Indicative Price Range and based on the Example Offer Structure, on Completion, between:

- 76.7% and 77.8% of Shares will be held by existing Shareholders; and
- 22.2% and 23.3% of Shares will be held by new Shareholders; and
- 48.5% and 49.0% of Shares will be subject to voluntary escrow (refer to **Section 6.5**).

All Shares issued pursuant to the Offer under this Prospectus will rank equally with each other and will rank equally with existing Shares.

The Offer is made on the terms, and is subject to the conditions, set out in this Prospectus.

7.1.2 Offer components

The Offer comprises the Retail Offer and the Institutional Offer, each described below:

- The Retail Offer, consisting of:
  - the Broker Firm Offer (refer to **Section 7.3**);
  - the Priority Offer (refer to **Section 7.4**);
  - the Employee Offer (refer to **Section 7.5**); and
  - the Merchant Offer (refer to **Section 7.6**); and
- the Institutional Offer, consisting of an offer to Institutional Investors in Australia and selected other jurisdictions (other than the United States) to bid for Shares – made under this Prospectus; and
- an invitation to Institutional Investors in the United States – made under the US Institutional Offering Memorandum.

The Retail Offer is described further in **Section 7.7**. The Institutional Offer is described further in **Section 7.9**. No general public offer of Shares will be made under the Offer.

The allocation of Shares between the Retail Offer and the Institutional Offer will be determined by agreement between us and the Joint Lead Managers, having regard to the Shares available under the Offer and allocation policies outlined in **Section 7.9.4**. Further details on the allocation of Shares within the Retail Offer are described in **Sections 7.3.4**, **7.4.4**, **7.5.4** and **7.6.4**.

7.1.3 Purpose of the Offer and use of Offer proceeds

The purpose of the Offer is to:

- broaden our shareholder base and provide a liquid market for Shares;
- provide funding and financial flexibility to support our growth strategy and future growth opportunities; and
- provide us with the benefits of an increased brand profile that arises from being a publicly listed entity.

The proceeds of the Offer will be applied as described in this **Section 7.1.3** which assumes the Mid-Point Price and Example Offer Structure.

The Offer proceeds received by us, and the extent of the increase in cash and offer costs shown in **Table 7.1** will vary depending on the Final Price (and to a minor extent on the number of Shares taken up under certain components of the Offer). For example, the increase in cash will be between $109.3 million and $109.7 million assuming the Final Price is within the Indicative Price Range and the Example Offer Structure. Whatever the Final Price is, we expect to apply funds received by us (after Offer costs and along with other funds we have access to) for general corporate purposes, consistent with our growth strategy (refer to **Section 3.11**).

The Offer proceeds received by SaleCo from the sale of existing Shares and the payments to Selling Shareholders will depend on the Final Price and the sell-down by the Initial Selling Shareholders and other existing Shareholders. For example, payments to Selling Shareholders will be between $166.1 million and $177.7 million assuming the Final Price is within the Indicative Price Range and the Example Offer Structure.

Table 7.1 Sources and uses of funds (based on Mid-Point Price and Example Offer Structure)

SOURCES	APPROXIMATELY $ MILLION	USES	APPROXIMATELY $ MILLION
Tyro			
Offer proceeds received by us	125.0	Offer costs	15.6
		Increase in cash[1]	109.4
SaleCo			
Offer proceeds received by SaleCo from the sale of existing Shares[2]	173.0	Payments to Selling Shareholders	173.0
Total sources	**298.0**	**Total uses**	**298.0**

Note:

1. The proceeds we receive from the issue of Shares under the Offer will be used to: support our working capital requirements; maintain a strong balance sheet and meet our regulatory capital requirements; pay for the costs associated with the Offer; and for general corporate purposes, including executing our growth strategy (refer to **Section 3.11**). Our growth strategy includes growing merchant share in existing core verticals, adding new core verticals, driving expansion into eCommerce and other payment types, cross-selling and driving expansion into lending and other value-adding services, launching Tyro Connect and funding future potential M&A and strategic partnerships. This represents a statement of our current intentions as at the Prospectus Date. Investors should note that this may change depending on a number of factors, including the changes in the competitive environment, business performance, strategic and operational considerations, regulatory developments, and market and general economic conditions. We reserve the right to alter the way these funds are applied.
2. Assumes $123 million of Shares are sold by the Initial Selling Shareholders and $50 million of Shares are sold by other existing Shareholders. Offer costs vary from **Section 4** due to changes in the assumed number of Shares sold down by existing Shareholders. Actual offer costs will vary depending on the number of Shares ultimately sold under the Offer.

7.1.4 Pro Forma Historical Statement of Financial Position

Our Pro Forma Historical Statement of Financial Position following Completion, including details of the pro forma adjustments, is set out in **Section 4.5.1**.

7.1.5 Capitalisation and indebtedness

Our capitalisation and indebtedness as at 30 June 2019, before and following Completion, are set out in **Section 4.5**.

7.1.6 Our ownership structure

The details of our ownership immediately prior to Completion and ownership of Shares on Completion are set out in **Section 6.3**.

7.1.7 Control implications of the Offer

On Completion, no Shareholder will have a controlling interest (as defined by section 50AA of the Corporations Act) in the Company.

7.1.8 Potential effect of the fundraising on our future

The Directors believe that on Completion, we will have sufficient funds available from the proceeds of the Offer and from our operations to fulfil the purposes of the Offer and meet our stated business objectives during the forecast period.

7.2 Terms and conditions of the Offer

TOPIC	SUMMARY
What is the type of security being offered?	• Shares (being fully paid ordinary shares in the Company).
What are the rights and liabilities attached to the securities?	• A description of the Shares, including the rights and liabilities attached to them, is set out in **Section 7.14**.

7. DETAILS OF THE OFFER

TOPIC	SUMMARY
What is the consideration payable for the Shares?	• The Indicative Price Range for the Offer is $2.50 to $2.75 per Share. • Successful applicants under the Offer will pay the Final Price (other than for certain Shares under the Employee Offer as described in **Section 7.5**). The Final Price will be determined as part of the Bookbuild and may be set below, within or above the Indicative Price Range. • Applicants under the Retail Offer will apply for a set dollar amount of Shares. Accordingly, applicants will not know the number of Shares they will receive at the time they make their investment decision, nor will they know the Final Price or the total Shares offered. • Except as required by law, applicants cannot withdraw or vary their application.
What is the Offer Period?	• The key dates, including details of the Offer Period are set out in **Important information**. • No Shares will be issued on the basis of this Prospectus later than the expiry date of 13 months after the Prospectus Date. • The key Offer dates are indicative only and may change. Unless otherwise indicated, all references to times and dates in this Prospectus are to Sydney Time. • We and SaleCo, in consultation with the Joint Lead Managers, reserve the right to vary any and all of the times and dates without notice (including, subject to the ASX Listing Rules and the Corporations Act, to close the Offer early, to extend the Offer Period relating to any component of the Offer, or to accept late applications, either generally or in particular cases, or to cancel or withdraw the Offer before settlement, in each case without notifying any recipient of this Prospectus or any applicants). Without limiting this, we may accept offers at any time before Completion in our discretion. • If the Offer is cancelled or withdrawn before the allotment of Shares, all application monies will be refunded in full (without interest) as soon as possible in accordance with the requirements of the Corporations Act.
What is the total Offer size?	• This will depend on a range of factors discussed in **Section 7.1**.
Is the Offer underwritten?	• No. The Offer is not underwritten.
Who are the Joint Lead Managers for the Offer?	• The Joint Lead Managers of the Offer are J.P. Morgan Securities Australia Limited and Morgan Stanley Australia Securities Limited.

TOPIC	SUMMARY
What is the minimum and maximum application size under the Retail Offer?	• **Broker Firm Offer** The minimum application under the Broker Firm Offer is as directed by the applicant's Broker and there is no maximum value of Shares that may be applied for under the Broker Firm Offer. We, along with SaleCo and the Joint Lead Managers reserve the right to treat any applications in the Broker Firm Offer that are from persons whom we believe may be Institutional Investors, as Final Price bids in the Institutional Offer or to reject the application(s). We, along with SaleCo and the Joint Lead Managers also reserve the right to aggregate any applications that we believe may be multiple applications from the same person. • **Priority Offer** The minimum application size by applicants, who have received an invitation to apply for Shares under the Priority Offer, is $2,000 at the Final Price. A personalised invitation will indicate the maximum amount of Shares that the applicant may apply for. • **Employee Offer** The minimum application size by Eligible Employees under the Employee Offer is $2,000 and in multiples of $500 of Shares thereafter. Each Eligible Employee may apply for a maximum of $5,000 of Shares at a discounted price of 90% of the Final Price, and an additional maximum of $10,000 of Shares at the Final Price. • **Merchant Offer** The minimum application size under the Merchant Offer is $2,000 at the Final Price and in multiples of $500 of Shares thereafter. The maximum value of Shares that may be applied for under the Merchant Offer is $15,000 at the Final Price. There is no guaranteed minimum allocation for participants in the Merchant Offer.
What is the allocation policy?	• The allocation of Shares between the Broker Firm Offer, Priority Offer, Employee Offer, Merchant Offer and Institutional Offer will be determined by agreement between us and the Joint Lead Managers having regard to the allocation policies outlined in **Sections 7.3.4**, **7.4.4**, **7.5.4**, **7.6.4** and **7.9.4**. • **Broker Firm Offer** With respect to the Broker Firm Offer, it is a matter for each Broker as to how they allocate Shares among their retail clients and they (and not us, SaleCo or the Joint Lead Managers) will be responsible for ensuring that retail clients who have received an allocation from them receive the relevant Shares. • **Priority Offer** Allocations under the Priority Offer will be at our absolute discretion. • **Employee Offer** Each Eligible Employee will receive a guaranteed minimum allocation of $2,000 of Shares, a maximum allocation of $5,000 of Shares at a discounted price of 90% of the Final Price, and an additional maximum of $10,000 of Shares at the Final Price. • **Merchant Offer** Eligible Merchants may apply for up to $15,000 of Shares each under the Merchant Offer at the Final Price. Up to $20 million of Shares are available under the Merchant Offer. The allocation of Shares under the Merchant Offer will be determined by us in our discretion. We may scale back applications if demand under the Merchant Offer exceeds $20 million. There is no guaranteed minimum allocation for participants in the Merchant Offer. • **Institutional Offer** The allocation of Shares among applicants in the Institutional Offer will be determined by us and the Joint Lead Managers.

7. DETAILS OF THE OFFER

TOPIC	SUMMARY
When will I receive confirmation that my application has been successful?	• It is expected that initial holding statements will be dispatched to successful applicants by standard post on or about Thursday, 12 December 2019. • Refunds (without interest) to applicants who make an application and receive an allocation of Shares, the value of which is smaller than the amount of the application monies, will be made as soon as practicable after Completion.
Will the Shares be quoted?	• We will apply to ASX within seven days of the Prospectus Date, for our admission to the Official List, and quotation of Shares by ASX (under the code 'TYR'). It is anticipated that quotation will initially be on a conditional and deferred settlement basis. • Completion is conditional on the issue or transfer and allotment of Shares to successful applicants. If permission is not granted for the official quotation of the Shares on ASX within three months after the Prospectus Date (or any later date permitted by law), all application monies received by us will be refunded (without interest) as soon as practicable in accordance with the requirements of the Corporations Act. • We will be required to comply with the ASX Listing Rules, subject to any waivers obtained by us from time to time. • ASX takes no responsibility for this Prospectus or the investment to which it relates. The fact that ASX may admit us to the Official List is not to be taken as an indication of our merits or the Shares offered for subscription.
When are the Shares expected to commence trading?	• It is expected that trading of the Shares on the ASX on a conditional and deferred settlement basis will commence on or about Friday, 6 December 2019. • Conditional trading will continue until we have advised the ASX that: (i) the Offer Management Agreement is not terminated and becomes unconditional; (ii) the Shares to be sold by the Selling Shareholders have been transferred to SaleCo; and (iii) we have issued Shares, and SaleCo has transferred Shares, to successful applicants under the Offer, which is expected to be on or about Tuesday, 10 December 2019. • From Wednesday, 11 December 2019, trading will be on an unconditional but deferred settlement basis until we have advised the ASX that holding statements have been dispatched to Shareholders. It is expected that holding statements will be dispatched by standard post on or about Thursday, 12 December 2019. • Normal settlement trading is expected to commence on or about Friday, 13 December 2019. If settlement has not occurred within 14 days (or such longer period as the ASX allows) after the day Shares are first quoted on the ASX, the Offer and all contracts arising on acceptance of the Offer and confirmations of allocations will be cancelled and of no further effect and all application monies will be refunded (without interest). In these circumstances, all purchases and sales made through the ASX participating organisations during the conditional trading period will be cancelled and of no effect. • It is the responsibility of each person who trades in Shares to confirm their own holding before trading in Shares. Applicants will be able to confirm their allocations by telephoning our Offer Information Line on 1800 883 072 (within Australia) from 8:30am to 5:30pm (Sydney Time) Monday to Friday (excluding public holidays). • If you sell Shares before receiving a holding statement, you do so at your own risk. We, along with SaleCo, the Share Registry, the Joint Lead Managers and the existing Shareholders disclaim all liability, whether in negligence or otherwise, if you sell Shares before receiving your holding statement, even if you received confirmation of allocation from the Offer Information Line, by a Broker or otherwise.
Are there any escrow arrangements?	• Yes. Details are provided in **Section 6.5**.

TOPIC	SUMMARY
Has any ASIC relief or ASX waiver been sought or obtained?	• Yes. Details are provided in **Sections 9.12** and **9.13**.
Are there any tax considerations for Australian investors?	• Yes. Details are provided in **Section 9.10**.
Are there any brokerage, commission or stamp duty considerations?	• No brokerage, commission or stamp duty is payable by applicants on acquisition of Shares under the Offer. • Refer to **Section 6.4.1** for details of various fees payable by us to the Joint Lead Managers and by the Joint Lead Managers to the Co-Managers.
What should I do with any enquiries?	• All enquiries in relation to this Prospectus should be directed to our Offer Information Line on 1800 883 072 (within Australia) from 8:30am to 5:30pm (Sydney Time) Monday to Friday (excluding public holidays). • All enquiries in relation to the Broker Firm Offer should be directed to your Broker. If you have any questions about whether to invest in Shares, you should seek professional advice from your accountant, financial adviser, stockbroker, lawyer or other professional adviser before deciding whether to invest in Shares.

7.3 Broker Firm Offer

7.3.1 Who may apply

The Broker Firm Offer is open to Australian resident retail clients of participating Brokers who have a registered address in Australia and who have received an invitation from a Broker to acquire Shares under this Prospectus and are not in the United States. You should contact your Broker to determine whether you can receive an allocation of Shares under the Broker Firm Offer.

7.3.2 How to apply

If you have received an invitation to apply for Shares from your Broker and wish to apply for those Shares under the Broker Firm Offer, you should contact your Broker for information about how to submit your Broker Firm Offer Application Form and for payment instructions. Applicants under the Broker Firm Offer must not send their Application Form or payment to the Share Registry.

Applicants under the Broker Firm Offer should contact their Broker to request a Prospectus and Application Form. Your Broker will act as your agent and it is your Broker's responsibility to ensure that your Application Form and application monies are received before 5:00pm (Sydney Time) on the Closing Date or any earlier closing date as determined by your Broker.

Broker clients should complete and lodge their Broker Firm Offer Application Form with the Broker from whom they received their invitation to participate in the Broker Firm Offer. The Broker Firm Offer Application Form must be completed in accordance with the instructions given to you by your Broker and the instructions set out on the back of the Application Form.

By making an application, you declare that you were given access to the Prospectus, together with an Application Form. The Corporations Act prohibits any person from passing an application form to another person unless it is attached to or accompanied by a hard copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.

Applicants under the Broker Firm Offer should contact their Broker about the minimum and maximum application size. We, along with SaleCo and the Joint Lead Managers, reserve the right to treat any applications in the Broker Firm Offer that are from persons whom we believe may be Institutional Investors, as Final Price bids in the Institutional Offer or to reject the application(s). We, along with SaleCo and the Joint Lead Managers, also reserve the right to aggregate any applications that we believe may be multiple applications from the same person. We, along with SaleCo and the Joint Lead Managers, may determine a person to be eligible to participate in the Broker Firm Offer, and may amend or waive the Broker Firm Offer application procedures or requirements, in our discretion in compliance with applicable laws.

We, along with SaleCo, the Share Registry and the Joint Lead Managers, take no responsibility for any acts or omissions committed by your Broker in connection with your application.

The Broker Firm Offer opens at 9:00am (Sydney Time) on Tuesday, 26 November 2019 and is expected to close at 5:00pm (Sydney Time) on Monday, 2 December 2019.

We, along with SaleCo and the Joint Lead Managers, reserve the right to vary any and all of the times and dates without notice (including, subject to the ASX Listing Rules and the Corporations Act, to close the Broker Firm Offer early, to extend the Offer Period relating to the Broker Firm Offer or any component of the Offer, to accept late applications, either generally or in particular cases, or to cancel or withdraw the Broker Firm Offer before settlement, in each case without notifying any recipient of this Prospectus or any applicants). Without limiting this, we may accept offers at any time before Completion in our discretion. Your Broker may also impose an earlier closing date. Applicants are therefore encouraged to submit their applications as early as possible. Contact your Broker for instructions.

7.3.3 How to pay

Applicants under the Broker Firm Offer must pay their application monies to their Broker in accordance with instructions provided by that Broker.

7.3.4 Allocation policy under the Broker Firm Offer

The allocation of Shares to Brokers will be determined by us and the Joint Lead Managers. Shares that are allocated to Brokers for allocation to their clients will be issued or transferred to the applicants nominated by those Brokers (subject to our right, the right of SaleCo and the right of the Joint Lead Managers to reject, aggregate or scale back applications). It will be a matter for each Broker as to how they allocate Shares among their retail clients, and they (and not us, SaleCo or the Joint Lead Managers) will be responsible for ensuring that retail clients who have received an allocation from them receive the relevant Shares.

We expect to announce the final allocation policy under the Broker Firm Offer on or about Completion. Applicants will be able to confirm their allocations by telephoning our Offer Information Line on 1800 883 072 (within Australia) from 8:30am to 5:30pm (Sydney Time) Monday to Friday (excluding public holidays). Applicants under the Broker Firm Offer will also be able to confirm their allocation through the Broker from whom they received their allocation.

If you sell Shares before receiving a holding statement, you do so at your own risk. We, along with SaleCo, the Share Registry, the Joint Lead Managers and the existing Shareholders, disclaim all liability, whether in negligence or otherwise, if you sell Shares before receiving your holding statement, even if you received confirmation of allocation from the Offer Information Line, by a Broker or otherwise.

7.4 Priority Offer

7.4.1 Who may apply

The Priority Offer is open to investors who have received an invitation to participate in the Priority Offer from us and who have a registered address in Australia and are not located in the United States. If you have been invited by us to participate in the Priority Offer, you will be treated as an applicant under the Priority Offer in respect of those Shares that are allocated to you and you will receive a personalised invitation to apply for Shares in the Priority Offer.

7.4.2 How to apply

If you are eligible to apply under the Priority Offer, you should have received a personalised letter along with details of how to apply for Shares.

Your personalised letter will specify the reserved allocation, which is the guaranteed maximum number of Shares that will be allocated to you. Applicants who have received a personalised letter to apply for Shares under the Priority Offer and wish to apply for all or some of those Shares must apply in accordance with the instructions provided in that letter.

By making an application, applicants declare that they were given access to the Prospectus, together with an Application Form. The Corporations Act prohibits any person from passing an Application Form to another person unless it is attached to or accompanied by a hard copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.

Priority Offer applicants must apply for Shares online and must comply with the instructions in the letter of offer and as detailed on the Offer website https://events.miraqle.com/Tyro-IPO/Home/.

Applications under the Priority Offer for an amount less than the amount indicated on your personalised invitation must be for a minimum of $2,000 of Shares and in multiples of $500 of Shares thereafter.

7.4.3 How to pay

Payment must be made in Australian dollars and via BPAY® and must otherwise be made in accordance with the instructions provided in your personalised invitation. Application monies must be received by the Share Registry by 5:00pm (Sydney Time) on Monday, 2 December 2019. It is your responsibility to ensure that your BPAY® payment is received by the Share Registry by no later than 5:00pm (Sydney Time) on Monday, 2 December 2019. You should be aware that your financial institution may implement earlier cut-off times with regard to electronic payment, and you should therefore take this into consideration when making payment.

We, along with SaleCo and the Joint Lead Managers, reserve the right to vary any and all of the times and dates without notice (including, subject to the ASX Listing Rules and the Corporations Act, to close the Offer early, to extend the Offer Period relating to any component of the Offer, or to accept late applications, either generally or in particular cases, or to cancel or withdraw the Offer before settlement, in each case without notifying any recipient of this Prospectus or any applicants). Without limiting this, we may accept offers at any time before Completion in our discretion. Applicants are therefore encouraged to submit their applications as early as possible.

7.4.4 Allocation policy under the Priority Offer

Your personalised letter will indicate a dollar amount of Shares that you may apply for. This amount is not a guaranteed allocation but will be granted subject to the overall level of applications received under the Priority Offer. In the event that the aggregate demand for Shares under the Priority Offer exceeds the amount of Shares available under the Priority Offer, your application may need to be scaled back.

We otherwise have absolute discretion regarding the allocation of Shares to applicants in the Priority Offer and may reject an application, or allocate fewer Shares than the number or equivalent dollar amount applied for. Any required refunds will be paid by the Share Registry following the allotment of Shares as set out in **Section 7.2**.

7.5 Employee Offer

7.5.1 Who may apply

All Eligible Employees are entitled to participate in the Employee Offer. Eligible Employees are all our permanent full-time and part-time employees resident in Australia who are still employed by us as at 5:00pm (Sydney Time) on Friday, 15 November 2019 and who have not, at that time, given or received notice that their employment will cease and casual employees who receive an invitation to apply for Shares under the Employee Offer.

7.5.2 How to apply

Eligible Employees should have received a letter of Offer detailing the terms of the Employee Offer, together with this Prospectus.

Eligible Employees must apply for Shares online and must comply with the instructions in the letter of Offer and as detailed on the Offer website https://events.miraqle.com/Tyro-IPO/Home/.

Applications must be received on or before the Closing Date. The minimum application size by Eligible Employees under the Employee Offer is $2,000 and in multiples of $500 of Shares thereafter. Each Eligible Employee may apply for a maximum of $5,000 of Shares at a discounted price of 90% of the Final Price, and an additional maximum of $10,000 of Shares at the Final Price.

7.5.3 How to pay

Payment may be made via BPAY® only. Application monies must be received by the Share Registry by 5.00pm (Sydney Time) on Monday, 2 December 2019. It is your responsibility to ensure that your BPAY® payment is received by the Share Registry by no later than 5:00pm (Sydney Time) on Monday, 2 December 2019. You should be aware that your financial institution may implement earlier cut-off times with regard to electronic payment, and you should therefore take this into consideration when making payment.

7.5.4 Allocation policy under the Employee Offer

Each Eligible Employee will receive a guaranteed minimum allocation of $2,000 of Shares, a maximum allocation of $5,000 of Shares at a discounted price of 90% of the Final Price, and an additional maximum of $10,000 of Shares at the Final Price.

7.6 Merchant Offer

7.6.1 Who may apply

Eligible Merchants may apply to participate in the Merchant Offer. Eligible Merchants include merchants with an available Australian Business Number residing in Australia who use, or have entered into an arrangement with us to use, our payment services and who have downloaded and logged into the Tyro App.

Eligible Merchants who have registered an interest in the Offer should receive a personalised invitation to apply for Shares in the Merchant Offer. If you believe you qualify to be an Eligible Merchant and would like to be considered to receive a personalised invitation to apply for Shares in the Merchant Offer, you should contact our Offer Information Line on 1800 883 072 (within Australia) from 8:30am to 5:30pm (Sydney Time) Monday to Friday (excluding public holidays). You will need to provide your ABN to be eligible for consideration to participate under the Merchant Offer.

7.6.2 How to apply

Eligible Merchants must apply for Shares online and must comply with the instructions in the personalised invitation letter and as detailed on the Offer website https://events.miraqle.com/Tyro-IPO/Home/. Eligible Merchants may apply for Shares to be held in the name of the Eligible Merchant or as otherwise nominated by the Eligible Merchant (up to a maximum of five nominated entities/individuals per Eligible Merchant, including the Eligible Merchant).

Applications must be received on or before the Closing Date. The minimum application size under the Merchant Offer is $2,000 at the Final Price and in multiples of $500 of Shares thereafter. The maximum value of Shares that may be applied for under the Merchant Offer is $15,000 at the Final Price. There is no guaranteed minimum allocation for participants in the Merchant Offer. These requirements apply for the application by the Eligible Merchant and/or each nominee of the Eligible Merchant.

7.6.3 How to pay

Payment may be made via BPAY® for Merchant Offer applicants. Application monies must be received by the Share Registry by 5.00pm (Sydney Time) on Monday, 2 December 2019. To make a payment via BPAY®, Merchant Offer applicants must apply online at https://events.miraqle.com/Tyro-IPO/Home/ and must comply with the instructions provided in their personalised Merchant Offer invitation and on the Offer website. It is your responsibility to ensure that your BPAY® payment is received by the Share Registry by no later than 5.00pm (Sydney Time) on Monday, 2 December 2019. You should be aware that your financial institution may implement earlier cut-off times with regard to electronic payment, and you should therefore take this into consideration when making payment.

7.6.4 Allocation policy under the Merchant Offer

There is no guaranteed minimum allocation under the Merchant Offer. Eligible Merchants (and their nominees) who make valid applications under the Merchant Offer may receive an allocation of up to $15,000 of Shares at the Final Price. The Merchant Offer is capped at $20 million. We may scale back Merchant Offer applications at our absolute discretion.

7.7 Acceptance of applications under the Retail Offer

An application under the Retail Offer (which incorporates the Broker Firm Offer, the Priority Offer, the Employee Offer and the Merchant Offer) is an offer by you to us and SaleCo to apply for Shares in the dollar amount specified on the Application Form at the Final Price (except for the Employee Offer whereby each Eligible Employee a maximum allocation of $5,000 of Shares at a discounted price of 90% of the Final Price) on the terms and conditions set out in this Prospectus (including any supplementary or replacement document) and the Application Form. Applications received under the Offer are irrevocable and may not be varied or withdrawn except as required by law.

By making an application, you declare that you (or in the case of the Merchant Offer, any nominee) were given access to this Prospectus, together with an Application Form. The Corporations Act prohibits any person from passing an Application Form to another person unless it is attached to or accompanied by a paper copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.

An application may be accepted by us or SaleCo in respect of the full amount specified on the Application Form, or any amount lower than that, without further notice to the applicant (subject to any guaranteed allocations referred to above). We and SaleCo reserve the right to reject any application (in whole or in part) if we believe any provisions or procedures in this Prospectus, the Application Form or other laws or regulations may not be complied with in relation to the application, or for any other reason.

We, together with SaleCo and the Joint Lead Managers, reserve the right to reject any application which is not correctly completed or which is submitted by a person whom we believe is ineligible to participate in the Retail Offer, or to waive or correct any errors made by an applicant in completing their application. In addition, we, together with SaleCo and the Joint Lead Managers reserve the right to aggregate any applications which we believe may be multiple applications from the same person or reject or scale back any applications (or aggregation of applications) which we believe may be from an Institutional Investor, or are for more than $250,000 of Shares.

Successful applicants in the Retail Offer will be issued Shares at the Final Price (other than for certain Shares under the Employee Offer as described in **Section 7.5**). Acceptance of an application will give rise to a binding contract, conditional on settlement and quotation of Shares on the ASX.

7.8 Application monies

Application monies received under the Retail Offer will be held in a special purpose account until Shares are issued or transferred to successful applicants. Applicants under the Retail Offer whose applications are not accepted, or who are allocated a lesser dollar amount of Shares than the amount applied for, will receive a refund (without interest) of all or part of their application monies, as applicable. No refunds pursuant solely to rounding will be provided. Interest will not be paid on any monies refunded and any interest earned on application monies pending the allocation or refund will be retained by us. You should ensure that sufficient funds are held in the relevant account(s) to cover the amount of your BPAY® payment. If the amount of your BPAY® payment is less than the amount specified on the Application Form, you may be taken to have applied for such lower dollar amount of Shares.

7.9 Institutional Offer

7.9.1 Invitations to bid

We and SaleCo invite certain eligible Institutional Investors to bid for Shares in the Institutional Offer. The Institutional Offer will be in two parts:

- an invitation to Institutional Investors in Australia and selected other jurisdictions (other than the United States) to bid for Shares – made under this Prospectus; and
- an invitation to Institutional Investors in the United States – made under the US Institutional Offering Memorandum.

A number of Institutional Investors have committed to the Joint Lead Managers to acquire, and will be allocated, $140 million of Shares at the Final Price under this Prospectus through the Institutional Offer (provided the Final Price is within the Indicative Price Range).

7.9.2 Institutional Offer and the Indicative Price Range

The Institutional Offer will be conducted using a Bookbuild process managed by the Joint Lead Managers. Full details of how to participate, including bidding instructions, will be provided to eligible participants by the Joint Lead Managers.

Participants can only bid into the Bookbuild for Shares through the Joint Lead Managers. They may bid for Shares at specific prices or at the Final Price. Participants may bid above or within the Indicative Price Range, which is $2.50 to $2.75 per Share. Under the terms of the Offer Management Agreement, the Final Price (and the total number of Shares offered under the Institutional Offer) will be determined by agreement between us, along with SaleCo and the Joint Lead Managers, after the close of the Retail Offer (as part of the Bookbuild). The Institutional Offer is expected to open on Tuesday, 3 December 2019 and close on Wednesday, 4 December 2019.

We, along with SaleCo and the Joint Lead Managers, reserve the right to vary any and all of the times and dates without notice (including, subject to the ASX Listing Rules and the Corporations Act, to close the Offer early, to extend the Offer Period relating to any component of the Offer, or to accept late applications or bids, either generally or in particular cases, or to cancel or withdraw the Offer before settlement, in each case without notifying any recipient of this Prospectus or any applicants). Bids in the Institutional Offer may be amended or withdrawn at any time up to the close of the Institutional Offer. Any bid not withdrawn at the close of the Institutional Offer is an irrevocable offer by the relevant bidder to apply or procure applicants for the Shares bid for (or such lesser number as may be allocated) at the price per Share bid, or at the Final Price where this is below the price per Share bid, on the terms and conditions set out in this Prospectus (including any supplementary or replacement document) and in accordance with any bidding instructions provided by the Joint Lead Managers to participants.

Bids can be accepted or rejected in whole or in part without further notice to the bidder. Acceptance of a bid will give rise to a binding contract on allocation of Shares to successful bidders conditional on settlement and the quotation of Shares on ASX on an unconditional basis.

Details of the arrangements for notification and settlement of allocations applying to participants in the Institutional Offer will be provided to participants in the Bookbuild process.

7.9.3 Final Price

The Bookbuild will be used to determine the Final Price (and the total number of Shares offered under the Institutional Offer and Broker Firm Offer). Under the terms of the Offer Management Agreement, the Final Price will be determined by agreement between us, the Joint Lead Managers and SaleCo after the close of the Retail Offer and the Institutional Offer.

It is expected that the Final Price will be announced to the market on Thursday, 5 December 2019. In determining the Final Price, consideration will be given to, but will not be limited to, the following factors:

- the level of demand for Shares under the Institutional Offer at various prices;
- the level of demand for Shares under the Retail Offer;
- the objective of maximising the proceeds of the Offer; and
- our desire for an orderly secondary market in the Shares following Completion.

The Final Price will not necessarily be the highest price at which Shares could be sold. The Final Price may be set below, within or above the Indicative Price Range. All successful bidders under the Institutional Offer will pay the Final Price. All successful applicants under the Retail Offer will pay the Final Price (other than in respect of certain Shares under the Employee Offer as described in **Section 7.5**).

7.9.4 Allocation policy under the Institutional Offer

The allocation of Shares among bidders in the Institutional Offer will be determined by us and the Joint Lead Managers. We and the Joint Lead Managers have absolute discretion regarding the basis of allocation of Shares among Institutional Investors.

The initial determinant of the allocation of Shares under the Institutional Offer will be the Final Price. Bids lodged at prices below the Final Price will not receive an allocation of Shares.

The allocation policy will be influenced, but not constrained, by the following factors:

- the price and number of Shares bid for by particular bidders;
- the timeliness of the bid by particular bidders;
- our desire for an orderly secondary market in the Shares following Completion;
- our desire to establish a wide spread of institutional Shareholders;
- overall anticipated level of demand under the Broker Firm Offer, Priority Offer, Employee Offer, Merchant Offer, and Institutional Offer;
- the size and type of funds under management of particular bidders;
- the likelihood that particular bidders will be long-term Shareholders; and
- any other factors that we and the Joint Lead Managers consider appropriate in our sole discretion.

7.10 Escrow arrangements

Escrowed Shares held at Completion by the Escrowed Shareholders will be subject to voluntary escrow arrangements.

Further details of these arrangements, please refer to **Section 6.5**.

7.11 Acknowledgements

Each applicant under the Offer will be deemed to have:

- agreed to become a member of the Company and to be bound by the terms of the Constitution and the terms and conditions of the Offer;
- acknowledged having personally received a complete and unaltered printed or electronic copy of the Prospectus (and any supplementary or replacement document) attached to or accompanied by the Application Form and having read them all in full;
- declared that all details and statements in their Application Form are complete and accurate;

- declared that if they are a natural person and they are over 18 years of age;
- acknowledged that, once we or a Broker receives an Application Form, it may not be withdrawn;
- applied for the number of Shares at the Australian dollar amount shown on the front of the Application Form;
- agreed to being allocated and issued or transferred the number of Shares applied for (or a lower number allocated in a way described in this Prospectus), or no Shares at all;
- authorised us, together with the Joint Lead Managers, the Co-Managers and our respective officers or agents, to do anything on behalf of the applicant(s) necessary for Shares to be allocated to the applicant(s), including to act on instructions received by the Share Registry upon using the contact details in the Application Form;
- acknowledged that, in some circumstances, we may not pay dividends, or that any dividends paid may not be franked (refer to **Section 4.11**);
- acknowledged that the information contained in this Prospectus (or any supplementary or replacement document) is not financial product advice or a recommendation that Shares are suitable for the applicant(s), and does not take into account the personal circumstances, investment objectives, financial circumstances, tax position or particular needs of the applicant(s);
- declared that the applicant(s) is/are a resident of Australia (except as applicable to the Institutional Offer, Broker Firm Offer, Priority Offer, Employee Offer and Merchant Offer);
- acknowledged and agreed that the Offer may be withdrawn by us and SaleCo or may otherwise not proceed in the circumstances described in this Prospectus; and
- acknowledged and agreed that if our admission to the official list of ASX and Completion do not occur for any reason, the Offer will not proceed.

Each applicant in the Offer made under this Prospectus will be taken to have represented, warranted and agreed as follows:

- it understands that the Shares have not been, and will not be, registered under the US Securities Act or the securities laws of any state of the United States and may not be offered, sold or resold, pledged, transferred in the United States, except in accordance with US Securities Act regulation requirements or in a transaction exempt from, or not subject to, registration under the US Securities Act and any other applicable state securities laws;
- it is not in the United States;
- it has not sent and will not send the Prospectus or any other material relating to the Offer to any person in the United States;
- it is purchasing the Shares in an offshore transaction in accordance with the requirements of Regulation S; and
- it will not offer or sell the Shares in the United States or in any other jurisdiction outside Australia except in transactions exempt from, or not subject to, registration requirements of the US Securities Act and in compliance with all applicable laws in the jurisdiction in which Shares are offered and sold.

7.12 Discretion regarding the Offer

We and SaleCo may withdraw the Offer at any time before the issue and transfer and allotment of Shares to successful applicants under the Offer. If the Offer, or any part of it, does not proceed, all relevant application monies will be refunded (without interest). We, along with SaleCo and the Joint Lead Managers also reserve the right to close the Offer or any part of it early, extend the Offer or any part of it, accept late applications, either generally or in particular cases, reject any application, or allocate to any applicant fewer Shares than those applied for.

7.13 ASX listing, registers and holding statements, and conditional and deferred settlement trading

7.13.1 Application to ASX for listing and quotation of Shares

We will apply to ASX within seven days of the Prospectus Date, for our admission to the Official List and quotation of Shares (under the code 'TYR'). Completion of the Offer is conditional on the issue and transfer of Shares to successful applicants.

ASX takes no responsibility for this Prospectus or the investment to which it relates. The fact that the ASX may admit us to the Official List is not to be taken as an indication of our merits or the Shares offered for subscription.

If permission is not granted for the official quotation of the Shares on the ASX within three months after the Prospectus Date (or any later date permitted by law), all application monies received by us will be refunded (without interest) as soon as practicable in accordance with the requirements of the Corporations Act.

We will be required to comply with the ASX Listing Rules, subject to any waivers obtained by us from time to time.

7.13.2 CHESS and issuer sponsored holdings

We have applied to participate in the ASX's Clearing House Electronic Subregister System and will comply with the ASX Listing Rules and the ASX Settlement Operating Rules. CHESS is an electronic transfer and settlement system for transactions in securities quoted on the ASX under which transfers are effected in an electronic form.

When the Shares become approved financial products (as defined in the ASX Settlement Operating Rules), holdings will be registered in one of two subregisters, an electronic CHESS subregister or an issuer sponsored subregister. For all successful applicants, the Shares of a Shareholder who is a participant in CHESS or a Shareholder sponsored by a participant in CHESS will be registered on the CHESS subregister. All other Shares will be registered on the issuer sponsored subregister.

Following Completion, Shareholders will be sent a holding statement that sets out the number of Shares that have been allocated to them. This statement will also provide details of a Shareholder's Holder Identification Number for CHESS holders or, where applicable, the Shareholder Reference Number for issuer sponsored holders.

Shareholders will subsequently receive statements showing any changes to their shareholding. Share certificates will not be issued.

Shareholders will receive subsequent statements during the first week of the following month if there has been a change to their holding on the register and as otherwise required under the ASX Listing Rules and the Corporations Act. Additional statements may be requested at any other time either directly through the Shareholder's sponsoring broker in the case of a holding on the CHESS subregister or through the Share Registry in the case of a holding on the issuer sponsored subregister. We and the Share Registry may charge a fee for these additional issuer sponsored statements.

7.13.3 Conditional and deferred settlement trading and selling Shares on-market

It is expected that trading of the Shares on ASX on a conditional and deferred settlement basis will commence on or about Friday, 6 December 2019.

The contracts formed on acceptance of applications and bids will be conditional on ASX agreeing to quote the Shares on ASX, and on settlement occurring under the Offer Management Agreement and SaleCo's acceptance of the irrevocable offers to sell Shares to be made by the Selling Shareholders to SaleCo. Trades occurring on ASX before Completion will be conditional on Completion occurring.

If the Offer is withdrawn after Shares have commenced trading on a conditional and deferred settlement basis, all contracts for the sale of the Shares on ASX would be cancelled and any application monies received would be refunded as soon as possible (without interest).

Conditional trading will continue until we have advised ASX that settlement under the Offer Management Agreement has occurred, which is expected to be on or about Tuesday, 10 December 2019. Trading will then be on an unconditional but deferred delivery basis until we have advised ASX that holding statements have been dispatched to Shareholders. Normal settlement trading is expected to commence on or about Friday, 13 December 2019.

If settlement has not occurred within 14 days (or such longer period as ASX allows) after the day Shares are first quoted on ASX, the Offer and all contracts arising on acceptance of the Offer and confirmations of allocations will be cancelled and of no further effect and all application monies will be refunded (without interest). In these circumstances, all purchases and sales made through ASX participating organisations during the conditional trading period will be cancelled and of no effect.

To assist applicants in determining their allocation prior to receipt of a holding statement, we will announce details of pricing and the basis of allocations in various newspapers on Thursday, 5 December 2019. After the basis for allocations has been determined, applicants will be able to confirm their allocations by contacting their broker or telephoning our Offer Information Line on 1800 883 072 (within Australia) from 8:30am to 5:30pm (Sydney Time) Monday to Friday (excluding public holidays).

It is the responsibility of each person who trades in Shares to confirm their own holding before trading in Shares. If you sell Shares before receiving a holding statement, you do so at your own risk. We, along with SaleCo, the Share Registry, the Joint Lead Managers and the existing Shareholders, disclaim all liability, whether in negligence or otherwise, if you sell Shares before receiving your holding statement, even if you received confirmation of allocation from the Offer Information Line, by a Broker or otherwise.

7.14 Summary of rights and liabilities attaching to Shares and other material provisions of the Constitution

The rights and liabilities attaching to the ownership of Shares arise from a combination of the Constitution, statute, the ASX Listing Rules and general law.

A summary of the significant rights, liabilities and obligations attaching to Shares and a description of other material provisions of the Constitution are set out below. This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of Shareholders. The summary assumes that we are admitted to the Official List.

7.14.1 Voting at a general meeting

At a general meeting, every Shareholder present in person or by proxy, attorney or representative has one vote on a show of hands and on a poll, one vote for each Share held.

7.14.2 Meetings of members

Each Shareholder is entitled to receive notice of, attend, and vote at, our general meetings and to receive all notices, accounts and other documents required to be sent to Shareholders under the Constitution, the Corporations Act and the ASX Listing Rules.

Except as permitted by the Corporations Act, general meetings must be called on at least the minimum of days' notice required by the Corporations Act (which at the Prospectus Date is 28 days) and otherwise in accordance with the procedures set out in the Corporations Act.

7.14.3 Dividends

The Board may pay any interim, special or final dividends that, in its judgement, our financial position justifies. The Board may also pay any dividend required to be paid under the terms of issue of a Share, and fix a record date for a dividend and method of payment.

The Board may by resolution either:

- declare a dividend and fix the amount, the time for and method of payment and fix the time for determining entitlement to such dividend; or
- determine a dividend or interim dividend is payable and fix the amount, the time for and method of payment. For further information in respect of our proposed dividend policy, refer to **Section 4.11**.

7.14.4 Authority to capitalise profits

The Constitution authorises the Board to resolve to capitalise any part of the Company's profit. If this occurs, the Board may use it to benefit those Shareholders who are entitled to dividends in the proportions that would apply if the entire amount of the profits to be capitalised were a dividend. The benefit may be given in any or all of the following ways:

- in paying up an amount unpaid on shares already issued;
- in paying up in full any unissued shares or other securities in the Company; and/or
- any other method permitted by law or the ASX Listing Rules.

7.14.5 Transfer of Shares

Subject to the Constitution and to any restrictions attached to any share or classes of shares, Shares may be transferred by proper ASTC transfer (effected in accordance with the ASX Settlement Operating Rules, Corporations Regulations and ASX Listing Rules) or by a written transfer in any usual form or in any other form approved by the Board and permitted by the relevant laws and ASX requirements. The Board may, in accordance with the Corporations Act or the ASX Listing Rules, decline to register, or prevent registration of, a transfer of Shares or apply a holding lock to prevent a transfer. We may refuse to register a paper-based transfer document in the circumstances permitted by the ASX Listing Rules, including if registration of the transfer may break an Australian law, including the FSSA.

7.14.6 Issue of further shares

Subject to the Corporations Act, the ASX Listing Rules and the Constitution, and without affecting the special rights of any holders of securities, the Board may decide to issue and allot, or dispose of, shares on terms determined from time to time by the Directors at an issue price that the Directors determine from time to time and to shareholders whether in proportion to their existing shareholdings or otherwise, or to such other persons as the Directors may determine from time to time. The Directors' power under the Constitution includes the power to grant options over unissued shares and issue and allot shares with any preferential, deferred or special rights, privileges or conditions subject to applicable shareholder approval requirements under the Corporations Act, with any restrictions in regard to dividend, voting, return of capital or otherwise, which are liable to be redeemed or converted, or which are bonus shares for whose issue no consideration is payable to us.

7.14.7 Winding up

Without prejudice to the rights or restrictions of the holders of shares issued on special terms and conditions, if we are wound up, subject to the Constitution, the Corporations Act and any rights or restrictions attached to any shares or classes of shares, shareholders will be entitled to a share in any surplus property of the Company in proportion to the number of shares held by them. If the Company is wound up, the liquidator may, with the sanction of a special resolution, divide among the shareholders the whole or part of the Company's property and decide how the division is to be carried out as between shareholders or different classes of shareholders.

7.14.8 Non-marketable parcels

Where we comply with the relevant procedure outlined in the Constitution, we may sell the Shares of a Shareholder who holds less than a marketable parcel of those Shares by following the procedures set out in the Constitution.

7.14.9 Share buy-backs

Subject to applicable laws or regulatory approvals and the ASX Listing Rules, we may buy Shares on terms and at times determined by the Board.

7.14.10 Proportional takeover provisions

The Constitution contains provisions requiring Shareholder approval in relation to any proportional takeover bid.

7.14.11 Variation of class rights

At present, our only class of shares on issue is Shares. The procedure for varying or cancelling rights attached to any class of share will be as set out in the Corporations Act unless a procedure is otherwise set out in the terms of issue of shares in that class.

7.14.12 Reduction of share capital

We may reduce the share capital in any manner permitted by the Corporations Act and ASX Listing Rules (if applicable).

7.14.13 Dividend reinvestment plan

The Constitution provides that the Directors may establish a plan under which Shareholders may elect to reinvest cash dividends paid or payable by us, by acquiring by way of issue or transfer (or both) Shares or financial products of any other body. The Directors have no current intention to establish a dividend reinvestment plan.

7.14.14 Directors – appointment and rotation

Under the Constitution, the minimum number of Directors that may comprise the Board is three Directors and a maximum of 10 Directors unless determined otherwise by the Board. Directors are elected or re-elected at our general meetings.

Retirement will occur on a rotational basis so that no Director (other than the Managing Director) may hold office without re-election after three years or beyond the third annual general meeting following the meeting at which the Director was last elected or re-elected (whichever is later). The Board may also appoint any eligible person to be a Director, either to fill a casual vacancy on the Board or as an addition to the existing Directors, who will hold office until the conclusion of our next annual general meeting following their appointment.

7.14.15 Directors – voting

Questions arising at a meeting of the Board must be decided by a majority of votes of the Directors present at the meeting and entitled to vote on the matter. In the case of an equality of votes on a resolution, the Chair of the meeting has a casting vote in addition to his or her deliberative vote.

7.14.16 Directors – remuneration

Under the Constitution, the Board may decide the remuneration to which each Director is entitled for his or her services as a Director. The total aggregate amount provided to all Non-executive Directors for their services as Directors must not exceed in any financial year the amount fixed in a general meeting for that purpose. The current maximum aggregate sum of Non-executive Director remuneration is set out in **Section 6.4.2.2**. Any change to that maximum aggregate amount needs to be approved by Shareholders.

Directors may be reimbursed for travel and other expenses properly incurred in attending to our affairs, including attending and returning from general meetings, Board meetings or meetings of Board Committees. If a Director renders or is called on to perform extra services, or make any special exertions in connection with our affairs, the Directors may arrange for special remuneration to be paid to that Director either in addition to or in substitution for that Director's remuneration. Directors' remuneration is discussed in **Section 6.4.2**.

7.14.17 Indemnities

We may indemnify, to the extent permitted by law, each Director, alternate Director or executive officer of the Company (and, if the Directors so determine, any current or former officer or auditor of the Company or its related bodies corporate) against any losses or liability incurred by that person as an officer or auditor (as applicable) of the Company or of a related body corporate of the Company including, but not limited to, a liability for negligence or for reasonable legal costs on a full indemnity basis. We may, to the extent permitted by law, purchase and maintain insurance or pay, or agree to pay, a premium for insurance for each Director, alternate director or executive officer of the Company (and, if the Directors so determine, any current or former officer or auditor of ours, or our related bodies corporate) against any liability incurred by that person as an officer or auditor (as applicable) of ours, or our related bodies corporate, including but not limited to a liability for negligence or for legal costs.

7.14.18 Amendment

The Constitution may be only amended in accordance with the Corporations Act, which requires a special resolution passed by at least 75% of Shareholders present (in person or by proxy, attorney or representative) and entitled to vote on the resolution at our general meetings.

Independent Limited Assurance Report

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The Directors
Tyro Payments Limited and Tyro SaleCo Limited
155 Clarence Street
Sydney, NSW 2000

18 November 2019

Dear Directors

Independent Limited Assurance Report on Tyro Payments Limited historical and pro forma historical financial information and Financial Services Guide

We have been engaged by Tyro Payments Limited and Tyro SaleCo Limited (the Company) to report on the historical financial information and pro forma historical financial information of the Company for the years ended 30 June 2017, 30 June 2018 and 30 June 2019 as set out below for inclusion in the prospectus dated on or about 18 November 2019 (Prospectus) and relating to the proposed initial public offering of ordinary shares in the Company and listing on the Australian Securities Exchange.

Expressions and terms defined in the Prospectus have the same meaning in this report, unless otherwise specified.

The nature of this report is such that it can only be issued by an entity which holds an Australian financial services licence under the Corporations Act 2001. PricewaterhouseCoopers Securities Ltd, which is wholly owned by PricewaterhouseCoopers holds the appropriate Australian financial services licence under the Corporations Act 2001. This report is both an Investigating Accountant's Report, the scope of which is set out below, and a Financial Services Guide, as attached at Appendix A.

Scope

Historical Financial Information

You have requested PricewaterhouseCoopers Securities Ltd to review the following historical financial information of the Company included in the Prospectus:

- Statutory historical income statements for the years ended 30 June 2017, 30 June 2018 and 30 June 2019;
- Statutory historical statement of financial position as at 30 June 2019; and
- Statutory historical cash flows for the years ended 30 June 2017, 30 June 2018 and 30 June 2019.

The historical financial information has been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting

PricewaterhouseCoopers Securities Ltd, ACN 003 311 617, ABN 54 003 311 617, Holder of Australian Financial Services Licence No 244572
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T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Standards and the Company's adopted accounting policies. The historical financial information has been extracted from the restated financial report of the Company for the year ended 30 June 2019, which include restated comparatives for 30 June 2017 and 30 June 2018 and was audited by Ernst & Young Australia in accordance with the Australian Auditing Standards. Ernst & Young Australia issued an unmodified audit opinion on this financial report. The historical financial information is presented in the Prospectus in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act 2001.

Pro Forma historical financial information

You have requested PricewaterhouseCoopers Securities Ltd to review the following pro forma historical financial information of the Company included in the Prospectus:

- Pro forma historical income statements for the years ended 30 June 2017, 30 June 2018 and 30 June 2019;
- Pro forma historical statement of Financial Position as at 30 June 2019; and
- Pro forma historical cash flows for the years ended 30 June 2017, 30 June 2018 and 30 June 2019.

The pro forma historical financial information has been derived from the historical financial information of the Company, after adjusting for the effects of pro forma adjustments described in section 4 of the Prospectus. The stated basis of preparation is the recognition and measurement principles contained in Australian Accounting Standards and the Company's adopted accounting policies applied to the historical financial information and the events or transactions to which the pro forma adjustments relate, as described in section 4 of the Prospectus, as if those events or transactions had occurred as at the date of the historical financial information. Due to its nature, the pro forma historical financial information does not represent the Company's actual or prospective financial position, financial performance, and/or cash flows.

Directors' responsibility

The directors of the Company are responsible for the preparation of the historical financial information and pro forma historical financial information, including its basis of preparation and the selection and determination of pro forma adjustments made to the historical financial information and included in the pro forma historical financial information. This includes responsibility for its compliance with applicable laws and regulations and for such internal controls as the directors determine are necessary to enable the preparation of historical financial information and pro forma historical financial information that are free from material misstatement.

Our responsibility

Our responsibility is to express a limited assurance conclusion on the financial information based on the procedures performed and the evidence we have obtained. We have conducted our engagement in accordance with the Standard on Assurance Engagement ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

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A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Our engagement did not involve updating or re-issuing any previously issued audit or review report on any financial information used as a source of the financial information.

Conclusions

Historical financial information

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the historical financial information of the Company, as described in section 4 of the Prospectus, and comprising:

- Statutory historical income statements for the years ended 30 June 2017, 30 June 2018 and 30 June 2019;
- Statutory historical statement of financial position as at 30 June 2019; and
- Statutory historical cash flows for the years ended 30 June 2017, 30 June 2018 and 30 June 2019.

are not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in section 4 of the Prospectus being the recognition and measurement principles contained in Australian Accounting Standards and the Company's adopted accounting policies.

Pro Forma historical financial information

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the pro forma historical financial information of the Company as described in section 4 of the Prospectus and comprising:

- Pro forma historical income statements for the years ended 30 June 2017, 30 June 2018 and 30 June 2019;
- Pro forma historical statement of Financial Position as at 30 June 2019; and
- Pro forma historical cash flows for the years ended 30 June 2017, 30 June 2018 and 30 June 2019.

are not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in section 4 of the Prospectus being the recognition and measurement principles contained in Australian Accounting Standards and the Company's adopted accounting policies applied to the historical financial information and the events or transactions to which the pro forma adjustments relate, as described in section 4 of the Prospectus, as if those events or transactions had occurred as at the date of the historical financial information.

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Notice to investors outside Australia

Under the terms of our engagement this report has been prepared solely to comply with Australian Auditing Standards applicable to review engagements.

This report does not constitute an offer to sell, or a solicitation of an offer to buy, any securities. We do not hold any financial services licence or other licence outside Australia. We are not recommending or making any representation as to suitability of any investment to any person.

Restriction on Use

Without modifying our conclusions, we draw attention to section 4 of the Prospectus, which describes the purpose of the financial information, being for inclusion in the Prospectus. As a result, the financial information may not be suitable for use for another purpose.

Consent

PricewaterhouseCoopers Securities Ltd has consented to the inclusion of this assurance report in the public document in the form and context in which it is included.

Liability

The liability of PricewaterhouseCoopers Securities Ltd is limited to the inclusion of this report in the Propsectus. PricewaterhouseCoopers Securities Ltd makes no representation regarding, and has no liability for, any other statements or other material in, or omissions from the Prospectus.

Independence or Disclosure of Interest

PricewaterhouseCoopers Securities Ltd does not have any interest in the outcome of this proposed initial public offering other than the preparation of this report and participation in due diligence procedures for which normal professional fees will be received.

Financial Services Guide

We have included our Financial Services Guide as Appendix A to our report. The Financial Services Guide is designed to assist retail clients in their use of any general financial product advice in our report.

Yours faithfully

Brian Mullock
Authorised Representative of
PricewaterhouseCoopers Securities Ltd

Hansjoerg Knieling
Authorised Representative of
PricewaterhouseCoopers Securities Ltd

4

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Appendix A – Financial Services Guide

PRICEWATERHOUSECOOPERS SECURITIES LTD

FINANCIAL SERVICES GUIDE

This Financial Services Guide is dated 18 November 2019

1. About us

PricewaterhouseCoopers Securities Ltd (ABN 54 003 311 617, Australian Financial Services Licence no 244572) ("**PwC Securities**") has been engaged by Tyro Payments Limited (the "**Company**") to provide a report in the form of an Investigating Accountant's Report (the "**Report**") in relation to the historical financial information and pro forma historical financial information of the Company for the years ended 30 June 2017, 30 June 2018 and 30 June 2019 for inclusion in the prospectus dated on or about 18 November 2019 relating to the proposed initial public offering of ordinary shares in the Company and listing on the Australian Securities Exchange.

You have not engaged us directly but have been provided with a copy of the Report as a retail client because of your connection to the matters set out in the Report.

2. This Financial Services Guide

This Financial Services Guide ("**FSG**") is designed to assist retail clients in their use of any general financial product advice contained in the Report. This FSG contains information about PwC Securities generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the Report, and how complaints against us will be dealt with.

3. Financial services we are licensed to provide

Our Australian financial services licence allows us to provide a broad range of services, including providing financial product advice in relation to various financial products such as securities, interests in managed investment schemes, derivatives, superannuation products, foreign exchange contracts, insurance products, life products, managed investment schemes, government debentures, stocks or bonds, and deposit products.

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4. General financial product advice

The Report contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.

You should consider your own objectives, financial situation and needs when assessing the suitability of the Report to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

5. Fees, commissions and other benefits we may receive

PwC Securities charges fees to produce reports, including this Report. These fees are negotiated and agreed with the entity who engages PwC Securities to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us. In the preparation of this Report our fees charged are $595,500 (excluding GST).

Directors or employees of PwC Securities, PricewaterhouseCoopers, or other associated entities, may receive partnership distributions, salary or wages from PricewaterhouseCoopers.

6. Associations with issuers of financial products

PwC Securities and its authorised representatives, employees and associates may from time to time have relationships with the issuers of financial products. For example, PricewaterhouseCoopers may be the auditor of, or provide financial services to, the issuer of a financial product and PwC Securities may provide financial services to the issuer of a financial product in the ordinary course of its business.

7. Complaints

If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner. In addition, a copy of our internal complaints handling procedure is available upon request.

If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Australian Financial Complaints Authority (**"AFCA"**), an external complaints resolution service. AFCA can be contacted by calling 1800 931 678. You will not be charged for using the AFCA service.

8. Contact Details

PwC Securities can be contacted by sending a letter to the following address:

Brian Mullock
One International Towers Sydney, Watermans Quay,
Barangaroo NSW 2000

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The Directors
Tyro Payments Limited and Tyro SaleCo Limited
155 Clarence Street
Sydney, NSW 2000

18 November 2019

Dear Directors

Independent Limited Assurance Report on Tyro Payments Limited statutory forecast and pro forma forecast financial information and Financial Services Guide

We have been engaged by Tyro Payments Limited and Tyro SaleCo Limited (the Company) to report on the Company's statutory forecast income statements and cash flows (Statutory Forecast) and pro forma forecast income statements and cash flows (Pro Forma Forecast) for the year ending 30 June 2020 of the Company for inclusion in the prospectus dated on or about 18 November 2019 (Prospectus) and relating to the proposed initial public offering of ordinary shares in the Company and listing on the Australian Securities Exchange.

Expressions and terms defined in the Prospectus have the same meaning in this report, unless otherwise specified.

The nature of this report is such that it can only be issued by an entity which holds an Australian financial services licence under the Corporations Act 2001. PricewaterhouseCoopers Securities Ltd, which is wholly owned by PricewaterhouseCoopers holds the appropriate Australian financial services licence under the Corporations Act 2001. This report is both an Investigating Accountant's Report, the scope of which is set out below, and a Financial Services Guide, as attached at Appendix A.

Scope

You have requested PricewaterhouseCoopers Securities Ltd to review the following forecast financial information of the Company included in the Prospectus:

Statutory Forecast

- the statutory forecast income statement of the Company for the year ending 30 June 2020, as described in section 4 of the Prospectus; and
- the statutory forecast cash flows of the Company for the year ending 30 June 2020, as described in section 4 of the Prospectus.

The directors' best-estimate assumptions underlying the Statutory Forecast are described in section 4 of the Prospectus. The stated basis of preparation used in the preparation of the Statutory Forecast being the recognition and measurement principles contained in Australian Accounting Standards and the Company's adopted accounting policies;

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Pro Forma Forecast

- the pro forma forecast income statement of the Company for the year ending 30 June 2020, as described in section 4 of the Prospectus; and
- the pro forma forecast cash flows of the Company for the year ending 30 June 2020, as described in section 4 of the Prospectus.

The Pro Forma Forecast has been derived from the Company's Statutory Forecast, after adjusting for the effects of the pro forma adjustments described in section 4 of the Prospectus. The stated basis of preparation used in the preparation of the Pro Forma Forecast being the recognition and measurement principles contained in Australian Accounting Standards applied to the forecast and the events or transactions to which the pro forma adjustments relate, as described in section 4 of the Prospectus, as if those events or transactions had occurred as at 30 June 2020. Due to its nature, the Pro Forma Forecast does not represent the company's actual prospective financial performance and cash flows for the year ending 30 June 2020.

Directors' Responsibility

The directors of the Company are responsible for the preparation of the Statutory Forecast for the year ending 30 June 2020, including its basis of preparation and the best-estimate assumptions underlying the Statutory Forecast. They are also responsible for the preparation of the Pro Forma Forecast for the year ending 30 June 2020, including its basis of preparation and the selection and determination of the pro forma adjustments made to the Statutory Forecast and included in the Pro Forma Forecast. This includes responsibility for its compliance with applicable laws and regulations and for such internal control as the directors determine are necessary to enable the preparation of a forecast and a pro forma forecast that are free from material misstatement.

Our Responsibility

Our responsibility is to express limited assurance conclusions on the Statutory Forecast and Pro Forma Forecast, the best-estimate assumptions underlying the Statutory Forecast and Pro Forma Forecast, and the reasonableness of the Statutory Forecast and Pro Forma Forecast themselves, based on our review. We have conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

Our limited assurance procedures consisted of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A limited assurance engagement is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an audit opinion.

Our engagement did not involve updating or re-issuing any previously issued audit or review report on any financial information used as a source of the financial information.

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Conclusions

Statutory Forecast

Based on our review, which is not an audit, nothing has come to our attention which causes us to believe that:

- the directors' best-estimate assumptions used in the preparation of the statutory forecast income statement and cash flows of the Company for the year ending 30 June 2020 do not provide reasonable grounds for the Statutory Forecast; and
- in all material respects, the Statutory Forecast:

– is not properly prepared on the basis of the directors' best-estimate assumptions as described in section 4 of the Prospectus; and

– is not presented fairly in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting Standards and the entity's adopted accounting policies; and

- the Statutory Forecast itself is unreasonable.

Pro Forma Forecast

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that:

- the directors' best-estimate assumptions used in the preparation of the pro forma forecast income statement and cash flows of the Company for the year ending 30 June 2020 do not provide reasonable grounds for the Pro Forma Forecast; and
- in all material respects, the Pro Forma Forecast:

– is not properly prepared on the basis of the directors' best-estimate assumptions, as described in section 4 of the Prospectus; and

– is not presented fairly in accordance with the stated basis of preparation, being the recognition and measurement principles contained in Australian Accounting Standards and the company's adopted accounting policies, applied to the Forecast and the pro forma adjustments as if those adjustments had occurred as at the date of the forecast; and

- the Pro Forma Forecast itself is unreasonable.

Statutory Forecast and Pro Forma Forecast

The Statutory Forecast and Pro Forma Forecast have been prepared by management and adopted by the directors in order to provide prospective investors with a guide to the potential financial performance of the Company for the year ending 30 June 2020. There is a considerable degree of subjective judgement involved in preparing forecasts since they relate to events and transactions that

have not yet occurred and may not occur. Actual results are likely to be different from the Statutory Forecast and Pro Forma Forecast since anticipated events or transactions frequently do not occur as expected and the variation may be material.

The directors' best-estimate assumptions on which the Statutory Forecast and Pro Forma Forecast are based relate to future events and transactions that management expect to occur and actions that management expect to take and are also subject to uncertainties and contingencies, which are often outside the control of the Company. Evidence may be available to support the directors' best-estimate assumptions on which the Statutory Forecast and Pro Forma Forecast are based however such evidence is generally future-oriented and therefore speculative in nature. We are therefore not in a position to express a reasonable assurance conclusion on those best-estimate assumptions, and accordingly, provide a lesser level of assurance on the reasonableness of the directors' best-estimate assumptions. The limited assurance conclusion expressed in this report has been formed on the above basis.

Prospective investors should be aware of the material risks and uncertainties in relation to an investment in the Company, which are detailed in the Prospectus, and the inherent uncertainty relating to the Statutory Forecast and Pro Forma Forecast. Accordingly, prospective investors should have regard to the investment risks and sensitivities as described in section 4 of the Prospectus. The sensitivity analysis described in section 4 of the Prospectus demonstrates the impact on the Statutory Forecast and Pro Forma Forecast of changes in key best-estimate assumptions. We express no opinion as to whether the Statutory Forecast or Pro Forma Forecast will be achieved.

The Statutory Forecast and Pro Forma Forecast have been prepared by the directors for the purpose of inclusion in the Prospectus. We disclaim any assumption of responsibility for any reliance on this report, or on the Statutory Forecast or Pro Forma Forecast to which it relates, for any purpose other than that for which it was prepared. We have assumed, and relied on representations from certain members of management of the Company, that all material information concerning the prospects and proposed operations of the Company has been disclosed to us and that the information provided to us for the purpose of our work is true, complete and accurate in all respects. We have no reason to believe that those representations are false.

Notice to investors outside Australia

Under the terms of our engagement this report has been prepared solely to comply with Australian Auditing Standards applicable to review engagements.

This report does not constitute an offer to sell, or a solicitation of an offer to buy, any securities. We do not hold any financial services licence or other licence outside Australia. We are not recommending or making any representation as to suitability of any investment to any person.

Restriction on Use

Without modifying our conclusions, we draw attention to section 4 of the Prospectus, which describes the purpose of the Statutory Forecast and Pro Forma Forecast, being for inclusion in the Prospectus. As a result, the Statutory Forecast and Pro Forma forecast may not be suitable for use for another purpose.

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Consent

PricewaterhouseCoopers Securities Ltd has consented to the inclusion of this assurance report in the public document in the form and context in which it is included.

Liability

The liability of PricewaterhouseCoopers Securities Ltd is limited to the inclusion of this report in the Prospectus. PricewaterhouseCoopers Securities Ltd makes no representation regarding, and has no liability for, any other statements or other material in, or any omissions from, the Prospectus.

Independence or Disclosure of Interest

PricewaterhouseCoopers Securities Ltd does not have any interest in the outcome of this proposed initial public offering other than the preparation of this report and participation in due diligence procedures for which normal professional fees will be received.

Financial Services Guide

We have included our Financial Services Guide as Appendix A to our report. The Financial Services Guide is designed to assist retail clients in their use of any general financial product advice in our report.

Yours faithfully

Brian Mullock
Authorised Representative of
PricewaterhouseCoopers Securities Ltd

Hansjoerg Knieling
Authorised Representative of
PricewaterhouseCoopers Securities Ltd

5

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Appendix A – Financial Services Guide

PRICEWATERHOUSECOOPERS SECURITIES LTD

FINANCIAL SERVICES GUIDE

This Financial Services Guide is dated 18 November 2019

1. About us

PricewaterhouseCoopers Securities Ltd (ABN 54 003 311 617, Australian Financial Services Licence no 244572) ("**PwC Securities**") has been engaged by Tyro Payments Limited (the "**Company**") to provide a report in the form of an Investigating Accountant's Report (the "**Report**") in relation to the statutory forecast financial information and pro forma forecast financial information of the Company for the year ended 30 June 2020 for inclusion in the prospectus dated on or about 18 November 2019 relating to the proposed initial public offering of ordinary shares in the Company and listing on the Australian Securities Exchange.

You have not engaged us directly but have been provided with a copy of the Report as a retail client because of your connection to the matters set out in the Report.

2. This Financial Services Guide

This Financial Services Guide ("**FSG**") is designed to assist retail clients in their use of any general financial product advice contained in the Report. This FSG contains information about PwC Securities generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the Report, and how complaints against us will be dealt with.

3. Financial services we are licensed to provide

Our Australian financial services licence allows us to provide a broad range of services, including providing financial product advice in relation to various financial products such as securities, interests in managed investment schemes, derivatives, superannuation products, foreign exchange contracts, insurance products, life products, managed investment schemes, government debentures, stocks or bonds, and deposit products.

6

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4. General financial product advice

The Report contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.

You should consider your own objectives, financial situation and needs when assessing the suitability of the Report to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

5. Fees, commissions and other benefits we may receive

PwC Securities charges fees to produce reports, including this Report. These fees are negotiated and agreed with the entity who engages PwC Securities to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us. In the preparation of this Report our fees charged are $595,500 (excluding GST).

Directors or employees of PwC Securities, PricewaterhouseCoopers, or other associated entities, may receive partnership distributions, salary or wages from PricewaterhouseCoopers.

6. Associations with issuers of financial products

PwC Securities and its authorised representatives, employees and associates may from time to time have relationships with the issuers of financial products. For example, PricewaterhouseCoopers may be the auditor of, or provide financial services to, the issuer of a financial product and PwC Securities may provide financial services to the issuer of a financial product in the ordinary course of its business.

7. Complaints

If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner. In addition, a copy of our internal complaints handling procedure is available upon request.

If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Australian Financial Complaints Authority (**"AFCA"**), an external complaints resolution service. AFCA can be contacted by calling 1800 931 678. You will not be charged for using the AFCA service.

8. Contact Details

PwC Securities can be contacted by sending a letter to the following address:

Brian Mullock
One International Towers Sydney, Watermans Quay,
Barangaroo NSW 2000

Additional Information

9.1 Registration

Tyro Payments Limited was registered in New South Wales, Australia on 3 February 2003.

Tyro SaleCo Limited was registered in New South Wales, Australia on 5 November 2019 as a public company.

9.2 Company tax status and financial year

We are and will be subject to tax at the applicable Australian corporate tax rate (which for Tyro Payments Limited currently is 30%). Our financial year ends on 30 June annually.

9.3 Corporate structure chart

Tyro Payments Limited is the only entity in our corporate structure.

9.4 Capital structure

Table 9.1 Capital structure

CAPITAL STRUCTURE AT PROSPECTUS DATE	EXPECTED CAPITAL STRUCTURE ON COMPLETION BASED ON THE EXAMPLE OFFER STRUCTURE AND THE MID-POINT PRICE[1]
450,472,423 Shares	497,736,554 Shares[2]
42,390,098 Options	42,390,098 Options[3]
1,326,186 Remuneration Sacrifice Rights	1,326,186 Remuneration Sacrifice Rights[3]
4,100,000 Liquidity Event Performance Rights	4,100,000 Liquidity Event Performance Rights[4]
Rights to receive up to 2,400,000 Shares in aggregate under 6 POS Partner Agreements	Rights to receive up to 2,100,000 Shares in aggregate after Completion under 6 POS Partner Agreements[5]

Note:

1. Refer to **Section 6.3** and **6.4.2.6** for information on current and expected Shareholdings of existing Shareholders and Directors respectively.
2. Refer to **Section 7.1** for information on the matters which will impact the number of Shares on Completion (and the assumptions behind the Example Offer Structure).
3. Refer to **Section 6.4.4** for further detail on Options and Remuneration Sacrifice Rights. Options on Completion may differ from the total amount above, in particular if vested Options are exercised and Shares are issued in respect of those Option before that time.
4. On Completion, 1,368,000 Shares become eligible to be issued pursuant to the terms of that number of Liquidity Event Performance Rights, pending exercise by the relevant holder.
5. Refer to **Section 3.11.5** and **Note 24** in **Appendix A** for information about POS Partner Agreements. We expect to issue 300,000 Shares under POS Partner agreements between the Prospectus Date and Completion.

9.5 Participation in issues of securities

Except as described in this Prospectus, we have not granted, or proposed to grant, any rights to any person, or to any class of person, to participate in an issue of our securities.

9.6 Sale of existing Shares by SaleCo

SaleCo, a special purpose vehicle, has been incorporated to facilitate the sale of existing Shares held by the Selling Shareholders (refer to **Section 7.1.1**).

SaleCo will acquire Shares from the Selling Shareholders who determine to sell Shares to SaleCo under agreements between those parties (**Sale Agreements**). The Sale Agreements, which are conditional upon determination of the Final Price, will provide that Shares will be sold by Selling Shareholders to SaleCo at the Final Price on Completion, free from encumbrances and third party rights.

The Shares which SaleCo acquires from the Selling Shareholders will be transferred to successful applicants under the Offer. The final number of Shares to be sold by SaleCo will depend on the matters summarised in **Section 7.1**.

The price payable by SaleCo for these existing Shares is the Final Price. We will also issue new Shares to successful applicants under the Offer as described in **Section 7.1**.

SaleCo has no material assets, liabilities or operations other than its interests in and obligations under the Offer Management Agreement and the Sale Agreements described above once entered into. The shareholder of SaleCo is Robbie Cooke, and the directors of SaleCo are Catherine Harris AO, Fiona Pak-Poy, and Paul Rickard. We have indemnified SaleCo, and the directors of SaleCo, for any loss that SaleCo, or the directors of SaleCo, may incur as a consequence of the Offer.

9.7 Material contracts

9.7.1 Offer Management Agreement

The Company, SaleCo, and Joint Lead Managers have entered into the Offer Management Agreement, on the Prospectus Date. Under the Offer Management Agreement, the Joint Lead Managers have agreed to arrange and manage and provide settlement support for the Institutional Offer and Broker Firm Offer.

9.7.1.1 Commissions, fees and expenses

We must pay to the Joint Lead Managers in equal proportions and in accordance with the Offer Management Agreement a fee of 3.00% of the proceeds under the Offer.

We have agreed to reimburse the Joint Lead Managers for reasonable costs and expenses incurred by the Joint Lead Managers in relation to the Offer. We have authorised the Joint Lead Managers to pay any fees or expenses of the Co-Managers out of the fees payable (and such fees will not be borne by us).

9.7.1.2 Termination events

A Joint Lead Manager may terminate the Offer Management Agreement, at any time after the date of the Offer Management Agreement and on or before 4.00pm on the date of settlement, or at any other time earlier as specified below, may terminate with cost or liability by notice to us, SaleCo and the other Joint Lead Manager if any of the following events occur:

- a material statement in the Prospectus is or becomes misleading or deceptive, or a material matter required to be included is omitted from the Prospectus (including without limitation, having regard to the provisions of Part 6D.2 of the Corporations Act);
- the US Institutional Offering Memorandum or the associated pricing information for the Offer (**Pricing Disclosure Package**) includes an untrue statement of a material fact or omits to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading;
- there occurs a new circumstance that arises after the Prospectus is lodged that would have been required to be included in the Prospectus under section 719(1)(c) of the Corporations Act;
- the Company or SaleCo issues or, in the reasonable opinion of a Joint Lead Manager seeking to terminate, is required to issue, a supplementary prospectus because of section 719(1) of the Corporations Act, or to amend or supplement, in any material respect, the U.S. Institutional Offering Memorandum or the Pricing Disclosure Package; or the Company lodges a supplementary prospectus (in certain circumstances) with ASIC in a form that has not been approved by the Joint Lead Managers;
- at any time the S&P/ASX 200 Index falls to a level that is 90% or less of the level as at the close of trading on the date immediately prior to the date of close of the Bookbuild and is at or below that level at any time before the date of allotment;
- any of the voluntary escrow deeds are withdrawn, varied, terminated, rescinded, altered or amended, breached or failed to be complied with (other than with the consent of the Joint Lead Managers);
- the Company or SaleCo, or any of their respective Directors or officers (as those terms are defined in the Corporations Act) engage in any fraudulent conduct or activity whether or not in connection with the Offer;
- approval is refused or not granted, or approval is granted subject to conditions other than customary conditions, to:
  - the Company's admission to the official list of ASX on or before the date required in the Offer Management Agreement; or
  - the quotation of the Shares on Completion on ASX or for the Shares on Completion to be traded through CHESS on or before the date set out in the Offer Management Agreement,

  or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld;
- any of the following notifications are made in respect of the Offer:
  - ASIC issues an order (including an interim order) under section 739 of the Corporations Act in relation to the Offer or the Prospectus, or ASIC prosecuting or commencing proceedings in relation to the Offer or the Prospectus, except where such order is withdrawn within two business days of being made (or if it is made within two business days prior to the date of settlement, it is withdrawn prior to the date of settlement);
  - ASIC holds a hearing under section 739(2) of the Corporations Act, except where such hearing is withdrawn within two business days of commencing (or if it is held within two business days prior to the date of settlement, it is withdrawn prior to the date of settlement);

- an application is made by ASIC for an order under Part 9.5 of the Corporations Act in relation to the Offer or an Offer document or ASIC commences any investigation or hearing under Part 3 of the ASIC Act in relation to the Offer or an Offer document, except where such application, investigation or hearing is withdrawn within two business days of being made (or if it is made within two business days prior to the date of settlement, it is withdrawn prior to the date of settlement);
- any person (other than the terminating Joint Lead Manager) who has previously consented to the inclusion of its name in the Prospectus withdraws that consent; or
- any person (other than the terminating Joint Lead Manager) gives a notice under section 730 of the Corporations Act in relation to the Prospectus;

- the Company or SaleCo does not provide a closing certificate as and when required by the Offer Management Agreement;
- the Company or SaleCo withdraws the Prospectus, the US Institutional Offering Memorandum or the Offer or indicates that it does not intend to proceed with the Offer;
- the Company or SaleCo becomes insolvent, or there is an act or omission which is likely to result in the Company or SaleCo becoming insolvent;
- an event specified in the timetable set out in the Offer Management Agreement up to and including the date of settlement is delayed by more than two business days (other than any delay caused solely by the Joint Lead Managers or any delay agreed between the Company and the Joint Lead Managers or a delay as a result of an extension of the Exposure Period by ASIC);
- the Company is prevented from allotting and issuing new Shares, or SaleCo is prevented from transferring the sale Shares, within the time required by the timetable set out in the Offer Management Agreement, the Offer documents, the Listing Rules, the ASX Settlement Operating Rules or by any other applicable laws, an order of a court of competent jurisdiction or a governmental authority;
- except as disclosed in the Prospectus, the Company:
  - alters the issued capital of the Company; or
  - disposes or attempts to dispose a substantial part of the business or property of the Company,

  without the prior written consent of the Joint Lead Managers;
- if a regulatory body withdraws, revokes or varies any regulatory approvals required for the Company or SaleCo to perform their obligations under the Offer Management Agreement or to carry out the transactions contemplated by the Offer documents;
- the CEO, CFO or Chairman of the Company vacates their office; or
- there is a change in the CEO, CFO or Board of Directors of the Company.

9.7.1.3 Termination subject to materiality

A Joint Lead Manager may terminate without cost or liability by notice to the Company, SaleCo and the other Joint Lead Manager if any of the following events occur at any time on or before 4.00pm on the date of settlement, (or at any other time as specified below) and a Joint Lead Manager has reasonable grounds to believe, and acting reasonably, does believe that such event (i) has or is likely to have a materially adverse effect on the success, settlement, marketing or outcome of the Offer or on the ability of the Joint Lead Managers to market or promote the Offer; or (ii) will, or is likely to, give rise to a liability of the Joint Lead Manager, or give rise to, or result in, a material contravention by that Joint Lead Manager, or the Joint Lead Manager being involved in a contravention of, any applicable law:

- there are not, or there ceases to be, reasonable grounds in the opinion of the terminating Joint Lead Manager for any statement or estimate in the Offer Documents which relate to a future matter, or any statement or estimate in the Offer Documents which relate to a future matter is, in the opinion of the terminating Joint Lead Manager, unlikely to be met in the projected timeframe (including in each case financial forecasts);
- there is an event or occurrence, including any statute, order, rule, regulation, directive or request (including one compliance with which is in accordance with the general practice of persons to whom the directive or request is addressed) of any Governmental Agency which makes it illegal for the Joint Lead Managers to satisfy an obligation under this document, or to market, promote or settle the Offer;
- any of the following occurs:
  - a director named in the Prospectus of the Company or SaleCo is charged with an indictable offence;
  - any governmental agency commences any public action against the Company or SaleCo or any of its directors in their capacity as a director of the Company or SaleCo, or announces that it intends to take action; or
  - any director named in the Prospectus of the Company is disqualified form managing a corporation under Part 2D.6 of the Corporations Act;

- the report of the due diligence committee is misleading or deceptive, including by way of omission;
- an event occurs which will, or is likely to, give rise to an adverse change in the assets, liabilities, financial position or performance, profits, losses or prospects of the Company, including any such change from those disclosed in the Prospectus or the U.S. Institutional Offering Memorandum;
- there is introduced, or there is a public announcement of a proposal to introduce, a new law or regulation or government policy in Australia (including in any State or Territory in Australia or by any Commonwealth or State authority, but excluding a policy of the Reserve Bank of Australia or ASIC), New Zealand, the United States or the United Kingdom, (other than a law or policy which has been announced before the date of the Offer Management Agreement);
- any of the Offer documents or any aspect of the Offer does not comply with the Corporations Act, the Listing Rules or any other applicable law or regulation;
- a representation or warranty contained in the Offer Management Agreement on the part of the Company or SaleCo (whether severally or jointly) becomes not true or correct;
- the Company or SaleCo defaults on one or more of its obligations or undertakings under the Offer Management Agreement;
- the commencement of legal proceedings against SaleCo or the Company or against or any of their officers or directors;
- any of the following occur:
  - the commencement of legal proceedings against the Company or SaleCo or against any of their officers or directors; or
  - any regulatory body commences any enquiry or public action against the Company or SaleCo;
- the Company is in breach of any debt covenant;
- hostilities not presently existing commence (whether war has been declared or not) or an escalation in existing hostilities occurs (whether war has been declared or not) involving any one or more of Australia, New Zealand, the United States, the United Kingdom, the People's Republic of China, Hong Kong, Singapore, Russia or any member state of the European Union, or a major terrorist act is perpetrated on the country or any diplomatic, military, commercial or political establishment of any of those countries;
  - a statement in the closing certificate provided by the Company or SaleCo is false, misleading, inaccurate, untrue or incorrect (including by way of omission); or
- any of the following occurs:
  - a general moratorium on commercial banking activities in Australia, New Zealand, the People's Republic of China, Singapore, Hong Kong, the United Kingdom, the United States or a member state of the European Union is declared by the relevant central banking authority in those countries, or there is a disruption in commercial banking or security settlement or clearance services in any of those countries;
  - any adverse effect on the financial markets in Australia, New Zealand, the People's Republic of China, Singapore, Hong Kong, the United Kingdom, the United States or a member state of the European Union, or in foreign exchange rates or any development involving a prospective change in political, financial or economic conditions in any of those countries; or
  - trading in all securities quoted or listed on ASX, the London Stock Exchange, the New York Stock Exchange or the Hong Kong Stock Exchange is suspended or limited in a material respect for one day (or a substantial part of one day) on which that exchange is open for trading.

9.7.1.4 Indemnity

Subject to certain exclusions relating to, among other things, gross negligence, fraud or willful misconduct by an indemnified party, the Company agrees to keep the Joint Lead Managers and certain affiliated parties indemnified from losses suffered in connection with the Offer.

9.7.1.5 Representations, warranties and undertakings

The Offer Management Agreement contains certain standard representations, warranties and undertakings by us and SaleCo to the Joint Lead Managers (as well as common conditions precedent) including the entry into voluntary escrow deeds referred to in **Section 6.5** in a form and substance acceptable to the Joint Lead Managers.

The representations and warranties given by the Company and SaleCo include but are not limited to matters such as power and authorisations, compliance with applicable laws and the ASX Listing Rules, financial information, information contained in the Prospectus, the conduct of the Offer and the due diligence process, litigation, patents and trademarks, IT systems, encumbrances, licences, insurance, dividends and distributions, title to property, internal controls, tax and labour. The Company and SaleCo provide undertakings under the Offer Management Agreement which include, but are not limited to, notifications

of breach of any obligation, representation or warranty or undertaking or non-satisfaction of any condition given by us under the Offer Management Agreement and that the Company and SaleCo will not, during the period following the date of the Offer Management Agreement until 120 days after Shares have been issued under the Offer, issue any Shares or securities without the consent of the Joint Lead Managers, subject to certain exceptions including pursuant to the Offer, the Offer Management Agreement, an employee share or option plan, a non-underwritten dividend reinvestment or a bonus share plan as described in the Prospectus.

9.8 Description of the syndicate

The Joint Lead Managers of the Offer are J.P. Morgan Securities Australia Limited and Morgan Stanley Australia Securities Limited. The Co-Managers of the Offer are Morgan Stanley Wealth Management Australia Pty Ltd and Ord Minnett Limited.

9.9 Litigation and claims

As at the Prospectus Date, so far as the Directors are aware, there is no current or threatened civil litigation, arbitration proceedings or administrative appeals, or criminal or governmental prosecutions of a material nature in which the Company is directly or indirectly concerned which is likely to have a material adverse impact on our business or financial position.

9.10 Australian taxation considerations

9.10.1 Australian taxation considerations

The following information is a general summary of the Australian tax issues for Australian tax resident individuals, complying superannuation entities, trusts, partnerships and corporate investors (other than life insurance companies) that hold their Shares on capital account. The following tax comments are based on the tax law in Australia in force, established interpretations of that law and understanding of the practice of the relevant tax authority as at the Prospectus Date. The summary in this **Section 9.10** does not take into account the tax law of countries other than Australia.

This summary is general in nature and is not intended to be an authoritative or complete statement of all potential tax implications for each investor. Australian tax laws are complex. The tax consequences discussed in this **Section 9.10** do not take into account or anticipate any changes in law (by legislation or judicial decision) or any changes in the administrative practice or interpretation by the relevant authorities. If there is a change, including a change having retrospective effect, the tax, stamp duty and GST consequences should be reconsidered by investors in light of the changes. The precise implications of ownership or disposal will depend upon each investor's specific circumstances. Investors should seek their own professional advice on the taxation implications of holding or disposing of Shares, taking into account their specific circumstances.

These comments do not apply to investors that hold Shares as trading stock or on revenue account, investors who are exempt from Australian income tax or investors subject to the Taxation of Financial Arrangements regime in Division 230 of the Income Tax Assessment Act 1997 (Cth).

This **Section 9.10** does not constitute financial product advice as defined in the Corporations Act. Taxation issues, such as (but not limited to) those covered by this **Section 9.10**, are only one of the matters an investor needs to consider when making a decision about a financial product. Investors should consider taking advice from someone who holds an Australian financial services licence before making such a decision.

9.10.2 Dividends paid on Shares

Dividends paid by us on a Share will constitute assessable income of an Australian tax resident investor. Australian tax resident investors who are individuals or complying superannuation entities should include the dividend in their assessable income (some superannuation funds may be exempt in relation to Shares to the extent they are held to support current pension liabilities) in the year the dividend is paid, together with any franking credit attached to that dividend if they are a 'qualified person' (refer to further comments below). The rate of tax payable by an Australian tax resident investor that is an individual will depend on the individual circumstances of the investor and his/her prevailing marginal rate of income tax.

Investors who are individuals or complying superannuation entities should be entitled to a tax offset equal to the franking credit attached to the dividend subject to being a 'qualified person'. The tax offset can be applied to reduce the tax payable on the investor's taxable income. Where the tax offset exceeds the tax payable on the investor's taxable income, such investors should be entitled to a tax refund.

To the extent that the dividend is unfranked, the investor should include the dividend in their assessable income with no tax offset.

9.10.2.1 Australian tax resident individuals and complying superannuation entities

Dividends paid by the Company on a share will constitute assessable income of an Australian tax resident investor. Australian tax resident investors who are individuals or complying superannuation entities should include the dividend in their assessable income (some superannuation funds may be exempt in relation to Shares to the extent they are held to support current pension liabilities) in the year the dividend is paid, together with any franking credit attached to that dividend. Such investors should be entitled to a tax offset equal to the franking credit attached to the dividend. The tax offset can be applied to reduce the tax payable on the investor's taxable income. Where the tax offset exceeds the tax payable on the investor's taxable income, such investors should be entitled to a tax refund.

To the extent that the dividend is unfranked, the investor should include the dividend in their assessable income with no tax offset.

9.10.2.2 Australian tax resident corporate investors

Corporate investors are also required to include both the dividend and associated franking credit in their assessable income subject to being a 'qualified person'. They are then allowed a tax offset up to the amount of the franking credit on the dividend. Where the tax offset exceeds the tax payable, the excess cannot give rise to a refund for a company but may be converted into carry forward tax losses.

Any Australian tax resident corporate investor should be entitled to a credit in its own franking account to the extent of the franking credit on the distribution received. This will allow the corporate investor to pass on the benefit of the franking credits to its own investor(s) on the payment of dividends.

9.10.2.3 Australian tax resident trusts and partnerships

Investors who are trustees (other than trustees of complying superannuation entities) or partnerships should include the franking credit in determining the net income of the trust or partnership. Subject to being a 'qualified person', the relevant beneficiary or partner may be entitled to a tax offset equal to the beneficiary's or partner's share of the franking credits received by the trust or partnership.

9.10.2.4 Shares held at risk

The benefit of franking credits can be denied where an investor is not a 'qualified person' in which case the investor will not need to include an amount for the franking credits in their assessable income and will not be entitled to a tax offset.

Broadly, to be a qualified person, an investor must satisfy the holding period rule including, if necessary, the related payment rule. Under the holding period rule, an investor is required to hold Shares 'at risk' for more than 45 days continuously during a specified period in order to qualify for franking benefits, including franking credits. This period is measured as the period commencing on the day after the Shares were acquired and ending on the 45th day after the Shares become ex-dividend.

This holding period rule is subject to certain exceptions, including where the total franking offsets of an individual in a year of income do not exceed $5,000. Special rules apply to trusts and beneficiaries.

Under the related payment rule, a different testing period applies where the investor has made, or is under an obligation to make, a related payment in relation to the dividend. The related payment rule requires the investor to have held the Shares at risk for the continuous 45 day period as above but within the limited period commencing on the 45th day before, and ending on the 45th day after, the day the Shares become ex-dividend (but not including the date of disposal of the Shares). Any day on which an investor has a materially diminished risk of loss or opportunity for gain in respect of the Shares (e.g. through transactions such as granting options or warrants over Shares or entering into a contract to sell the Shares) will not be counted as a day on which the investor held the Shares 'at risk'.

Investors should seek professional advice to determine if these requirements, as they apply to them, have been satisfied.

9.10.3 Disposal of Shares

Australian tax resident Shareholders who hold their Shares on capital account will be required to consider the impact of the Australian capital gains tax provisions in respect of the disposal of their Shares.

Where the capital proceeds received on disposal of the Shares exceed the CGT cost base of those Shares, Australian tax resident Shareholders will be required to recognise a capital gain.

In the case of an arm's length on-market sale, the capital proceeds will generally be the cash proceeds from the sale.

The CGT cost base of the Shares should generally be equal to the issue price or acquisition price of the Shares plus, among other things, incidental costs associated with the acquisition and disposal of the Shares.

In respect of the CGT cost base of the Shares, this amount may be reduced as a result of receiving non-assessable distributions from the Company, such as returns of capital.

Conversely, Australian tax resident Shareholders may recognise a capital loss on the disposal of Shares where the capital proceeds received on disposal are less than the reduced CGT cost base of the Shares.

All capital gains and losses recognised by an Australian tax resident Shareholder for an income year are added together. To the extent that a net gain exists, such Shareholders should be able to reduce the gain by any amount of unapplied net capital losses carried forward from previous income years (provided certain loss recoupment tests are satisfied). Any remaining net gain (after the application of any carried forward capital losses) will then be required to be included in the Australian tax resident Shareholder's assessable income (subject to the comments below in relation to the availability of the CGT discount concession) and will be taxable at the Shareholder's applicable rate of tax. Capital losses are capable of being carried forward indefinitely, provided the relevant loss recoupment tests are satisfied. Capital losses cannot be offset against other assessable income.

Non-corporate Australian tax resident Shareholders may be entitled to a concession which discounts the amount of capital gain that is assessed. Broadly, the concession is available where the Shares have been held for at least 12 months prior to disposal. The concession results in a 50% reduction in the assessable amount of a capital gain for an individual Australian tax resident Shareholder or trust, and a one third reduction of a capital gain for an Australian tax resident complying superannuation entity Shareholder. The concession applies to any net capital gain (i.e. it applies after current year or prior year capital losses have been deducted against any capital gains). The concession is not available to corporate Australian tax resident Shareholders.

In relation to Australian tax resident trusts, the rules surrounding capital gains and the CGT discount are complex, but the benefit of the CGT discount may flow through to relevant beneficiaries, subject to certain requirements being satisfied.

9.10.4 Tax file number and Australian Business Number

A Shareholder is not obliged to quote their tax file number, or where relevant, Australian Business Number, to the Company.

However, if a TFN or ABN is not quoted or exemption details are not provided and no exemption is applicable, income tax is required to be deducted by the Company at the highest marginal tax rate plus the Medicare levy from certain dividends paid.

No withholding requirement applies in respect of fully franked dividends paid by the Company on the Shares.

9.10.5 Stamp duty

No stamp duty should be payable by a Shareholder on the issue, transfer or acquisition of Shares pursuant to the Offer. Further, under current stamp duty legislation, stamp duty should not ordinarily be payable on any subsequent acquisition by transfer of Shares by a Shareholder provided the Company remains listed on the ASX at the time of the transfer. For completeness, we note that a liability for a duty may arise if an investor (alone or together with associates) acquires 90% or more of shares in a company listed on the ASX, and the company is a 'landholder' for duty purposes at that time.

9.10.6 Australian goods and services tax

Under current Australian law, goods and services tax should not be payable in respect of the issue, acquisition, disposal or transfer of Shares or on the payment of dividends. However, Shareholders may be charged GST on brokerage, or other professional advisory services acquired by Shareholders in their own right in relation to the IPO of the Company.

Shareholders should see their own advice to determine whether they will be entitled to claim GST incurred on costs associated with the acquisition or disposal of Shares.

9. ADDITIONAL INFORMATION

9.11 Consents

Each of the parties referred to below (each a **Consenting Party**), to the maximum extent permitted by law, expressly disclaims all liabilities in respect of, makes no representations regarding and takes no responsibility for any statements in or omissions from this Prospectus, other than the reference to its name in the form and context in which it is named and a statement or report included in this Prospectus with its consent as specified below.

Each of the Consenting Parties has given and has not, before the lodgement of this Prospectus with ASIC, withdrawn its written consent to be named in this Prospectus in the form and context in which it is named. None of the Consenting Parties referred to below has made any statement that is included in this Prospectus or any statement on which a statement is made in this Prospectus is based, other than as specified below:

- J.P. Morgan;
- Morgan Stanley and Morgan Stanley Wealth Management Australia Pty Ltd;
- PricewaterhouseCoopers Securities Ltd;
- EY;
- Link Market Services;
- TDM Growth Partners;
- Ord Minnett Limited; and
- Clayton Utz.

PricewaterhouseCoopers Securities Ltd has given, and has not withdrawn prior to the lodgement of the Prospectus, its written consent to being named as Investigating Accountant in **Section 4** and the **Corporate directory** of this Prospectus in the form and context in which it is so named and to the inclusion of its Investigating Accountant's Reports in **Section 8** in the form and context in which they are so included.

EY has given, and has not withdrawn prior to the lodgement of this Prospectus, its written consent to be named in this Prospectus as our auditor in the form and context in which it is so named.

TDM Growth Partners has given, and has not withdrawn prior to the lodgement of this Prospectus, its written consent to inclusion of its intention to bid for Shares under the Institutional Offer as referred to in **Sections 1.6**, **6.3** and **6.5**.

We have included statements in this Prospectus made by, attributed to or based on statements made by the following parties:

- Capgemini Research Institute Research Institute, World Payments Report 2019 – Figure 19;
- The Nilson Report Issue 1154, May 2019. Global Card Brands in 2018 – Ranked by Purchase Transactions;
- APRA, Authorised deposit-taking institutions' points of presence statistics, 30 June 2019;
- APRA, 'Peering into a cloudy future', Wayne Byres, Chairman – 2018 Curious Thinkers Conference, Sydney;
- APRA, 'Technology that is end-of-life, out-of-support or in extended support is typically less secure by design, has a dated security model and can take longer (or may be unable to) effect change, based on 'Peering into a cloudy future', Wayne Byres, Chairman – 2018 Curious Thinkers Conference, Sydney.
- AusPayNet, Milestones Report: The Digital Economy, June 2018;
- AusPayNet, Device Statistics – EFTPOS Statistics, 30 June 2019;
- RBA, How Australians Pay: Evidence from the 2016 Consumer Payments Survey, July 2017,
- RBA, "A Journey Towards a Near Cashless Payments System", Governor Philip Lowe, Speech at 2018 Australian Payment Summit, Sydney, 26 November 2018.
- RBA, Least-cost Routing of Debit Card Transactions, as at 29 September 2019;
- RBA, 'Modernising Australia's Payments System', Michele Bullock, Assistant Governor (Financial System) – Speech to the Central Bank Payments Conference, Berlin, 25 June 2019.
- House of Representatives Standing Committee on Economics, Review of the Four Major Banks (Third Report), December 2017; and
- East & Partners and Judo Bank, SME Banking Insights Annual Report 2019.

The inclusion of statements made by, attributed to or based on statements made by these parties has not been consented to by the relevant party for the purpose of section 729 of the Corporations Act and are included in this Prospectus by us on the basis of ASIC Corporations (Consents to Statements) Instrument 2016/72 relief from the Corporations Act for statements used from books, journals or comparable publications.

9.12 ASIC exemptions and declarations

We have obtained the following exemptions and declarations from ASIC in relation to the Offer:

- an ASIC exemption from the pre-prospectus advertising and publicity rules in section 734(2) of the Corporations Act to permit us to provide employees with certain information relating to the Offer;
- an ASIC exemption from the pre-prospectus advertising and publicity rules in section 734(2) of the Corporations Act to permit us to pre-register interest in receiving a copy of the Prospectus from our merchants relating to the Offer;
- a declaration from ASIC modifying Chapter 6 of the Corporations Act so the Shares that SaleCo possesses before and during sell down do not give rise to a relevant interest in respect of those existing Shares;
- a declaration from ASIC modifying Chapter 6 of the Corporations Act so that the voluntary escrow arrangements described in **Section 6.5** do not give rise to a relevant interest for us in respect of the escrowed Shares held by certain Escrowed Shareholders; and
- an ASIC exemption from the on-sale provisions in section 708A(11) of the Corporations Act to permit the exercise of existing options and performance rights, and issue of shares under certain Tyro Connect POS system agreements.

9.13 ASX waivers and confirmations

We have obtained a waiver of Condition 12 of Listing Rule 1.1 in relation to certain options and performance rights to be issued under the Option Plan, Remuneration Sacrifice Rights Plan and Liquidity Event Performance Rights Plan.

We have obtained a confirmation from ASX that none of the securities on issue post-IPO will be mandatorily restricted for the purposes of Chapter 9 of the ASX Listing Rules.

We have obtained a confirmation that ASX would be likely to permit us to refuse to register a transfer of Shares where the transfer will result in a breach of the FSSA (as described in **Section 9.14.2**).

We have obtained a confirmation from ASX in relation to the Offer that there may be conditional and deferred settlement trading of the Shares subject to certain conditions to be approved by the ASX.

9.14 Ownership restrictions

The sale and purchase of Shares is regulated by Australian laws that restrict the level of ownership or control by any one person (either alone or in combination with others). This **Section 9.14** contains a general description of these laws.

9.14.1 Corporations Act

The takeover provisions in Chapter 6 of the Corporations Act restrict acquisitions of shares in listed companies, and unlisted companies with more than 50 members, if the acquirer's (or another party's) voting power would increase to above 20%, or would increase from a starting point that is above 20% and below 90%, unless certain exceptions apply.

The Corporations Act also imposes notification requirements on persons having voting power of 5% or more in us.

9.14.1.1 Foreign Acquisitions and Takeovers Act 1975 (Cth)

Generally, the Foreign Acquisitions and Takeovers Act 1975 (Cth) applies to acquisition of shares and voting power in a company of 20% or more by a single foreign person and its associates, or 40% or more by two or more unassociated foreign persons and their associates, where the acquisition meets a threshold value (which varies by investor type and industry). In addition, the FATA applies to acquisitions of a direct interest in an Australian company by foreign governments and their related entities irrespective of the acquisition value. A 'direct interest' is an interest of 10% in the entity but may also include an interest of less than 10% where the investor has entered into business arrangements with the entity or the investor in in a position to influence or participate in the management and control or policy of the entity. There are exemptions which can apply to certain acquisitions.

Where the FATA applies to the acquisition, the acquisition may not occur unless notice of it has been given to the Federal Treasurer and the Federal Treasurer has either notified that there is no objection to the proposed acquisition (with or without conditions) or a statutory period has expired without the Federal Treasurer objecting.

An acquisition to which the FATA applies may be the subject of a divestment order by the Federal Treasurer unless the process of notification, and either a non-objection notification or expiry of a statutory period without objection, has occurred. Criminal offences and civil penalties can apply to failing to give notification of certain acquisitions, undertaking certain acquisitions without no objection notification or contravening a condition in a no objection notification.

9.14.2 Financial Sector (Shareholdings) Act 1998 (Cth)

The Financial Sector (Shareholdings) Act 1998 (Cth) generally restricts ownership in and acquisition of a financial sector company (such as an ADI and any 100% holding company of an ADI company) by a person and its associates to a maximum of 20% of shares or voting power unless the prior approval of the Federal Treasurer is obtained. The Federal Treasurer or APRA may give approval to hold a stake of more than 20%, or an increased stake where approval to hold more than 20% is already held, if satisfied that it is in the national interest to do so. Penalties may be imposed on persons who (together with their associates) hold a stake beyond 20%.

On 19 August 2015, APRA granted the **2015 Instrument** which, in summary, permitted members of our officer group (which is broadly defined and includes officers of the Company, their relatives and associated corporate entities) to hold a stake of up to 40% in us subject to the condition that any person who is a member of our officer group must ensure that the percentage of the voting power in us controlled by the person does not exceed 15%. A stakeholding is calculated in regard to the aggregate voting power held by an individual and their associates (as defined under the FSSA). That instrument remains in force as at the Prospectus Date but may be revoked by APRA (refer to **Section 5.3.8**).

The above does not purport to be a complete summary of the operation of the FSSA or the 2015 Instrument. Shareholders and prospective Shareholders should consider obtaining professional advice as to the operation of these matters.

9.15 Selling restrictions

This document does not constitute an offer of Shares in any jurisdiction in which it would be unlawful. In particular, this Prospectus may not be distributed to any person, and the Shares may not be offered or sold in any country outside of Australia, except as permitted below.

For selling restrictions in relation to an offer of Shares in certain jurisdictions outside Australia, see **Appendix B**.

9.16 Cost of the Offer

The costs of the Offer are expected to be $15.6 million (pre GST) based on the Mid-Point Price and the Example Offer Structure, of which $10.8 million (pre GST) will be expensed in FY20f. These costs will be borne by us from the proceeds of the Offer.

9.17 Privacy

We and the Share Registry on our behalf, collect, hold and use your personal information to process your application, service your needs as a Shareholder, provide facilities and services that you request and carry out appropriate administration. Once you have become a Shareholder, the Corporations Act requires information about you (including your name, address and details of the Shares you hold) to be included in the Shareholder register. This information must continue to be included in the Shareholder register even if you cease to be a Shareholder. If you do not provide all the information requested in the Application Form, your Application Form may not be able to be processed.

We and the Share Registry may disclose your personal information for purposes related to your investment to their agents and service providers including the following: the Share Registry for ongoing administration of the Shareholder register; the Joint Lead Managers in order to assess your application; printers and other companies for the purpose of preparation and administration of documents and for handling mail; market research companies for the purpose of analysing our shareholder base and for product development and planning; and legal and accounting firms, auditors, management consultants and other advisers for the purpose of administering, and advising on, the Shares and for associated actions.

You may request access to your personal information held by the Share Registry on our behalf, by contacting the Share Registry. You will generally be provided access to your personal information (subject to some exceptions permitted by law), but you may be required to pay a reasonable charge to the Share Registry for access. We aim to ensure that the personal information it retains about you is accurate, complete and up to date. To assist with this, please contact the Share Registry if any of the details you have provided change. In accordance with the requirements of the Corporations Act, information on the Shareholder register will be accessible by members of the public.

If you have any concerns or queries about the way your personal information is managed by us, please contact us by phone on 1800 883 072 (within Australia), by email to tyroipo@linkmarketservices.com.au or write to Link Market Services Limited, Locked Bag A14, Sydney South, NSW 1235. Our privacy policy is available on our website www.tyro.com. The privacy policy contains information about how you can gain access to or seek correction of personal information that we hold about you. It also contains information about how you may make a privacy complaint and how we will deal with it.

9.18 Contract summaries

Summaries of contracts set out in this Prospectus (including the summary of the Offer Management Agreement set out in **Section 9.7.1**) are included for the information of potential investors but not do purport to be complete and are qualified by the text of the contracts themselves.

9.19 Photographs and diagrams

Photographs and diagrams used in this Prospectus that do not have descriptions are for illustration only and should not be interpreted to mean that any person shown in them endorses this Prospectus or its contents or that the assets shown in them are owned by us. Diagrams used in this Prospectus are illustrative only and may not be drawn to scale. Unless otherwise stated, all data contained in charts, graphs and tables is based on information available at the Prospectus Date.

9.20 Governing law

This Prospectus, the Offer and the contracts that arise from the acceptance of the applications and bids under this Prospectus are governed by the law applicable in New South Wales and each applicant and bidder submits to the exclusive jurisdiction of the courts of New South Wales.

9.21 Expiry Date

No Shares will be offered on the basis of this Prospectus after the Expiry Date.

9.22 Statement of Directors and SaleCo directors

This Prospectus is authorised by each Director and SaleCo director who consents to its lodgement with ASIC and its issue and has not withdrawn that consent.

Appendix A

The significant policies which have been adopted in the preparation of the Financial Information in **Section 4** are set out below.

1 Basis of preparation

We prepare our financial statements as a general-purpose financial report, in accordance with the requirements of the Corporations Act 2001 (Cth), Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial statements are also prepared on a historical cost basis, except for loans and financial investments which have been measured at fair value.

Similar categories of income and expenses have been grouped together. Prior year comparative information for these amounts, where necessary, has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

Our financial statements are presented in Australian dollars and all values are rounded to the nearest thousand dollars, under the option available to us under Australian Securities and Investments Commission Corporations Instrument 2016/191, unless otherwise stated.

2 Statement of compliance

Our financial statements comply with AAS issued by the AASB and comply with International Financial Reporting Standards and Interpretations issued by the International Accounting Standards Board.

3 Going concern

On a statutory historical basis, we had net current assets of $22.7 million as at 30 June 2019 ($39.8 million as at 30 June 2018). The Directors consider we are able to pay our debts as and when they fall due, and therefore we are able to continue as a going concern.

4 New accounting standards and interpretations

AASB 9 *Financial Instruments*

AASB 9 replaced AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2018. AASB 9 results in changes to accounting policies for financial assets and financial liabilities in the areas of classification and measurement, impairment and hedge accounting. We applied the requirements of AASB 9 in FY19 beginning 1 July 2018 in respect of the classification and measurement of financial assets and impairment of financial assets. We currently do not have any hedges in place. The transition adjustments were recognised in opening retained earnings at 1 July 2018 with no restatement of prior periods, as permitted by AASB 9.

The key changes in accounting policies and impacts from the transition are summarised below:

Classification and measurement

Financial assets

AASB 9 introduces a new model that categorises financial assets based on our business model for realising these assets and whether the contractual cash flows of the asset represent solely payments of principal and interest. We apply the following policies for the three new AASB 9 classification and measurement categories:

- *amortised cost* – a financial asset will be measured at amortised cost if both of the following conditions are met:
  - the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
  - the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- *fair value through other comprehensive income* (**FVOCI**) – a financial asset will be measured at FVOCI if both of the following conditions are met:
  - the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
  - the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Changes in the fair value of financial assets that are classified as FVOCI are recognised in the FVOCI reserve, except for recognition of expected credit losses, interest revenue or dividend income which are recognised in the income statement.

Interest income for the above financial assets is recognised in the income statement under 'Investments income' using the effective interest rate (**EIR**) method (or a method that approximates the EIR method).

When financial assets at FVOCI (other than equity investments) are de-recognised, the cumulative gain or loss previously recognised in the FVOCI reserve is reclassified to the income statement. For equity investments that we have elected to measure at FVOCI, the cumulative gain or loss recognised in the FVOCI reserve is never recycled to the income statement upon de-recognition. We may reclassify between equity accounts.

- *fair value through profit and loss* (**FVTPL**) – All financial assets that are not measured at amortised cost or FVOCI will be measured at FVTPL. All financial assets that are equity instruments will be measured at FVTPL unless we irrevocably elect to present subsequent changes in the FVOCI. We may also irrevocably elect to designate a financial asset as measured at FVTPL on initial recognition if doing so eliminates or significantly reduces an accounting mismatch. Interest income from loans at FVTPL is recognised in the income statement under 'Lending income'.

We determine the business model at the level that reflects how groups of financial assets are managed. In determining the business model, all relevant evidence that is available at the date of assessment is used including:

- how the performance of financial assets held within that business model are evaluated and reported to our key management personnel; and
- the risks that affect the performance of the business model and the way in which those risks are managed.

Judgement is exercised to determine the appropriate level to assess our business model.

Financial liabilities

The accounting for financial liabilities is largely unchanged under AASB 9.

Impairment

AASB 9 introduced a revised impairment model which moves from an incurred loss model to an expected credit loss (**ECL**) model. The ECL model requires more timely recognition of ECL's as well as recognition of full lifetime expected losses. The standard uses a three-stage approach:

- Stage 1 – for financial assets where there has been no significant increase in credit risk since origination, a provision for 12-month ECL is required;
- Stage 2 – for financial assets where there has been a significant increase in credit risk, a provision for full lifetime ECL is required; and
- Stage 3 – for financial assets where the asset is credit impaired, a provision for full lifetime ECL is required.

The impairment model is only applicable to financial assets measured at amortised cost or FVOCI.

Transition impacts

As permitted by AASB 9, we did not restate prior periods, with applicable transition adjustments being recognised in opening retained earnings at 1 July 2018.

AASB 15 *Revenue from Contracts with Customers*

AASB 15 established principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with the core principles explained in a step-by-step approach in the standard.

We adopted AASB 15 on 1 July 2018. We determined that no adjustments to opening retained earnings were required as the amendments to the accounting policies did not result in significant changes to the timing, amount or presentation of revenue as recognised previously.

Our revenue from contracts with customers is primarily in the nature of fees and commission income as presented in the income statement.

AASB 16 *Leases*

Under AASB 16, the lessee is required to recognise a lease on the statement of financial position which involves recognising a right-of-use asset and a related lease liability, being the present value of future lease payments. This does not apply where the underlying asset is of low value or the lease has a term of 12 months or less, as permitted by the practical expedients in AASB 16.

On 1 July 2019, we adopted AASB 16. The primary change from the adoption of the new standard is the application of lessee's accounting principles. Under AASB 16, the lessee is required to recognise a lease on the statement of financial position which involves recognising a right-of-use (**ROU**) asset and a related lease liability, being the present value of the future (minimum) lease payments.

We elected to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. Following a detailed assessment of the requirements of the standard, we recognised the impact of AASB 16 adoption at transition date using the modified retrospective approach and did not restate comparative information as permitted by the standard.

After the adoption of AASB 16, our income statement will change with interest expense recognised on the lease liability, depreciation recognised on the ROU asset and removal of rent expenses from other operating expenses.

Determining a lease arrangement

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

Where we are a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership is classified as a finance lease. Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in interest expense in the income statement. A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that we will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the income statement on a straight-line basis over the lease term.

Where we are a lessor

Leases in which we do not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the income statement due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

5 Significant accounting judgements, estimates and assumptions

In applying our accounting policies, management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on us. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from judgements, estimates and assumptions. Significant judgements, estimates and assumptions made by management in the preparation of our financial statements are outlined as follows:

- **revenue recognition** - application of the accounting policies in AASB 15 to the measurement and recognition of revenue requires judgements and estimates. Complex arrangements with non-standard terms and conditions may require significant contract interpretation to determine the appropriate accounting. Specifically, the determination of whether we are a principal to the whole settlement service for a transaction (revenue) or an agent for the schemes and card issuing banks (net revenue) can require considerable judgement. Changes in judgements with respect to these assumptions and estimates could impact the amount of revenue recognised significantly. Refer further to **Note 6**.

APPENDIX A. OUR ACCOUNTING POLICIES INCLUDING SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

- **share-based payments transactions** – we recognise the cost of equity-settled transactions with employees (including key management personnel) by reference to the fair value of the equity instruments at the date on which they are granted. The fair value is determined using the Black-Scholes option valuation model. The options are expensed using a linear probability of vesting approach. Refer further to **Note 24**;
- **classification of and valuation of investments** – we classify our investments in equity securities and floating rate notes as financial investments – at FVOCI, with movements in fair value recognised directly in equity. The fair value of listed shares has been determined by reference to published price quotations in an active market. Where no active market exists for a particular asset, we use a valuation technique to arrive at the fair value. The fair value of floating rate notes has been estimated using pricing data inputs provided by an independent third party pricing service which factors in recent arm's length transactions into their valuation methods. This makes maximum use of observable market inputs and places minimal reliance on entity-specific inputs. Refer to **Note 13**;
- **valuation of loans** – we classify and measure our loans at fair value, with movements in fair value recognised directly in the income statement. The fair value of loans has been estimated using a valuation technique that converts forecasted cash flows to a present value amount (discounted cash flow method). The forecasted cash flows are actuarially determined using predictive models based partly on evidenced historical performance and expected repayment profiles. Refer to **Note 12**;
- **capitalisation of internally generated software** – an intangible asset arising from development expenditure on an internal project is recognised by us only when the following can be demonstrated:
  - the technical feasibility of completing the intangible asset so that it will be available for use or sale;
  - our intention to complete and our ability to use or sell the asset;
  - how the asset will generate probable future economic benefits;
  - availability of resources to complete the development; and
  - the ability to measure reliably the expenditure attributable to the intangible asset during its development.

  We commence amortising internally generated software projects from the point the asset is ready for use. Refer to **Note 18**;
- **estimation of useful lives of assets** – the estimation of the useful lives of assets has been primarily based on historical experience. In addition, the condition of the assets is assessed at least once per year and considered against their remaining useful lives. Adjustments to useful lives are made when considered necessary. In assessing whether the useful life of an intangible asset is finite or indefinite, management use judgement in determining the period over which expected future benefits will be generated, also factoring in the market that we operate in and the longer-term strategy for us. An impairment assessment is conducted and reviewed by management at least annually as to whether indicators of impairment such as technical obsolescence exist. Refer to **Notes 17** and **18**;
- **long service leave** – entitlements that arise in respect of non-current long service leave have been measured at their present values of expected future payments. Long service leave is calculated based on assumptions and estimates of when employees will take leave and the prevailing wage rates at the time the leave will be taken. Long service leave liability also requires a prediction of the number of employees that will achieve entitlement to long service leave. Refer to **Note 23**;
- **taxation** – provisions for taxation require significant judgement with respect to outcomes that are uncertain. We have estimated our tax provisions based on expected outcomes. Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences. In forming their view, management considers the probability of forecast future taxable income and performs stress testing on expected budgets to assess the likelihood of deferred tax assets being utilised. Management does not recognise deferred tax assets where utilisation is not considered probable. An assessment of research and development activities and associated expenditure that is considered claimable, is conducted and reviewed by management at least annually as part of the annual R&D tax incentive application. An assessment of the continuity of ownership test (and where applicable, the same business test) is also performed to support the recognition of any carry forward tax losses and R&D credits. Refer to **Notes 14** and **15**.

6 Revenue recognition

Revenue from contracts with merchants is recognised in accordance with AASB 15 which introduced a single, principle-based five-step recognition and measurement model. The five steps are:

- identify the contract with a merchant;
- identify separate performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to each performance obligations identified in step 2; and
- recognise revenue when a performance obligation is satisfied.

Our fee income from contracts with merchants is derived primarily from the following sources:

- Merchant Service Fee income is generated from merchants for merchant acquiring services. Fees are charged to merchants depending on the type of transaction being performed based on a pre-agreed percentage of transaction value or on a fixed amount per transaction. Related interchange fees, which are collected from merchants and paid to issuers, are recognised as an expense instead of netting-off against Merchant Service Fee income in the income statement. We consider ourselves the principal in providing acquiring and transaction processing services to our merchants, and recognise fees charged to our merchants as revenue on a gross basis at the time transactions are processed. As a principal to the transaction, we control the acquiring and transaction processing services and bear primary responsibility for the fulfilment of the services. We contract directly with our merchants, control the product specifications, define the value proposition as well as provide customer support. Furthermore, we have discretion in setting prices or margin, which are independent of the fees paid to schemes and issuers, and bear margin risk on a significant proportion of our portfolio when completing a payment transaction;
- revenue from processing Medicare Easyclaim is based on a fixed fee per transaction and is recognised when transactions are processed; and
- revenue from Dynamic Currency Conversion transactions and Mail Order/Telephone Order transactions from merchants is calculated based on the individual value of the transactions and is recognised once the transaction has been processed.

Terminal rental income generated from operating leases with merchants is recognised progressively based on a fixed monthly rental on the terminal. There is no minimum rental period for merchants.

Investments income and lending income are recognised in the income statement in accordance with AASB 9 using a method that approximates the EIR method. The EIR method measures the amortised cost of a financial asset and allocates the interest income over the relevant period using the EIR which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

7 Cash and cash equivalents

Cash and cash equivalents comprise cash balances (including cash held in the Exchange Settlement Account with the Reserve Bank of Australia), call deposits and term deposits with an original maturity of three months or less from the date of acquisition.

8 Due from other financial institutions

This includes term deposits with maturities greater than three months from the date of acquisition, and term deposits pledged to counterparties as collateral. These are initially measured at fair value and subsequently measured at amortised cost using a method that approximates the EIR method.

9 Trade and other receivables

Trade receivables, which generally have 30 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the EIR method, less an allowance for expected credit losses. Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified.

AASB 9 impairment requirements are based on the ECL model. This replaces the 'incurred loss' approach under AASB 139. We have applied the simplified approach to calculate ECL for trade receivables where a loss allowance is based on lifetime ECL at each reporting date. An impairment analysis is performed at each reporting date using a provision matrix to measure ECL. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e. by customer type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

10 Prepayments

Prepayments are recognised for amounts paid whereby goods have not transferred ownership to us or where services have not yet been provided. Upon receipt of goods or the service, the corresponding asset is recognised in the statement of financial position or the expense is recognised in the income statement.

APPENDIX A. OUR ACCOUNTING POLICIES INCLUDING SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

11 Inventories

Cost and valuation

The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by us from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase. Inventories are subsequently held at the lower of cost and their net realisable value. Impairment is assessed on an annual basis. Inventories are de-recognised when the rights to benefits are transferred to a third party.

Impairment

Management makes assessments of the net realisable value of inventories on an annual basis. The cost of inventories may not be recoverable where the inventories are damaged, wholly or partially obsolete, or if selling prices have declined. In accordance with AASB 102 *Inventories*, where the cost of inventories exceeds the net realisable value, inventories are written down to their net realisable value.

Net realisable value is an estimate, based on the most reliable evidence at the time, of the amount the inventories are expected to realise.

12 Loans

Loans to merchants are classified and measured at fair value with changes in the fair value being recognised in the income statement. The loans are unsecured with an upfront ('unearned') fee charged to the merchant. As the merchant receives daily settlements, a percentage is taken toward loan repayments. The loan repayment includes a portion which recycles the unearned fee into the income statement as interest income and is disclosed together with the fair value movement on loans.

When the loan is uncollectible, it is written off. Such write-offs of loans occur after all the necessary assessment for write-off procedures has been completed and the amount of the loss has been determined. Loan write-offs are disclosed as lending losses in the income statement. Subsequent recoveries of amounts previously written off go to the income statement.

13 Financial investments

Financial investments are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the investment. After initial recognition these investments are measured at FVOCI. Gains or losses on financial investments are recognised in a separate reserve component of equity until the investment is sold, collected or otherwise disposed of or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is transferred to the income statement. The recycling to the income statement upon de-recognition does not apply to equity investments that we have irrevocably elected to measure at FVOCI. For these investments, the cumulative gain or loss remains in equity, though we may reclassify between equity accounts.

Purchase and sale of investments are recognised on trade date, which is the date on which we become party to the contractual provisions of the investment.

14 Income taxes

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

15 Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

16 Goods and services tax

Revenues, expenses, assets and liabilities are recognised net of the amount of GST except for the following:

- when the GST incurred on the purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- trade receivables and trade payables are stated with the amount of GST included.

The net amount of GST recoverable from or payable to the taxation authority is included as part of other receivables or other payables in the statement of financial position. Commitments and contingencies are disclosed net of the amount of GST. Cash flows are included in the statement of cash flows on a gross basis (unless stated otherwise) and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

17 Property, plant and equipment

Cost and valuation

Property, plant and equipment are measured at cost less accumulated depreciation and any impairment in value. We recognise in the carrying amount of an item of property, plant and equipment the cost of replacing parts when the cost is incurred and the recognition criteria are met. When each major inspection is performed, its cost is recognised in the carrying amount of the item of property, plant or equipment, as a replacement, provided that the recognition criteria are satisfied.

Depreciation

Depreciation is provided on a straight-line basis over the estimated useful life of each specific item of property, plant and equipment.

Estimated useful lives are as follows:

- terminals 3 years;
- furniture and office equipment 5 years;
- computer equipment 4 years; and
- leasehold improvements remaining term of lease.

The assets' residual values, remaining useful lives and depreciation methods are reassessed and adjusted, if appropriate at each reporting date.

Impairment

Management identifies applicable impairment indicators in accordance with AASB 136 Impairment of Assets. The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of plant and equipment is the greater of fair value less costs of disposal and its value in use.

De-recognition and disposal

An item of property, plant and equipment is de-recognised on disposal or when no future economic benefits are expected to arise from continued use of the asset. Gains and losses on disposals are calculated as the difference between the net disposal proceeds and the asset's carrying amount and are included in the income statement in the year the asset is de-recognised.

18 Intangible assets

We continue to make significant investments in various projects to develop new products and enhance existing products' capabilities. Research costs on an individual project are expensed as incurred. For certain projects, it is more probable that future economic benefits from the assets arising from the projects will flow to the entity and their expenditure can be measured reliably with enhancements in our data governance, system and reporting. Therefore, software development costs for those projects are recognised as intangible assets in the statement of financial position in accordance with AASB 138 *Intangible Assets*.

Following initial recognition of the development expenditure as an asset, the intangible asset is carried at its cost less any accumulated amortisation and any accumulated impairment losses. Each development project will then be reviewed annually for any indicator of impairments in accordance with AASB 136.

Intangible assets are amortised on a straight-line basis over three to five years. The useful life of finite intangible assets is judgemental and reviewed annually by management, with adjustments made where deemed necessary.

APPENDIX A. OUR ACCOUNTING POLICIES INCLUDING SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

19 Deposits from merchants

Deposits from merchants are initially recognised at fair value. Subsequent to initial recognition, these liabilities are measured at amortised cost. Interest expense on deposits is recognised in the income statement using a method that approximates the EIR method.

20 Trade and other payables

Merchant payables arise when we have received monies from the relevant schemes and financial institutions that have not yet been settled with the merchant.

Payables to merchants are only recognised to the extent that a liability arises. This liability arises when the proceeds have been paid by the schemes and financial institutions and received by us.

Liabilities for trade and other payables are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to us.

21 Provisions and contingencies

Provisions are recognised when we have a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits may be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the impact of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Contingent liabilities are not recognised in the statement of financial position, but are disclosed in the relevant notes to the financial statements. They may arise from uncertainty as to the existence of a liability or represent an existing liability in respect of which settlement is not probable or the amount cannot be reliably measured. Only when settlement becomes probable will a liability be recognised.

We are contingently liable for processed credit card sales transactions in the event of a dispute between the cardholder and a merchant. If a dispute is resolved in the cardholder's favour, we will credit or refund the amount to the cardholder and charge back the transaction to the merchant. If we are unable to collect the amount from the merchant, we will bear the loss for the amount credited or refunded to the cardholder.

Management evaluates the risk of such transactions and estimates our potential loss from chargebacks based primarily on historical experience and other relevant factors. A provision is recognised in the general reserve for credit losses for merchant losses necessary to absorb chargebacks and other losses for merchant transactions that have been previously processed and on which revenues have been recorded.

22 General reserve for credit losses

We appropriate for estimated future credit losses from chargebacks, with a general reserve for credit losses. We estimate the reserve by using a multiple of historical losses over a rolling 120 day period of transaction values. The general reserve for credit losses is then allocated as a separate reserve within equity.

We also appropriate for estimated future credit losses from loans to ensure we have sufficient capital to cover credit losses estimated to arise over the full life of the loans as required by APRA Prudential Standard APS 220 *Credit Quality*.

The methodology and assumptions used for estimating the general reserve for credit losses required are reviewed regularly.

23 Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

Entitlements arising in respect of salaries and wages, annual leave and other employee benefits that are expected to be settled within one year have been measured at their nominal amounts. Employees are entitled to 20 days' annual leave each year.

Entitlements that arise in respect of long service leave which are expected to be settled more than 12 months after the reporting date have been measured at their present values of expected future payments. Long service leave is calculated based on assumptions and estimates of when employees will take leave and the prevailing wage rates at the time the leave will be taken. Long service leave liability also requires a prediction of the number of employees that will achieve entitlement to long service leave. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currencies that match as closely as possible to the estimated future cash outflows.

No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave to be taken in the future by all employees at the reporting date is estimated to be less than the annual entitlement for sick leave.

24 Share-based payments transactions

Employee share options and performance rights plans

Share-based compensation benefits are provided to employees (including key management personnel) via employee share option plans, whereby employees render services in exchange for rights over our shares. The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined internally using the Black-Scholes option valuation model.

The cost of equity-settled transactions is recognised, together with any corresponding increase in equity, over the period in which the employees become fully entitled to the award.

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects the extent to which the vesting period has expired and the number of awards that, in our opinion, will ultimately vest. This opinion is based on the best available information at the reporting date. No adjustment is made for the likelihood of performance conditions being met, as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest.

We also have share-based compensation benefits in the form of rights which are tied to performance conditions, liquidity events, as well as Remuneration Sacrifice Rights. The policy treatment is consistent with that for share options via employee share option plans.

Other equity-settled share-based payments transactions

We have entered into agreements with third parties that entitle those third parties to shares in the Company upon meeting specified contractual milestones. These agreements are collectively referred to as the POS Partner Agreements, which are discussed in **Section 3.11.5**. Each agreement contains six milestones. The first milestone relates to execution of the agreements and the second milestone relates to specified systems development work. Subsequent milestones relate to the POS system partners achieving merchant acquisition targets.

We recognise an expense with a corresponding increase in share-based payments reserve on the presumptive basis that the POS system partners will meet the milestones. In relation to the first two milestones, the share-based payments expense is recorded within other operating expenses in the income statement. The first two milestones are presumed to be met within FY20f. The share-based payments expense for the subsequent milestones will be recognised in payments direct expenses in the income statement. The measurement of the share-based payments expense will be based on the fair value of our shares at the date of measurement.

The share-based payments expense will be accrued over the periods to which the service is rendered, being the contractually specified periods relating to each milestone. Where a milestone is not met, any accrued share-based payments expense will be credited to the income statement with a corresponding decrease in the share-based payments reserve. Upon certification by us that a milestone has been met, an entitlement to shares in the Company will be considered as vesting to the relevant POS system partner. When shares in the Company are issued to the relevant POS system partner, contributed equity will increase by the fair value of the Company's shares at issue date, with a corresponding decrease to the share-based payments reserve.

25 Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are accounted in contributed equity as a deduction, net of tax, from the proceeds of issue.

APPENDIX A. OUR ACCOUNTING POLICIES INCLUDING SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

26 Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the spot rate of exchange ruling at the reporting date.

Non-monetary assets and liabilities are translated at their historic rates of exchange at their respective transaction dates.

27 De-recognition of assets and liabilities

Assets and liabilities are de-recognised from the statement of financial position upon sale, maturity or settlement. We de-recognise scheme receivables against associated merchant payables as the risks and rewards are passed through in line with contractual obligations.

28 Equity accounting – associates

Associates are all entities over which we have significant influence but not control or joint control. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost.

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise our share of the post-acquisition profits or losses of the investee in the income statement, and our share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment.

Where our share of losses in an equity-accounted investment equals or exceeds our interest in the entity, including any other unsecured long-term receivables, we do not recognise further losses, unless we have incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between us and our associates are eliminated to the extent of our interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity-accounted investees have been changed where necessary to ensure consistency with the policies adopted by us.

Appendix B

APPENDIX B. FOREIGN SELLING RESTRICTIONS

Canada (Alberta, British Columbia, Ontario and Quebec provinces)

This document constitutes an offering of new Shares only in the Provinces of Alberta, British Columbia, Ontario and Quebec (**Provinces**) and to those persons to whom they may be lawfully distributed in the Provinces, and only by persons permitted to sell such shares. This document is not, and under no circumstances is to be construed as, an advertisement or a public offering of securities in the Provinces. This document may only be distributed in the Provinces to persons that are 'accredited investors' within the meaning of NI 45-106 – *Prospectus Exemptions, of the Canadian Securities Administrators*.

No securities commission or similar authority in the Provinces has reviewed or in any way passed upon this document, the merits of the new Shares or the offering of new Shares and any representation to the contrary is an offence.

No prospectus has been, or will be, filed in the Provinces with respect to the offering of new Shares or the resale of such securities. Any person in the Provinces lawfully participating in the offer will not receive the information, legal rights or protections that would be afforded had a prospectus been filed and receipted by the securities regulator in the applicable Province. Furthermore, any resale of the new Shares in the Provinces must be made in accordance with applicable Canadian securities laws which may require resales to be made in accordance with exemptions from dealer registration and prospectus requirements. These resale restrictions may in some circumstances apply to resales of the new Shares outside Canada and, as a result, Canadian purchasers should seek legal advice prior to any resale of the new Shares.

The Company as well as its directors and officers may be located outside Canada and, as a result, it may not be possible for purchasers to effect service of process within Canada upon the Company or its directors or officers. All or a substantial portion of the assets of the Company and such persons may be located outside Canada and, as a result, it may not be possible to satisfy a judgment against the Company or such persons in Canada or to enforce a judgment obtained in Canadian courts against the Company or such persons outside Canada.

Any financial information contained in this document has been prepared in accordance with Australian Accounting Standards and also comply with International Financial Reporting Standards and interpretations issued by the International Accounting Standards Board. Unless stated otherwise, all dollar amounts contained in this document are in Australian dollars.

Statutory rights of action for damages and rescission

Securities legislation in certain of the Provinces may provide purchasers with, in addition to any other rights they may have at law, rights of rescission or to damages, or both, when an offering memorandum that is delivered to purchasers contains a misrepresentation. These rights and remedies must be exercised within prescribed time limits and are subject to the defenses contained in applicable securities legislation. Prospective purchasers should refer to the applicable provisions of the securities legislation of their respective Province for the particulars of these rights or consult with a legal adviser.

The following is a summary of the statutory rights of rescission or to damages, or both, available to purchasers in Ontario. In Ontario, every purchaser of the new Shares purchased pursuant to this document (other than (a) a 'Canadian financial institution' or a 'Schedule III bank' (each as defined in NI 45-106), (b) the Business Development Bank of Canada or (c) a subsidiary of any person referred to in (a) or (b) above, if the person owns all the voting securities of the subsidiary, except the voting securities required by law to be owned by the directors of that subsidiary) shall have a statutory right of action for damages and/or rescission against the Company if this document or any amendment thereto contains a misrepresentation. If a purchaser elects to exercise the right of action for rescission, the purchaser will have no right of action for damages against the Company. This right of action for rescission or damages is in addition to and without derogation from any other right the purchaser may have at law. In particular, section 130.1 of the Securities Act (Ontario) provides that, if this document contains a misrepresentation, a purchaser who purchases the new Shares during the period of distribution shall be deemed to have relied on the misrepresentation if it was a misrepresentation at the time of purchase and has a right of action for damages or, alternatively, may elect to exercise a right of rescission against the Company, provided that (a) the Company will not be liable if it proves that the purchaser purchased the new Shares with knowledge of the misrepresentation; (b) in an action for damages, the Company is not liable for all or any portion of the damages that the Company proves does not represent the depreciation in value of the new Shares as a result of the misrepresentation relied upon; and (c) in no case shall the amount recoverable exceed the price at which the new Shares were offered.

Section 138 of the Securities Act (Ontario) provides that no action shall be commenced to enforce these rights more than (a) in the case of any action for rescission, 180 days after the date of the transaction that gave rise to the cause of action or (b) in the case of any action, other than an action for rescission, the earlier of (i) 180 days after the purchaser first had knowledge of the fact giving rise to the cause of action or (ii) three years after the date of the transaction that gave rise to the cause of action. These rights are in addition to and not in derogation from any other right the purchaser may have.

Certain Canadian income tax considerations

Prospective purchasers of the new Shares should consult their own tax adviser with respect to any taxes payable in connection with the acquisition, holding or disposition of the new Shares as any discussion of taxation related matters in this document is not a comprehensive description and there are a number of substantive Canadian tax compliance requirements for investors in the Provinces.

Language of documents in Canada

Upon receipt of this document, each investor in Canada hereby confirms that it has expressly requested that all documents evidencing or relating in any way to the sale of the new Shares (including for greater certainty any purchase confirmation or any notice) be drawn up in the English language only. *Par la réception de ce document, chaque investisseur canadien confirme par les présentes qu'il a expressément exigé que tous les documents faisant foi ou se rapportant de quelque manière que ce soit à la vente des valeurs mobilières décrites aux présentes (incluant, pour plus de certitude, toute confirmation d'achat ou tout avis) soient rédigés en anglais seulement.*

European Union (France, Germany and the Netherlands)

This document has not been, and will not be, registered with or approved by any securities regulator in the European Union. Accordingly, this document may not be made available, nor may the new Shares be offered for sale, in France, Germany and the Netherlands except in circumstances that do not require a prospectus under Article 1(4) of Regulation (EU) 2017/1129 of the European Parliament and the Council of the European Union (**Prospectus Regulation**).

In accordance with Article 1(4)(a) of the Prospectus Regulation, an offer of new Shares in France, Germany and the Netherlands is limited to persons who are 'qualified investors' (as defined in Article 2(e) of the Prospectus Regulation).

Hong Kong

WARNING: This document has not been, and will not be, registered as a prospectus under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong, nor has it been authorised by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (**SFO**). No action has been taken in Hong Kong to authorise or register this document or to permit the distribution of this document or any documents issued in connection with it. Accordingly, the new Shares have not been and will not be offered or sold in Hong Kong other than to 'professional investors' (as defined in the SFO and any rules made under that ordinance).

No advertisement, invitation or document relating to the new Shares has been or will be issued, or has been or will be in the possession of any person for the purpose of issue, in Hong Kong or elsewhere that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to new Shares that are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors. No person allotted new Shares may sell, or offer to sell, such securities in circumstances that amount to an offer to the public in Hong Kong within six months following the date of issue of such securities.

The contents of this document have not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to the offer. If you are in doubt about any contents of this document, you should obtain independent professional advice.

Malaysia

No approval from, or recognition by, the Securities Commission of Malaysia has been or will be obtained in relation to any offer of new Shares. The new Shares may not be offered or sold in Malaysia except pursuant to, and to persons prescribed under, Part I of Schedule 6 of the Malaysian Capital Markets and Services Act.

APPENDIX B. FOREIGN SELLING RESTRICTIONS

New Zealand

This document has not been registered, filed with or approved by any New Zealand regulatory authority under the Financial Markets Conduct Act 2013 (**FMC Act**). The new Shares are not being offered or sold in New Zealand (or allotted with a view to being offered for sale in New Zealand) other than to a person who:

- is an investment business within the meaning of clause 37 of Schedule 1 of the FMC Act;
- meets the investment activity criteria specified in clause 38 of Schedule 1 of the FMC Act;
- is large within the meaning of clause 39 of Schedule 1 of the FMC Act;
- is a government agency within the meaning of clause 40 of Schedule 1 of the FMC Act; or
- is an eligible investor within the meaning of clause 41 of Schedule 1 of the FMC Act.

Norway

This document has not been approved by, or registered with, any Norwegian securities regulator under the Norwegian Securities Trading Act of 29 June 2007. Accordingly, this document shall not be deemed to constitute an offer to the public in Norway within the meaning of the Norwegian Securities Trading Act of 2007.

The new Shares may not be offered or sold, directly or indirectly, in Norway except to 'professional clients' (as defined in Norwegian Securities Regulation of 29 June 2007 no. 876 and including non-professional clients having met the criteria for being deemed to be professional and for which an investment firm has waived the protection as non-professional in accordance with the procedures in this regulation).

Singapore

This document and any other materials relating to the new Shares have not been, and will not be, lodged or registered as a prospectus in Singapore with the Monetary Authority of Singapore. Accordingly, this document and any other document or materials in connection with the offer or sale, or invitation for subscription or purchase, of new Shares, may not be issued, circulated or distributed, nor may the new Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except pursuant to and in accordance with exemptions in Subdivision (4) Division 1, Part XIII of the Securities and Futures Act, Chapter 289 of Singapore (**SFA**), or as otherwise pursuant to, and in accordance with the conditions of any other applicable provisions of the SFA.

This document has been given to you on the basis that you are (i) an existing holder of the Company's shares, (ii) an 'institutional investor' (as defined in the SFA) or (iii) an 'accredited investor' (as defined in the SFA). In the event that you are not an investor falling within any of the categories set out above, please return this document immediately. You may not forward or circulate this document to any other person in Singapore.

Any offer is not made to you with a view to the new Shares being subsequently offered for sale to any other party. There are on-sale restrictions in Singapore that may be applicable to investors who acquire new Shares. As such, investors are advised to acquaint themselves with the SFA provisions relating to resale restrictions in Singapore and comply accordingly.

Switzerland

The new Shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange or any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering material relating to the new Shares (i) constitutes a prospectus or a similar notice as such terms are understood under art. 652a, art. 752 or art. 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of art. 27 et seqq. of the SIX Listing Rules or (ii) has been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of new Shares will not be supervised by, the Swiss Financial Market Supervisory Authority.

Neither this document nor any other offering material relating to the new Shares may be publicly distributed or otherwise made publicly available in Switzerland. The new Shares will only be offered to regulated financial intermediaries such as banks, securities dealers, insurance institutions and fund management companies as well as institutional investors with professional treasury operations. This document is personal to the recipient and not for general circulation in Switzerland.

United Kingdom

Neither this document nor any other document relating to the offer has been delivered for approval to the Financial Conduct Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the Financial Services and Markets Act 2000, as amended (**FSMA**)) has been published or is intended to be published in respect of the new Shares.

This document is issued on a confidential basis to 'qualified investors' (within the meaning of section 86(7) of the FSMA) in the United Kingdom, and the new Shares may not be offered or sold in the United Kingdom by means of this document, any accompanying letter or any other document, except in circumstances which do not require the publication of a prospectus pursuant to section 86(1) of the FSMA. This document should not be distributed, published or reproduced, in whole or in part, nor may its contents be disclosed by recipients to any other person in the United Kingdom.

Any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received in connection with the issue or sale of the new Shares has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in the United Kingdom in circumstances in which section 21(1) of the FSMA does not apply to the Company.

In the United Kingdom, this document is being distributed only to, and is directed at, persons (i) who have professional experience in matters relating to investments falling within Article 19(5) (investment professionals) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 (**FPO**), (ii) who fall within the categories of persons referred to in Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the FPO or (iii) to whom it may otherwise be lawfully communicated (together, the **relevant persons**). The investments to which this document relates are available only to, and any offer or agreement to purchase will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

United States

This Prospectus may not be distributed to, or relied upon by, any person in the United States, unless it is accompanied by the US Institutional Offering Memorandum as part of the Institutional Offer.

The Shares have not been, and will not be, registered under the US Securities Act, or the securities laws of any state or other jurisdiction of the United States. Accordingly, the Shares may only be offered and sold: (i) in the United States to persons that are reasonably believed to be QIBs in transactions exempt from the registration requirements of the US Securities Act pursuant to Rule 144A thereunder or to Eligible US Fund Managers in reliance on Regulation S; and (ii) outside of the United States in offshore transactions (as defined in Rule 902(h) under Regulation S) in reliance on Regulation S.

Glossary

TERM	DESCRIPTION
2015 Instrument	Legislative instrument granted in 2015 under section 13(2) of FSSA as described in **Section 9.14.2**
AAS	Australian Accounting Standards
AASB	Australian Accounting Standards Board
AASB 9	Australian Accounting Standard AASB 9 *Financial Instruments*
AASB 15	Australian Accounting Standard AASB 15 *Revenue from Contracts with Customers*
AASB 16	Australian Accounting Standard AASB 16 *Leases*
ABN	Australian Business Number
ABS	Australian Bureau of Statistics
ABS ANZSIC industry classes	Industry classifications as set out by the ABS
ACCC	Australian Competition and Consumer Commission
active deposit accounts	Represents the number of merchant deposit accounts as at the end of each measurement period that have closing balances of greater than $nil
ADI	An authorised deposit-taking institution, authorised under the Banking Act to carry on a banking business in Australia
AFCA	Australian Financial Complaints Authority
AFSL	Australian financial services licence issued under the Corporations Act
AML/CTF	Anti-money laundering and counter-terrorism
AML/CTF Act	Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Cth)
AML/CTF program	An anti-money laundering and counter-terrorism financing program as defined in section 83 of the AML/CTF Act
AMF/CTF Rules	Anti-Money Laundering and Counter-Terrorism Financing Rules Instrument 2007 (No. 1) (Cth), which provide detail for the broader obligations set out in the AML/CTF Act
API	Application programming interface, being a set of functions and procedures allowing the creation of applications that access the features or data of an operating system, application, or other service
Application Form	The Application Form attached to or accompanying this Prospectus (including the electronic form provided by an online application facility)
APRA	Australian Prudential Regulation Authority
APS 210	Prudential Standard APS 210 *Liquidity*
ASIC	Australian Securities and Investments Commission
ASIC Act	Australian Securities and Investments Commission Act 2001 (Cth)
ASX	ASX Limited (ACN 008 624 691) or the market operated by ASX Limited, as the context requires
ASX Listing Rules or **Listing Rules**	The official listing rules of the ASX
ASX Recommendations	The fourth edition of the Corporate Governance Principles and Recommendations issued by the ASX Corporate Governance Council established by the ASX

GLOSSARY

TERM	DESCRIPTION
ASX Settlement	ASX Settlement Pty Limited (ACN 008 504 532)
ASX Settlement Operating Rules	The operating rules of ASX Settlement
Audited Financial Statements	Our audited general-purpose financial statements for FY19, which include restated comparatives for FY18, FY17 and FY16
AusPayNet	A self-regulatory body and industry association for payments, known as the Australian Payments Network
AUSTRAC	Australia's anti-money laundering and counter-terrorism financing regulator and specialist financial intelligence unit, known as the Australian Transaction Reports and Analysis Centre
Australian Privacy Principles	Principles contained in Schedule 1 of the Privacy Act
AWS	Amazon Web Services, Inc.
Banking Act	Banking Act 1959 (Cth)
BECS	A clearing system operated by AusPayNet, known as the Bulk Electronic Clearing System
Board or **Board of Directors**	The board of directors of the Company
Board Committees	Committees established by the Board, including the Audit Committee, Risk Committee, and Nominations and Remuneration Committee
Bookbuild	The process through which Institutional Investors may invited to bid under the Institutional Offer as described in **Section 7.9**
Broker	Any ASX participating organisation selected by the Joint Lead Managers and us to act as a broker for the Offer
Broker Firm Offer	The offer of shares to Australian resident retail clients of participating Brokers who have a registered address in Australia and who have received an invitation from a Broker to acquire shares under this Prospectus and are not in the United States, as described in **Section 7.3**
business day	Any weekday that is not a public holiday in the state of New South Wales, Australia
'buy-now, pay-later'	A payment service that enables consumers to pay for purchases in instalments
CAC	Customer acquisition costs
CAGR	Compound annual growth rate
cardholder	Purchaser of goods and services from merchants
'card-not-present'	Where the cardholders' card details are remotely accepted, such as through eCommerce or in a Mail Order/Telephone Order transaction. Can be referred to as 'device-not-present'
'card-present'	Where a card, or mobile phone or other device containing the card virtually is physically present and interacts with an acceptance device such as a payment terminal. Can be referred to as 'device-present'
CBA	Commonwealth Bank of Australia
CDR	Consumer Data Right
CEO	Chief Executive Officer

TERM	DESCRIPTION
CFO	Chief Financial Officer
CGT	Capital gains tax
chargeback	Occurs when a cardholder disputes a card payment that has been acquired by a merchant acquirer on behalf of a merchant (refer to **Section 2.3.2.3**)
CHESS	The Clearing House Electronic Subregister System for settlement of shares on ASX, operated by ASX Settlement
'chip and PIN' EMV standard	A global technical standard for cards equipped with computer chips and the technology used by devices (for example, terminals and ATMs) to authenticate transactions made using these cards. Named after the original founders EuroPay, Mastercard and Visa
clearing	The process of transmitting, reconciling, and in some cases, confirming payment instructions prior to settlement; the process may include netting of instructions and the calculation of final positions for settlement
Closing Date	The date on which the Offer is expected to close, being Monday, 2 December 2019 in respect of the Retail Offer and Wednesday, 4 December 2019 in respect of the Institutional Offer (these dates may be varied without notice)
Co-Managers	Morgan Stanley Wealth Management Australia Pty Ltd and Ord Minnett Limited
Company	Tyro Payments Limited (ACN 103 575 042)
Completion	The date on which Shares are issued or transferred to successful applicants in accordance with the terms of the Offer and the Offer Management Agreement
Constitution	The constitution of the Company
core verticals	Our focus verticals, which are currently the Health, Hospitality and Retail verticals. Expanding our core verticals to include Accommodation and Services is one of the initiatives in our growth strategy. Verticals are identified by industry standard Merchant Category Codes, which have been mapped to ABS ANZSIC Industry Classes per our internal classification. Examples of Health merchants include doctors, physicians, health practitioners, medical services, opticians, dentists and orthodontists. Examples of Hospitality merchants include bars, lounges and fast food restaurants. Examples of Retail merchants include book stores, florists, cosmetic stores and household appliance stores. Examples of Accommodation merchants include trailer parks and campgrounds and lodging. Examples of Services merchants includes carpentry, accounting, auditing and bookkeeping services
Corporations Act	Corporations Act 2001 (Cth)
DCC	Dynamic Currency Conversion
DDO Act	Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Act 2019 (Cth)
DHS	Department of Human Services
digital wallet	Software that enables cards to be hosted digitally and used in eligible transactions (refer to **Section 2.3.1**)
direct expenses	Includes: • interchange fees and scheme fees; • integration, support and other fees that directly relate to Merchant Service Fees; • cost of terminal accessories sold; and • interest expense on merchant deposits

GLOSSARY

TERM	DESCRIPTION
Director	A director of the Company
EBITDA	(As presented in **Section 4.4.2**) is earnings before share-based payments expense, net lease interest expense (as recognised under AASB 16), tax expenses and depreciation and amortisation expenses. EBITDA includes interest income from merchant loans, (lending income), interest expense on merchant deposits and interest income from financial investments. (investments income). EBITDA is primarily used by us as part of our assessment of business performance. EBITDA in this Prospectus refers to this definition of EBITDA, unless the two alternative measures of EBITDA below are specified. A reconciliation of EBITDA to net loss after tax and to the alternative definitions of EBITDA below is included in **Section 4.4.2**
EBITDA including share-based payments expense	(As presented in **Section 4.4.2**) is EBITDA adjusted to include share-based payments expense
EBITDA pre AASB 16	(As presented in **Section 4.4.2**) is EBITDA adjusted to include rent expense and sublease income that would have been recognised under previous AAS
eCommerce	Transactions conducted electronically over the internet
EDR	External dispute resolution
eftpos	The Australian domestic debit scheme managed by eftpos Payments Australia Limited
EFTPOS	Electronic funds transfer at point of sale (the generic term for electronic payments acceptance on terminals)
Eligible Employees	Employees that are eligible to participate in the Employee Offer as referred to in **Section 7.5.1**
Eligible Merchants	Merchants with an available Australian Business Number residing in Australia who use, or have entered into an arrangement with us to use, our payment services and who have downloaded and logged into the Tyro App (refer to **Section 7.6.1**)
Eligible US Fund Manager	A dealer or other professional fiduciary organised or incorporated in the United States that is acting for a discretionary or similar account (other than an estate or trust) held for the benefit or account of persons that are not US Persons for which it has, and is exercising, investment discretion, within the meaning of Rule 902(k)(2)(i) of Regulation S
Employee Offer	The offer of Shares to Eligible Employees
Escrowed Shareholders	Existing Shareholders that have entered into a voluntary escrow deed with the Company in relation to their Shares, as described in **Section 6.5**
Escrowed Shares	The Shares held by the Escrowed Shareholders on Completion
Example Offer Structure	An illustration of the potential actual number of Shares available under the Offer and on issue on Completion, and the amount raised by the Company and sold by SaleCo based on the following assumptions: • 450 Employees take up $5,000 of Shares under the Employee Offer at a 10% discount to the Final Price; • SaleCo offers and sells 65,293,885 existing Shares, comprising 46,425,961 existing Shares in respect of the Initial Selling Shareholders and $50 million of the Shares held on the Prospectus Date by other existing Shareholders; • all Options at the Prospectus Date remain on issue on Completion and none have been exercised, and • 300,000 Shares are issued between the Prospectus Date and Completion under POS Partner Agreements, as further described in **Section 7.1.1**

TERM	DESCRIPTION
Expiry Date	The date which is 13 months after the Prospectus Date
Exposure Period	The seven day period after the Prospectus Date, as may be extended by ASIC. Refer to **Important Notices**
EY	Ernst & Young, our auditor
FATA	Foreign Acquisitions and Takeovers Act 1975 (Cth)
Final Price	The price per Share that all successful applicants under the Offer (other than certain Shares under the Employee Offer) will pay for Shares, determined as part of the Bookbuild (refer to **Section 7.1**)
Financial Information	Historical Financial Information and Forecast Financial Information collectively described in **Section 4.1**
Financial Sector (Collection of Data) Act	Financial Sector (Collection of Data) Act 2001 (Cth)
Forecast Financial Information	Forecast financial information described as Forecast Financial Information in **Section 4.1**
four major banks	Refers to Australia and New Zealand Banking Group, Commonwealth Bank of Australia, National Australia Bank and Westpac Banking Corporation, collectively
FSSA or **Financial Sector (Shareholdings) Act**	Financial Sector (Shareholdings) Act 1998 (Cth)
FVOCI	Has the meaning given in **Appendix A**
FVTPL	Has the meaning given in **Appendix A**
FY17, FY18 and **FY19**	Historical financial years ended 30 June 2017, 30 June 2018 and 30 June 2019 respectively
FY20f	Forecast financial year ending 30 June 2020
FY20 Options	Options granted in respect of FY20
gross profit	Revenue and income less direct expenses
gross profit margin	Gross profit divided by revenue and income, expressed as a percentage
headcount	The number of permanent employees
Historical Financial Information	Statutory Historical Financial Information and Pro Forma Historical Financial Information
IFRS	International Financial Reporting Standards
Indicative Price Range	$2.50 – 2.75 per Share
Initial Selling Shareholders	Tiger Global, David Fite and Hans-Josef (Jost) Stollmann
Institutional Investor	An investor to whom offers or invitations in respect of Shares as part of the Institutional Offer can be made without the need for a lodged offer document or prospectus or other formality, including in Australia to persons to whom offers or invitations in respect of Shares can be made without the need for a lodged disclosure document under section 708 of the Corporations Act provided that if such person is located in the United States, it is either a QIB or it is an Eligible US Fund Manager
Institutional Offer	An offer to Institutional Investors under this Prospectus to acquire Shares as described in **Section 7.9**

GLOSSARY

TERM	DESCRIPTION
interchange fee	A fee an issuer charges a merchant acquirer for issuing the card and processing. Schemes set these rates within limits determined by the Reserve Bank of Australia, determined mainly by card type, interaction method and merchant category. Generally, this is the largest component of the Merchant Service Fee
Investigating Accountant	PricewaterhouseCoopers Securities Ltd
IPO	Initial public offering
ISO	Independent Sales Organisation
Joint Lead Managers	J.P. Morgan and Morgan Stanley
J.P. Morgan	J.P. Morgan Securities Australia Limited
lending losses as a percentage of loan originations	The cumulative lending losses for the financial year as a percentage of the total value of loan originations in that financial year
Link Market Services	Link Market Services Limited
liquid assets	Assets that are free of encumbrances and can easily be converted into cash in a short amount of time. Liquid assets include notes and coins, government debt securities, repo eligible securities, and other readily convertible deposits
Liquidity Event Performance Rights	Rights issued under the Liquidity Event Performance Rights Plan
Liquidity Event Performance Rights Plan	Our incentive plan as described in **Section 6.4.3.2**
Loan Options	Options held by Euclid Capital Partners LLC, as described in **Section 6.4.2.7**
loan repeat rate	The number of subsequent loans to merchants in a financial year divided by the total number of loans to merchants originated in that financial year
LTI	Long-term incentive
LTI Plan	Long-term incentive plan as described in **Section 6.4.4.3**
LTV	Lifetime value
M&A	Mergers and acquisitions
merchant acquirer	Provides services to merchants to accept electronic payments, typically via the provision of acceptance facilities such as a terminal or online gateway. The merchant acquirer organises the routing of transactions to the schemes for authorisation with issuers, and the clearing and settlement of funds to the merchants after the schemes have received the funds from issuers
Merchant Acquiring Fee	This is the balance of the Merchant Service Fee retained by the merchant acquirer after deducting the interchange fee and scheme fees
Merchant ID	The unique integer used to identify each merchant, which is used as a proxy for merchant numbers in this Prospectus
Merchant Offer	The offer of Shares to Eligible Merchants as described in **Section 7.6**
Merchant Portal	Provides transaction reporting for our merchants, accessible online

TERM	DESCRIPTION
Merchant Service Fee	The primary fee a merchant acquirer (or other payment provider such as a payment facilitator) charges a merchant (refer to **Section 2.3.3**)
merchants	Broadly, merchants are businesses who accept payments from cardholders in exchange for goods and services. We refer specifically to businesses using our services as merchants (refer to **Merchant ID** for a description of our approach to calculating merchant count)
Mid-Point Price	An assumption that the Final Price is set at $2.65 per Share, being the mid-point of the Indicative Price Range, rounded based on $0.05 increments
minimum Offer size	Represents the offer of new Shares by the Company and existing Shares by SaleCo acquired from the Initial Selling Shareholders as referred to in **Section 7.1** (and assuming no other existing Shareholders offer to sell any Shares)
Morgan Stanley	Morgan Stanley Australia Securities Limited
MOTO	Refers to Mail Order/Telephone Order, a 'card-not-present' transaction whereby merchants manually input cardholders' card information received by mail or over the phone
NAB	National Australia Bank Limited
neobanks	Includes a variety of newer banking entrants providing banking services, often exclusively through digital channels
net working capital	Total current assets excluding cash and cash equivalents, net investment in lease and income tax receivables, less total current liabilities excluding income tax and lease liabilities. For clarity, net working capital includes loans in the form of merchant cash advances and merchant deposits, with the net movement in these items shown separately in the statement of cash flows from the movement in other net working capital items included in net working capital
new Shareholders	Being the Shareholders expected to hold Shares issued or transferred under the Offer, who are not Shareholders as at the Prospectus Date
NPP	New Payments Platform, maintained by NPP Australia Limited
NPS	Net Promoter Score
Offer	The offer of Shares under this Prospectus, comprising the Institutional Offer and Retail Offer
Offer Information Line	1800 883 072 (within Australia) from 8:30am to 5:30pm (Sydney Time) Monday to Friday (excluding public holidays)
Offer Period	The period commencing from the opening date of the Offer and ending on the applicable Closing Date
officer group	(In relation to the 2015 Instrument) broadly defined and includes officers of the Company, their relatives and associated corporate entities as described in **Section 9.14.2**
Official List	The official list of entities that ASX has admitted to and not removed from listing
Open Banking	The first application of the Consumer Data Right, a data sharing regime, announced by the Government in the 2017 – 2018 Budget, that will be progressively applied across the economy, sector by sector, starting with banking
Option Plan	Our option plan as described in **Section 6.4.4.1**
Options	Options to acquire Shares under the Option Plan
payments direct expenses	Includes: • interchange fees and scheme fees; • integration, support and other fees that directly relate to Merchant Service Fees; and • cost of terminal accessories sold

GLOSSARY

TERM	DESCRIPTION
payments gross profit	Payments revenue and income less payments direct expenses
payments gross profit margin	Payments gross profit divided by payments revenue and income, expressed as a percentage
payments gross profit margin to total transaction value	Payments gross profit as a percentage of transaction value, expressed as the number of basis points
PCI DSS	Payment Card Industry Data Security Standard
People team	Our in-house human resources function
POS Partner Agreements	Agreements with POS system partners in relation to Tyro Connect
POS system	Point of Sale system
Practice Management Systems	A POS system in respect of the Health vertical
Priority Offer	An offer for investors who have received an invitation to participate in the Priority Offer as described in **Section 7.4**
Privacy Act	Privacy Act 1988 (Cth)
Pro Forma Financial Information	Pro Forma Historical Financial Information and Pro Forma Forecast Financial Information, collectively
Pro Forma Forecast Cash Flows	Pro forma forecast statement of cash flows for FY20f
Pro Forma Forecast Financial Information	Pro Forma Forecast Income Statement and Pro Forma Forecast Cash Flows
Pro Forma Forecast Income Statement	Pro forma forecast income statement for FY20f
Pro Forma Historical Cash Flows	Pro forma historical cash flows for FY17, FY18 and FY19
Pro Forma Historical Financial Information	Pro Forma Historical Income Statements, Pro Forma Historical Cash Flows, and Pro Forma Historical Statement of Financial Position
Pro Forma Historical Income Statements	Pro forma historical income statements for FY17, FY18 and FY19
Pro Forma Historical Statement of Financial Position	Pro forma historical statement of financial position as at 30 June 2019
Prospectus	This document (including the electronic form of this Prospectus) and any supplementary or replacement prospectus in relation to this document
Prospectus Date	The date on which this Prospectus was lodged with ASIC, being 18 November 2019
PwC	PricewaterhouseCoopers
PwCS	PricewaterhouseCoopers Securities Ltd
QIB	'Qualified Institutional Buyer' as defined in Rule 144A under the US Securities Act

TERM	DESCRIPTION
R&D	Research and development
RBA	Reserve Bank of Australia
RCSA	Risk and controls self-assessment
Regulation S	Regulation S under the US Securities Act
Remuneration Sacrifice Rights	Rights issued under the Remuneration Sacrifice Rights Plan
Remuneration Sacrifice Rights Plan	Our remuneration sacrifice plan as described in **Section 6.4.4.4**
Retail Offer	Consists of the Broker Firm Offer, Priority Offer, Employee Offer and Merchant Offer
SaaS	Software-as-a-service
Sale Agreements	Agreements under which SaleCo acquires Shares from the Selling Shareholders as referred to in **Section 9.6**
SaleCo	Tyro SaleCo Limited (ACN 637 258 096)
scheme fees	A combination of fees charged by the schemes to the merchant acquirer and issuer, with these fees calculated on transaction value or volume, or as a fixed fee. These fees generally relate to the total value or number of transactions processed by the merchant acquirer over a set period, and include other fees such as registration fees
schemes	Payment networks that maintain the rules and connectivity between merchant acquirers and issuers and perform clearing and settlement functions. The largest global card brands in 2018 included Visa, UnionPay, Mastercard and American Express (refer to **Section 2.3.1**)
Selling Shareholders	Initial Selling Shareholders and other existing Shareholders who sell existing Shares through SaleCo
Senior Leadership Team	The senior leadership team as described in **Section 6.2**
Share Registry	Link Market Services Limited (ACN 083 214 537)
Shareholder	A registered holder of a Share
Shares	Fully paid ordinary shares in the capital of the Company
SMEs	Small and medium-sized enterprises
Statutory Financial Information	Statutory Historical Financial Information and Statutory Forecast Financial Information, collectively
Statutory Forecast Cash Flows	Statutory forecast statement of cash flows for FY20f
Statutory Forecast Financial Information	Statutory Forecast Income Statement and Statutory Forecast Cash Flows for FY20f, collectively
Statutory Forecast Income Statement	Statutory forecast income statement for FY20f
Statutory Historical Cash Flows	Statutory historical statements of cash flows for FY17, FY18 and FY19
Statutory Historical Financial Information	Statutory Historical Income Statements, Statutory Historical Cash Flows, and the Statutory Historical Statement of Financial Position, collectively

GLOSSARY

TERM	DESCRIPTION
Statutory Historical Income Statements	Statutory historical income statements for FY17, FY18 and FY19
Statutory Historical Statement of Financial Position	Statutory historical statement of financial position as at 30 June 2019
STI	Short-term incentive
STI Plan	Short-term incentive plan as described in **Section 6.4.4.2**
SWIFT	Society for Worldwide Interbank Financial Telecommunication
Sydney Time	The official time in Sydney, Australia
'tap-and-go'	Contactless payments made in person by a cardholder via tapping a card on a terminal
TAPP	Tyro Activate Partner Program as described in **Section 3.5.2**
terminal fee	A rental fee charged periodically by the merchant acquirer to the merchant for the provision of terminals. Occasionally, terminals may be purchased outright by the merchant or bundled into the Merchant Service Fee on a per transaction basis (refer to **Section 2.3.3**)
TDM Growth Partners	TDM Growth Partners Pty Limited ACN 133 246 330
TFN	Tax file number
Third Party Report	Any statements, data or other contents referenced or attributed to reports by a third party
Tier 1 Capital	Tier 1 Capital as defined by APRA from time to time
Tier 2 Capital	Tier 2 Capital as defined by APRA from time to time
transaction value	The underlying value of merchants' debit, charge, prepaid and credit card transactions acquired by us
transaction value churn	To calculate transaction value churn as at the end of the relevant financial year, we determine 'churned merchants' (being merchants that do not transact for at least the last three consecutive months in the relevant financial year) and their 'churned value' (being the difference between total transaction value in the relevant financial year and total transaction value in the previous year for those churned merchants). Transaction value churn is that churned value as a percentage of the total transaction value for the 12 months preceding the relevant financial year
Tyro App	A mobile app that we offer our merchants to keep track of their transactions with us in near real time. Tyro App is currently available on iOS and Android-based mobile devices and enables dynamic reporting (refer to **Section 3.3.1**)
Tyro Bank Account	A fee-free, interest-bearing transaction account available to our merchants (refer to **Section 3.3.2.1**)
Tyro Business Loan	An unsecured merchant cash advance available to our merchants to help them finance working capital and investment needs (refer to **Section 3.3.2.2**)
Tyro Connect	Our integration hub for apps and POS systems, currently in pilot phase
unified payments	Single-settlement and reporting across 'card-present' and 'card-not-present'
US Institutional Offering Memorandum	The offering memorandum under which the Institutional Offer will be made in the United States, which consists of this Prospectus and an offer document 'wrap'
US Person	Has the meaning given in Rule 902(k) under Regulation S
US Securities Act	US Securities Act of 1933, as amended
WBC	Westpac Banking Corporation
We, **us**, **our**, and **Tyro**	The Company

Corporate directory

Company's registered office

Tyro Payments Limited
Level 1, 155 Clarence Street
Sydney, NSW 2000

Australian legal adviser

Clayton Utz
Level 15, 1 Bligh Street
Sydney, NSW 2000

Joint Lead Managers

J.P. Morgan Securities Australia Limited
Level 18, 85 Castlereagh Street
Sydney, NSW 2000

Morgan Stanley Securities Australia Limited
Level 39, Chifley Tower, 2 Chifley Square
Sydney, NSW 2000

Co-Managers

Morgan Stanley Wealth Management Australia Pty Ltd
Level 26, Chifley Tower
2 Chifley Square
Sydney, NSW 2000

Ord Minnett Limited
Level 8, NAB House
255 George Street
Sydney, NSW 2000

Investigating Accountant

PricewaterhouseCoopers Securities Ltd
One International Towers, Watermans Quay
Barangaroo, NSW 2000

Tax adviser

PricewaterhouseCoopers
One International Towers, Watermans Quay
Barangaroo, NSW 2000

Auditor

Ernst & Young
200 George Street
Sydney, NSW 2000

Share Registry

Link Market Services Limited
Locked Bag A14
Sydney South, NSW 1235

Offer Information Line

1800 883 072 (within Australia)

From 8:30am to 5:30pm (Sydney Time)
Monday to Friday (excluding public holidays)

Corporate website

www.tyro.com

Offer website and link to Audited Financial Statements website

https://events.miraqle.com/Tyro-IPO/Home/