

September 5<sup>th</sup> 2021

## **Paysauce Limited (PYS)**

The company will hold its Annual Shareholders Meeting at **10:00am on September 24<sup>th</sup>**.

The meeting was originally planned as a hybrid meeting, but has now been amended to a virtual only meeting given the impact of the Covid-19 lockdowns. You can join the meeting by clicking on the link [www.virtualmeeting.co.nz/pys21](http://www.virtualmeeting.co.nz/pys21).

### ***Company Overview***

PaySauce is a cloud-based software as a service company providing payroll services to companies and organisations. It was founded by Asantha Wijeyeratne and Troy Tarrant and listed on the NZX in December 2018. Customer numbers increased 36% to 3,377 during the year with Recurring Revenue up 59% to \$1.9 million. During the year the company entered into a partnership with BNZ and also launched a new product Rosters.

### ***Current Strategy***

The strategy is to move from being a payroll company focused on the rural sector to a financial technology (fintech) company offering fresh solutions for people at work.

### ***Key***

The following sections calculate an objective rating against criteria contained within NZSA policies.

| <b>Colour</b> | <b>Meaning</b>  |
|---------------|---|
| G             | Strong adherence to NZSA policies   |
| A             | Part adherence or a lack of disclosure as to adherence with NZSA policies |
| R             | A clear gap in expectations compared with NZSA policies                   |
| n/a           | Not applicable for the company  |

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## Governance

NZSA assessment against its key policy criteria is summarised below:

| Policy Theme                 | Assessment | Notes   |
|------------------------------|------------|---|
| Directors Fees               | A          | See comments below.   |
| Director share ownership     | A          | There is not disclosure as to whether Directors are required to own shares.           |
| Executive Remuneration       | A          | See comments below.   |
| Golden parachutes/handshakes | A          | Not disclosed if there or similar payments are offered.                               |
| Director Independence        | G          | Good disclosure.  |
| Board Composition            | A          | See comments below.   |
| Director Tenure              | G          | See comment below.  |
| ASM Format                   | G          |   |
| Company Sec independence     | G          | Generally good disclosure although not disclosed if a profit-based incentive is paid, |

**Directors Fees:** Somewhat unusually, the total available Director Fee Pool is not disclosed, although total benefits paid to Directors are well described. PYS maintains the ability to pay retirement benefits to Directors within its constitution. There is no disclosure as to whether directors receive share options, although NZSA is comfortable with the company's position following discussions with PYS.

**Executive Remuneration:** While the total amount paid to the CEO, Asantha Wijeyeratne, is disclosed, there is no disclosure around the composition of the remuneration; the disclosure refers to "remuneration and benefits", but does not describe whether any short or long-term incentive is included or the basis (measures, targets and level of achievement) against which they might be paid.

We do note that Mr Wijeyeratne is the largest (approx. 30%) shareholder of PYS.

There is also no disclosure as to whether the CEO's remuneration agreement allows for golden parachutes, handshakes or retentions payments. Again, following discussions with PYS, NZSA is comfortable with the company's position.

**Board Composition:** The company does not disclose a skills matrix detailing each Directors' functional skills and their importance to the company.

**Director Tenure:** NZSA looks for evidence of 'staggered' Board appointment dates to ensure that risk to investors of future knowledge transfer is minimised. As a newly-listed company, this is not yet an issue for Paysauce - nonetheless, succession planning will become relevant to avoid a sudden loss of institutional knowledge.

**ASM Format:** We note that the original Notice of Meeting planned the meeting as a hybrid meeting, a format supported by NZSA. As a result of Covid-19 restrictions, the meeting has now been re-planned as a virtual-only meeting.

### **Audit**

NZSA assessment against its key policy criteria is summarised below:

| <b>Policy Theme</b> | <b>Assessment</b> | <b>Notes</b>    |
|---------------------|-------------------|-----------------|
| Audit independence  | G                 | Good disclosure |
| Audit rotation      | G                 | See below       |

**Audit Rotation:** Whilst the company ensures the Lead Audit Partner **or** Audit Firm is rotated at 5 years NZSA policy favours the Audit Firm being rotated at 10 years. Like many other companies on the NZX, it also does not disclose the appointment dates of the Lead Audit Partner or the Audit Firm.

We note that as a newly-listed company, this is not yet an issue for Paysauce – but NZSA would prefer to see more effective disclosure.

### **Ethical and Social**

NZSA assessment against its key policy criteria is summarised below:

| <b>Policy Theme</b> | <b>Assessment</b> | <b>Notes</b>           |
|---------------------|-------------------|------------------------|
| Whistleblowing      | G                 | Good disclosure        |
| Political donations | G                 | No donations were made |

### **Financial & Performance**

| <b>Policy Theme</b>      | <b>Assessment</b> | <b>Notes</b>  |
|--------------------------|-------------------|---|
| Dividends and Imputation | n/a               | No dividend paid  |
| Capital Raise process    | n/a               | There was no capital raising in the FY, although a capital raise had just been completed prior. |

Paysauces' share price fell from \$0.39 to \$0.33 (as of September 6<sup>th</sup>) over the last 12 months – a 17% decline. This compares unfavourably with the NZX 50 which increased by 12% in the same period.

The **Performance Factor** for PYS is -1.38.

| <b>Metric</b>              | <b>2021</b> | <b>2020</b> | <b>Change</b> |
|----------------------------|-------------|-------------|---------------|
| Revenue                    | \$2.2m      | \$1.8m      | 24%           |
| NPAT                       | -\$1.7m     | -\$2.3m     | n/a           |
| EPS <sup>1</sup>           | -\$0.012    | -\$0.017    | n/a           |
| PE Ratio                   | n/a         | n/a         |               |
| Current Ratio <sup>2</sup> | 3.48        | 3.39        | 3%            |
| Debt Equity <sup>2</sup>   | 0.35        | 0.43        | -19%          |
| Operating CF               | -\$1.1      | -\$1.9m     | n/a           |
| NTA Per Share <sup>1</sup> | \$0.01      | \$0.01      | n/c           |

|                               |        |        |     |
|-------------------------------|--------|--------|-----|
| Equity Per Share <sup>1</sup> | \$0.02 | \$0.02 | n/c |
|-------------------------------|--------|--------|-----|

<sup>1</sup> per share figures based off actual shares at balance date (not weighted average)

<sup>2</sup> Adjusted for Funds due to IRD and Customers net of cash.

PaySauce had an average year share price-wise, however revenues were up 24% and operating expenses declined by 4% to show an improvement in NPAT. An improved loss of \$1.7m was declared compared to a loss of \$2.3m in FY 20.

The auditors, on page 11 of the Annual Report, have noted that there is a material uncertainty related to the business as a going concern. They draw attention to the statements that show the Group incurred a net loss before income tax of \$1,688,000 for the year to 31 March 2021 and Note 4 which describes the Group's reliance upon sufficient forecast cash flows to enable the Group to continue its business operations.

<http://nzx-prod-s7fsd7f98s.s3-website-ap-southeast-2.amazonaws.com/attachments/PYS/372907/347000.pdf>

PYS had net cash of \$1,791,000 at 31 March 21. It is likely that PYS will need to increase revenues, decrease costs or raise cash over the coming year.

On 8<sup>th</sup> July 2021, PYS released a quarterly update to the market where they stated that: *“Processing fees from customers grew 44% YoY, up from the 42% YoY increase in the quarter to March. The growth in processing fees has arisen from both a 39% increase in customer numbers and a 51% YoY increase in the value of payroll processed through the PaySauce platform compared to the quarter to June 2020.”*

PYS will have to increase their revenues utilising almost limited non-current assets. The only non-current asset is a lease liability of \$232,000. NTA is \$0.01 per share. Operating cashflows improved by \$0.8m but were still negative at -\$1.1m.

## **Resolutions**

### **1. To re-elect Gavin Thompson as a Non-Independent Director.**

Gavin Thompson was appointed to the Board in December 2018. He is a founder and a director of Catalyst IT, New Zealand's largest open-source IT service provider.

We will vote undirected proxies **IN FAVOUR** of this resolution.

### **2. That the Board is authorised to fix the auditor's remuneration for the coming year.**

This is an administrative resolution.

We will vote undirected proxies **IN FAVOUR** of this resolution.

### *Proxies*

You can vote online or appoint a proxy at <https://www.investorvote.com.au/>

Instructions are on the Proxy/voting paper sent to you.

Voting and proxy appointments close **10.00am Sunday 21 February 2021**.

**Please note you can appoint the Association as your proxy. We will have a representative attending the meeting.**

**STANDING PROXIES - AUTOMATICALLY APPOINT NZSA AS YOUR PROXY**

**MAKE YOUR VOTE COUNT!**

Details on the NZSA website.

<http://www.nzshareholders.co.nz/shareholders-standing-proxies.cfm>

**The Team at NZSA**