FORSYTH BARR

NEW ZEALAND EQUITY RESEARCH | TECHNOLOGY | GLOBAL FAITH SECTOR SOFTWARE PROVIDER
23 JULY 2020

Pushpay Holdings Ltd
The Gift That Keeps On Giving...

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OUTPERFORM

We initiate coverage of Pushpay (PPH) with an OUTPERFORM rating and target price of NZ$12.42. PPH is the current market leader in providing customised, innovative giving technology for large US churches. This is confirmed by discussions with over 50 churches, industry experts and competitors. PPH is well placed to benefit from the ongoing consolidation of US churches and thematic shift towards digital giving, accentuated by COVID-19. For example, one PPH competitor we spoke to generated more sales in the first two months of COVID-19 than the whole of 2017 and 2018 combined. In recent months online 'pyjama church' has been a hit, with many US churches looking to continue online services longer-term. With 98% of customers in North America there is also optionality for expansion in new markets. We believe the risk to FY21 EBITDAF guidance is to the upside due to sustained church customer donation volumes and cost stability across the business.

NZX Code	PPH
Share price	NZ$7.95
Target price	NZ$12.42
Risk rating	High
Issued shares	275.4m
Market cap	NZ$2,189m
Avg daily turnover	616.8k (NZ$3,239k)

Financials: Mar/	20A	21E	22E	23E
NPAT* (NZ$m)	26.9	56.3	69.6	85.3
EPS* (NZc)	9.8	20.4	25.2	30.8
EPS growth* (%)	-3.1	n/a	23.5	22.4
DPS (NZc)	0.0	0.0	0.0	0.0
Imputation (%)	0	0	0	0
*Based on normalised profits				

Valuation (x)	20A	21E	22E	23E
EV/EBITDA	52.7	25.5	20.9	17.6
EV/EBIT	66.1	28.2	22.7	18.9
PE	81.5	39.0	31.5	25.8
Price / NTA	n/a	n/a	23.4	11.9
Cash div yld (%)	0.0	0.0	0.0	0.0
Gross div yld (%)	0.0	0.0	0.0	0.0

Favourable structural tailwinds

- Soaring processing volumes are driven by the growth in number, size and donations of large US megachurches. PPH's customer base includes 58 of the largest 100 US megachurches. US megachurches have grown at a consistent rate over the past 40 years with a 2015 survey showing 32.5% to have grown at an annual average attendance of over 50%. Currently, the largest US megachurches report average weekly attendance in excess of 50,000 members with annual donations of over US$150m.
- Giving is a biblical principal considered relevant to churchgoers today. While the average proportion of donors per congregation has increased over time, average donation size correlates with disposable income. We estimate average PPH customer digital adoption to have been 50% prior to COVID-19, rising to over 65% in recent months. We see low risk of reversion to cash donations with many churches unwilling to handle physical donations for the foreseeable future.

Some customer churches ran out of superlatives for 'outstanding' PPH product...

- Customer churches rate PPH highly for reliability, quality and functionality. Some churches have seen an increase of +50% in donations on moving to PPH, while for a large church we estimate processing fees to be less than 1% of total expenses.
- PPH competes in a fragmented market of over 250 providers, many of which operate as not-for-profit entities and provide a much more basic level of service, aimed mainly at smaller churches. We provide a thorough analysis of major competitors with PPH's one-stop-shop bundle considered best-in-class. Competition around bespoke large church software packages is limited.

Sustained long term growth driven by digital adoption, megachurch growth, increasing market share and consistent giving

Although we acknowledge headline numbers do not look cheap, relative to software peers PPH currently offers attractive value. We set a target price of NZ$12.42 using a blended DCF/multiple approach. With a PE multiple of 38x and two year EPS CAGR of 23%, we note the PE multiple drops away quickly. Given the company's growth profile we consider an EV/Sales multiple of 14x to be undemanding and expect high cash generation to support acquisition-based growth longer-term.

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Pushpay Holdings (PPH)

Priced as at 22 Jul 2020 (NZ$)	**7.95**

12-month target price (NZ$)*	**12.42**
Expected share price return	56.2%
Net dividend yield	0.0%
Estimated 12-month return	56.2%

Spot valuations (NZ$)	
1. DCF	9.22
2. Revenue Multiple	14.15
3. EBITDA multiple	13.17

Key WACC assumptions	
Risk free rate	2.00%
Equity beta	0.95
WACC	8.9%
Terminal growth	2.0%

DCF valuation summary (NZ$m)	
Total firm value	1,696
(Net debt)/cash	(50)
Less: Capitalised operating leases	(5)
Value of equity	1,641

Profit and Loss Account (US$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Sales revenue	98.2	129.6	177.9	206.2	243.2
Normalised EBITDA	**1.6**	**25.1**	**55.9**	**66.6**	**79.2**
Depreciation and amortisation	3.8	5.1	5.4	5.3	5.3
Normalised EBIT	**(2.2)**	**20.0**	**50.6**	**61.3**	**73.9**
Net interest	0.2	(0.8)	(0.5)	0.5	2.0
Associate income	0	0	0	0	0
Tax	20.2	(5.7)	(14.0)	(17.3)	(21.2)
Minority interests	0	0	0	0	0
Normalised NPAT	**18.8**	**16.0**	**36.0**	**44.6**	**54.6**
Abnormals/other	0	0	0	0	0
Reported NPAT	**18.8**	**16.0**	**36.0**	**44.6**	**54.6**
Normalised EPS (cps)	6.9	5.8	13.1	16.1	19.7
DPS (NZ cps)	0	0	0	0	0

Valuation Ratios	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
EV/EBITDA (x)	>100x	52.7	25.5	20.9	17.6
EV/EBIT (x)	n/a	66.1	28.2	22.7	18.9
PE (x)	79.0	81.5	39.0	31.5	25.8
Price/NTA (x)	35.0	n/a	>100x	23.4	11.9
Free cash flow yield (%)	-0.2	1.8	4.0	3.7	4.4
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Gross dividend yield (%)	0.0	0.0	0.0	0.0	0.0

Capital Structure	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Interest cover EBIT (x)	n/a	n/a	n/a	>100x	37.4
Interest cover EBITDA (x)	9.9	n/a	n/a	>100x	40.1
Net debt/ND+E (%)	-45.8	44.8	-6.7	-62.7	-136.1
Net debt/EBITDA (x)	n/a	2.0	n/a	n/a	n/a

Growth Rates	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Revenue (%)	40.5	32.0	37.3	15.9	17.9
EBITDA (%)	n/a	>100	>100	19.1	18.8
EBIT (%)	n/a	n/a	>100	21.3	20.4
Normalised NPAT (%)	n/a	-15.0	>100	23.7	22.5
Normalised EPS (%)	n/a	-15.2	>100	23.5	22.4
Ordinary DPS (%)	n/a	n/a	n/a	n/a	n/a

Key Ratios	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Return on assets (%)	-4.1	14.8	33.1	34.7	32.0
Return on equity (%)	42.5	26.1	36.9	31.3	27.7
Return on funds employed (%)	67.1	14.0	44.0	55.7	70.2
EBITDA margin (%)	1.6	19.4	31.4	32.3	32.5
EBIT margin (%)	-2.2	15.4	28.4	29.7	30.4
Capex to sales (%)	0.4	0.3	0.3	1.5	1.3
Capex to depreciation (%)	-36	-20	-27	-155	-147
Imputation (%)	0.0	0.0	0.0	0.0	0.0
Pay-out ratio (%)	0.0	0.0	0.0	0.0	0.0

Cash Flow (US$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
EBITDA	**1.6**	**25.1**	**55.9**	**66.6**	**79.2**
Working capital change	(5.7)	(1.1)	1.7	2.2	3.3
Interest & tax paid	0	(1.0)	(1.3)	(18.0)	(21.6)
Other	1.4	0.4	0.1	0.8	0.8
Operating cash flow	**(2.8)**	**23.5**	**56.4**	**51.6**	**61.7**
Capital expenditure	(0.3)	(0.4)	(0.5)	(3.0)	(3.0)
(Acquisitions)/divestments	(0.0)	(84.4)	0	0	0
Other	0.1	(1.9)	0	0	0
Funding available/(required)	**(3.1)**	**(63.2)**	**55.9**	**48.6**	**58.7**
Dividends paid	0	0	0	0	0
Equity raised/(returned)	0	0	0	0	0
(Increase)/decrease in net debt	**(3.1)**	**(63.2)**	**55.9**	**48.6**	**58.7**

Revenue	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Subscription Revenue	26.7	35.3	49.0	53.0	56.0
Processing Revenue	69.3	92.0	126.7	153.0	187.0
Other Revenue	2.3	2.3	2.1	0.3	0.3
Total Revenue	**98.2**	**129.6**	**177.9**	**206.2**	**243.2**

Revenue model	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Total customers ('000)	7.6	10.9	12.0	13.0	13.8
CCB customers		2.7	3.3	3.7	4.1
Giving Customers	7.6	8.2	8.7	9.2	9.7
% S churches	44%	41%	39%	37%	35%
Implied number S churches	3.4	3.4	3.4	3.4	3.4
% M/L churches	56%	59%	61%	63%	65%
Implied number M/L churches	4.3	4.8	5.3	5.8	6.3
Processing volume (US$bn)	4.2	5.0	6.9	7.9	9.2

Balance Sheet (US$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Working capital	8.1	11.3	15.1	17.5	20.6
Fixed assets	1.2	1.1	1.0	1.3	1.5
Intangibles	1.9	88.9	85.4	82.1	78.9
Right of use asset	0	3.3	3.3	3.3	3.3
Other assets	24.8	18.6	4.2	4.3	4.3
Total funds employed	**36.0**	**123.3**	**109.1**	**108.5**	**108.6**
Net debt/(cash)	(13.9)	49.7	(6.1)	(54.8)	(113.5)
Lease liability	0	2.3	2.3	2.3	2.3
Other liabilities	5.7	9.9	15.3	18.7	22.9
Shareholder's funds	44.3	61.3	97.6	142.2	196.9
Minority interests	0	0	0	0	0
Total funding sources	**36.0**	**123.3**	**109.1**	**108.5**	**108.6**

* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend

Executive summary

We initiate coverage of PPH with an OUTPERFORM rating and a target price of NZ$12.42. Key attractions are PPH's best-in-class product offering, lack of market competition for customised large church giving solutions, customer stickiness and exposure to a number of structural shifts. These trends include the expansive growth in number, size and donations of US 'megachurches' while the adoption of digital giving is rapidly accelerating on a global basis. We estimate PPH's Total Addressable Market (TAM) to be US$3.0bn.

Investment thesis

PPH provides a SaaS-based giving, admin and donor management system for the global faith sector with a specific focus on large US churches. The long-term target is to generate US$1bn of revenue and service 50% of the ~113,000 medium-large churches in the US. The principal drivers that we believe underpin a high degree of sustainable growth include 1) front book acquisitions driven by an aggressive sales approach and supported by a large Total Addressable Market (TAM), 2) back book growth generated from snowballing attendance and giving at US 'megachurches', 3) a surge in churches globally embracing digital giving and 4) limited competition offering customised one-stop-shop solutions. We do not expect PPH to pay a dividend for the foreseeable future.

Key drivers of the investment case

1. **Exposure to exploding megachurch growth** (page 6) — US megachurches are PPH's primary target 'customer' with 58 of the 100 largest US churches PPH customers. These organisations have grown in number, size and total donations for a number of decades, with 32.5% surveyed in 2015 growing annual attendance by over 50%. Megachurches are more inclined to adopt digital giving than the more traditional churches.

2. **Consistent growth in giving, digital adoption on steroids** (page 9) — Giving is a bible based principal which church goers adhere to today. Total donations are macro correlated with US Giving 2020 data showing total individual giving to have grown at a 40 year CAGR of 6%. Within churches digital adoption has reached an all time high as a result of COVID-19-related restructuring and we do not see a large reversion to cash, with many churches unwilling to handle physical donations for the foreseeable future.

3. **Outstanding product, outstanding reviews** (page 11) — After speaking to over 50 churches, competitors and industry experts we conclude that PPH offers the current best-in-class product on the market. For large churches PPH's customised all-in-one bundle is unrivalled in terms of quality and functionality with a number of customers running out of superlatives to describe the experience.

4. **Limited competitive landscape** (page 12) — PPH competes in a highly fragmented market of over 250 providers, many of which operate as not-for-profit entities. As churches shift towards single platform providers, PPH's customised one-stop-shop bundled solution is highly attractive with church feedback suggesting that PPH has little to no competition for larger churches. The majority of competitors provide a much more basic level of service, aimed mainly at smaller churches.

5. **Large and growing Total Addressable Market (TAM)** (page 14) — We estimate current TAM to be US$3.0bn of which PPH has a 5% market share. PPH's current customer book makes up 2.7% of all US churches. TAM growth is likely to come from ongoing US church consolidation, rising percentage of donors per congregation and increased donation per donor.

Attractive valuation: Given PPH's high growth profile we value the company at NZ$12.42 per share based on a blended DCF/multiple approach. We view this as undemanding when considering PPH's current EV/Sales of 7.8x and EV/EBITDA of 25x. With a PE multiple of 38x and two year EPS CAGR of 23%, the PE multiple drops quickly away. The current PPH price implies a terminal TAM share of 15% and EBITDA margin of 35% against our forecast 20% share of TAM and 37.5% EBITDA margin. Principal earnings drivers are:

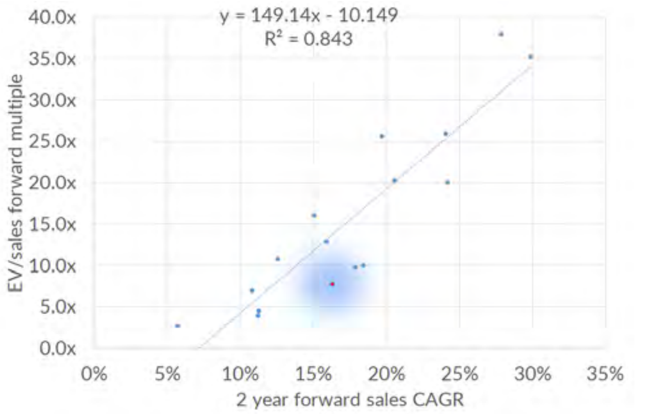
- Greater digital adoption across US churches, accelerated by COVID-19 with low risk of reversion to cash and physical donations
- A structural shift in the growth and expansion of US megachurches - a trend that has been sustained across the last four decades
- An increase in PPH's market share of customer churches through aggressive sales and marketing
- An increase in the percentage of donors per congregation and donation size per donor, driven by recurring giving and PPH tools

Risks

We rate PPH as high risk and view the key risks as 1) increased cyber security threats as a result of COVID-19, 2) improved competitor products driving fee compression, 3) M&A within competitors to produce an alternative high quality one-stop-shop solution, 4) reputation risk if PPH's values were seen to differ from its customers, 5) foreign exchange translation risk (strength of NZD vs USD), 6) Disruption risk from the unknown, 7) religious affiliation risk across denominations 8) US tax rises under Joe Biden

Investment thesis in charts

Figure 1. Valuation attractive vs peers on EV/Sales basis



Source: Forsyth Barr analysis

Figure 2. EBITDA margin vs TAM share DCF sensitivity

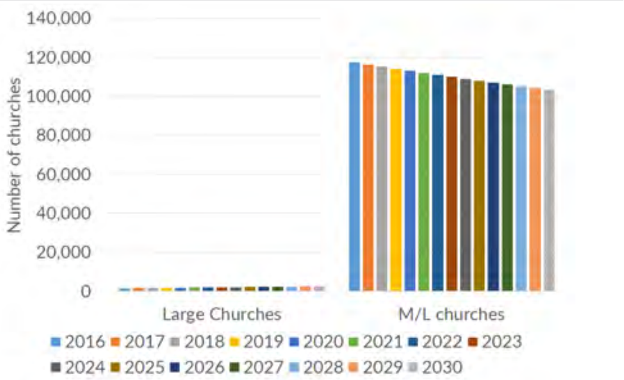
	Total Addressable Market share							
EBITDA margin	5%	10%	15%	20%	25%	30%	35%	40%
30%	4.40	5.60	6.81	8.01	9.22	10.42	11.62	12.83
32.5%	4.50	5.81	7.11	8.41	9.72	11.02	12.33	13.63
35%	4.60	6.01	7.41	8.82	10.22	11.62	13.03	14.43
37.5%	4.70	6.21	7.71	9.22	10.72	12.23	13.73	15.24
40%	4.80	6.41	8.01	9.62	11.22	12.83	14.43	16.40

7.41 Current share price

9.22 DCF implied share price

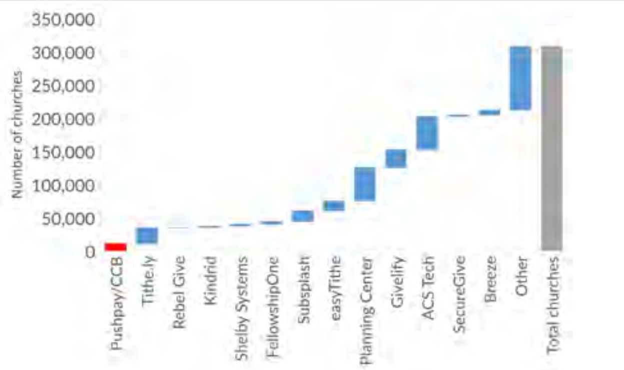
Source: Forsyth Barr analysis

Figure 3. Consolidation of M/L churches driving processing fees



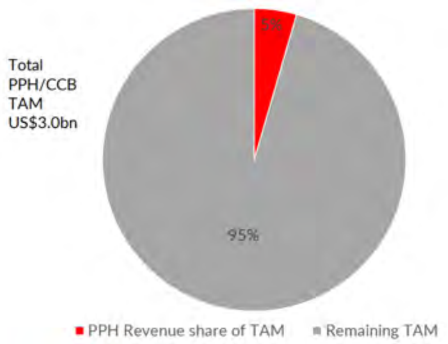
Source: Forsyth Barr analysis, industry data

Figure 4. Fragmented market, some competitors +50k churches



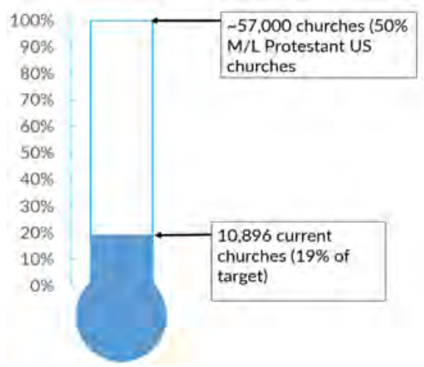
Source:Company websites, Forsyth Barr analysis

Figure 5. Pushpay market share of TAM



Source: Forsyth Barr analysis

Figure 6. PPH church customer acquisition progress



Source: PPH, Forsyth Barr analysis

FY21 EBITDAF guidance update

Figure 7. PPH/Forbar/Consensus

FY21E	PPH Guidance 6 May-20	PPH Guidance 18 Jun-20	Forbar forecast Jul-20	Consensus Jul-20
EBITDAF (US$m)	48–52	50–54	56	54
Comments	Front book growth to be ahead of last year but back book processing down from current (May) levels. US Congressional budget office: GDP to fall 5.6% in 2020 and Unemployment to rise to 11.4%	Over the first two months of the current financial year revenue has tracked slightly higher than budget and cost growth has been slightly lower	Back book church budgets exceeded Jan–August 2020, March & April had exceptional levels of giving. US Congressional budget office: GDP to fall 5.1% in 2020 and UE to rise to 10.5%. Expect front book sales to remain strong	N/A

Source: Forsyth Barr analysis

What is Pushpay and where does it make its money?

PPH provides the global faith sector with 1) software to facilitate mobile and web-based digital giving, 2) a back office Donor Management reporting system and 3) an administrative Church Management System (ChMS). PPH acquired the latter (Church Community Builder) in December 2019 for US$87.5m, broadening services provided to offer a comprehensive one-stop-shop solution. 98% of current customers are in North America where there are over 300,000 non-Catholic churches.

PPH's primary target market is large Evangelical and Nondenominational churches in the US where average weekly attendances range from 2,000 to 50,000. These churches have grown in number, size and revenue consistently over the past 40 years and look to raise funding for further expansion and outreach. PPH also services medium-sized churches where there is higher competition.

A number of churches have reported significant increase in aggregate donations from using PPH technology. This is due to an increased number of donors per congregation, higher level giving per donor (as recurring givers) and increased levels of digital giving.

Figure 8. Pushpay Donor Management System

Source: Forsyth Barr analysis, Pushpay

Figure 9. Pushpay functionality

Source: Forsyth Barr analysis, Pushpay

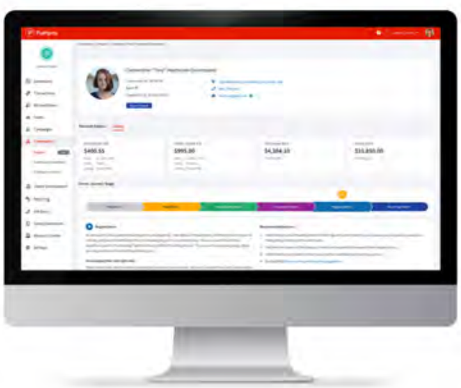
Originally built for convenience

The company was founded in 2011. It was originally created to provide a cloud computing solution, enabling congregational members to give to a specific church quickly and conveniently through a mobile application. The product offering has evolved since inception and the company listed on the NZX in August 2014 and the ASX in October 2016.

Fees driven from annual subscription fee and processing volume

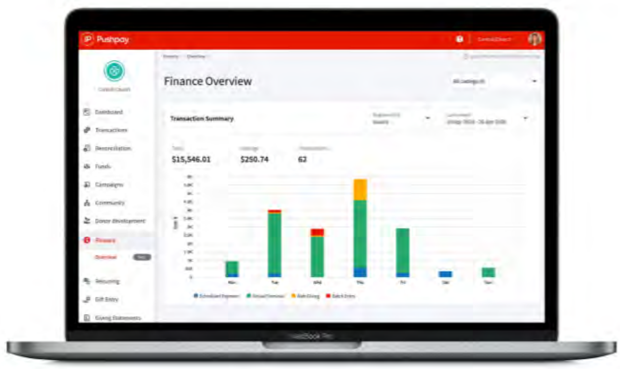
PPH charges each customer church a subscription fee based on the size of church, plus a 2% processing fee for donations through PPH's web-enabled giving platform (driven predominantly from the PPH mobile app, customised church app or church website).

Figure 10. Example donor management donor profile



Source: Forsyth Barr analysis, Pushpay

Figure 11. Example donor management finance overview



Source: Forsyth Barr analysis, Pushpay

Pushpay relevance growing with digital adoption

Non-specific church technology such as Paypal cannot collate, track and provide giving statements for the variety of donations that churches receive. These include kiosk donations, cash, cheque, ACH giving, stocks, property and vehicles. Pushpay's donor management system reduces time and headcount required to process donations while generating a high level of micro analysis into specific giving trends. The customised white label app offered improves individual church branding and the end user experience.

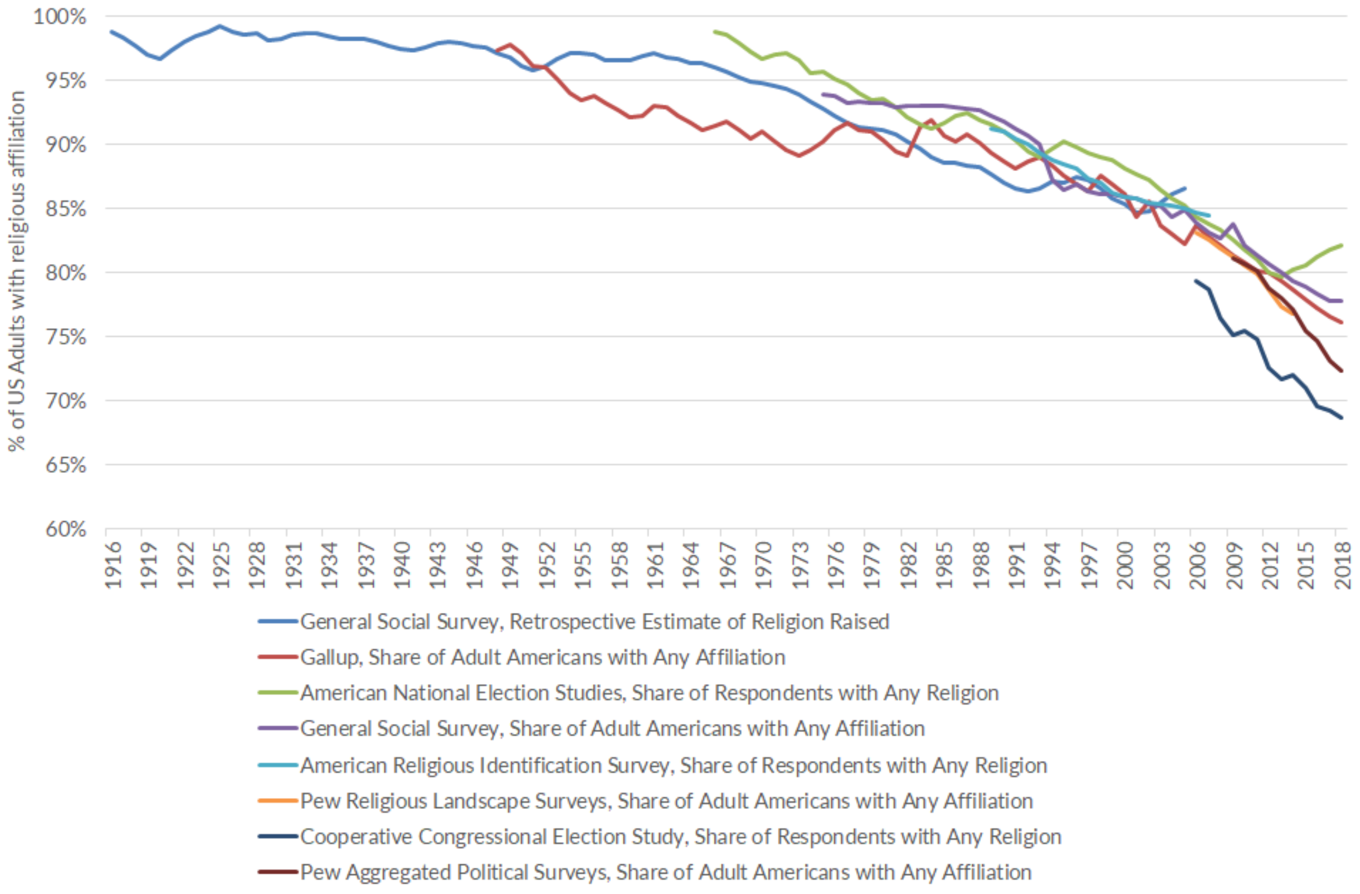
Key Driver #1: Mega-exposure to megachurches

Studies show US church attendance has been in long-term decline. Bucking this trend is the growth of the modern protestant megachurch — PPH's target market. These evangelical and nondenominational churches grow extremely quickly and consistently and regularly focus on fundraising for ministry, expansion and outreach. We estimate PPH services 58 of the top 100 US churches by attendance, 31 of the top 50 and 7 of the top 10.

Mass Exodus: Deconverting or denominalisation?

Despite a degree of liminality, it is clear both church attendance and religious affiliation in the US has fallen since the turn of the twentieth century. Taking data from eight separate studies, a large driver is the decline in the number of traditional (mainstream) protestants, particularly prominent since the end of the Second World War in 1945. Partially offsetting the fall in protestant attendance has been the emergence and growth of the evangelical and nondenominational church. Catholic attendance, however, has also fallen sharply, although partially offset by a rise in the number of Hispanic attendees.

Figure 12. Surveyed results of % US adults with any religious affiliation 1916–2018



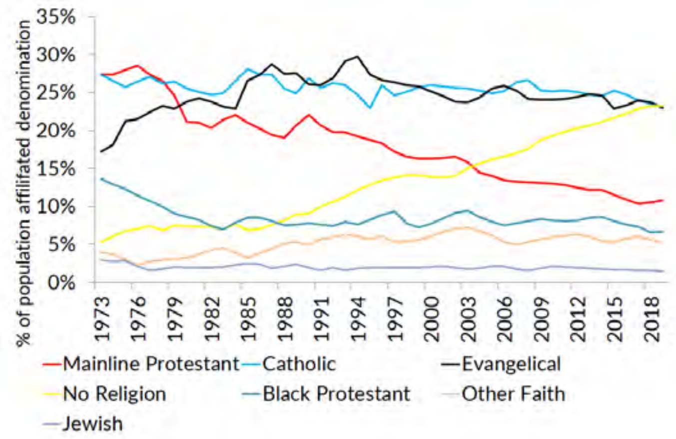
Source: Forsyth Barr analysis, GSS, Gallup, ANES, ARIS, Pew, CCES

The highest growth category is that of religious 'nones' (those with no faith). Channel checks suggest that the majority of 'nones' are denominalising rather than deconverting. American cultural values have moved away from church affiliation (regardless of belief) and those with previously loose association to the church are re-categorising themselves as secular and non-affiliated to any religion.

The most recent US data below shows historic net movement between denominations across the lifetime of participants, with results showing mainstream protestant affiliation down -9%, Catholic down -11%, Evangelical up +5%, but nones up +14% (fig.18).

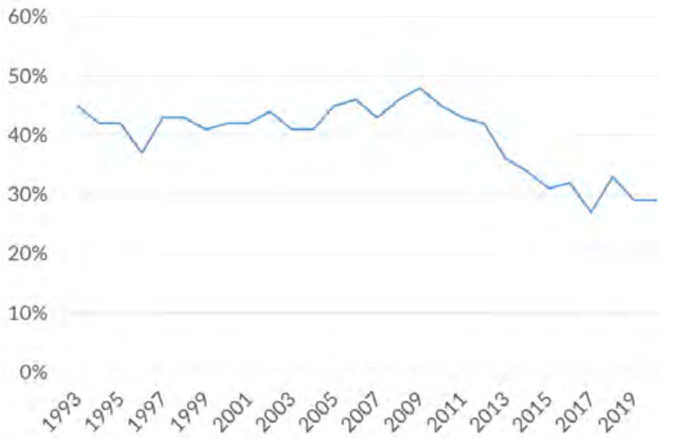
We expect to see further growth of the modern protestant church, particularly in the wake of the COVID-19, with some evangelical and nondenominational churches reporting over three times average weekly attendance through online church channels.

Figure 13. Affiliation by denomination US adults



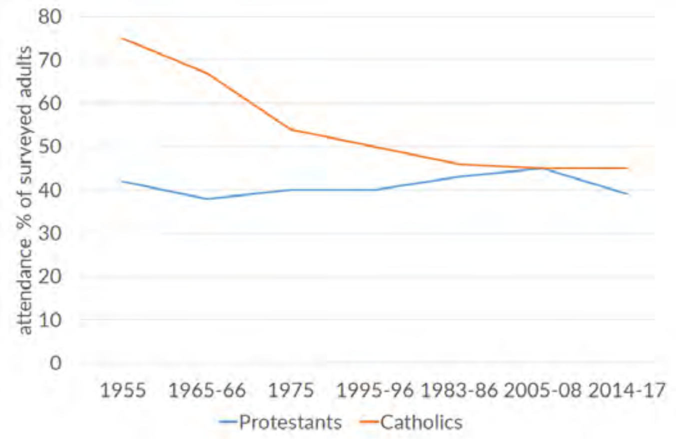
Source: Forsyth Barr analysis, GSS

Figure 14. Aggregate US Weekly church attendance 1993–2020



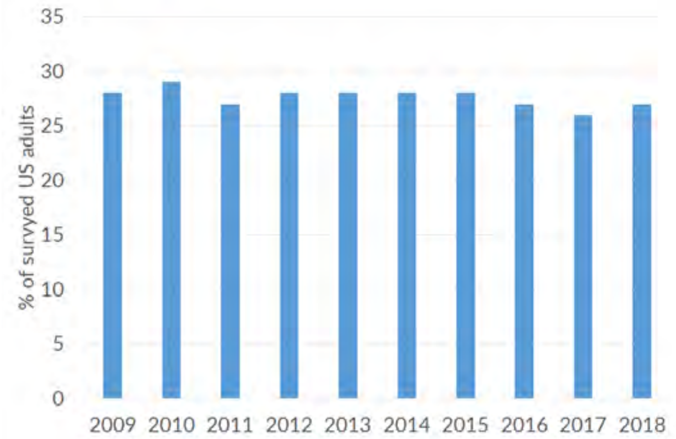
Source: Forsyth Barr analysis, Barna

Figure 15. Protestant vs Catholic attendance 1955–2017



Source: Forsyth Barr analysis, Gallup

Figure 16. % US adults self-identifying as evangelical 2009–18



Source: Forsyth Barr analysis, Pew Research Center

Figure 17. Percentage of US surveyed adults who were raised, left or joined different religions or denominations during their lifetime

	Childhood religion [a]	Leaving group [b]	Entering group [c]	Net movement [b+c]	Current religion [a+b+c]
Nondenominational	2%	-1%	5%	4%	6%
Evangelical	4%	-2%	3%	1%	5%
Modern Protestant	**6%**	**-3%**	**8%**	**5%**	**11%**
Baptist	19%	-8%	5%	-4%	15%
Methodist	7%	-4%	2%	-2%	5%
Lutheran	5%	-2%	1%	-1%	4%
Presbyterian	3%	-2%	1%	-1%	2%
Anglican	2%	-1%	1%	-1%	1%
Congregationalist	1%	-1%	0%	0%	1%
Mainline Protestant	**36%**	**-18%**	**10%**	**-9%**	**28%**
Restorationist	0%	-1%	1%	0%	2%
Holiness	1%	-1%	1%	0%	1%
Reformed	1%	0%	0%	0%	0%
Adventist	1%	0%	0%	0%	1%
Anabaptist	1%	0%	0%	0%	0%
Pietist	1%	0%	0%	0%	0%
Quakers	1%	0%	0%	0%	0%
Other	1%	0%	0%	0%	0%
Other Christian	**4%**	**-2%**	**2%**	**0%**	**5%**
Catholic	**32%**	**-13%**	**2%**	**-11%**	**21%**
Nones	**9%**	**-4%**	**18%**	**14%**	**23%**

Source: Forsyth Barr analysis, Pew Research

The reborn church a long-term driver for Pushpay

With religion losing cultural relevance in the US after the Second World War, a number of churches entered a new season of identity in the 1980s, moving away from traditional formats and towards more informal, entertainment-driven gatherings. The desire to continue expansion by modern protestant churches benefits PPH, as customers look to fund-raise through digital means.

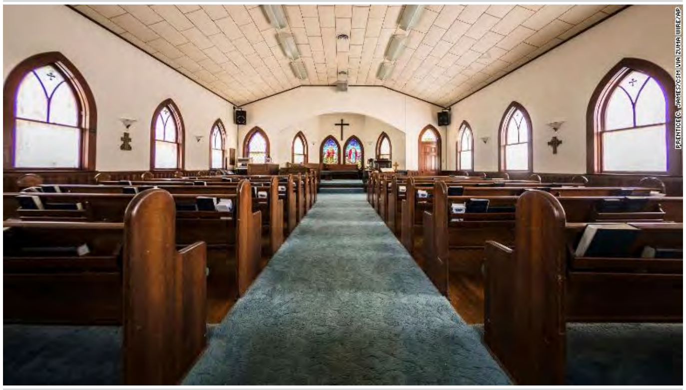
Figure 18. Change in protestant church format over time

Characteristic	Traditional church	Modern church
Emphasis	Church liturgy/rituals/tradition	Bible, community, outreach
Music	Choir & organ, hymns	Worship bands
Clergy/pastor clothing	Robes & cassocks	Informal, casual clothing
Language	Formal, latin, traditional	Everday infomal language
Format	Quiet, reflective, individual-based	Inclusive, group-based
Building	Typically church, cathedral	Convention centre, conference hall

Source: Forsyth Barr analysis

With the popularity of nondenominational churches growing steadily in recent times, the largest gatherings have regular average weekly attendance of around 50,000 attendees. Typically any church with over 2,000 average weekly attendees is described as a 'megachurch', and those with attendances over 10,000 a 'gigachurch'.

Figure 19. Traditional mainstream protestant church



, Source: Forsyth Barr analysis, CNN

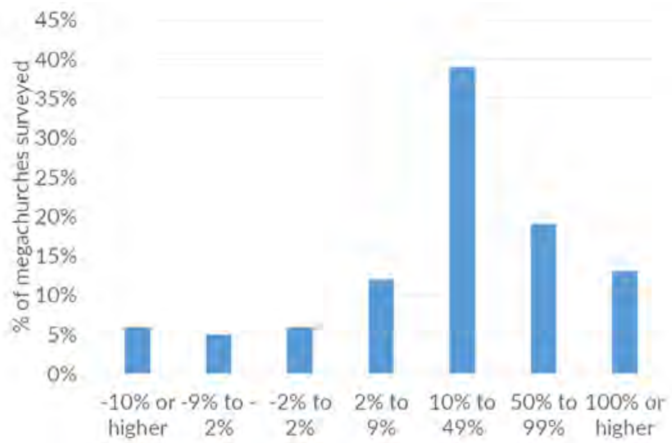
Figure 20. Lakewood Church, US

Source: Forsyth Barr analysis, Lakewood church

Megachurches exploding with growth

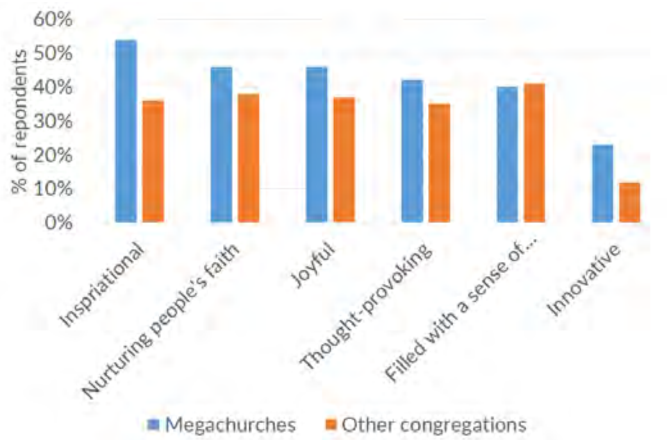
In 2015 the Hartford Institute for Religious Research (HIRR) estimated that younger megachurches grew +91% in the five years to 2015, with the more mature megachurches growing at a lower but substantial +39%. Such churches are usually run by a high profile lead pastor attracting additional numbers (such as Steven Furtick at Elevation church), and typically run by teams of professionals across marketing, production, music and finance.

Figure 21. Growth rates of megachurches HIRR survey 2015



Source: Forsyth Barr analysis, HIRR

Figure 22. Church services described by congregations surveyed



Source: Forsyth Barr analysis, HIRR

Key Driver #2: Bible-based giving growing, digital direction

Highly correlated with US disposable incomes, regular giving is a bible-principal which a large number of church-goers adhere to today, making up a large part of church income. With digital giving growing in recent years, digital adoption has reached record highs for many churches over the last few months as part of COIVD-19-related restructuring.

Why do church members give?

Christian giving is driven by biblical principal of the Mosaic Law through the institution of the tithe. Money is also the subject of roughly 40% of Jesus' parables. Israelites in the Old Testament were commanded to give three distinct tithes:

- **The Levitical Tithe**: 'I give to the Levites all the tithes in Israel as their inheritance in return for the work they do while serving at the tent of meeting' — Numbers 18:21. The Levites (priests) were recipient's of 10% of annual donations which supported their livelihood as they were unable to own land and as a result received no inheritance or farming income.
- **The Festival Tithe**: 'Be sure to set aside a tenth of all that your fields produce each year' — Deuteronomy 14:22. This annual festival was to honour God's work in bringing the Israelites out of Egypt and typically the Israelites would present animals, grain or the equivalent monetary value.
- **The Charity Tithe:** 'At the end of every three years, bring all the tithes of that year's produce and store it in your towns so that the Levites and the foreigners, the fatherless and the widows who live in your towns may come and eat and be satisfied' — Deuteronomy 14: 28. This was offered in the 3rd and 6th year of the Israelites societal life cycle.

As a result, most Israelites would have donated approximately 23% of their income (rather than the 10% commonly taught in churches today). In a recent poll by LifeWay Research, most churchgoers believe they are commanded to give today, with 86% of participants with evangelical beliefs suggesting it is a biblical principal that still applies today.

Churches heavily reliant on regular giving to fund ministries

From Lakewood Church 2017 annual report, contributions made up 90% of total revenue (average weekly attendance 43,500).

Figure 23. Lakewood Church 2017 revenue streams

Revenue streams	US$	% revenue
Contributions	78,684,092	90%
Ministry Product sales	2,808,049	3%
Touring events	1,751,794	2%
Gains on marketable securities	205,822	0%
Registrations and events	799,881	1%
Other income	1,150,588	1%
Assets released from restrictions	2,458,817	3%
Total Revenue	**87,859,043**	**100%**

Source: Forsyth Barr analysis, Lakewood church

Figure 24. Lakewood Church 2017 Expenses

Expenses	US$	% costs
Weekly services and programs	31,721,435	35%
Tour events	6,690,636	7%
TV ministry	25,146,357	28%
Mission and outreach	1,188,494	1%
Sales of ministry resources	2,401,120	3%
General and admin	11,482,930	13%
Fundraising	11,966,386	13%
Total expenses	**90,597,358**	**100%**

Source: Forsyth Barr analysis, Lakewood church

Processing costs: we estimate less than 1% of total expenses

A large gigachurch such as Lakewood uses contributions for a number of outgoings including services, tours, TV and admin. If giving at Lakewood was 100% digital, we estimate Pushpay's 2% processing volume fees would be US$634,429, making up just 0.7% of the church's total expenses.

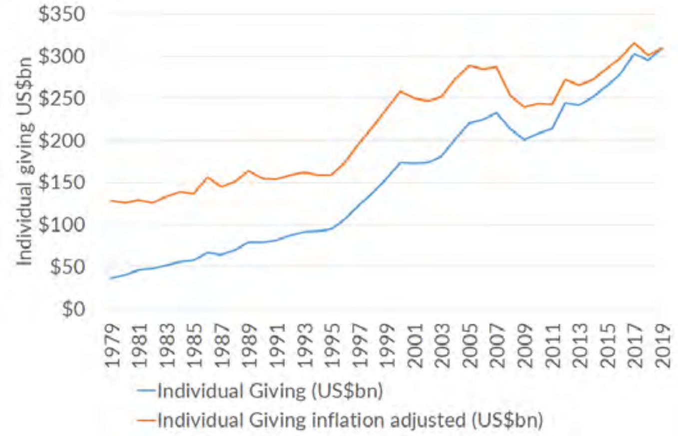
Macros: Giving per donor shown to grow consistently over time

Macroeconomic indicators correlate closely with US aggregate donations to religion with individual giving correlating strongly with disposable income. We note US Giving 2020 data includes sources outside of PPH's target market, but consider the proxy relevant.

Giving per donor correlated with disposable incomes

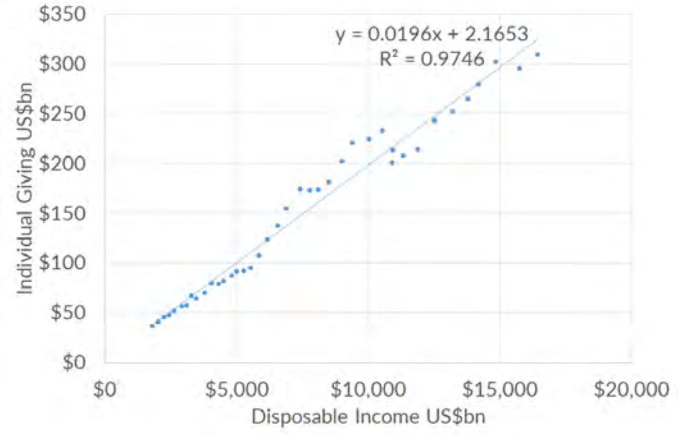
Taking the latest data available (US Giving 2020) total individual giving to all causes in the US has seen upward momentum over the last 40 years, illustrated below. There is also strong correlation with level of the S&P 500 but less correlation with unemployment.

Figure 25. Individual Giving 1979–2019



Source: Forsyth Barr analysis, US Giving 2020

Figure 26. Individual Giving vs Disposable Income 1979–2019

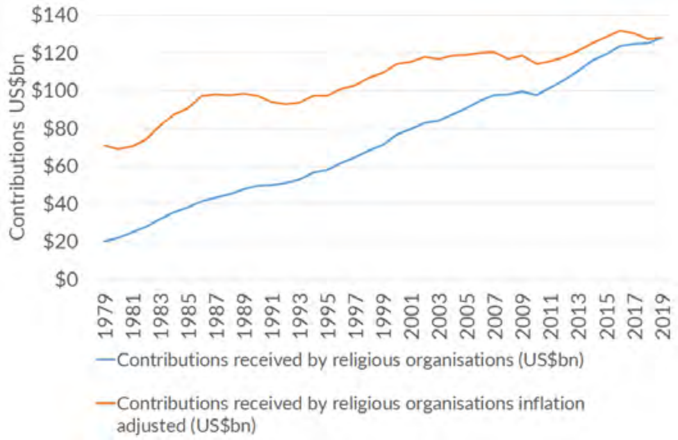


Source: Forsyth Barr analysis

Total Giving to all causes in the US reached US$450bn in 2019 of which donations to religious causes made up 28% (US$128bn). Total Giving in the US as a percentage of GDP was 2.1% for 2019, historically ranging from 1.6% to 2.2% in 40 years.

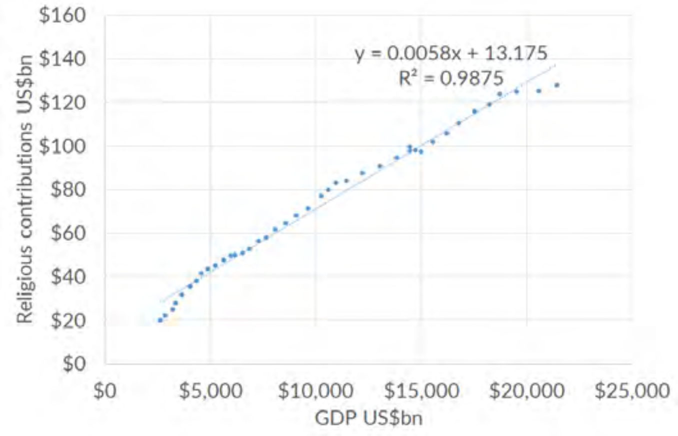
Total US contributions to religious causes have increased consistently since 1979 with a slight decrease in 2009 as a result of the GFC. There is strong correlation between total religious correlations, total GDP, and that of S&P 500 performance.

Figure 27. Religious contributions 1979–2019



Source: Forsyth Barr analysis, US Giving 2020

Figure 28. GDP vs religious contributions 1979–2019



Source: Forsyth Barr analysis, US Giving 2020

Digital adoption catching on like wildfire

COVID-19 has changed the way some churches think about giving, having historically viewed investment in technology as low priority. We estimate that pre COVID-19, PPH's customer average digital giving reached ~50% before rising to 65%+ in recent months. With a high degree of US smartphone penetration ready made to support mobile church giving, we do not expect to see a large reversion to cash donations. A number of churches are currently unwilling to handle physical donations.

PPH capitalising on poor US banking infrastructure

Historically, digital payments generally in the US have been sluggish to take-off compared to global peers, despite the number of innovative US payment companies. This is mainly down to insecurity surrounding security, a consumer culture driven by credit cards, poor banking infrastructure and the scale of investment required. However, we believe pre COVID-19 the tide was beginning to turn, with the current COVID-19 scenario accelerating adoption.

Security box ticked

PPH is **fully PCI-DSS Compliant** (the highest security certification available) — implying the company has been independently audited and certified to offer the highest level of security and data encryption for sensitive information such as credit card or bank account numbers. This is in line with most of PPH's major competitors. However, we acknowledge in the current COVID-19 situation, cyber security threats pose a higher risk to all payment providers across the digital landscape.

Key Driver #3: Quality product, highly satisfied customers

With 58 of the top 100 largest US churches PPH customers, we are confident that the product is of high quality and functionality. We spoke to over 50 churches using both PPH services and competitors and confirmed that PPH has 1) the ability to meet bespoke needs, 2) a high level of customer support and 3) a product that is reliable, easy to use, with a high degree of technical proficiency.

A number of churches ran out of superlatives, few with negative comments...

Product

- 'It was much easier and simpler to move to Pushpay from our own apps and previous set up'
- 'We are impressed with how user friendly Pushpay is'
- 'We love Pushpay — it's been wonderful, amazing, great since we joined in 2016/17 and experienced great customer care'
- 'We had needs when we first joined and these have all been met well, they've been great at listening and the product offering has continued to grow'
- 'It's a very streamlined product compared to others in the market'
- 'The product is way more tech savy than competitors and it's able to meet our changing organisational needs'
- 'The market for larger churches is very small and you need robust technology which Pushpay provides'
- 'We wanted one data base to handle everything — the system is very classy and well done'
- 'There is room for improvement on the reporting side of things — we want to have a more personalised donor dashboard (less dependency on templated reporting)'
- 'We like the ideas behind the donor management system but the reporting system could be improved, but otherwise we are very happy'

Service

- 'We liked the security side to Pushpay and remain confident in its abilities'
- 'We like the scalable growth and it is very secure for us'
- 'It's helped us transition with new products which we otherwise would have had to purchase'
- 'It's scalable, secure and growing with us'
- 'There's no one else in the large church space that would meet our needs'
- 'We're not your average church so needed someone who understood that'
- 'Support from Pushpay has been excellent since day one'
- 'It simplified the process of giving for our church members, particularly around reoccurring giving'
- 'The speed of sending money is now much faster, with less forms'
- 'Email proof of receipt is well very received by our congregation'
- 'We've been able to solicit for donations more efficiently'
- 'It appeals to older generations (who don't carry large amounts of cash around so are able to give more through digital giving) and youngsters who are always on their phones'
- 'Donors have previously been limited by the amount of cash they carry and tended to only give on Sundays'
- 'E-texting was very challenging to maintain own our coding language such as hosting the product. With Pushpay the difference has been amazing'
- 'The on-boarding process was amazing but as soon as implementation occurred we lost that contact — our current relationship guy is way too busy'
- 'Help desk tickets can be slow'

Fees

- 'We actually have no concern over the fee level — it makes internal pain points lesser and reduces our personnel costs'
- 'We are very satisfied with the value it provides'
- 'We save on development costs so we have no concern over fee structure'
- 'We feel that the subscription fees are high'
- 'Pushpay is expensive compared to peers'
- 'We did look at Pushpay but they felt too expensive and it took us to an external webpage'

Key Driver #4: Thorough competitor analysis shows PPH on top

There are a large number of competitors providing payment services to US churches with over 120 donor management systems and 130 Church Management Systems on offer. We highlight PPH's key competitive advantages and rank major competitors with a 10-fold measuring system. Financesonline ranks PPH as the number one church management software solution with a 9.3/10 rating.

Key competitive advantages

- PPH offers a large number of integrated partnerships appealing to churches using legacy providers
- PPH is one of very few one-stop-shop providers. Tithe.ly also offers a more basic version, typically for smaller churches
- PPH is run as a commercial entity while a number of competitors operate as not-for-profits

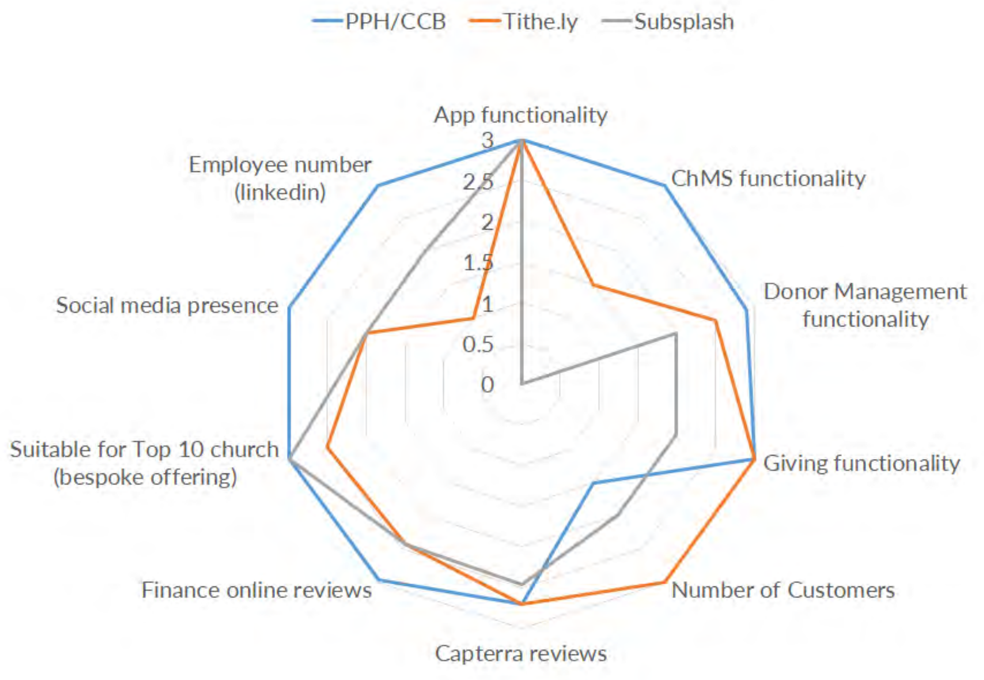
Higher price but backed by superior product offering

Competitors charge very similar processing fees, typically 2–3% but significantly lower subscription fees for a more basic service. PPH offers bespoke pricing to larger customers enticing a number of customers over from Tithe.ly. A number of competitors build up the monthly subscription fee depending on additional features used such as usage of kiosk, text services or additional security.

10 fold measuring system

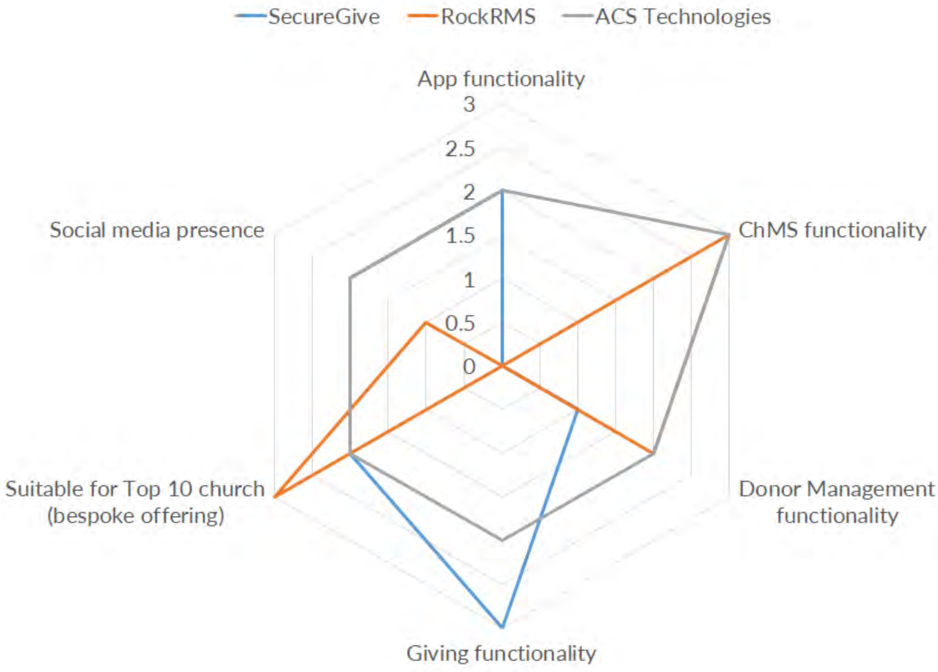
We use 10 criteria by which to measure the competitiveness of 10 providers including PPH. Each criteria is measured out of 3, with a score of 0 if one of: the mobile app, ChMS, Donor Management or Giving platform is not offered. E.g Subsplash ChMS functionality. At this stage RebelGive, Flocknote, MyWell, Breeze and Pastorsline are either too small to compete for large church market share, operate more as a charity or offer a more niche and differentiated product.

Figure 29. Pushpay/CCB, Tithe.ly, Subsplash competitive indicators



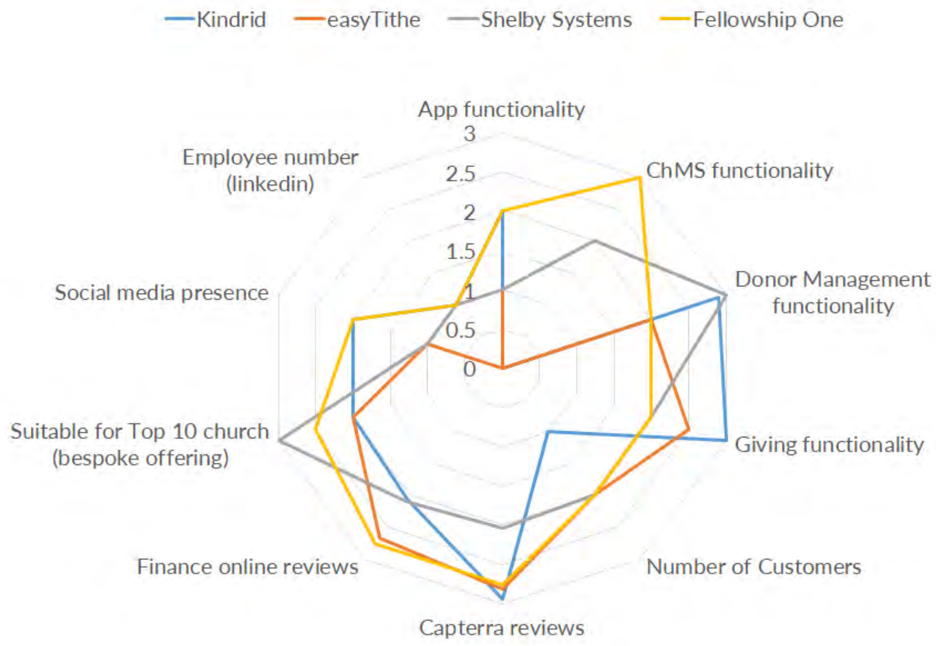
Source: Forsyth Barr analysis

Figure 30. SecureGive, RockRMS, ACS Technologies competitive indicators



Source: Forsyth Barr analysis

Figure 31. Ministry Brands owned: Kindrid, easyTithe, Shelby Systems, Fellowship One, competitive indicators



Source: Forsyth Barr analysis

Barriers to entry — defensive positioning around larger customers

Despite the fragmented market structure, at the larger end of the market there are a number of significant barriers to entry, including 1) a sticky customer base with churches displaying a high degree of inertia. Providing services for 58 of the top 100 churches, PPH locks customers into three year contracts, 2) PPH's product has taken a number of years to refine and meet the changing needs of customer churches, 3) PPH is a commercial company operating in a non-for-profit world and has built a large contact book of churches over time. Many churches take 18 months to make major organisational decisions, and 4) the vast majority of churches we spoke to are exceptionally happy with the product and services PPH are offering them. It would take something exceptional to quickly change PPH's position.

Key Driver #5: Large, growing Total Addressable Market

We estimate TAM for PPH/CCB to be ~US$3.0bn. This implies PPH's revenue market share to be 4.5%. PPH's 8,180 giving customer churches accounts for 2.7% of total US churches. We forecast PPH's 10 year TAM to be US$4.0bn.

Current Total Addressable Market (TAM)

Our TAM calculation is based on all US congregational members of which we assume 15% give vs 30% for PPH churches. This implies total giving for US protestant churches to be US$108bn. We also assume a conservative 60% for digital adoption and PPH processing fees of 2.0%.

Although PPH no longer provides TAM guidance, the latest PPH estimate in 2015 suggested TAM to be US$2.2bn before the acquisition of CCB. Our estimate of processing fees TAM of US$1.2bn compares with PPH's 2015 estimate of US$716m, while our estimate of subscription TAM for app software and payments is US$1.2bn against PPH's 2015 estimate of US$1.4bn.

Figure 32. Processing and Total TAM

Processing fees	
Total congregational members (m)	55
% who give	15%
Annual giving per person (US$)	13,020
Total Annual Giving (US$bn)	108
Digital adoption	60%
Total volume (US$bn)	65
PPH fees	2.0%
Total Revenue (US$bn)	**1.3**
PPH Subscription fees (US$bn)	1.2
CCB Subscription fees (US$bn)	0.6
Total TAM (US$bn)	**3.0**

Source: Forsyth Barr analysis

Figure 33. PPH and CCB Subscription TAM

Subscription fees	
Total number of churches	308,548
Average fee/subscription (US$)	3,741
Total fees (US$bn)	**1.2**
CCB fees	
Total number of M/L churches	113,030
Average fee/subscription (US$)	5,198
Total fees (US$bn)	**0.6**

Source: Forsyth Barr analysis

Future TAM 10 years from now

Looking forward 10 years, we estimate a TAM of US$4.7bn (+4% 10 year CAGR). We assume the percentage of those giving increases due to the dual impact of church-wide digital adoption and the PPH plus customer church strategy to encourage more donors and higher donations. We estimate average giving per person to increase a conservative +2% per annum and thus believe there to be some upside risk to our forecasts. However, we estimate subscription fees for both PPH and CCB to be lower due to a smaller amount of M/L churches due to US church consolidation and a level of subscription fee compression going forward.

Figure 34. Processing and Total TAM +10 years

Processing fees	
Total congregational members (m)	47
% who give	25%
Average giving per person (US$)	18,074
Total Giving (US$bn)	211
Digital adoption	75%
Total volume (US$bn)	159
PPH fees	2.0%
Total Revenue (US$bn)	**3.2**
PPH Subscription fees (US$bn)	1.0
CCB Subscription fees (US$bn)	0.5
Total TAM (US$bn)	**4.7**

Source: Forsyth Barr analysis

Figure 35. PPH and CCH subscription TAM +10 years

Subscription fees	
Total number of churches	308,898
Average fee/subscription (US$)	3,349
Total fees (US$bn)	**1.0**
CCB fees	
Total number of M/L churches	102,354
Average fee/subscription (US$)	4,654
Total fees (US$bn)	**0.5**

Source: Forsyth Barr analysis

Processing revenue model

We provide a revenue model driven by the number of US churches (HIRR 2010 and prior year data) and discuss assumptions below.

Figure 36. PPH processing revenue model

	FY20	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E
Small Churches ('000)	196	196	197	198	199	200	201	202	203	204	206	207
Average size	41	40	39	38	38	37	36	35	35	34	33	33
Congregational members (m)	8	8	8	8	8	7	7	7	7	7	7	7
Medium Churches ('000)	111	110	109	108	107	106	105	104	103	102	101	100
Average size	324	323	321	319	318	316	315	313	312	310	308	307
Congregational members (m)	36	36	35	34	34	33	33	32	32	32	31	31
Large chuches ('000)	1.8	1.9	1.9	2.0	2.1	2.2	2.3	2.4	2.5	2.5	2.7	2.8
Average size	4,735	4,829	4,926	5,024	5,125	5,227	5,332	5,439	5,547	5,658	5,771	5,887
Congregational members (m)	8	9	10	10	11	11	12	13	14	14	15	16
Total churches ('000) [A]	309	308	308	308	308	308	308	309	309	309	309	309
Total congregational members (m)	53	52	52	52	52	52	52	52	53	53	53	54
Average size	170	170	170	169	169	169	170	170	171	171	172	173
Total churches onboarded ('000) [B]	**8.2**	**8.7**	**9.2**	**9.7**	**10.0**	**10.3**	**10.6**	**11.0**	**11.3**	**11.6**	**12.0**	**12.3**
Growth	7%	7%	6%	5%	4%	3%	3%	3%	3%	3%	3%	3%
Market share of total churches	**2.7%**	**2.8%**	**3.0%**	**3.1%**	**3.3%**	**3.4%**	**3.5%**	**3.6%**	**3.7%**	**3.8%**	**3.9%**	**4.0%**
% small churches	41%	39%	37%	35%	33%	31%	29%	27%	25%	23%	21%	19%
S Churches onboarded ('000)	3.4	3.4	3.4	3.4	3.3	3.2	3.1	3.0	2.8	2.7	2.5	2.3
Implied S congregational members (m) [Y]	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
% M/L churches	59%	61%	63%	65%	67%	69%	71%	73%	75%	77%	79%	81%
M/L Churches onboarded ('000)	4.8	5.3	5.8	6.3	6.7	7.1	7.6	8.0	8.5	9.0	9.5	10.0
Implied M/L congregational members (m) [Z]	1.9	2.1	2.3	2.6	2.8	3.0	3.2	3.4	3.7	3.9	4.2	4.6
Cong members onboarded (m) [Y+Z]	**2.0**	**2.2**	**2.5**	**2.7**	**2.9**	**3.1**	**3.3**	**3.5**	**3.8**	**4.0**	**4.3**	**4.6**
% who give [C]	30%	31%	32%	33%	34%	35%	36%	36%	37%	37%	38%	38%
% of donors who give digitally [D]	50%	65%	66%	67%	68%	69%	70%	71%	72%	73%	74%	75%
Cong members giving digitally (m) [(Y+Z)*C*D]	0.3	0.5	0.5	0.6	0.7	0.7	0.8	0.9	1.0	1.1	1.2	1.3
Average digital giving per donor US$ [E]	16,343	15,199	15,123	15,426	15,734	16,049	16,370	16,697	17,031	17,372	17,719	18,074
Growth	-8%	-7%	-1%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Processing volume (US$bn) [(Y+Z)*C*D*E]	**5.0**	**6.9**	**7.9**	**9.2**	**10.5**	**11.9**	**13.4**	**15.0**	**16.9**	**19.0**	**21.3**	**23.9**
PPH fee [F]	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Processing revenue (US$m) [(Y+Z)*C*D*E*F]	**92**	**127**	**153**	**187**	**210**	**239**	**268**	**301**	**338**	**379**	**426**	**479**

Source: Forsyth Barr analysis

Number of Churches in the US [A]

With 98% of customers North America based, at this point in time we focus purely on the US market. We also exclude the Catholic and orthodox church which is more niche and traditionally focused, and less likely to adopt mobile giving. PPH defines a small congregation as 0–199 average weekly attendance, medium 200–1,099 and large 1,100+. Although PPH describes the target market as only medium and large churches, 45% of current customers are in the small band (3,354 churches) and therefore we include these in PPH's total market.

We believe the number of larger churches will continue to grow at around +4% a year (based on HIRR 2010 estimate of 1,210, previous HIRR estimates of church size distribution and today's commonly accepted number of around 1,700).

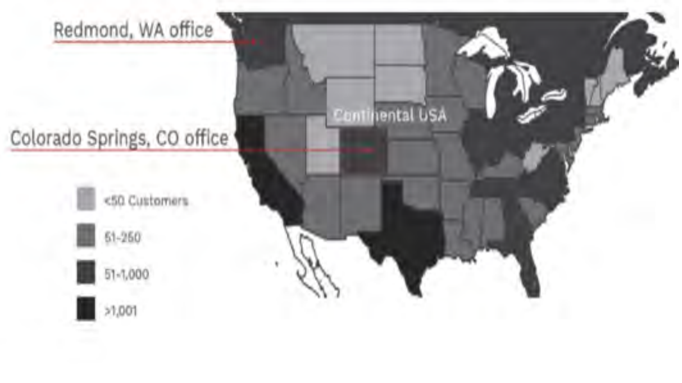
Church customer onboarding growth and market share [B]

We forecast a conservative 3% growth in the number of PPH church customers from FY25 onwards.

Market share growth has been achieved by aggressive marketing and sales techniques. Many of PPH's larger customers transition from in-house infrastructure, Paypal, and ChMS providers such as RockMS and Fellowship One, where the emphasis has been on ChMS and less focus on giving and donor management software. We believe that churches outside of the top 200 are still relatively under-penetrated for PPH, given the number of customers that use inferior products from competitors such as Planning Center or ACS Technologies service (which provide to 50,000 churches each), plus the additional number of churches that still rely on Paypal or in-house software. We also recognise that the decision making processes of large churches can take up to 18 months.

Geographically, PPH's church concentration is similar to HIRR's estimate of large church concentration — across the bible belt.

Figure 37. Geographic customer penetration



Source: Forsyth Barr analysis, Pushpay

Figure 38. Megachurch locations US (darkest = highest %)

Source: Forsyth Barr analysis, HIRR

More recently, we view a number of churches as having made 'panic buys' at the start of COVID-19 due to the need to adopt digital giving processes overnight. One PPH competitor indicated that for the first two months of COVID-19 sales were greater than the whole of 2017 and 2018 combined. We believe this will lead to a higher level of industry churn over the medium term, and with a superior product offering and one-stop-shop approach we expect PPH to be a major beneficiary.

We believe a number of customers are likely to come from existing ChMS providers that only offer basic giving, donor management and app services. We note that many churches use a number of providers in conjunction and believe that PPH is in a strong position to increase market share as a number of churches have specified that they do not want multi-providers going forward and intend to move to a single platform provider for all services.

Giving congregational members [C]

At an aggregate level we would assume 15% of all church members donate in line with US Giving assumptions, but for churches using PPH that we spoke to, we use a consensus of around 30%.

We would expect the percentage of giving church members to grow over time given:

- The higher proportion of congregational members in larger megachurches (which are growing ~4% in number and forming a higher percentage of church members over time)
- Increased engagement through digital channels, push notifications, and church white label apps
- Increasing numbers of recurring givers as churches transition from physical to digital donations (accelerated by COVID-19)
- The rise of online church post COVID-19 moving the entire experience to digital for some congregational members
- Provision of tools by PPH to train and encourage pastors to solicit congregational members for more and larger donations through content, custom videos and wording.

Billy Graham (one of the most influential C20th evangelists) estimated in 1990 that only 25% of church attendees are truly born-again Christians. According to Passing The Plate data, the most generous 25% of church members also give roughly 90% of total funds.

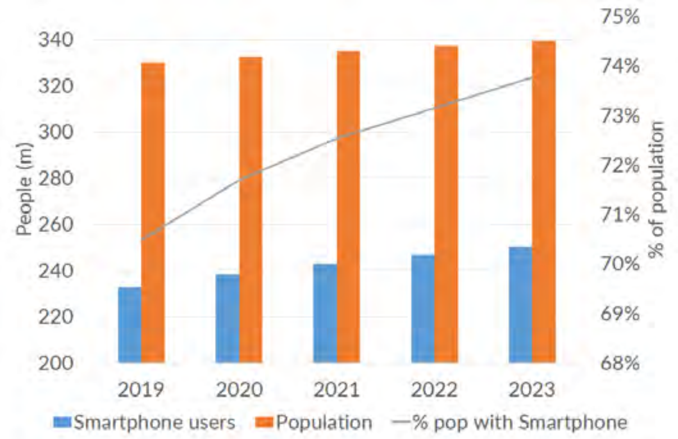
Members who give digitally [D]

PPH assumed average customer digital adoption of 30% in 2015. We believe the pre COVID-19 number to be nearer 50%, which has risen to 65%+ in recent months on speaking to a number of churches. We expect little reversion to cash post COVID-19.

As a result of COVID-19, M&T Bank has seen digital adoption rates more than double from 30% to 65% while Visa has reported +150% growth in the use of contactless payments between March 2019 and March 2020.

Even before COVID-19, Emarketer estimated that US mobile payments would rise from US$60bn in 2018 to over US$200bn by 2023. This data also estimated that in 2019 71% of the population in the US had a smartphone.

Figure 39. Estimated growth of US Smartphone ownership



Source: Forsyth Barr analysis, Emarketer

Figure 40. US Mobile payments 2018–2023E

Source: Forsyth Barr analysis, Emarketer

Average giving per individual [E]

Our estimated average digital donation size per donor is implied from PPH's FY20 processing volume revenue and estimated average number of digital donors. We reconciled this with a number of churches and church annual reports before applying a conservative growth rate of +2% going forward from FY23.

Bethel Church Redding provides insight on the impact of using PPH on average tithe size. Bethel started using PPH in 2018 when attendance increased for the year by +3%. In the same year total income from tithing increased +64% (US$13m-US$22m) implying that with an estimated 25% rate of donors per congregation, average donation per donor increased +59% from US$9,088 to US $14,404. This implies either an increased percentage of the congregation giving, increased giving per donor, or both.

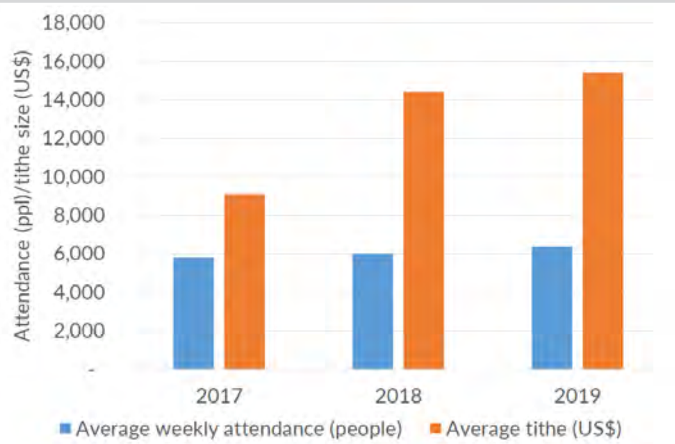
Using this methodology on average for PPH customers, FY20 saw a decrease of -8% for average size of tithe per donor and with COVID-19 uncertainly; we apply -7% and -1% for FY21E and FY22E respectively given the strong correlation with macroeconomic indicators.

Figure 41. Bethel church, Redding attendance vs giving

	2017	2018	2019
	No PPH	PPH	PPH
Average weekly attendance (people)	5,803	6,000	6,365
		3%	6%
Total income from tithing (US$m)	13	22	25
		64%	14%
Assume 25% tithe (people)	1,451	1,500	1,591
Average tithe (US$)	**9,088**	**14,404**	**15,421**
		59%	7%

Source: Forsyth Barr analysis, Bethel church annual reports

Figure 42. Bethel church, Redding attendance vs giving



Source: Forsyth Barr analysis, Bethel church annual reports

Pushpay processing fees [F]

We assume a continued flat 2% for average processing fees. This is split by 1% for ACH payments, 2% for debit card payments and 3% on credit card payments.

Operating leverage generated despite likely subscription fee compression

Subscription revenue

Subscription fees are received as a recurring SaaS payment, with the fee amount determined by the size of church. Subscription fees also depend on whether PPH provides a white label app or donor management system for the church in addition to the giving platform. As a result pricing is tiered into bronze, silver or gold subscriptions.

Fees start upwards from US$199/month with the average for FY20 US$3,741 a year. Some larger churches negotiate on fees with churches typically signing three year contracts.

A number of churches that we spoke to did highlight the levels of fees, but this was offset by a higher number of churches which were willing to pay a premium price because of the premium service provided by PPH. A number of churches also highlighted the increased revenue and cost saving incurred as a result of moving to PPH.

CCB fees/revenue model

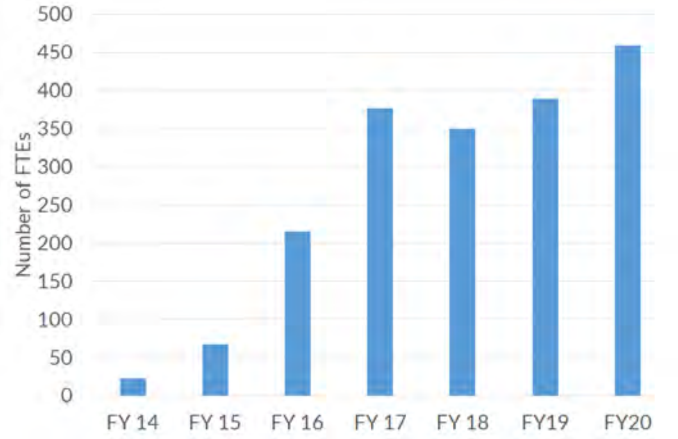
We estimate the annual average subscription fee of Church Community Builder to be US$5,198 and we apply an annual -1% fee compression going forward due to price erosion from a highly competitive market and the plan to bundle with PPH's other products.

Costs

PPH's largest cost is Full Time Employees (FTEs) which totalled 23 in FY14 and has risen to 459 at FY20. The largest division is Sales and Marketing, making up 32% of FTEs. In FY20 the largest increase was in Customer Success, an increase of 30% from 73 to 95 FTEs.

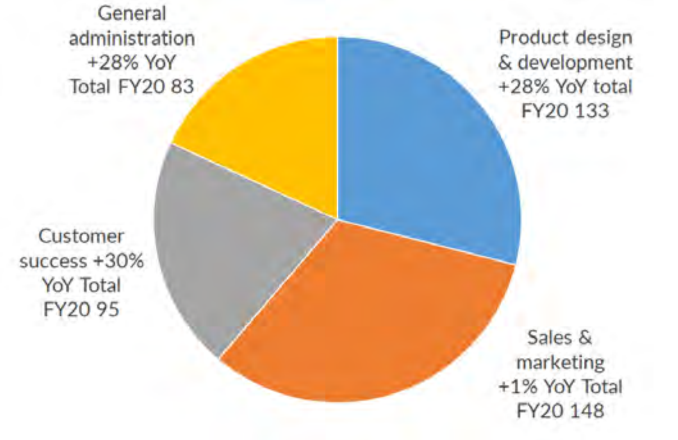
Historically PPH has committed significant FTE resources to sales, development and customer service. Having spoken to various competitors and using data available we believe PPH to have the lowest ratio of customers to FTEs.

Figure 43. Pushpay number of FTEs over time



, Source: Forsyth Barr analysis, Paypal

Figure 44. Total FTEs by division FY20



,Source: Forsyth Barr analysis, Pushpay

The second largest cost is processing fees. The larger PPH grows, the greater economies of scale can be achieved on interchange fees. When covering interchange fees for the church, we estimate that PPH is charged around 1% of processing fees, with cheques the cheapest method of processing and credit cards the most expensive. As a result PPH encourage churches to solicit donations through ACH and debit cards due to the lower processing fees.

Risks mainly cyber threats, improved competition and reputation

The main risk for PPH is the increased cyber security risk in the current COVID-19 environment, despite the company being PCI-DSS compliant. Secondly, an increased level of competition could both drive fees downward and compete for market share. At this stage we believe it would take considerable time to disrupt PPH's competitive position given the length of contracts and current customer base, but in time a competing one-stop-shop could look to compete for market share. Finally, we would expect a degree of reputation risk if PPH's values were seen to differ with that of customer churches.

Valuation

We value PPH at NZ$12.42 per share based on an average of DCF and combined multiple approach. The peer group is taken from the BVP Nasdaq Emerging Cloud Index.

The principal earnings drivers are 1) greater digital adoption for US churches, 2) a structural shift in the growth and expansion of US megachurches, 3) an increase in PPH's market share of US medium and large churches, and 4) an increase in the percentage of donors per congregation.

Figure 45. Blended DCF and multiple valuation approach

	Valuation	Rolled forward	Dividends	Target price
DCF 50%	9.22			
EV/Sales 25%	14.12			
EV/EBITDA 25%	13.07			
Blended Average	11.41	12.42	0.00	12.42

Source: Forsyth Barr analysis

Discounted cash flow

We derive 50% of our target price from a discounted cash flow (DCF) valuation approach. Our forecasts assume PPH will beat current EBITDAF earnings guidance for FY21. In addition, we see it unlikely that even in a quickly resolved COVID-19 scenario digital adoption would revert backwards to cash and cheques, with a number of churches unwilling to handle physical donations for the foreseeable future.

We also assume that severe COVID-19 outbreaks in states with a high concentration of churches and PPH customers such as Florida, Louisiana, California and Texas will see churches shut for a considerable period of time. This will sustain the growth of the home church or 'pyjama' church and make PPH's services more relevant going forward. We assume an annual 3% increase in the number of church customers going forward from FY23 and see upside risk to FY21E forecasts.

Our terminal value is based on a terminal growth assumption of 2.0% pa with implicit forecast cash flows to FY30 shown below.

Figure 46. PPH Discounted cash flow

US$m	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	Medium	Terminal
Revenue	178	206	243	268	298	329	364	402	445	494		
EBITDA	56	67	79	87	97	105	115	128	144	163		
EBITDA margin	31%	32%	33%	33%	32%	32%	32%	32%	32%	33%		
Change in WC	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1		
Capex	-1	-3	-3	-3	-3	-3	-3	-3	-3	-3		
Taxation	-14	-17	-21	-24	-27	-30	-33	-37	-42	-49		
Cash flow	41	45	54	59	66	71	78	86	97	110		
Discount factor	0.98	0.90	0.83	0.76	0.70	0.64	0.59	0.54	0.50	0.46		
DCF	**40**	**41**	**45**	**45**	**46**	**46**	**46**	**47**	**48**	**50**	**524**	**718**
Total	**1696**											

Source: Forsyth Barr analysis

Terminal TAM Market Share

For terminal revenue we assume 20% share of TAM (market share currently ~5%). This implies around 19,000 churches which, when considering PPH's target is ~57,000, we view as conservative. Two of PPH's competitors Planning Centre and ACS Technologies have around 50,000 churches each on their books. We consider both competitors as providing inferior products than PPH currently.

Terminal EBITDA margin

Given that current guidance implies an EBITDA margin of 31.4% in our forecasts for FY21E, we believe a terminal margin of 37.5% to be undemanding with PPH capable of generation operating leverage from economies of scale and tight cost control. We also note that peers within the Nasdaq Emerging Cloud Index such as J2 Global, Paycom, Qualys and Adobe all have EBITDA margins above 35% and so we feel comfortable that our 37.5% assumption is realistic.

WACC estimate for PPH

We estimate a WACC of 8.9% with assumptions shown below. Our asset beta of 0.95 is calculated in light of the defensive nature of church giving and the principal of tithing, growth profile of PPH and essential service provision during COVID-19. SaaS peers below range from 0.31 to 1.5 with the average for the group 0.77.

Figure 47. WACC estimate for PPH

Risk free rate	2.0%
Market risk premium	7.50%
Debt risk premium	1.6%
Target gearing	0.0%
Asset beta	0.95
Cost of debt	3.6%
Cost of equity	8.9%
WACC	8.9%

Source: Forsyth Barr analysis

Figure 48. Implied DCF share price for PPH

Present Value	1,696
Net debt	(50)
Timing adj	(0)
Capitalised leases	(5)
Implied Market Cap	1,641
Number of shares in issue (m)	276
Implied share price US$	5.95
USD:NZD	1.55
Implied share price NZ$	9.22

Source: Forsyth Barr analysis

Key DCF sensitivities

We outline key DCF sensitivities below.

Figure 49. Key DCF sensitivities

	Sensitivities	Impact on DCF (NZ$)
Terminal margin assumption	+/-100bp	0.16/-0.16
Terminal growth rate	+/-1%	0.34/-0.29
Asset beta	+/-5bp	-0.74/0.85
FX (NZ$: US$)	+/-0.05$	0.41/-0.41
Terminal TAM share	+/-100bp	0.34/-0.34

Source: Forsyth Barr analysis

What does the current share price imply?

Using a five year forecast, the current share price implies NPAT growth of 5–7% into perpetuity. Our DCF sensitivity to terminal EBITDA margin and TAM share suggests the market is pricing in a margin of 35% with a 15% share against our forecasts of 37.5% margin and 20% market share in the table below.

Figure 50. Implied future growth using current market pricing

	FY21E	FY22E	FY23E	FY24E	FY25E
NPAT US$m	36	45	55	61	69
Market Cap NZ$m	2,481	2,481	2,481	2,481	2,481
Ke	8.9%	8.9%	8.9%	8.9%	8.9%
Implied future growth	6.7%	6.1%	5.5%	5.1%	4.6%

Source: Forsyth Barr analysis

Figure 51. EBITDA margin vs Revenue growth DCF sensitivity

		TAM share							
		5%	10%	15%	**20%**	25%	30%	35%	40%
EBITDA margin	30%	4.40	5.60	6.81	8.01	9.22	10.42	11.62	12.83
	32.5%	4.50	5.81	7.11	8.41	9.72	11.02	12.33	13.63
	35%	4.60	6.01	7.41	8.82	10.22	11.62	13.03	14.43
	37.5%	4.70	6.21	7.71	9.22	10.72	12.23	13.73	15.24
	40%	4.80	6.41	8.01	9.62	11.22	12.83	14.43	16.40

Source: Forsyth Barr analysis

Multiple approach vs BVP Nasdaq Emerging Cloud Index

50% of our target price is derived from a multiple approach which is split between EV/forward sales and EV/forward EBITDA. We take peer companies from the BVP Nasdaq Emerging Cloud Index. This is due to PPH's 98% customer base in the US, and PPH sharing similar characteristics with the group. We filter by 1) EBITDA margin of at least 10% in year three, 2) under 50% two year EBITDA CAGR growth years three to one, 3) under 40x EV/forward sales year one, 4) under 400x EV/forward EBITDA year one

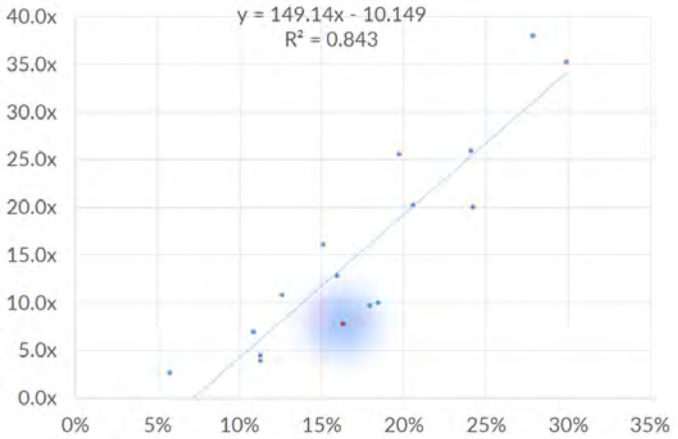
EV/Forward Sales

PPH trades on 7.8x EV/forward sales with a two year CAGR sales growth rate of 16%. Against peers this implies a multiple of 14x.

EV/Forward EBITDA

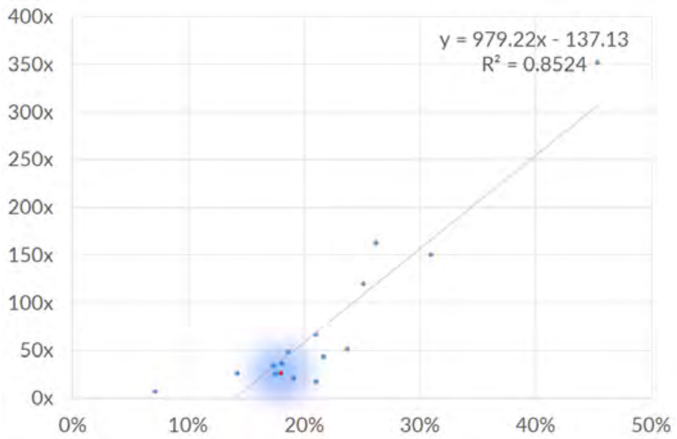
PPH trades on 25x EV/forward EBITDA with a two year CAGR EBITDA growth rate of 18%. Against peers this implies a multiple of 35.6x.

Figure 52. EV/fw sales vs 2yr CAGR sales yrs 3/1



Source: Forsyth Barr analysis

Figure 53. EV/fw EBITDA vs 2yr CAGR EBITDA yrs 3/1



Source: Forsyth Barr analysis

Figure 54. Peer group comps

Company	Ticker	Price	Market Cap	2yr Sales CAGR yrs 3/1	EV/1yr Sales	2yr EBITDA CAGR yrs 3/1	EV/1yr EBITDA
PUSHPAY HOLDINGS	PPH NZ	NZ$8.20	NZ$2,260	16%	7.8x	18%	25.1x
ADOBE INC	ADBE US	US$425.92	US$204,299	15%	16.1x	17%	33.7x
ATLASSIAN CORP PLC-CLASS A	TEAM US	US$171.28	US$42,280	24%	25.9x	25%	119.7x
BOX INC - CLASS A	BOX US	US$18.41	US$2,824	11%	3.9x	19%	20.8x
DROPBOX INC-CLASS A	DBX US	US$20.64	US$8,527	11%	4.5x	21%	16.9x
J2 GLOBAL INC	JCOM US	US$55.34	US$2,640	6%	2.7x	7%	6.9x
PAYCOM SOFTWARE INC	PAYC US	US$291.01	US$17,043	21%	20.3x	24%	51.0x
PAYLOCITY HOLDING CORP	PCTY US	US$136.25	US$7,315	16%	12.8x	19%	48.8x
PAYPAL HOLDINGS INC	PYPL US	US$169.61	US$199,149	18%	9.7x	18%	35.8x
QUALYS INC	QLYS US	US$106.24	US$4,139	13%	10.8x	14%	25.6x
REALPAGE INC	RP US	US$66.76	US$6,818	11%	7.0x	18%	26.7x
RINGCENTRAL INC-CLASS A	RNG US	US$251.57	US$22,113	24%	20.0x	31%	150.4x
VEEVA SYSTEMS INC-CLASS A	VEEV US	US$245.81	US$36,908	20%	25.6x	21%	66.8x
WORKDAY INC-CLASS A	WDAY US	US$181.27	US$42,598	18%	10.0x	22%	43.7x
ZOOM VIDEO COMMUNICATIONS-A	ZM US	US$248.11	US$69,993	28%	38.0x	26%	162.9x
ZSCALER INC	ZS US	US$117.24	US$15,302	30%	35.3x	45%	351.7x

Source: Forsyth Barr analysis

Figure 55. PPH indexed performance vs BVP Nasdaq Emerging Cloud Index Jan 1 2019–July 17 2020

Source: Forsyth Barr analysis

7. Appendix

A) Product offering

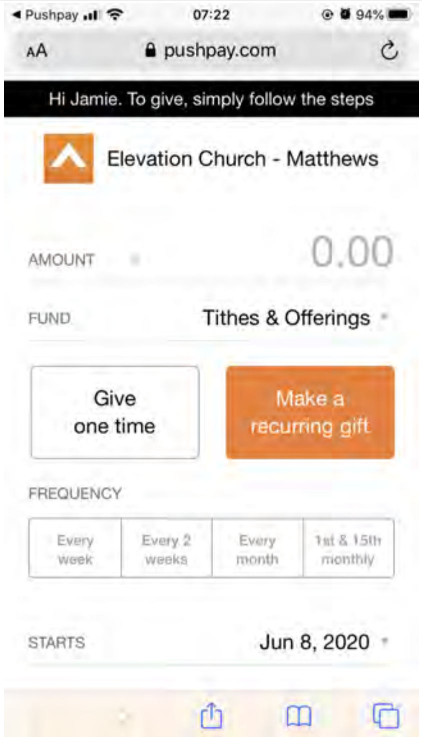
1) Technology provided to support digital giving

Pushpay assists churches with the facilitation of digital giving, driving congregational members to a Pushpay built web-based portal where the user is able to donate money quickly and simply with the option to set up recurring giving. The user is taken to the portal from: 1) the Pushpay mobile app, 2) customised white label apps designed for specific larger churches, or 3) through the church's website. App downloads for the user is free.

Figure 56. Pushpay app church selection

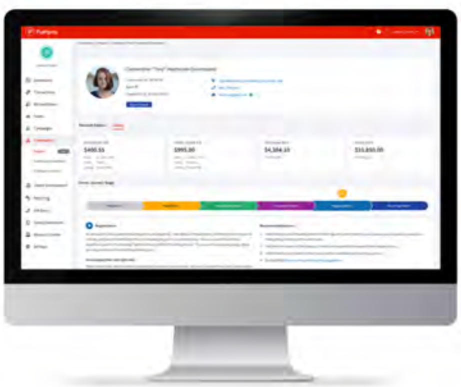
Source: Forsyth Barr analysis, Pushpay

Figure 57. Pushpay web-enabled giving page



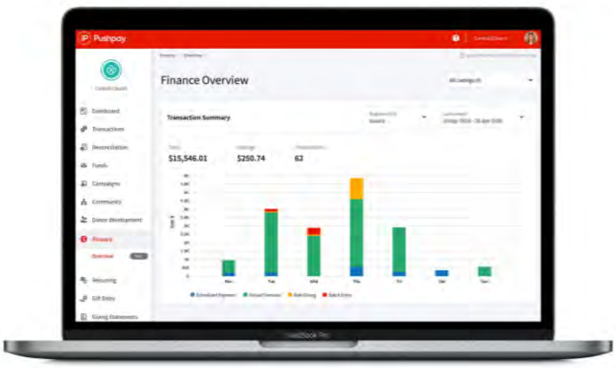
Source: Forsyth Barr analysis, Pushpay

Figure 58. Example donor management donor profile



Source: Forsyth Barr analysis, Pushpay

Figure 59. Example donor management finance overview

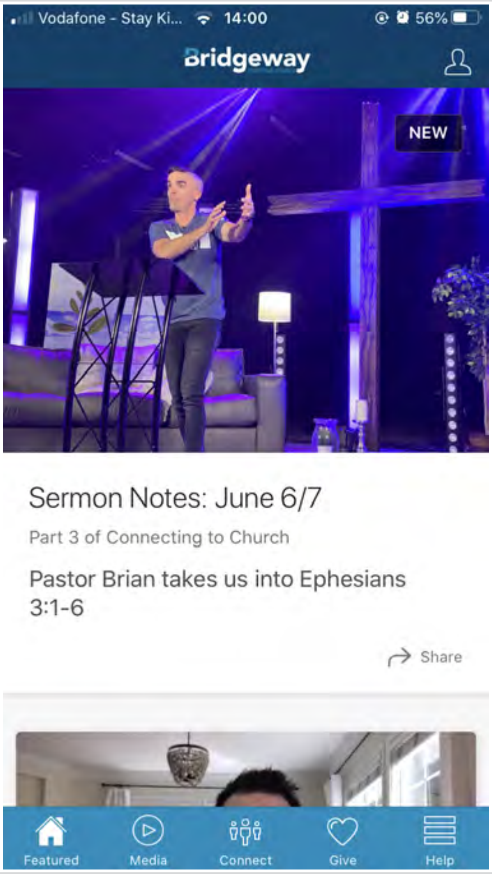


Source: Forsyth Barr analysis, Pushpay

2) White label mobile apps

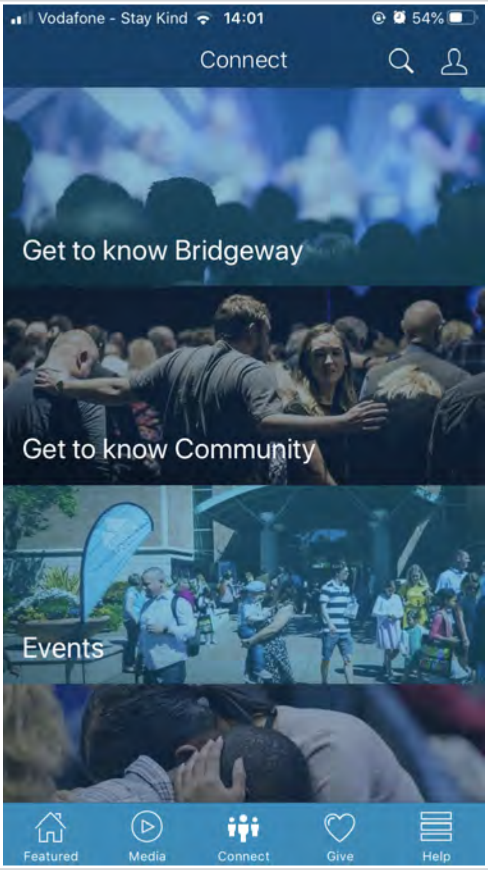
Pushpay has built a number of custom apps for large customers, including Mosaic LA Church and Bridgeway Church, Roesville. Other functions include study notes, connect groups, Kids church and past sermon replays.

Figure 60. Bridgeway Church custom built Pushpay app



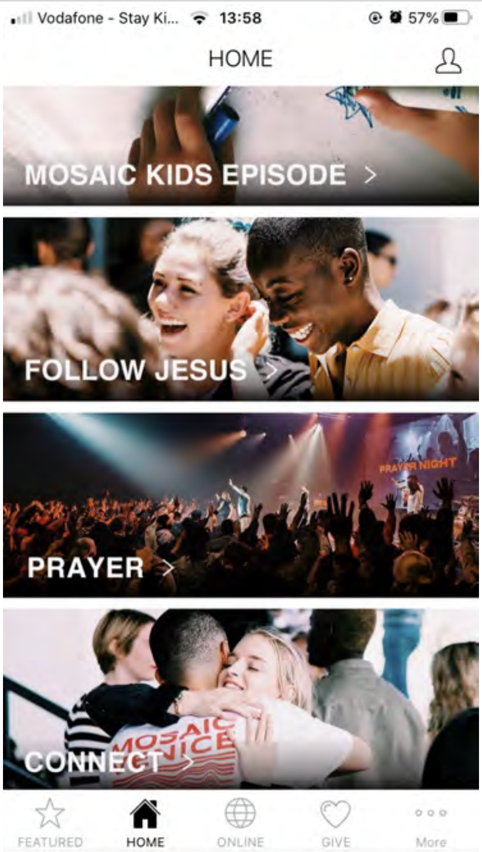
Source: Forsyth Barr analysis, Pushpay

Figure 61. Bridgeway Church custom built Pushpay app



Source: Forsyth Barr analysis, Pushpay

Figure 62. Mosaic LA Church custom built Pushpay app



Source: Forsyth Barr analysis, Pushpay

Figure 63. Mosaic LA Church custom built Pushpay app

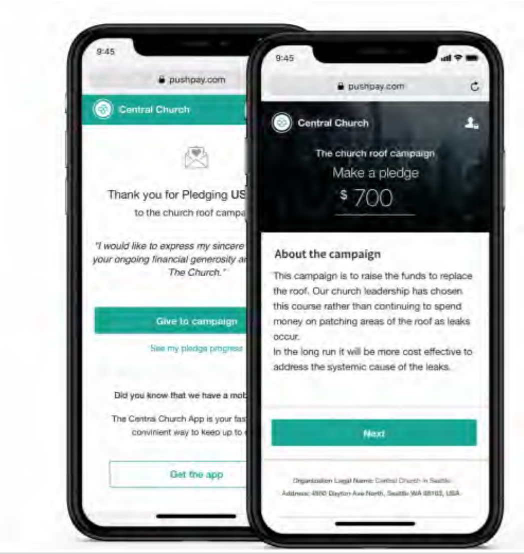
Source: Forsyth Barr analysis, Pushpay

3) A range of features

Pushpay has also added additional features to facilitate increased giving and digital adoption for churches using Pushpay. On speaking to a number of churches across the US, it is clear that there is a strong correlation between how well connected an individual is to the church and how generous/frequent the donation is.

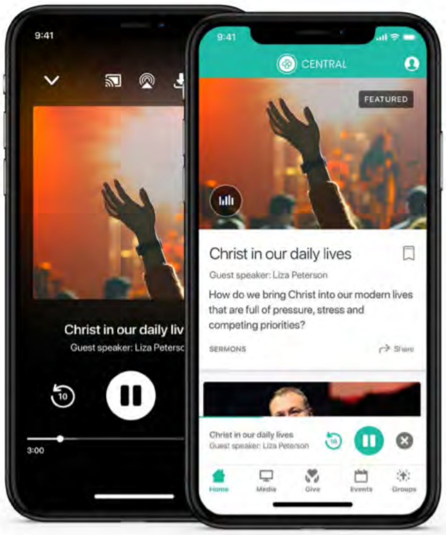
Pushpay have added a function to allow church members to find events and small groups (life groups/connect groups) to be more connected to their church. Push notifications also allow the church to advertise events, while the Thank You Fund allows a church to send an appreciation message to donors regarding the specific cause given to. Other features include digital reading bookmarks, audio player and donor pledges (campaigns for specific projects, such as a new church roof).

Figure 64. Example donor pledges



Source: Forsyth Barr analysis, Pushpay

Figure 65. Audio player functionality

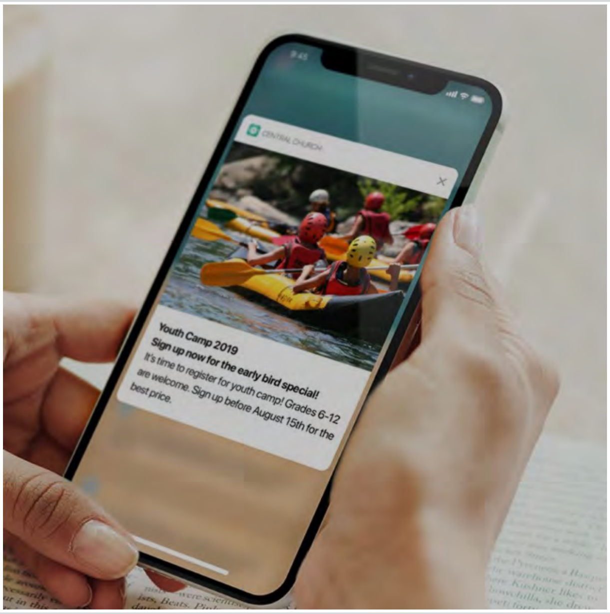


Source: Forsyth Barr analysis

Figure 66. Customised app functionality

Source: Forsyth Barr analysis, Pushpay

Figure 67. Example event push notifications



Source: Forsyth Barr analysis, Pushpay

4) Donor management systems

Large churches receive a high volume of donations across a range of assets from cash and cheque, to stocks, property and vehicles. Churches typically return giving statements to individual donors with some churches responsible for over 200,000 different donations. The typical US megachurch such as South East Christian Church, Kentucky, reports well over US$60m in gifted revenue while the largest churches such as Lakewood receive significantly more.

Pushpay provides churches with a cloud-based revenue management reporting system to aid management of donations and gifts, data reconciliation, record keeping, donor tracking, giving history and giving statements. This is provided as Software as a Service (SaaS) with PushPay's software hosted in the cloud and provided to customers via the web, removing the need for local installation. There is also visibility over an individual donor's giving history to provide the church with additional insights such as method of giving, reoccurring giving, seasonal trends and/or anomalies.

5) Partnerships and integrations

Pushpay has also partnered with a number of external companies to further improve services offered. These include companies such as Quickbooks where Pushpay is able to share financial information and provide a more streamlined end-to-end solution for church finance teams. Pushpay estimates time savings of between 25%–40% for simple tasks such as bank reconciliations through using its donor management system. Other partnerships include Focus missions, managed missions, service reef and Monkey Stream.

Figure 68. Pushpay partnerships

Integrated Partner	Function
Planning Centre	Church Management System
Rock RMS	Not for profit Church Management System
Servant Keeper	Database solution software
Focus Missions	Mission Trip Management Software
Quickbooks	US accounting software
Ministry Platform	Church Growth software
TouchPoint	Online Church Management Software
Fellowship One	Church Management System
Shelby Arena	Church Management System
Service Reef	Mission Trip Management Software
Managed Missions	Mission Trip Management Software
Elvanto	Church Management System
Seraphim	Church Management System
OneChurch Software	Church Management System
Ucare	Church Management System
ACS Technologies	Church Management System
Shelby Systems	Church Management System
Parish Data Systems	Catholic and Orthodox Church software solutions
Power Church Software	Church Management System
The City	Online Communcations software
Realm	Donor Management System
Church Teams	Church Management System
Logos	Youth Development Organisation
Shepherds Staff	Church Recruitment
Parish Soft	Church Management System
Generis	Generosity Strategists
Stream Monkey	Video Technology
Church Fuel	Church Operations & Practical Support
Steier Group	Campaign fundraisers
Belay	Church Recruitment
Vanderbloemen	Church Research and Consultancy
Dunham & Company	Christian marketing and fundraising
Pex	Expense Management system
Church Answers	Congretational Health Data

Source: Forsyth Barr analysis, Pushpay

6) Administrative Church Management Systems (ChMS)

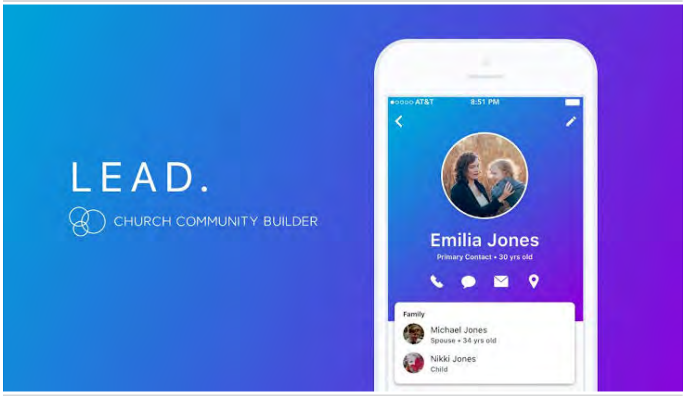
Pushpay offers its own Church Management System through Church Community Builder (CCB) which was acquired in December 2019. The company was founded in 1998 by Chris Fowler, who was appointed to the Pushpay board in December 2019 post acquisition. Despite the Church Management system operating in a highly fragmented market, we view the recent acquisition as likely to drive CCB customers onto the Pushpay platform through an integrated one-stop-shop approach going forward.

CCB provides a number of functions to a church which include:

- Check in Systems (for Kids Church) — drop off and pick up
- Group Communications
- Events & calendar planning, tickets, promotions etc
- Facility Management
- Form Builder & Generator
- Group Management Coordination
- Staff Rostering and volunteering rotas

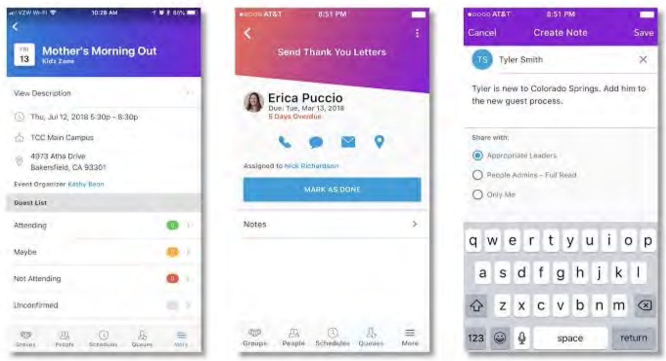
The goal of a Church Management system is to allow the pastor more time to spend on ministry and less time on administration. For functionality directly related to church members, the user experience is currently executed through 'The Lead' app. Pricing historically has been banded into 3 tiers with different levels of functionality: Core US$90/month, Advanced US$120/month and Complete NZ$180/month.

Figure 69. The 'Lead' App



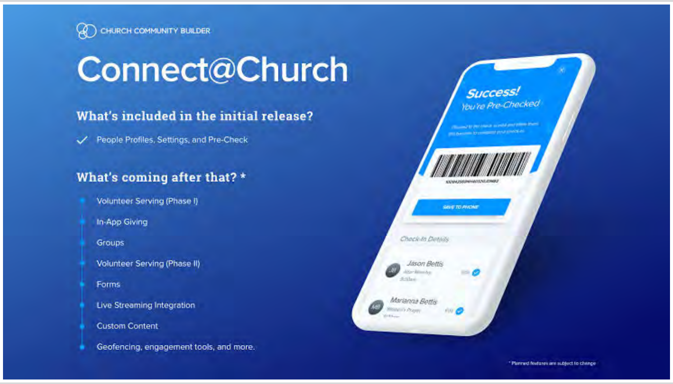
Source: Forsyth Barr analysis

Figure 70. Example user profile created on The 'Lead' app



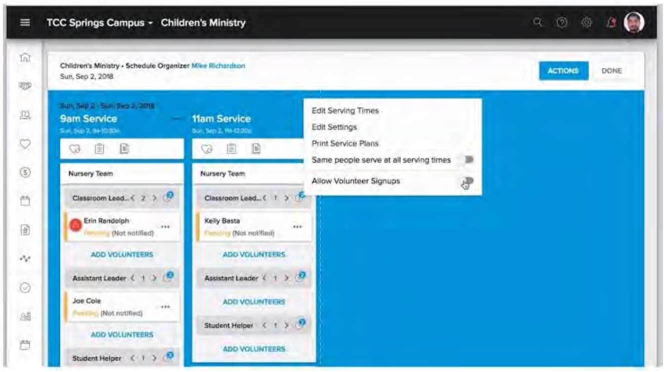
Source: Forsyth Barr analysis

Figure 71. CCB Functionality



Source: Forsyth Barr analysis, Church Community Builder

Figure 72. Example service planning



Source: Forsyth Barr analysis, Church Community Builder

B) Top 50 US churches by size, 31 PPH customers

Figure 73. Top 50 US churches by average weekly attendance — 31 are PPH users

Rank	Church	Location	Attendance	Pushpay user
1	Life.Church	Edmond, OK	53,000	No
2	Church of the Highlands	Birmingham, AL	51,934	Yes
3	Lakewood Church	Houston, TX	45,500	Yes
4	Crossroads Church	Cincinatti, OH	45,000	Yes
5	North Point Ministries	Alpharetta, GA	40,455	Yes
6	Christ's Church of the Valley	Peoria, AZ	32,107	Yes
7	NewSpring Church	Anderson, SC	31,800	No
8	Gateway Church	Southlake, TX	31,550	Yes
9	Christian Cultural Center	New York, NY	30,000	No
10	Christ Fellowship	Palm Beach Gardens, FT	28,000	Yes
11	Southeast Christian Church	Louisville, KY	25,917	Yes
12	Willow Creek Community Church	South Barrington, IL	25,743	Yes
13	Fellowship Church, South Baptist	Grapevine, TX	25,000	Yes
14	Saddleback Church	Lake Forest, CA	24,195	No
15	Eagle Brook Church	Centerville, MN	23,790	Yes
16	Bayside Church	Roseville, CA	22,286	No
17	Elevation Church	Matthews, NC	22,200	Yes
18	Dream City Church	Phoenix, AR	21,000	No
19	Second Baptist Church	Houston, TX	20,460	Yes
20	Mount Zion Baptist Church	Nashville, TN	19,723	No
21	Calvary Chapel, Fort Lauderdale	Florida, FL	18,521	Yes
22	Woodlands Church, Southern Baptist	The Woodlands, TX	18,385	Yes
23	New Life Church	Conway, AR	17,294	No
24	Calvary Chapel of Albuquerque	New Meixco, NM	16,830	Yes
25	Flatirons Community Church	Lafayette, CO	16,703	No
26	LCBC Church	Manhem, PA	16,012	Yes
27	The Potters House	Dallas, TX	16,140	Yes
28	12Stone Church	Lawrenceville, GA	16,000	Yes
29	Celebration Church	Jacksonville, FL	15,200	Yes
30	Family Christian Center	Munster, IN	15,000	Yes
31	Community Bible Church	San Antonio, TX	14,330	No
32	Red Rocks Church	Littleton, CO	13,334	No
33	World Overcomers Christian Church	Durham, NC	13,302	Yes
34	Lutheran Church of Hope	West Des Moines, IA	13,110	No
35	The Rock Church	San Diego, CA	12,710	No
36	North Coast Church	Vista, CA	12,521	No
37	Lake Pointe Church	Rockwall, TX	12,377	Yes
38	Northview Church	Indianapolis, IN	11,364	No
39	Valley Bible Fellowship	Bakersfield, CA	11,089	Yes
40	Pinelake Church	Flowood, MS	11,042	Yes
41	First Baptist Church of Glenarden	Landover, MD	11,000	Yes
42	Shepherd Church	Porter Ranch, CA	10,929	No
43	The Summit Church	Durham, NC	10,905	No
44	Mariners Church	Irvine, CA	10,662	Yes
45	The United Methodist Church of the Resurrection	Leawood, KS	10,403	Yes
46	The Church of Eleven22	Jacksonville, FL	10,146	Yes
47	McLean Bible Church	Vienna, VA	10,101	No
48	New Life Covenant Church Southeast	Chicago, IL	10,000	Yes
49	Sandals Church	Riverside, CA	9,559	No
50	Parkview Christian Church	Orland Park, IL	9,488	Yes

Source: Forsyth Barr analysis, Church data

C) Detailed competitor analysis

Figure 74. Competitor analysis (3.0 high score, 0 low score)

	PPH/CCB	Tithe.ly	Subsplash	SecureGive	RockRMS	ACS	Kindrid	easyTithe	Shelby
App functionality	3.0	3.0	3.0	2.0	0.0	2.0	2.0	1.0	1.0
ChMS functionality	3.0	1.5	0.0	0.0	3.0	3.0	0.0	0.0	2.0
Donor Management functionality	2.9	2.5	2.0	1.0	2.0	2.0	2.9	2.0	3.0
Giving functionality	3.0	3.0	2.0	3.0	0.0	2.0	3.0	2.5	2.0
Number of Customers	1.5	3.0	2.0	1.0		3.0	1.0	2.0	2.0
Capterra reviews	2.7	2.7	2.5	2.8	2.4		2.9	2.8	2.0
Finance online reviews	3.0	2.4	2.4		2.1	2.5	2.1	2.7	2.1
Suitable for Top 10 church	3.0	2.5	3.0	2.0	3.0	2.0	2.0	2.0	3.0
Social media presence	3.0	2.0	2.0	2.0	1.0	2.0	2.0	1.0	1.0
Employee number (linkedin)	3.0	1.0	2.0	1.0		3.0	1.0	0.0	1.0

Source: Forsyth Barr analysis, company website, Capterra, Finance Online, Linkedin, Facebook, Twitter, Instagram

Figure 75. Pushpay, Tithe.ly, Subsplash detailed competitor analysis

	PPH/CCB	Tithe.ly	Subsplash
Strengths	Best in class 1 stop shop	Good basic all-rounder, scale	Custom app and web design
Weakness	Fee reputation	No contracts, basic ChMS	No ChMS, narrow focus on app
Best for	Larger churches	Small-medium churches	Medium to large churches
Built around	Giving Platform	Giving Platform	App and web design
Other	Customers love product	24,043 churches in 50 countries	C. 10,000 customers, started 2005
Combines well with	N/A	Any best in class ChMS (CCB)	CCB, ACS, RockRMS, Shelby, F1

Source: Forsyth Barr analysis, company website

Figure 76. SecureGive, RockRMS, ACS Technologies detailed competitor analysis

	SecureGive	RockRMS	ACS Technologies
Strengths	Well developed giving platform	Data analysis, staff engagement	Scale +50,000 churches
Weakness	No app, ChMS, basic donor mgmt	Narrow product offering, NFP	Additional features v basic
Best for	Small-medium churches	Small to large churches	Small to medium churches
Built around	Giving Platform	ChMS	ChMS
Other	2,300 customers	Not-for-profit	Owns Catholic Parish Data System
Combines well with	CCB, ACS, RockRMS, Subsplash	Any giving platform/app provider	Any enhanced giving/app provider

Source: Forsyth Barr analysis, company website

Figure 77. Ministry Brands products: Kindrid, easyTithe, Shelby, Fellowship1 detailed competitor analysis

	Kindrid	easyTithe	Shelby	Fellowship 1
Strengths	Strong Donor mgmt, text focus	Reasonable giving functionality	Accounting specific focus	Advanced ChMS
Weakness	Template apps only	No ChMS	Basic offering other areas	Template app, basic giving
Best for	Small churches	Small churches	All churches	All churches
Built around	Donor mgmt, addon to existing	Giving Platform	Accounting/donor mgmt	ChMS
Other	Part of Ministry Brands	Part of Ministry Brands	Part of Ministry Brands	Part of Ministry Brands
Combines well with	Any best in class ChMS (CCB)	Any best in class ChMS (CCB)	App provider (Subsplash)	App provider (Subsplash)

Source: Forsyth Barr analysis, company website

FORSYTH BARR

Investment Summary

PPH provides Saas-based services for the global faith sector with a focus on North America. Services include a web-enabled giving platform, online donor management system, customised white label app design and Church Management System through the recently acquired Church Community Builder. Providing a best-in-class product in a highly fragmented market, PPH is one of a few businesses to currently provide a one-stop-shop solution. The business is profitable having listed on the NZX in 2014 and the ASX in 2016. There is significant operating leverage in PPH's business model generated from scale and tight cost control. While COVID-19 has provided a number of significant tailwinds, we believe PPH can sustain earnings growth driven by an increase in digital giving in US churches, growing its market share of the US faith sector and providing tools to churches to increase donation per donor. This is aided by consolidation of medium and large US churches and increasing funding required by expanding nondenominational and evangelical megachurches. OUTPERFORM.

Business quality

- **Best in class software:** Having spoken to over 50 churches, a number of competitors and industry experts we are confident that PPH provides a premium product for its giving platform, donor management system, white label app and Church Management system, ahead of other products currently on the market.
- **Stickiness:** Church decisions are typically slow, often with a high degree of inertia. Customers typically sign 3 year contracts with PPH.
- **Reach:** PPH currently provides some level of service to 58 of top 100 US churches by size and 7 of the top 10 churches.

Earnings and cashflow outlook

- Despite a structural trend of falling US church attendance and religious affiliation, nondenominational and evangelical megachurches have consistently grown attendance and giving over time in combination with consolidation of the US church sector.
- PPH has an excellent track record of executing against annual guidance.
- PPH recently acquired Church Community Builder to expand its product offering and we would be unsurprised to see further acquisitions across the church sector.

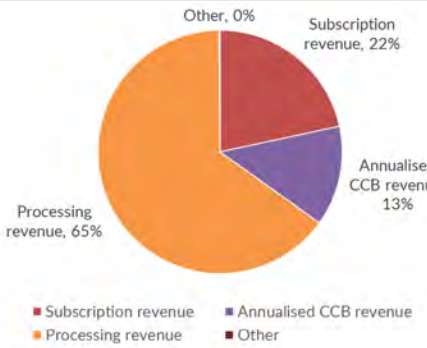
Financial structure

- **Net debt:** PPH funded its recent acquisition of Church Community Builder through two bank lending facilities totalling $62.5m which is on track to be repaid by June 2022.
- Cash generation remains strong and we expect PPH to build a net positive cash balance to fund further acquisitions.

Risk factors

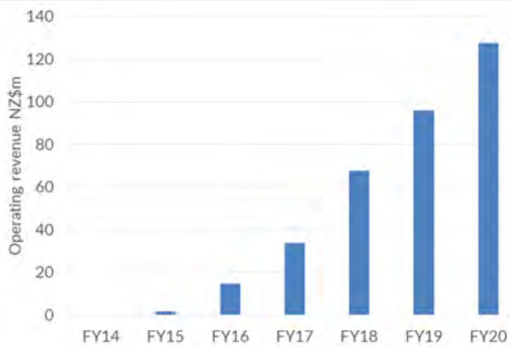
- Cyber security threats
- Improved competitor offering driving fee compression
- Reputation risk if PPH's values were seen to differ from its customers
- foreign exchange translation risk (strength of NZ$ vs US$)
- Disruption risk from the unknown

Figure 78. Operating Revenue split FY20



Source: Forsyth Barr analysis

Figure 79. Operating Revenue FY14–FY20



Source: Forsyth Barr analysis

Figure 80. Price performance

Source: Forsyth Barr analysis

Figure 81. Substantial shareholders

Shareholder	Latest Holding
Christopher & Banks V Limited	15.7%
Kabouter Management, LLC	6.4%

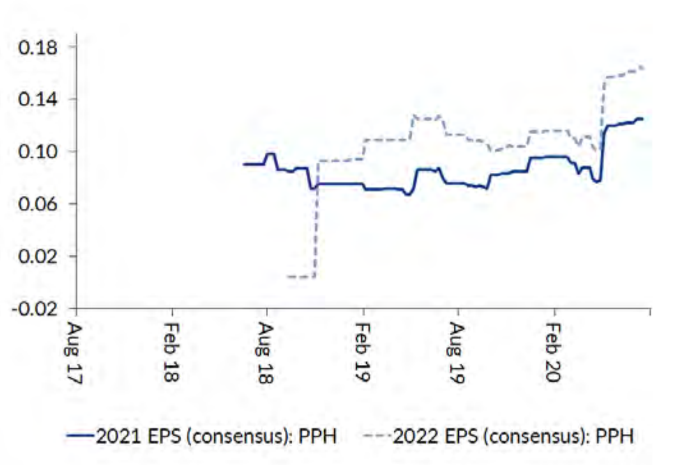
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 82. International valuation comparisons

Company	Code	Price	Mkt Cap	PE		EV/EBITDA		EV/EBIT		Cash Yld
(metrics re-weighted to reflect PPH's balance date - March)			(m)	2021E	2022E	2021E	2022E	2021E	2022E	2022E
Pushpay Holdings	**PPH NZ**	**NZ$7.95**	**NZ$2,189**	**39.0x**	**31.5x**	**26.0x**	**21.8x**	**28.8x**	**23.7x**	**0.0%**
ADOBE INC	ADBE US	US$444.28	US$213,106	43.6x	37.9x	33.4x	28.4x	37.9x	31.9x	0.0%
ATLASSIAN CORP PLC-CLASS A	TEAM US	US$192.49	US$47,515	>50x	>50x	>75x	>75x	>75x	>75x	0.0%
J2 GLOBAL INC	JCOM US	US$56.59	US$2,700	8.1x	7.5x	6.9x	6.4x	8.6x	8.5x	0.0%
PAYCOM SOFTWARE INC	PAYC US	US$293.90	US$17,213	>50x	>50x	49.0x	39.4x	56.2x	46.9x	0.0%
PAYLOCITY HOLDING CORP	PCTY US	US$136.09	US$7,306	>50x	>50x	47.1x	37.6x	>75x	n/a	0.0%
PAYPAL HOLDINGS INC	PYPL US	US$175.58	US$206,159	49.3x	40.0x	35.6x	29.7x	40.4x	32.9x	0.0%
REALPAGE INC	RP US	US$66.73	US$6,815	36.4x	30.8x	25.7x	21.7x	44.9x	n/a	n/a
RINGCENTRAL INC-CLASS A	RNG US	US$285.88	US$25,129	>50x	>50x	>75x	>75x	>75x	n/a	n/a
VEEVA SYSTEMS INC-CLASS A	VEEV US	US$257.00	US$38,588	>50x	>50x	68.0x	56.6x	71.8x	n/a	0.0%
WORKDAY INC-CLASS A	WDAY US	US$188.50	US$44,298	>50x	>50x	44.7x	37.4x	62.8x	52.1x	0.0%
ZOOM VIDEO COMMUNICATIONS-A	ZM US	US$260.44	US$73,471	>50x	>50x	>75x	>75x	>75x	>75x	0.0%
			Compco Average:	**34.4x**	**29.0x**	**38.8x**	**32.1x**	**46.1x**	**34.5x**	**0.0%**
EV = Current Market Cap + Actual Net Debt			**PPH Relative:**	**13%**	**9%**	**-33%**	**-32%**	**-38%**	**-31%**	**-100%**

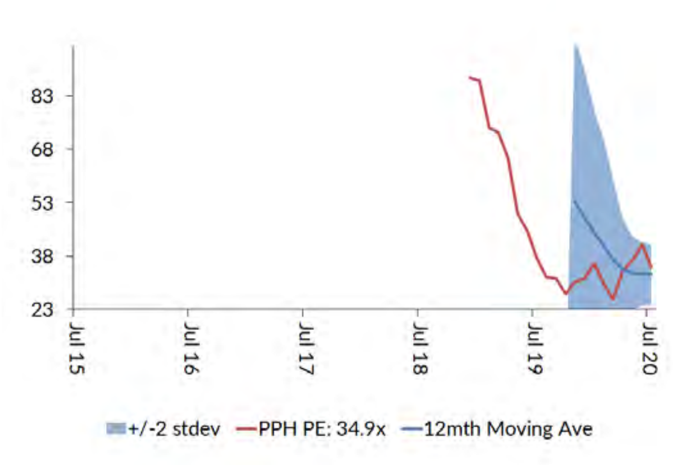
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (PPH) companies fiscal year end

Figure 83. Consensus EPS momentum (NZ$)



Source: Forsyth Barr analysis

Figure 84. One year forward PE (x)



Source: Forsyth Barr analysis

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