

Pushpay Holdings Ltd

Keeping the Faith...

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OUTPERFORM

Our ongoing discussions with a number of churches across the US confirms our positive view of where PPH is tracking and that digital giving is here to stay. Many US churches have re-opened their doors to physical church services during September and we see upside risk for FY21 forecasts. Feedback from churches confirms our view that church goers give more to an organisation where there is a higher level of physical engagement, while digital giving is still likely to remain the predominant method of donation, due to concerns over handling cash. A high number of small church closures during COVID-19 has accelerated church consolidation in the US, further expanding the more established megachurches. While front book sales are likely to have slowed in recent weeks due to PPH employees working from home and short-term church disruption, we remain positive on the impact of the integrated CCB/PPH bundle (re-branded as ChurchStaq) once normal activity resumes and churches realise they need a longer term digital strategy. We update our valuation methodology to 1) include Australian technology peers on an EV/Sales basis, and 2) lower our WACC from 8.9% to 8.1% in light of changes to cost of capital and increase our target price to NZ\$13.06. We view weakness in the current share price as a good buying opportunity.

NZX Code	PPH	Financials: Mar/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$7.38	NPAT* (NZ\$m)	26.9	56.3	69.6	85.3	PE	75.6	36.2	29.3	23.9
Target price	NZ\$13.05	EPS* (NZc)	9.8	20.4	25.2	30.8	EV/EBIT	61.4	26.2	21.1	17.5
Risk rating	High	EPS growth* (%)	-3.1	n/a	23.5	22.4	EV/EBITDA	48.9	23.7	19.4	16.4
Issued shares	275.4m	DPS (NZc)	0.0	0.0	0.0	0.0	Price / NTA	n/a	n/a	21.7	11.1
Market cap	NZ\$2,032m	Imputation (%)	0	0	0	0	Cash div yld (%)	0.0	0.0	0.0	0.0
Avg daily turnover	635.8k (NZ\$3,615k)	*Based on normalised profits					Gross div yld (%)	0.0	0.0	0.0	0.0

Consolidation thematic continues as small church closures a positive for back book megachurch growth

COVID-19 has forced a large number of small churches across the US to close permanently over recent months. For example the Lincoln Journal Star expects 50 out of the 300 churches in Lincoln, US, to close due to financing issues. As highlighted in our report "*Pushpay Holdings: The Gift That Keeps on Giving*" dated 23 July 2020, the trend of US church consolidation, which has been accelerated by COVID-19, is a long term drive for PPH's back book as churches grow in size, number and level of donations.

Megachurches re-positioning a positive net impact for Pushpay

The large majority of US churches are looking to re-open during September. This is a net positive for PPH given the expected low reversion away from digital giving methods. Regularly speaking to churches during COVID-19, the common view is that online donors take longer to convert to recurring givers. For FY21 this impact is likely offset by a higher number of attendees online. Feedback also suggests that church attendees have a higher propensity to give if more closely associated with physical church services and events.

Valuation adjusted to include WACC changes and Australasian peer group

We adjust our DCF in light of WACC changes highlighted in our recent report, "*The cost of Capital: When TINA came to Our Shores*" dated 7 August 2020. Trading on 8.4x EV/Sales we believe PPH is undervalued given our forecast sales two year CAGR growth of +17%. We include Australasian peer comps in addition to US peers given the 28% Australian/22% US investor share of free float.

Pushpay Holdings (PPH)

Priced as at 09 Sep 2020 (NZ\$) **7.38**

12-month target price (NZ\$)* **13.05**

Expected share price return 76.8%
 Net dividend yield 0.0%
 Estimated 12-month return 76.8%

Key WACC assumptions

Risk free rate 1.30%
 Equity beta 1.08
 WACC 8.1%
 Terminal growth 2.0%

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

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

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

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

Spot valuations (NZ\$)

1. DCF 11.02
 2. Revenue Multiple US 12.99
 2. Revenue Multiple Australasia 13.28

DCF valuation summary (NZ\$m)

Total firm value 2,017
 (Net debt)/cash (50)
 Less: Capitalised operating leases (5)
 Value of equity 1,962

Valuation Ratios	2019A	2020A	2021E	2022E	2023E
EV/EBITDA (x)	>100x	48.9	23.7	19.4	16.4
EV/EBIT (x)	n/a	61.4	26.2	21.1	17.5
PE (x)	73.3	75.6	36.2	29.3	23.9
Price/NTA (x)	32.5	n/a	>100x	21.7	11.1
Free cash flow yield (%)	-0.2	1.9	4.3	4.0	4.7
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

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

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

Churches re-positioning physically and digitally post COVID-19

Since initiating on PPH on 23 July 2020, in our report "*Pushpay Holdings: The Gift That Keeps On Giving*", we have continued discussions with a number of both PPH customers and non-customer churches with feedback suggesting 1) churches are beginning to meet again physically but with appropriate social distancing rules in place, 2) digital giving remains the primary method of giving due to cash handling issues and is likely to remain for the long term, 3) aggregate giving remains stable across the year, 4) digital giving as a % of total giving during COVID-19 was as high as 99% in some churches, and 5) online church services are here to stay.

Key themes and comments

- **On returning to physical church:** "The return of physical church is state by state but slow in returning. We expect most churches to return by the end of September, many have offered online church for a while and will continue to. We are expecting 50% to stay online for the foreseeable future".
- **On digital giving levels:** "For us, digital giving was 75% pre-Covid, and up to 99% post-Covid – we have a few checks still in the mail – the oldies have liked digital. We don't tell congregational members how to give, but very little coaching was needed to go digital – we would describe it as frictionless (many are used to paying the electric bill digitally) – we did put out a video on digital giving, a few will probably send out checks still".
- **On giving and attendance in recent months:** "Attendance and giving has dipped in summer months (which is usual – we are in very good shape still) – some due to economic climate but still well ahead of last year which saw a much bigger dip in summer months. Attendance and giving both came off a bit during school holidays (June-August), this last week with school coming back, numbers are back up (people spend money on other things during school holidays). Our pre-Covid numbers were 8,000 physical and 1,000 online – we reckon during lockdown we had an average of 14,000 online".
- **On the future of online church:** "Online church has come off a bit in recent weeks – people are getting tired of watching it. It takes longer to convert to a regular giver than physical church (no face to face contact is harder). It takes time to transfer people from attendances to giving. Having said that, we are keen to keep online church running for those who are more wary about coming back to face to face church".
- **On regular givers:** "The percentage who give regularly was around 25% pre-Covid. Lockdown we were probably down to 22% (but we had way more people attending) so net giving is overall up".
- **On moving to Pushpay:** "We spent a lot in house so we don't need to move to PPH" (last spoke to them in 2018).

Individual church feedback

- "We are a multi-congregational church of about 2,000. We have been meeting in person since May. As of now, we have seen our in-person attendance numbers return to about 80–85% of what there were prior to COVID disruptions in gatherings. Our giving was impacted by the crisis but we are also seeing that return as well. While we had about 50% of givers choosing an online giving platform prior to COVID, now almost 80% of givers are using our online platform since COVID. It is too early to tell if any of those new online givers will return to their prior giving methods".
- "Our church was already almost 90% online giving before COVID. So we have not seen much change in recent months. We still have some people who want to mail us a check – some of them are our members who placed their check in the baskets each week at our live services. We still are not having live services and probably will not for another few months. Our online attendance has increased – all our services are online only. We have seen some people stop giving – some have lost jobs or are feeling anxious. Others have stepped up their giving. We've had a few people give large donations – especially for our COVID fund. Overall our giving has been steady".
- "Giving online is now the preferred giving method. Finances are beating last year, online giving (digital) is averaging 80% now, it was 70% pre COVID but some months have been up to 90%. Online church has been a real hit, we're only getting 20% of people back into our church even though we have a very safe environment for people, spraying down every seat, all wearing masks and keeping 6 feet apart, although masks have become more of a political statement than we imagined. Online church has been surging and we are only counting a computer used as one person, on average we think it's probably nearer 3 people using the same computer".

Wealthiest donors make up largest proportion of giving and less affected by macroeconomic conditions

One church we spoke has split donors into brackets by size of donation described as:

- Band 5: the wealthiest donors making up ~60% of all donations (but only 1% by number of donors). No change during COVID
- Band 4: salaried core givers making a large chunk of donations – a stable, affluent demographic seeing little change during COVID
- Band 1: those giving \$10 or less/Sunday – these make up a very low percentage of all donations but highly volatile during COVID

The three key current issues for PPH

We look to address three current issues for PPH 1) upside risk to EBITDA guidance, 2) recent insider selling, 3) what next for the front book.

Issue #1) EBITDA guidance a key catalyst for the stock

The company raised EBITDA guidance three times during FY20. This trend continued with PPH raising FY21 EBITDA guidance at the AGM on 19 June 2020, to NZ\$50–54m from NZ\$48–52m (set at the FY20 full year result). With revisions during FY20 driven largely by increased processing volumes, our forecast for FY21 EBITDA remains unchanged at NZ\$56m, having spoken to a number of churches in recent weeks. We do, however, see upside risk to the level of donations given through digital means but some downside risk to the percentage of donors (likely offset by a larger number of people attending church throughout the year through a combination of both physical and online church services).

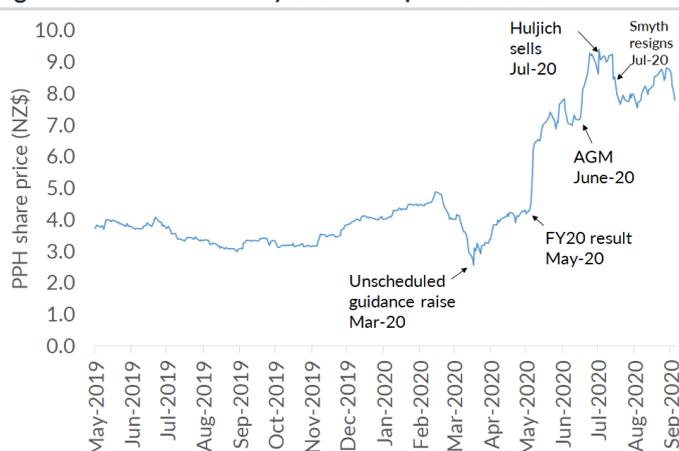
With the stock highly reactive to guidance changes during FY20, any further guidance revisions for FY21 are also likely to be a key short term catalyst in our view.

Figure 1. Pushpay history of EBITDA guidance FY20, FY21

Date	FY20 EBITDA Guidance (NZ\$m)	FY21 EBITDA Guidance (NZ\$m)	% change day stock movement	Event
8-May-19	17.5–19.5		-3.0%	FY19 Result
19-Jun-19	18.5–20.5		+2.6%	AGM
20-Sep-19	23.0–25.0		+0.3%	Unscheduled
6-Nov-19			+4.0%	Interim 20 Result
18-Mar-20	25.0–27.0		+21.5%	Unscheduled
6-May-20	Actual: 25.1	48.0–52.0	+20.9%	FY20 Result
18-Jun-20		50.0–54.0	+8.7%	AGM
4-Nov-20				Interim 21 Result

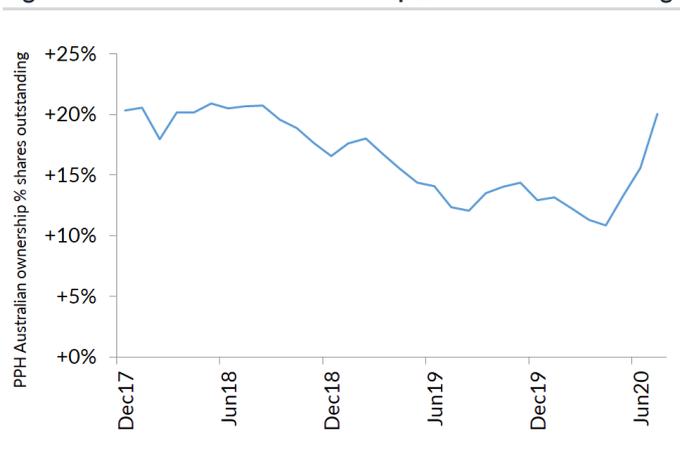
Source: Forsyth Barr analysis, PPH

Figure 2. Stock drivers May 2019 to September 2020



Source: Forsyth Barr analysis, Eikon

Figure 3. Australian investors make up 20% shares outstanding



Source: Forsyth Barr analysis, ASX

Issue #2) How to think about recent insider selling

The recent sell down by insiders is a result of strong share price performance and the first opportunity since the impact of COVID-19 to take some profits. However, it may weigh on near term investor confidence.

Who has been selling and why?

The Huljich family has been involved with the business since it was listed on the NZX for 0.37c a share in August 2014. Since then the stock has risen to a peak of NZ\$9.25 a share in July (when the Huljich family sold 25% of shares held). We would not be surprised by further sell-downs given the escrow is to November 2020 only.

The outgoing CEO, Bruce Gordon, has also been with the company since it listed in August 2014 in various roles and will be leaving the company once a replacement is found.

Figure 4. Insider selling PPH July-September 2020

Date	Event	Shares sold	Shares remaining	% change day stock movement	Comment
14-Jul	Huljich sells 25%	14,400,000	43,200,000	-8%	Owned since 2013, pre IPO
20-Jul	Smyth resigns			-4%	Personal circumstances
29-Jul	Sampson sells	50,000	225,148	-2%	Been with company since 2015
26-Aug	Gordon sells	1,432,302	1,335,593	-3%	Owned since 2014, outgoing CEO
1-Sep	Smyth sells 70%	85,000	25,000	-2%	Outgoing director

Source: Forsyth Barr analysis, PPH

Issue #3) What next for the front book?

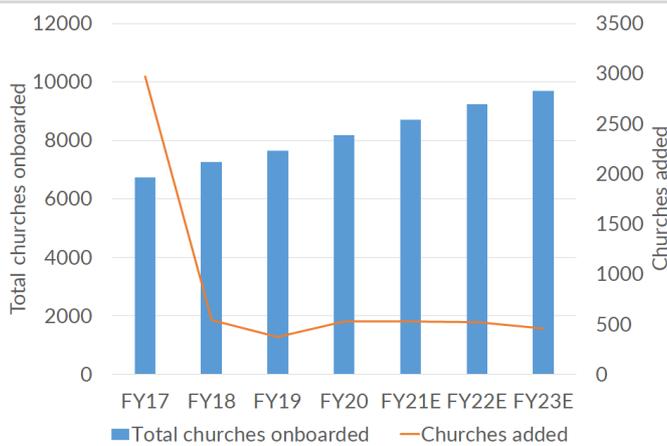
Given the stability and growth profile of the back book we also attempt to address the front book going forward. PPH still has a relatively low penetration rate of the 'sweet spot' target market – Evangelical and Non-denominational US megachurches (2,000+) of which there are over 1,700. PPH estimates its penetration rate of the top 1,700 churches to be 20%-30% (around 425 churches).

We remain positive on growth of the front book, given the fact that the bundled product (including the acquired Church Community Builder) has not had a period of sustained sales focus, primarily due to the impacts of COVID-19 as the sales function is working from home. PPH suggests that CCB has initially been received better than expected by churches, although as we previously highlighted, churches take a number of months to make investment decisions, further slowed by social distancing in the current environment. Many churches that we have spoken to highlight that one provider for all services is highly attractive.

Top heavy penetration - hardest part done first

Figure 6 illustrates PPH's current penetration by church bracket. Although there is always a degree of execution risk in any business (and the new CEO will have a large part to play in delivery against targets established once appointed), PPH has done the hardest part first – breaking into the largest churches and becoming a well recognised brand name.

PPH should now focus on the remaining 1,200 megachurches across the US with a bespoke, negotiable payment offering and look to obtain market share from churches using older in house or competitor software, in our opinion.

Figure 5. # of churches on PPH processing platform FY17-23E


Source: Forsyth Barr analysis

Some challenges to the front book in the short term....

There are a number of challenges to growing the front book over the short term in our view. The first and largest challenge is convincing churches who have spent a reasonable level of capex on their own in-house system in recent years to adopt PPH software. However, given PPH's strong focus on R&D, a flexible pricing model for larger churches, the current one-stop-shop bundle solution and examples of churches increasing their processing volumes significantly on moving to PPH, we believe the current proposition is highly attractive for churches to adopt PPH software. We expect that over time the gap will widen between the quality of PPH technology and average church in-house technology, resulting in a lag period of churches waiting for the right time to move across.

On speaking to non-PPH customer churches, some pastors expressed concern about converting current donating congregations to another platform. With processing volumes at these churches significantly ahead of last year, pastors are hesitant to interrupt successful giving patterns in the short term. However, we note that it is the current environment rather than the incumbent provider that is driving the greater transaction volumes over the last 6 months.

Secondly, we are aware of a number of competitors with much smaller and much less competitive products pushing sales in the current environment. We believe there will be a number of churches that are happy to settle for a lower functioning product as 1) they are unaware of the technological gap between providers, 2) there is a high degree of inertia within a number of churches who are unwilling to change their current provider, and 3) churches where cost is the primary focus at the expense of any level of functionality.

Thirdly, with a level of uncertainty around COVID-19 remaining, the short term front book is likely to be hampered by the inability of the sales team to physically visit churches and demo the product face to face. The company suggests that sales reps meet prospective large churches between 3–5 times before agreeing on a contract. In this environment where the sales function is unable to travel and church elders (decision makers) are unable to meet, there may be a lag period until lockdown measures are lifted.

...are offset by a number of levers PPH is able to pull

With the vast majority of US churches operating some form of Church Management System (ChMS), PPH is now in pole position to sell a bundled ChMS and payment platform to churches, which are currently using split providers, and offer a discounted product price. With the acquisition of CCB completed in December 2019 the final bundled product has only just been brought to market and re-branded as 'ChurchStaq' as of 9 September 2020. We expect to hear more on this at PPH's Connect 2020 Product Launch Webinar on 16 September 2020 at 11.00am PT/2.00 ET, which also includes information on additional integrations: Sage Intacct and Checkr.

We are also aware that a number of non-PPH churches we have spoken to have not been contacted by PPH since 2017/2018 and will not have seen the full suite of product in its current form. We view this as an opportunity missed if churches are not regularly updated with product advancement and new offers. With competitors such as Planning Centre and ACS Technology providing payment services and/or donor management services for over 50,000 churches each, we believe the opportunity exists for PPH to target churches currently using less advanced products.

Additionally, we have spoken to non-PPH customers who rate PPH's fundraising science very highly. Sending an immediate thank you note to a donor is likely to significantly increase the chance of recurring donations (particularly if the thank you note includes the pastor's name). Channel checks suggest that PPH has addressed this area well, ahead of competitors.

Once the company sees the current target market as fully saturated we believe there are three key areas to focus on 1) a low cost simple option for smaller churches, 2) additional M&A to further increase the product suite (for example media, project fundraising or a more advanced mobile app offering), and 3) international expansion (Asia could provide an attractive opportunity).

Valuation

In light of changes to our cost of capital assumptions highlighted in our recent report, "The cost of Capital: When TINA came to Our Shores" 7 August 2020, we adjust our WACC estimates for PPH from 8.9% to 8.1%.

Given that Australian investors make up 20% of shares outstanding and with US investors making up more than 22% we adjust our target price methodology to 50% DCF, 25% EV/Sales multiples based on the 15 largest Australasian technology stocks and 25% EV/Sales based on the BVP Nasdaq Emerging Cloud Index.

Our blended DCF multiple approach rolled forward at the cost of equity raises our target price from NZ\$12.42 to NZ\$13.05.

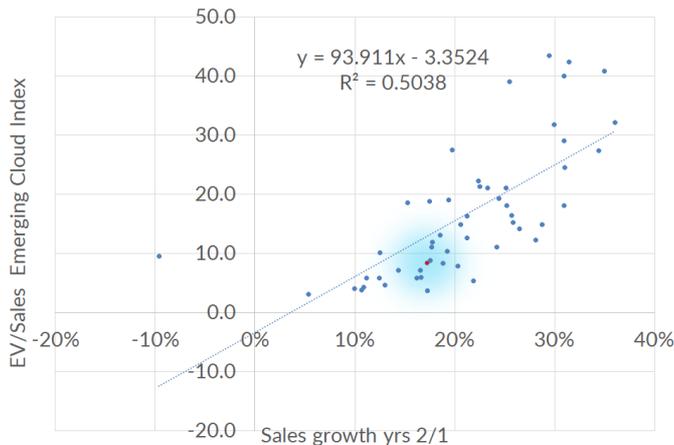
Figure 7. Blended DCF and multiple valuation approach (NZ\$)

	Valuation	Rolled Forward	Dividends	Target price
DCF 50%	11.02			
EV/Sales Emerging Cloud Index 25%	12.99			
EV/Sales Australasian Tech stocks 25%	13.28			
Blended average	12.09	13.05	0.00	13.05

Source: Forsyth Barr analysis

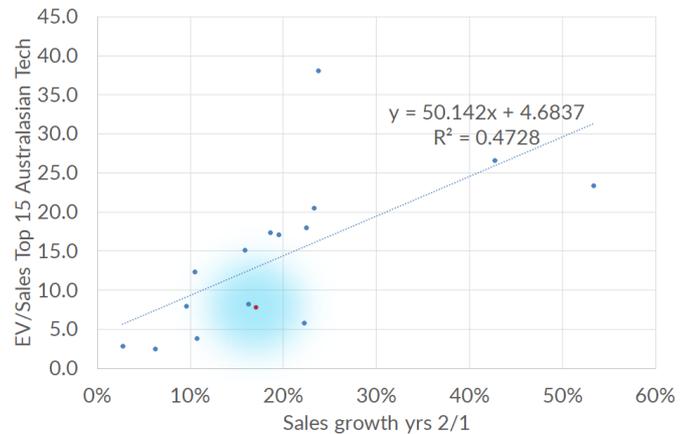
We forecast PPH's sales growth rate to be +17% for FY22E. Against peers on the BVP Nasdaq Emerging Cloud Index this implies an EV/Sales multiple of 12.9x and valuation of NZ\$12.99. Against the top 15 Australasian Technology companies this implies an EV/Sales multiple of 13.2x and valuation of NZ\$13.28.

Figure 8. EV/Sales vs Sales growth Emerging Cloud Index



Source: Forsyth Barr analysis, Bloomberg

Figure 9. EV/Sales vs Sales growth Top 15 Australasian Tech



Source: Forsyth Barr analysis, Bloomberg

US investors make up at least 22% of free float

Within the top 20 holders, US investors make up 22% of shares implying as a percentage of total shares outstanding US investors make over 22%.

Australian investors make up 20% of shares outstanding

Australian investors made up 20% of shares outstanding at 31 July 2020 (Figure.3).

Figure 10. PPH Top 20 shareholders by domicile

Domicile	Number of Shares	% held top 20	% total shares outstanding
NZ domicile	96,499,518	57%	35%
AU domicile	11,653,276	7%	4%
US domicile	60,775,184	36%	22%
Total	168,927,978	100%	61%

Source: Forsyth Barr analysis

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 the 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.

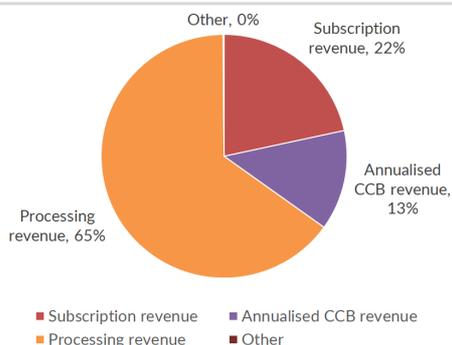
Financial structure

- **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

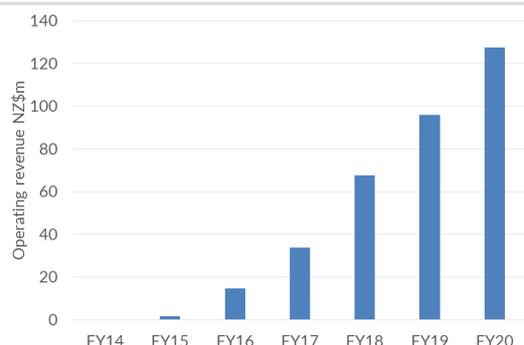
- Cyber security threats.
- Improved competitor offering driving fee compression.
- Reputation risk if PPH's values were seen to differ from its customers.
- foreign exchange translation risk (strength of NZ\$ vs US\$).
- Disruption risk from the unknown.

Figure 11. Operating Revenue split FY20



Source: Forsyth Barr analysis

Figure 12. Operating Revenue FY14–FY20



Source: Forsyth Barr analysis

Figure 13. Price performance


Source: Forsyth Barr analysis

Figure 14. Substantial shareholders

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

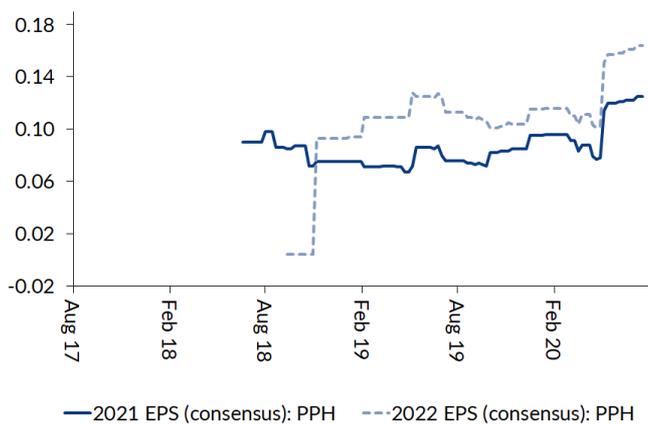
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 15. International valuation comparisons

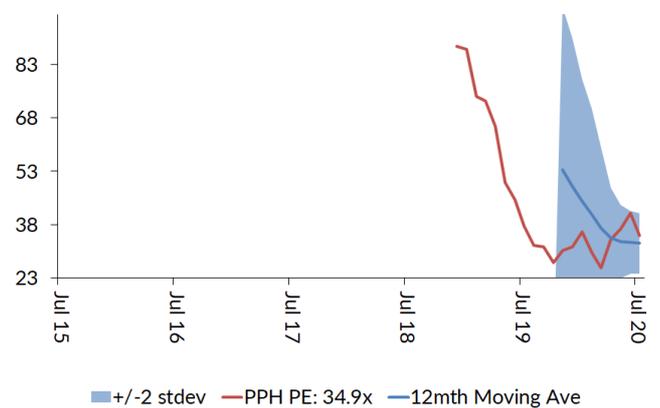
Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2022E
				2021E	2022E	2021E	2022E	2021E	2022E	
Pushpay Holdings	PPH NZ	NZ\$7.38	NZ\$2,032	36.2x	29.3x	24.2x	20.3x	26.8x	22.1x	0.0%
ADOBE INC	ADBE US	US\$491.94	US\$235,967	48.3x	42.2x	36.9x	31.4x	42.0x	35.3x	0.0%
ATLASSIAN CORP PLC-CLASS A	TEAM US	US\$175.54	US\$43,527	>50x	>50x	>75x	>75x	>75x	n/a	0.0%
J2 GLOBAL INC	JCOM US	US\$69.48	US\$3,308	9.4x	8.9x	7.7x	7.3x	9.5x	9.4x	0.0%
PAYCOM SOFTWARE INC	PAYC US	US\$270.75	US\$15,848	>50x	>50x	48.0x	38.8x	60.7x	49.5x	0.0%
PAYLOCITY HOLDING CORP	PCTY US	US\$137.40	US\$7,394	>50x	>50x	53.3x	38.8x	>75x	n/a	0.0%
PAYPAL HOLDINGS INC	PYPL US	US\$191.84	US\$225,086	49.2x	40.6x	35.8x	30.0x	39.5x	32.0x	0.0%
REALPAGE INC	RP US	US\$59.13	US\$6,026	31.5x	27.1x	22.5x	19.4x	37.2x	n/a	n/a
RINGCENTRAL INC-CLASS A	RNG US	US\$266.45	US\$23,703	>50x	>50x	>75x	>75x	>75x	n/a	n/a
VEEVA SYSTEMS INC-CLASS A	VEEV US	US\$269.59	US\$40,478	>50x	>50x	68.1x	56.9x	70.8x	62.1x	0.0%
WORKDAY INC-CLASS A	WDAY US	US\$215.80	US\$51,145	>50x	>50x	47.0x	42.0x	64.3x	55.9x	0.0%
ZOOM VIDEO COMMUNICATIONS-A	ZM US	US\$369.89	US\$100,525	>50x	>50x	>75x	>75x	>75x	>75x	0.0%
Compco Average:				34.6x	29.7x	39.9x	33.1x	46.3x	40.7x	0.0%
PPH Relative:				4%	-1%	-39%	-39%	-42%	-46%	-100%

EV = Current Market Cap + Actual Net Debt

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

Figure 16. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 17. One year forward PE (x)


Source: Forsyth Barr analysis

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