



Media Release

2018 AGM – Chairman’s and CEO’s Address

25 October 2018 – Attached are copies of the Chairman’s and CEO’s addresses to be presented at Tyro Payments Ltd Annual General Meeting, commencing at 3pm (Sydney time) Thursday 25 October 2018.

A copy of the presentation which accompanies these addresses will follow.

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About Tyro

Tyro is an Australian Bank and operates under the supervision of the Australian Prudential Regulation Authority (APRA).

Tyro provides credit, debit and eftpos card acquiring, Medicare and private health fund claiming and rebating services, as well as an interest-bearing transaction and deposit account offering integration with Xero accounting software. Tyro takes money on deposit and offers unsecured cashflow-based lending to Tyro EFTPOS merchants.

Tyro currently serves more than 20,000 businesses with its own in-house, cloud-based mobile core banking platform.

For more information, visit tyro.com

TYRO PAYMENTS LIMITED
ABN 49 103 575 042
ANNUAL GENERAL MEETING
25 OCTOBER 2018

CHAIRMAN + CEO ADDRESSES

CEO'S ADDRESS

Good afternoon Ladies and Gentlemen

My name is Kerry Roxburgh, and I am Chairman of your Company, Tyro Payments Limited. On behalf of my fellow Directors and Tyro's senior executive team, I am pleased to welcome you to our 2018 Annual General Meeting – the Company's 16th.

This meeting is also being audio-cast live, so a warm welcome to everyone listening and a reminder that the presentation material being used today is currently available on our corporate website, tyro.com.

Before I call on Robbie Cooke, our Chief Executive Officer to address you in greater detail about the Company's activities in FY18 and its plans, I will provide a brief overview of the past financial year. Shareholders, proxies and visitors will then have an opportunity to comment and ask questions before we proceed with the formal business of the AGM as per the notice of meeting.

It has been an exciting 12 months here at Tyro, with many milestones achieved, considerable investment made and new initiatives put in motion. We are in great shape, with an exciting year ahead of us driven by a team that is truly engaged.

The Year in a Snapshot - Outstanding Growth

We continued to focus on growth in the year, and were very successful in expanding our payments business whilst continuing to build our suite of banking products. The financial highlights in FY18 included:

- a 23% increase in total revenue to \$148.3 million;
- a 26% increase in the value of payments transacted on our platform reaching \$13.4 billion;
- a 127% increase in loan originations in the year reaching \$25.2 million;
- a 197% increase in deposit balances ending the year at \$11.6 million.

In keeping with our approach in prior years, our investment in technology and product development in FY18 was fully expensed, so that no internal development spend is carried on our Balance Sheet. This approach, coupled with our continuing investment in developing our products and capabilities, saw us report a net loss after tax of \$16.4 million as against a loss of \$12.8 million in FY17.

Our focus on growth sees us as the fifth largest merchant acquirer in the segment excluding Coles and Woolworths. In June 2018 we processed 2.3% of all debit and credit card transactions in Australia. An impressive result with plenty of scope for future growth.

Robbie will provide more detail on our performance when he addresses the meeting a little later on.

Operating Environment

It is perhaps an understatement to say the financial services sector in Australia is in the press for all the wrong reasons. The Financial Services Royal Commission has headlined numerous examples of poor behaviours and bad practice.

Tyro's mission since establishing its operation some 15 years ago was, and remains, to concentrate on providing a long-neglected segment - Australia's small and medium businesses - with alternative payments and banking services that puts them first.

Our customer centric approach continues today with the culture at Tyro focused on 'doing the right thing'. This simple and straight forward approach is our recipe for success.

Exceptional Team

I am pleased to say Tyro has an exceptionally talented, creative and driven team. They have a passion for making payments and banking for Australia's SMEs a seamless and integrated experience.

Our FY18 achievements were made possible by 'Team Tyro's' commitment to service and innovation. I acknowledge and express my appreciation of their commitment in pursuing our vision and thank them one and all for their efforts over the past financial year.

Management + Board Changes

In January this year, we announced the appointment of Robbie as our new CEO and he got his 'feet under the desk' on 23 March 2018.

Your Board considered Robbie the ideal person to lead the Company through its next phase of growth with his background and experience in customer-centric, digitally-oriented and technology-driven businesses - as the former Managing Director and CEO of both ASX-listed Tatts Group and Wotif.com.

Robbie took the reins from Rob Ferguson who, since June 2017, led the Tyro executive team as acting Managing Director and CEO. I am happy to report that the leadership transition to Robbie has progressed very smoothly.

In July this year, Rob Ferguson announced after 12 years he had decided the time was right for him to step down from the Board. The entire team at Tyro has huge respect for Rob and on behalf of all, I thank Rob for his significant commitment to the Company. Especially for taking on the role as acting CEO for a period of 9 months. For this, we all owe Rob a significant debt of gratitude.

With Rob's departure, we welcomed David Fite to our Board. David brings a wealth of banking acumen and expertise from his time as a senior banking executive. He previously held roles of Treasurer, Assistant CFO and a Group Executive at Westpac, and CFO and Senior Corporate Executive Officer at Japan's Shinsei Bank. David is also an active investor in fintech companies, including Tyro since 2008.

At our AGM last October, after serving as Tyro's CEO and a Director for 12 years, Jost Stollmann did not stand for re-election. For more than a decade, Jost played a pivotal role at Tyro and it's fair to say we would not be where we are today without him. I take this opportunity again to say thanks Jost for your outstanding leadership and service at Tyro.

Also at last year's AGM I announced our intention to undertake a Board renewal process. Consistent with that approach it is with great pleasure that I can today announce that David Thodey AO has accepted an invitation to join Tyro's Board. His appointment is expected to be made in November following a number of approvals and formalities being completed.

David's extensive management, leadership and technology experience makes him a welcome addition to Tyro's Board. I am looking forward to David assisting us in charting Tyro's future course.

As many will well know David is a global technology and telecommunications executive with an executive career that spans more than 30 years. It almost goes without saying he was the CEO of Telstra from 2009 to 2015, and prior to that had a 22-year career with IBM, working in senior marketing and sales positions, including CEO of IBM Australia/New Zealand. He has been successfully involved in innovation across a wide range of sectors and, among other roles, is the current Chairman of CSIRO and an advisor to Square Peg Capital.

Towards a Successful FY19

With:

- a talented and committed leadership team in place;
- a well-defined project pipeline locked in;
- clear goals and targets set; and
- our passionate, dedicated and innovative Tyro team,

I am excited to say that we are heading into FY19 in the best possible position.

I express my gratitude to the Tyro team and to my fellow Tyro Board Members both past and present, for their commitment to the Company and for their contributions in the 2018 financial year.

Ladies and Gentlemen, thank you for your patience during my report to you today, and it is now my pleasure to hand over to Robbie, who will provide you with his first report as Chief Executive Officer of Tyro.

CEO'S ADDRESS

Thanks Kerry. Tyro is a unique business. Upon joining the team it was important for me to fully understand what set Tyro apart, what was the essence of being a 'Tyro' and how to harness that uniqueness for future success.

Tyro's DNA

Seven months in I can say there are several key strands to Tyro's DNA:

- Firstly Tyros are disrupters at heart - focused on removing banking friction points through smart, built-for-purpose, technology.
- Secondly, small and medium businesses - the backbone of the Australian economy - are at the core of what we do.
- EFTPOS and payments are the key drivers of our business - with loans and deposits the next wave.
- Tyro stands apart from the pack by providing the security of a bank but with the customer focus, drive and passion of a tech innovator.

The other differentiator is, unlike most of today's 'fintechs', we have a long and successful history having established 15 years ago in the EFTPOS / payments space.

That was at a time when the 'glamour' and attention many of today's fintechs receive was virtually non-existent and the prospect of succeeding in what was a closed market was seen, by many, as remote at best.

In the same contrarian way, three years ago as a fintech we applied for and were granted an unrestricted Australian Banking Licence – the first new local entrant to the banking sector in a decade and again Tyro dared to challenge the status quo.

Tyro took these bold steps with a plan and determination to establish a banking and payments business purpose built for Australia's SMEs who had been long neglected by this country's banks.

Today we have a full, unrestricted, banking licence but unlike others we intend to stay niche, nimble and focused on designing products specific to our SME customers' wants, and to deliver these services in the right way.

We remain a challenger at heart with an absolute focus on:

- disrupting the status quo for the benefit of our customers;
- re-engineering banking and payments to remove friction; and
- putting our customers at the centre of all that we do.

We work with some amazing businesses and are genuinely inspired by their success. This is the essence of being a Tyro and what drives us as a team.

The Year in Review

The 2018 financial year proved to be a very successful year for Tyro, with our three key business streams – payments, loans and deposits – all showing strong growth. We continued to invest in building our segment position in the year and this strategy saw us:

- continue to expand our team;
- build on our product suite and functionality;
- become more focused on customer acquisition and retention; and
- invest in our systems and transactional scalability.

In our payments business we processed \$13.4 billion in transactions on behalf of our merchants in FY18, a lift of 26% on the prior year – noting that FY17 itself had seen an impressive 23% growth on FY16.

We added close to 5,000¹ new merchants to our payments business, taking the total number of merchants trusting Tyro with their payments requirements to more than 23,000 – a 27% increase on the prior year.

In our banking business, our merchant cash advance loan product, which has to date only been offered to approximately 2,500 of our 23,000 merchants – is showing a very promising growth profile and strong repeat usage. Since product inception we have originated more than \$47 million in loans of which \$25.2 million were made in FY18, an impressive 127% lift.

Similarly, strong growth, albeit from a low base, has been achieved by our Tyro Bank Account. This fee-free and interest paying business transaction deposit account achieved strong momentum with close to 1,300 active accounts in existence at year end, a 262% increase on prior year.

In combination the strong performance from these three product streams saw our revenue in FY18 increase by 23% reaching a record \$148.3 million.

As we continued to invest in:

- our technology platform;
- our team; and
- customer acquisition,

our expenses (including impairment expenses) increased 22% to \$86.6 million.

As Kerry mentioned and, consistent with prior years, we have not carried forward any capitalised internal IT or development spend – with all these costs being in effect expensed in the period incurred. This continuing investment in our business, coupled with our current approach of expensing (not capitalising) all of our technology development expenses again saw us in a loss position, with Tyro posting a net loss after tax of \$16.4 million.

¹ Using Merchant IDs as a proxy for our customer numbers.

Our business is well positioned with total cash and investments of \$85.5 million held at the end of the financial year. Our total regulatory capital balance is also strong at \$96.5 million and our capital ratio is very healthy at 139%.

Payments

Touching on our payments operation in a little more detail and as mentioned we saw very strong growth in our merchant numbers increasing from 18,329 to 23,245 at the end of FY18.

This 27% lift was the result of a renewed focus on customer acquisition which saw new merchant applications increase 56%. The increase in merchant numbers was also driven by an increase in our direct integration efforts with our Point of Sale and Practice Management Systems partners.

At the end of the financial year we had a segment leading 257 POS and PMS partners working with us, with all these systems integrating seamlessly with our payment terminals. Our merchant satisfaction and retention levels were also a key area of attention in the year and we achieved segment leading outcomes in both of these important areas.

As mentioned the value of transactions processed on our platform grew an impressive 26% with \$13.4 billion in credit and debit card transactions processed in the 12 months to 30 June 2018.

We achieved an all-time record in monthly transaction values in December 2017 with \$1.3 billion being processed in that month alone. Pleasingly even with these volume increases, our ongoing transaction reliability to our merchants remained at a high of 99.99% availability for our core acquiring platform.

All the above factors combined to drive a very strong revenue outcome from our payments operation of \$143 million up from \$115.8 million a year prior.

Banking Operations

Our two banking products, whilst still in their infancy, are displaying positive trends. These products are focused on providing our customers with innovative ways to meet their transactional banking and unsecured lending needs.

Deposits

Our Tyro Bank Account is a fee-free interest-bearing transactional account. As at 30 June 2018 we had 1,285 active Tyro Bank Accounts up from 355 as at 30 June 2017. We held \$11.6 million of funds on deposit as at 30 June 2018 compared with \$3.9 million a year prior.

Loans

Our Tyro Business Loan is a cash-flow based unsecured loan purpose-built to assist SMEs in growing their businesses. This product provides small unsecured loans to eligible Tyro merchants which are repaid via a pre-agreed percentage of their daily EFTPOS settlements, offered on the basis of a fixed fee.

With average loan balances of less than \$40,000 and an average loan term of less than 6 months, this product is being used by many of our SMEs as a way of accessing cash flow earlier to accelerate their growth initiatives. One of the highly attractive features of this product is its ease of management, with repayments that cycle up or down in accordance with a merchant's daily card transaction volumes.

This innovative product was soft launched in early 2017 and, as mentioned, to date it has only been offered to around 2,500 of our 23,000 merchants. The product is displaying a very promising growth profile and has achieved strong repeat usage. We achieved a 127% lift in loan originations in FY18 reaching \$25.2

million up from \$11.1 million in the prior year, taking the total originations since product inception to more than \$47 million in loans.

New Initiatives

We were proud to have been the first (and to date only) bank to have launched 'least cost routing' to market.

Our 'Tap + Save' feature is a cost-saving initiative for our merchants that directs card payments through the transaction path that is the lowest cost for the merchant, instead of the most profitable for the bank. This initiative is a clear demonstration of our commitment to doing the right thing for those Australian businesses that have chosen to partner with Tyro.

Towards the end of FY18 we launched our 'born for business' marketing campaign to build awareness of Tyro in the market, which is understandably low given the absence of a sustained marketing effort in the past. A continual marketing profile will be a feature in FY19 and beyond.

We secured exclusive rights with six of Australia's leading hospitality Point of Sale providers to connect to our newly announced Tyro Platform - which is in development. This Platform aims to streamline the connectivity of third-party apps (such as Order Ahead and Loyalty apps) to POS systems. This initiative builds on our long history of system integration expertise and aims to remove the friction and complexity that multiple apps cause for merchants in their day-to-day operations.

We recently announced that we had entered into an agreement with the world's largest mobile and online payment platform, Alipay, to become the first Australian bank to offer a seamless, all-in-one EFTPOS solution with Alipay for Tyro's merchants. This will improve access to the Chinese visitor market for merchants that choose Tyro. We expect the first merchant integration to be operational this calendar year.

We were also proud to have won the "Best Payments Services Bank" category at the prestigious 2018 Australian Business Banking Awards beating several of the 'majors' for this award.

Outlook

While we are not providing specific profit guidance for FY19, I do take this opportunity to discuss our trading performance to 30 September 2018. In particular:

- In our payments operation we continue to see great momentum in customer acquisition with 24,834 merchants now working with Tyro - that is 27% increase from the position at the end of September last year when we had 19,490 merchants working with us.
- The value of transactions processed on our platform grew an impressive 31% with \$3.9 billion in credit and debit card transactions processed in the 3 months to 30 September 2018.
- Our revenue for the 3 months to 30 September 2018 was up 29% on same period last year at \$42.1 million.
- Our loan originations in the first quarter were up 67% on the prior corresponding period - with a total of \$8.4 million in loans originated in the period.
- Deposit balances at the end of the quarter were \$16.3 million, up 213% compared to the same time last year.

In closing, I thank the amazing and talented team at Tyro:

- firstly for welcoming me on board and making me part of the team; and
- secondly for their enthusiasm, commitment and sheer hard work that drove our performance in FY18 and so I thank the entire team for making our results in the year possible.

Back to you Kerry.