FORSYTH BARR

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Pushpay Holdings Ltd
New Year New Me? The M&A Dilemma

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NEUTRAL

With Pushpay (PPH) now looking to diversify and generate ancillary revenue growth, we provide a deep dive into M&A optionality following our analysis of the US Catholic market. We believe PPH's long term performance is now underpinned by the ability of PPH to execute on successful M&A transactions where one or more successful acquisitions could see PPH re-rate to previous levels. However, failure to execute (or over paying the odds) could risk a slowdown in PPH's future growth rate, which would translate to a de-rating and loss of momentum for the stock. There is optionality for PPH to acquire growing competitors, building market share in the US Evangelical sector, extend its product suite further or move into new adjacencies such as app design, website development or media streaming (where there is strong demand growth). Our preference would be to pursue app-developer Subsplash — a quality growth company providing services to both churches and secular companies including Xbox, Microsoft and Samsung among others. The acquisition of Church Community Builder (CCB) in December, saw the stock re-rate ~22% in the first two months post acquisition, and on our numbers will contribute ~8% of revenue growth for FY21. We see the key risks to PPH's anticipated M&A strategy as 1) over paying for the target company and 2) inability to deliver on synergy realisation.

NZX Code	PPH
Share price	NZ$1.68
Target price	NZ$1.75
Risk rating	High
Issued shares	1104.1m
Market cap	NZ$1,855m
Avg daily turnover	3,045k (NZ$5,303k)

Financials: Mar/	20A	21E	22E	23E
NPAT* (NZ$m)	26.9	58.1	67.8	69.9
EPS* (NZc)	9.8	5.3	6.1	6.3
EPS growth* (%)	-3.1	-46.1	16.6	2.9
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
PE	17.2	31.9	27.4	26.6
EV/EBIT	56.2	21.7	19.8	19.6
EV/EBITDA	44.8	19.4	17.9	17.9
Price / NTA	n/a	n/a	18.9	10.8
Cash div yld (%)	0.0	0.0	0.0	0.0
Gross div yld (%)	0.0	0.0	0.0	0.0

Church technology consolidation a likely thematic in coming years

PPH operates in a hugely fragmented market of over 150 providers across six different church technology categories. COVID-19 has expanded this market further with the spike in demand for church technology leading to new competitor entry. Smaller providers have also grown in scale and funding due to the first generation adoption of technology by smaller churches. We expect to see a degree of consolidation in the industry, with competitor Ministry Brands the first to acquire share: now owning 32 brands.

PPH well positioned for M&A given its high cash generation and supporting debt facility

PPH exhibits a high degree of operating leverage and cash generation across the business. Following PPH's acquisition of Church Community Builder, banking partners have indicated that they are willing to form a syndicate to fund further acquisitions. As a result, we do not believe funding to be a significant M&A hurdle for PPH. We estimate a funding facility of ~US$300m.

What is the going-rate for church technology?

By our estimates PPH paid an EV/1 year forward sales multiple of ~5.8x for Church Community Builder in December 2019. Industry consultant Capstone Headwaters has estimated the average EV/Sales multiple paid for nonprofit software during 2019 and the first two quarters of 2020 was ~5.4x. We calculate that PPH is currently trading on an EV/1 year forward sales multiple of ~6.5x.

Pushpay Holdings (PPH)

Priced as at 27 Jan 2021 (NZ$)	**1.68**

12-month target price (NZ$)*	**1.75**
Expected share price return	4.2%
Net dividend yield	0.0%
Estimated 12-month return	4.2%

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	201.5	216.8	233.9
Normalised EBITDA	**1.6**	**25.1**	**62.5**	**65.8**	**66.1**
Depreciation and amortisation	(3.8)	(5.1)	(6.8)	(6.2)	(5.8)
Normalised EBIT	**(2.2)**	**20.0**	**55.7**	**59.7**	**60.3**
Net interest	0.2	(0.8)	(0.6)	0.6	1.8
Associate income	0	0	0	0	0
Tax	20.2	(5.7)	(14.5)	(16.9)	(17.4)
Minority interests	0	0	0	0	0
Normalised NPAT	**18.8**	**16.0**	**37.2**	**43.4**	**44.7**
Abnormals/other	0	0	0	0	0
Reported NPAT	**18.8**	**16.0**	**37.2**	**43.4**	**44.7**
Normalised EPS (cps)	6.9	5.8	3.4	3.9	4.0
DPS (NZ cps)	0	0	0	0	0

Growth Rates	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Revenue (%)	40.5	32.0	55.5	7.6	7.9
EBITDA (%)	n/a	>100	>100	5.3	0.4
EBIT (%)	n/a	n/a	>100	7.1	1.1
Normalised NPAT (%)	n/a	-15.0	>100	16.7	3.1
Normalised EPS (%)	n/a	-15.2	-42.0	16.6	2.9
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**	**62.5**	**65.8**	**66.1**
Working capital change	(5.7)	(1.1)	2.5	1.9	2.6
Interest & tax paid	0	(1.0)	(1.5)	(17.6)	(17.7)
Other	1.4	0.4	(0.4)	0.8	0.8
Operating cash flow	**(2.8)**	**23.5**	**63.1**	**51.0**	**51.8**
Capital expenditure	(0.3)	(0.4)	(2.5)	(4.0)	(4.1)
(Acquisitions)/divestments	(0.0)	(84.4)	0	0	0
Other	0.1	(1.9)	(1.4)	0	0
Funding available/(required)	**(3.1)**	**(63.2)**	**59.2**	**47.0**	**47.7**
Dividends paid	0	0	0	0	0
Equity raised/(returned)	0	0	0	0	0
(Increase)/decrease in net debt	**(3.1)**	**(63.2)**	**59.2**	**47.0**	**47.7**

Balance Sheet (US$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Working capital	8.1	11.3	17.1	18.4	19.9
Fixed assets	1.2	1.1	3.0	2.4	2.1
Intangibles	1.9	88.9	84.6	81.3	78.1
Right of use asset	0	3.3	3.3	3.3	3.3
Other assets	24.8	18.6	4.5	4.4	4.4
Total funds employed	**36.0**	**123.3**	**112.4**	**109.8**	**107.7**
Net debt/(cash)	(13.9)	49.7	(9.5)	(56.5)	(104.2)
Lease liability	0	2.3	2.3	2.3	2.3
Other liabilities	5.7	9.9	18.0	19.9	21.8
Shareholder's funds	44.3	61.3	101.6	144.1	187.8
Minority interests	0	0	0	0	0
Total funding sources	**36.0**	**123.3**	**112.4**	**109.8**	**107.7**

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

Spot valuations (NZ$)	
1. DCF	1.66
2. Revenue Multiple	1.57
3. n/a	n/a

DCF valuation summary (NZ$m)	
Total firm value	1,371
(Net debt)/cash	(49)
Less: Capitalised operating leases	(5)
Value of equity	1,317

Valuation Ratios	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
EV/EBITDA (x)	>100x	44.7	19.3	17.9	17.8
EV/EBIT (x)	n/a	56.1	21.7	19.7	19.5
PE (x)	16.7	17.2	31.9	27.4	26.6
Price/NTA (x)	7.4	n/a	69.7	18.9	10.8
Free cash flow yield (%)	-0.2	2.1	5.3	4.3	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	33.7
Interest cover EBITDA (x)	9.9	n/a	n/a	>100x	36.9
Net debt/ND+E (%)	-45.8	44.8	-10.3	-64.5	-124.7
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	34.7	33.1	27.4
Return on equity (%)	42.5	26.1	36.6	30.1	23.8
Return on funds employed (%)	67.1	14.0	49.2	54.1	57.1
EBITDA margin (%)	1.6	19.4	31.0	30.4	28.2
EBIT margin (%)	-2.2	15.4	27.6	27.5	25.8
Capex to sales (%)	0.4	0.3	1.2	1.8	1.7
Capex to depreciation (%)	36	20	101	141	158
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	48.4	50.3	51.4
Processing Revenue	69.3	92.0	150.6	165.9	181.9
Other Revenue	2.3	2.3	2.5	0.6	0.6
Total Revenue	**98.2**	**129.6**	**201.5**	**216.8**	**233.9**

Revenue model	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
% S churches	44%	41%	44%	46%	47%
Implied number S churches	3,366	3,354	3,804	4,129	4,379
% M/L churches	56%	59%	56%	54%	53%
Implied number M/L churches	4,283	4,826	4,876	4,926	4,976
Processing volume (US$bn)	4.2	5.0	7.9	8.7	9.5

What you need to know about PPH's potential M&A

We outline the key areas of consideration regarding PPH's anticipated M&A strategy:

- **Why PPH is likely to pursue an accretive M&A strategy:** Given the slowdown in volume growth, PPH has become reliant on price growth which has likely led to an increasing rate of churn. It is unlikely that the acquisition of Church Community Builder was in isolation and we expect the company to turn to further M&A to regain momentum.
- **The key considerations for PPH pursuing M&A:** PPH faces the dilemma of whether to purchase a direct competitor, move into an adjacent vertical, expand its current product suite or buy into new geographies. Any takeover target needs to be able to enhance PPH's current market positioning or increase its Total Addressable Market (TAM).
- **Likely takeover candidates:** We expect PPH to pursue current Catholic provider Parish Soft first (subject to owner and competitor Ministry Brands [ref. p10] divesting). However, our preference would be to diversify into a new vertical such as app and website design via a quality provider such as Subsplash.
- **What synergies PPH would hope to achieve:** Our worked example estimates that PPH could generate EBITDA margin uplift of up to 6%, after applying revenue uplift of 6% and OPEX reduction of 3% based on Deloitte's Synergy database statistics. This margin benefit is mainly generated from cross-selling revenue growth and gross margin scale.
- **What history tells us about church tech M&A:** Ministry Brands, owned by private equity has a history of acquiring competing firms, increasing prices and cutting costs. PPH needs to ensure it is not viewed in the same light by church customers.

Financial Implications of M&A

With a large number of variants in a potential M&A transaction we simplify with the following pre-synergy assumptions: 1) a target company of US$30m revenue, 2) revenue multiple paid ranges 4x–6x, 3) EBIT margin range 20%–30%, and 4) debt funding costs 4%–6%. At our mid-point scenario of 5x revenue multiple paid for a target company generating US$30m revenue and a margin of 25% with funding costs of 5%, we estimate the deal to be EPS neutral at least initially. In regards to returns accretion, given PPH's estimated WACC of 8.1%, even our best case scenario would fail to see the target deliver returns accretion applying these variables.

Figure 1. Earnings accretion/dilution range of scenarios

	Worst	Mid-point	Best
Revenue (US$)	30.0	30.0	30.0
Multiple (x)	6.0	5.0	4.0
Purchase price (US$)	180.0	150.0	120.0
EBIT (US$)	6.0	7.5	9.0
Debt funding costs (US$)	10.8	7.5	4.8
Pre tax (US$)	(4.8)	-	4.2
Tax 28%	(1.3)	-	1.2
NPAT (US$)	(3.5)	-	3.0
PPH FY22 NPAT	43.4	43.4	43.4
EPS accretion/dilution	-8.0%	0.0%	7.0%

Source: Forsyth Barr analysis

Figure 2. Returns accretion/dilution range of scenarios

	Worst	Mid-point	Best
EBIT	6.0	7.5	9.0
Tax	1.7	2.1	2.5
NOPAT	4.3	5.4	6.5
Invested Capital	180.0	150.0	120.0
ROIC	2.4%	3.6%	5.4%
PPH WACC	8.1%	8.1%	8.1%

Source: Forsyth Barr analysis

As a result we conclude that high technology and software prices (anything over 5.0x revenue) are likely to challenge PPH to be both earnings and returns accretive at least initially. However, a deal would potentially enable PPH to enhance its strategic positioning or generate revenue and margin uplift through potential synergies.

Elevated software prices translate to greater reliance on synergy uplift

We would expect future PPH acquisitions to generate likely synergies in the form of reduced gross margin through processing volume scale, some sales and marketing cost synergies, and revenue-synergy levers via cross-selling. Furthermore, an extension to the product suite or a new vertical would diversify PPH's revenue streams further. However we recognise that not all targeted revenue synergies are successful, with industry consultants suggesting that just 27% of deals result in both operating margin improvement and revenue uplift. The Boston Consulting Group and McKinsey conclude that cost synergies typically take around two years to achieve, with the full run rate of revenue synergies likely to take up to five years to achieve.

Why PPH is likely to pursue an accretive M&A strategy

In a year of unprecedented demand for church technology, PPH's organic new customer sales have disappointed during FY21-to-date. This has been due to increased competition, PPH's rising, premium prices and the lack of an off the shelf solution. We believe that Church Community Builder was the first of a number of strategic acquisitions, with further M&A able to address PPH's slowing front book through acquiring market share or through increasing its total addressable market (TAM).

Given the hugely fragmented market of church technology providers, in 2017 PPH made the decision to focus predominantly on a bespoke, premium product aimed at larger churches due to 1) higher visibility, 2) influence over smaller churches, and 3) larger processing volumes and growth. Moving away from smaller churches allowed other providers to gain a foothold in the market. Many of these smaller providers were fortuitously positioned during COVID-19 with thousands of smaller churches forced to adopt first generation technology overnight, accelerating an expected 10 year process in just 10 months.

COVID-19: the perfect competitive storm

During 2020 competitive pressure on PPH has increased significantly from four key areas:

- **Previous low cost competitors providing an improved product**: Tithe.ly is an example of a competitor which historically had a growing but small number of small to medium churches on its platform, offering a more basic off the shelf solution. It had inferior scale and funding compared to PPH and was unable to focus on R&D, product development or sales and marketing to the same degree. However, after raising US$4m of capital in 2018 and US$15m in 2019 it increased the number of engineers working on the product. Fortuitously, Tithe.ly then had an improved product for when US lockdown forced smaller churches to go digital and required an off the shelf solution. Many other smaller providers have also benefitted from improving cash flow during a strong sales season which will no doubt allow for further investment. We believe competitors have also read the market better than PPH, with both eGiving and Simple Give for example offering a US$0/month subscription plan with no contract requirement during the months of COVID-19, aimed at churches in financial distress. In contrast PPH raised its prices during the year.
- **New entrants to the market**: Raklet is an example of a company built to manage members and collect payments across a wide range of customers. Originally serving clubs, political parties, alumni and not-for-profit organisations, it moved into the church-space more recently with a focus on membership communication and payment collection. It currently has over 3,000 customers around the world. Racklet is one of a number of new entrants to the church software market.
- **Increased presence of disruptors**: Rebel Give is an example of a company that offers a low cost fixed subscription fee with no processing fee or 'rev-share'. Although a more basic offering than other providers, it is one of a few providers looking to target PPH customers which it feels are being overcharged. In addition it offers 'scholarships' to small churches that are struggling financially and doesn't lock churches into contracts.
- **Entry of competitive 'one-stop-shop' solutions**: One Church Software is an example of a provider that now offers a rival bundle providing a range of features such as a giving platform, worship planning & volunteering scheduling, kids-check in, events & service planning, small groups, accounting, an app, sermon archives, form designing, background checks and donor management reporting. We expect to see more providers offer one-stop-shop bundles going forward, rivalling PPH's current offering on a smaller scale.

Volume slowdown has led to price growth which hasn't worked for PPH

As a result of slow customer growth, PPH increased its subscription fees further during COVID-19, justified to customers by the additional features offered on its platform. A number of churches we have spoken to saw some of these new features as unnecessary and price hikes as opportunistic. In our recent report 'Quantifying g, Downgrade to NEUTRAL' on the 11 November 2020, we noted that PPH competitors Tithe.ly and Givelify saw net customer increases of up to +6,000 and +18,000 churches respectively over the preceding six month period, in comparison to PPH's net additions of medium/large churches by +13 and small churches by +296.

Risks to an M&A strategy

There are several risks to pursuing an M&A strategy, but for PPH we believe the key value dilutive risks to be:

- An overpaid price
- A clash of cultures
- A lack of synergy realisation
- Higher than expected churn
- Reputational risk

Key M&A considerations for PPH

With competition gaining momentum and softening expectations over PPH's front book, we believe M&A is now likely to be a key strategic priority for the company. PPH has moved from its initial high organic growth phase into a more mature phase and has the available capital to acquire competitors and strengthen its product offering. There are a plethora of acquisitive options available and we believe the acquisition of Church Community Builder was not in isolation. There are six categories of church technology in the market, in addition to adjacent verticals, with some companies clearly more suitable than others.

Why it makes sense for PPH to pursue M&A

We believe there are a number of strategic reasons why PPH would look to M&A going forward:

- To further enhance the functionality and quality of technology already on its platform
- To acquire competitive threats before any significant market share impact is felt by PPH
- To extend its current product suite and add new features
- To buy market share, to overcome what is traditionally a very sticky market
- To move into new verticals and increase its TAM to non-churches
- To widen its audience within the church space and move into new denominations or geographies

Categories of church technology

Church technology can be broken down into six categories:

- Giving and Donor Management systems (PPH currently offers)
- Church Management system (PPH currently offers)
- Communication, member outreach & messaging (PPH currently offers)
- Streaming and media content (PPH does not offer)
- Bible study and notation (PPH does not offer)
- App building and Website building (PPH partially offers)

Characteristics for an ideal PPH takeover target

There are a number of characteristics that determine whether a company in one of the above categories is 1) attractive to PPH, 2) likely to add value once acquired:

- A similar culture within the organisation to PPH (profit maximisation rather than not-for-profit)
- A similar degree of technological advancement (hard to build on legacy technology)
- Able to generate cost synergies over time
- Available at an attractive price
- Provides an additional revenue stream/dimension/product enhancement/diversification
- Adds strategic value (market share, competitor)

What has history shown church technology to be worth?

By our estimates PPH paid a forward EV/Sales multiple of ~5.8x for Church Community Builder, while Industry Consultant Capstone Headwaters have estimated that the average EV/Sales multiple paid for non-profit software during 2019 and first half of 2020 was 5.4x.

With competitor Ministry Brands disclosing very little information regarding acquisition costs, we note Blackbaud paid US$157m for YourCause (employee engagement and grants management) in February 2019 for an EV/Sales multiple of ~7.9x and acquired Reeher (education fundraising) for US$43m (EV/Sales multiple of 4.3x) in May 2018.

Figure 3. Historic church technology acquisitions — limited data

Acquired	Category	Buyer	Amount paid	Multiple	Date
CCB	ChMS	PPH	87.5m	~5.8x	Dec-19
YourCause	Employee grants management	Blackbaud	157m	~7.9x	Feb-19
Reeher	Education fundraising	Blackbaud	43m	~4.3x	May-18

Source: Forsyth Barr analysis

What should PPH pursue?

With PPH facing a number of options for acquisition, we highlight those companies which currently integrate with PPH's existing product as the first set of acquisition targets. Within that category, we highlight Parish Soft and Planning Center as the most likely candidates. Secondly, outside of current partnerships, we view Subsplash or Tithe.ly as the most strategic targets, allowing PPH to either move into new verticals or take out a direct competitor.

Figure 4. Our top 6 M&A picks for PPH currently

M&A Strategy	What	Rationale
To buy the best technology	Subsplash	Provides +50% of apps for top 100 churches. Also for Xbox, Microsoft, Samsung
To buy competition	Tithe.ly	Historically servicing smaller churches, Tithe.ly is gaining momentum quickly
To extend the church tech suite	Planning Centre	Includes features such as service planning and worship planning — a new dimension
To buy market share	Rock RMS	The ChMS provider that came up most when talking to megachurches in 2020
To move into other verticals	Stream Monkey	With churches moving to media for sermons, streaming is a growing thematic
To enter the Catholic market	Parish Soft	The most used Catholic software — provides administration for dioceses

Source: Forsyth Barr analysis

Planning Centre

- Having first hand experience of using Planning Centre, this is an easy to use, clean product and very popular with musicians for worship preparation and service planning. The company has grown steadily since 2007.
- Online reviews show good customer and employee reviews with the product broken down into seven 'modules' many of which are found in a typical ChMS but with additional features available such as services, publishing and groups.
- Growjo estimate staff to be around 75 and revenue to be US$27m, currently with over 55,000 church customers.
- Applying an EV/Sales multiple of 5.4x, this would imply an acquisition cost of US$150m — however, we think the multiple is likely to be less than 5.4x given the likely lower sales growth rate. PPH would be buying Planning Center for additional product functionality and exposure to the smaller, international churches within the 55,000 customers.

Subsplash

- App-developer Subsplash has moved quickly to claim over 50% of the top 100 US church apps. This is a well regarded business, with a high quality product and clients which include Xbox, Microsoft, Samsung, Expedia and Cisco among others.
- Without a full donor management system itself, this would be the natural fit to improve upon PPH's existing app provision, with many large churches already using PPH's donor management system alongside Subsplash's app provision.
- We also see a potentital acquisition of Subsplash as an entry to move into other app provision verticals, significantly increasing PPH's TAM. Subsplash currently provides custom mobile and TV apps, websites, and media delivery.
- We estimate Subsplash to have around 125 employees across Seattle (HQ), Austin and Wenatchee. The company was recently ranked 64th on the GeekWire 200 list of the Pacific Northwest's top startups.
- Owler suggests Subsplash revenue to be around US$25m (which we think is low) so when applying an EV/Sales multiple of 5.4x to revenue of around US$30m the acquisition could cost anything around US$160m. Although costing considerably more than CCB (US$88m) acquiring Subsplash would 1) be a serious statement of intent given Subsplash's reputation, quality and market share, 2) PPH has the banking support to facilitate such a deal through a syndicate of Australian banks, 3) given the high level of cash generation and operating leverage in the business, debt would be paid off in a relatively short term of time.

Tithe.ly

- Historically Tithe.ly has focussed on the provision of smaller churches with a basic, low cost, off the shelf product. However, given the wave of digital adoption that has occurred among smaller churches due to COVID-19, Tithe.ly has picked up a large number of customers which have never previously invested into digital.
- Given this increased funding and scale, Tithe.ly has begun to roll out additional features, mirroring many of PPH's and attracting attention of PPH's customer base given the cost differential.
- Tithe.ly is now in several countries around the world and is the first mover to go international. This could also provide PPH with an opportunity to go abroad with a lot of the expansion work already done.
- We believe an acquisition of Tithe.ly would solve the problem of short term competitive pressures and take out a major threat going forward.
- In 2019 the Labusinessjournal valued Tithe.ly at US$129m but given the growth in the number of clients in 2020 we would expect this to be considerably more now.

Current PPH Partnerships

PPH has partnered with a significant number of external companies. We re-fresh the list of partnered companies since our initiation in July 2020, with the list unchanged other than the addition of Sage Intacct. We view the list below as a potential starting point for PPH to consider its next acquisition.

Figure 5. PPH partnerships

Integrated Partner	Function
Sage Intacct	Cloud Account Software
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

What synergies could PPH hope to gain from M&A

The Boston Consulting Group (BCG) undertook a survey of over 1,000 M&A transactions between 2008 and 2018, with 70% of buyers estimating that it took two to three years to achieve the full run rate of synergies (the average was 2.8 years). McKinsey also concludes that revenue synergies generally take considerably longer than cost synergies to achieve, with a ratio of about two to five years. Kucher & Partners estimated a +3.0% increase in the combined product price to have the same effect on EBIT as a +10.0% increase in volume growth, -4.2% decrease in variable costs or -16.7% reduction in fixed costs post an M&A transaction. Given PPH's profile as a growth company we expect any synergies would be targeted more towards revenue than costs, with the aim to cross-sell, bundle or move into new adjacencies.

One-off integration costs expected to be 1.1–1.2x synergy run rate

BCG estimates that integration costs on average amount to one full run rate of synergies. Mckinsey see this number as slightly higher (1.1 to 1.2), implying that for every $100m in synergy run rate, on average integration one time costs are $110–120m.

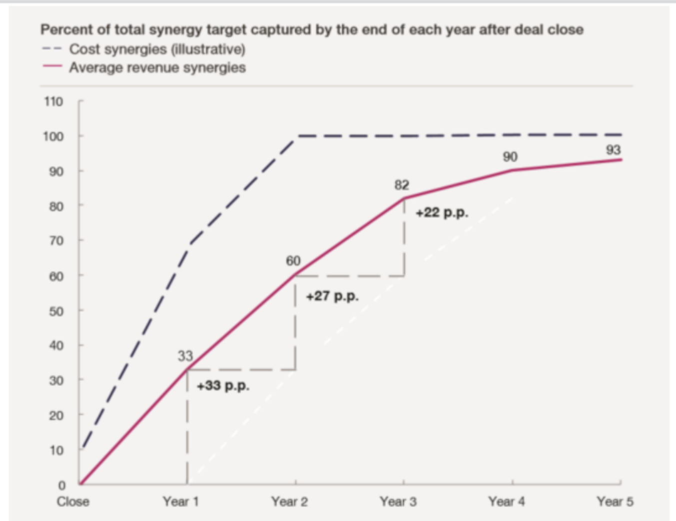
Revenue synergies — where PPH's focus will be

A McKinsey study of 2,500 companies showed cross-selling to be the most pursued M&A revenue-synergy lever (21%), followed by geographic expansion (18%) and forming a bundled solution (15%) third. In PPH's case, the acquisition of CCB looked to drive additional revenue through cross-selling and form a bundled solution.

However, research shows that not all targeted revenue synergies are successful. Consultant Accenture analysed over 800 M&A transactions globally, and found that just 27% of deals resulted in both operating margin improvement and revenue growth. McKinsey suggests that typical stumbling blocks include the inability of sales reps to have the knowledge, capacity, and incentives to sell the new portfolio or that the leaders are fully committed to the effort. In PPH's case it is highly likely that management would be fully committed to achieve the required synergies and that sales staff would have sufficient knowledge and capability to sell a modified or extended product.

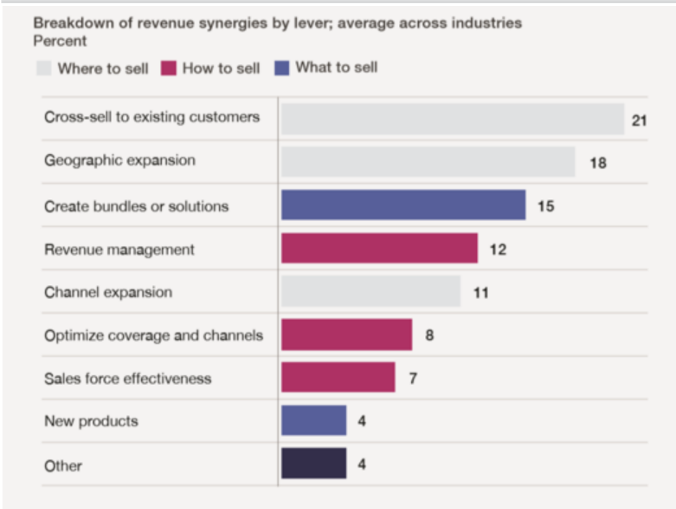
BCG estimates that for technology companies the average revenue synergy is +2.3% of combined sales while an analysis of over 800 recent global transactions by Deloitte found the majority of post M&A revenue synergies ranged between 1–5% of the target companies sales (Figure 8). Applying a weighted average to Deloitte's data implies revenue uplift of the target companies sales of ~10% post M&A.

Figure 6. Revenue synergies 5 years vs cost synergies 2 years



Source: Forsyth Barr analysis, McKinsey

Figure 7. Revenue synergies by lever



Source: Forsyth Barr analysis, McKinsey

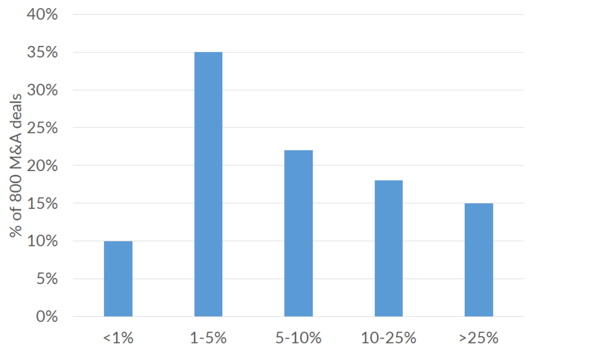
Cost synergies — limited uplift but scale achievable

In terms of cost reduction, the same survey showed 1–5% of combined costs to be the most common outcome, and applying a weighted average implies ~5% of combined cost out (Figure 9). In theory, the merger of two complimentary businesses should deliver scale benefits, new efficiencies and savings through shared floor space, internal resources and headcount. Operational synergies can take many forms, ranging from the rationalization of a product portfolio to shared R&D resources. Typically head-count reduction is the most direct approach to delivering efficiency targets.

Whilst we do not expect PPH to be reducing headcount (to the contrary listed hires are currently 15 people), the consolidation of travel, training and functional areas combined with optimisation of technology and resources could drive modest improvements to EBITDA margins, whilst scale could also improve gross margins.

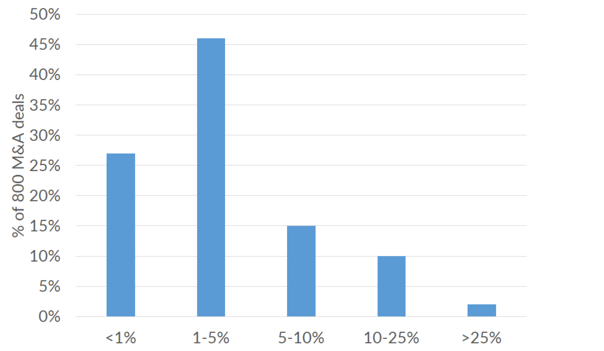
Most cost line synergies are reasonably straight forward, but some items may have a much longer tail such as IT systems, network and data consolidation. Given the disruption of COVID-19 it has been difficult to determine the cost saving that the CCB acquisition has generated although we suspect there to have been some scale advantages.

Figure 8. Revenue synergies achieved % of target



Source: Forsyth Barr analysis, Deloitte

Figure 9. Cost synergies achieved % of combined



Source: Forsyth Barr analysis, Deloitte

Worked example shows margin uplift of ~6% from combined revenue and OPEX synergies

We apply a worked example of a theoretical PPH M&A scenario using Deloitte's revenue (assumption combined +6%) and cost (assumption combined -3%) synergy data. Combining our FY21 PPH forecasts with an example target producing US$30m revenue with a 20% margin shows M&A to generate a combined margin uplift of ~6%. Re-apportioning revenue and costs post acquisition suggests PPH's margin could move to 37% from 31% on a segmental basis and 35% on a combined basis.

Figure 10. P&L PPH and target pre M&A

	PPH (US$m)	Target (US$m)	Combined (US$m)
Revenue	196	30	226
OPEX	136	24	160
EBITDA	61	6	67
Margin	31%	20%	29%

Source: Forsyth Barr analysis

Figure 11. P&L PPH and target post M&A

	Synergy %chg	Combined (US$m)	PPH (US$m)	Target (US$m)
Revenue	6%	240	208	32
OPEX	3%	155	131	23
EBITDA		85	76	9
Margin		35%	37%	27%

Source: Forsyth Barr analysis

Funding limitations: assumed facility of US$300m + cash to play with

We do not expect funding to be a significant hurdle for PPH's anticipated M&A strategy. PPH boasts a high degree of operating leverage in the business resulting in high cash generation and has previously indicated that the big four Australian banks are prepared to form a syndicate to fund further transactions following the acquisition of Church Community Builder in December 2019.

- During PPH's acquisition of CCB, banks were prepared to fund PPH up to a multiple of 3.5x EBITDA. Historically, applying 3.5x to an FY20 EBITDA of US$25.1m gives a total of US$87.9m (vs the US$87.5m PPH paid for CCB).
- PPH has demonstrated it is able to rapidly repay debt and combined with its impressive cash generation and positive earnings momentum we would expect the banks to extend the multiple to at least 5.0x EBITDA.
- Applying our FY21E EBITDA forecast of US$60.6m to a 5.0x multiple gives PPH a funding facility of ~US$300m.
- We also forecast PPH to hold a cash balance of US$41m for FY21.
- We expect PPH to have paid off its existing debt by FY23 and finish FY21 with net cash of US$10m.

Church technology M&A: What history tells us...

With very little historic non-profit software industry M&A data, we deep dive into Ministry Brands — the first PPH competitor to begin a consolidation of the church software market.

Ministry Brands is owned by private equity firm Venture Partners and has a history of buying competing brands, cutting costs and raising prices. Unsurprisingly this has caused reputational damage among church customers. We believe PPH needs to be careful not to replicate the same aggressive strategy. Ministry Brands has been for sale since 2019 which may allow PPH to acquire individual brands within the group. Ministry Brands has not disclosed the cost of any previous acquisitions

Ministry Brands; still for sale...

Ministry Brands was started in 1997 and is now the holding company of Community Brands, Ministry Brands and Education Brands, which currently own 32 church and not-for-profit software companies.

Private equity firm Insight Venture Partners bought a stake from Providence Equity reportedly for around US$1bn in 2016. At the time The Wall Street Journal estimated Ministry Brands EBITDA to be around US$100m. Both Accel-KKR and Genstar Capital have also held minority stakes which they reportedly still own.

In 2019 the company was put up for sale, with the private equity owners seeking US$4bn according to Buyoutsinsider. To our knowledge no buyer has been found with the company still for sale today.

Ministry Brands acquisitions — mainly donor management

It boasts a customer base of over 115,000 organisations including churches, schools and private education institutions. The below table shows its umbrella businesses.

Figure 12. Companies bought by ministry brands

Giving/donor Management	ChMS	Website Builder	Other
easyTithe	Fellowship One	Clover Sites	Protect My Ministry
MinistryLinq	ParishSoft	E-Zekiel	Churchstreaming.tv
eGiving	Elexio	faithHighway	Sharefaith
Kindrid	Selbysystems	SiteOrganic	ActivescreeningFaith
The Rocket company	Ekklesia360	Bridge Element	Ministry One
SimpleGive	Church Office Online	Ekklesia360	
eGiving	SimpleChurch	Halopays blue fire	
GivingKiosk			
MoGiv			
EFTPlus			
eGive			
Donordirect			
FaithDirect			

Source: Forsyth Barr analysis, Ministry Brands

Why it hasn't worked for Ministry Brands

Speaking to a number of churches over the last six months, perception has been the biggest historical challenge for Ministry Brands. The private equity model of acquiring competing firms, increasing prices, cutting costs and selling the businesses is not a good optic for church customers.

Additionally, a number of brands under the Ministry Brands umbrella have been 'partnered' together, closing the individual businesses and making the previous staff redundant. Parish Soft for example saw a reported headcount reduction of 35 employees on acquisition. TheNonprofitTimes reported in 2019 that group CEO Jean-Paul Guilbault and other senior employees had also been relieved of duties in 2019, around the same time the business was put up for sale by its current owners.

Other acquisitions within the church-technology sector

While data on historic church acquisitions is severely limited, we note that Subsplash acquired Custom Church Apps (founded in 2012) in 2019, for an undisclosed fee.

Appendix

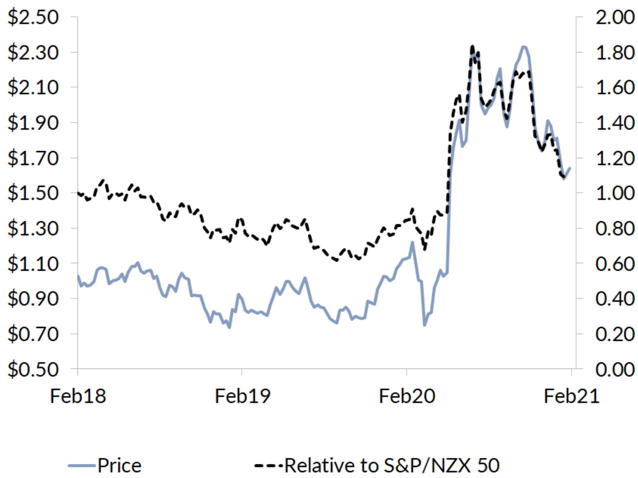
The below table provides a list of competitors and potential take over targets within church technology, not including brand names previously mentioned under the Ministry Brands umbrella. These include 63 Church Management Systems (ChMS), eight App or Website providers, 16 donor management brands and 37 Other providers.

Figure 13. Church technology providers across all categories

ChMS	ChMS (cont)	Donor Management/Giving	Other
ACS Technologies	Kyrios	Aplos	Ambassador
AgapeWorks	lambs list	Church Metrics	Ascribe
Assist	Logos II	ChurchPro	Chaverware
BCMS	MapleSoft	ChurchWorks	Chmeetings
Bitrix24	MemInfo	Donarius	Church 15
Breeze	Ministry Assistant	Ease	Church Growth Software
Breeze	Ministry Platform	Faithful Steward	Church Social
By the Books Roll Call	MinistryPal	mypeoplematter	Churchhand
CahabaWorks	Mission Pillars	Offering Helper	ChurchTools
Call-Em-All	MyChurch Data	Omega Church	Courtyard
CCIS Church Management	One Vision CMS	Online Giving	eWebLife
Church Admin Plgin	OPRS	Paperless Transactions	Faithlife Equip
Church Affairs	Parish Data System	SeekerWorks	Fresh Vine
Church Management software	Parishinfo	Tithe	Gnosis for Nonprofits
Church Manamge pro	Parishioner Database	Tithe.ly	GoDoChurch
Church Secretary Pro	ParishSoft	WeGather	iKnow Church
Church Windows	Planning Center		Impact Factors
ChurchBox	Raklet		Interaction Community Systems
ChurchCRM	RDS Advantage	**App/website**	iPrayerCenter
ChurchDB	Rock RMS	Asoriba	MaxPro
ChurchInfo	Servant Keeper	Church Base	MembershipEdge
ChurchInsight	Smart Clergy	E-Church Network	MissionMakr
ChurchSuite	SmartRoster	Here I Am	MissionMakr
Churchteams	TextInChurch	More Blessed	My Sermon Notes
ChurchTracer	Ucare	Nucleus	One Church Software
ChurchWatch	Vision2	Subsplash	OneBody
COMS	Working Church	Wild Apricot	Pastoral Care
Connect Manage			PastorsLine
ContinuetoGive			PowerChurch Plus
CristO			ServiceBuilder
CrossReference			ShuldCloud
Donation			StreamingChurch.tv
Excellerate Church Management			The Automated Church
Fluro			Timothy
Go Church App			Total Church Solutions
infoodle			Worship Extra
			ZLC Ministry Scheduler

Source: Forsyth Barr analysis, Capterra

Figure 14. Price performance



Source: Forsyth Barr analysis

Figure 15. Substantial shareholders

Shareholder	Latest Holding
Christopher & Banks V Limited	15.7%
Harbour Asset Management & Jarden Securities Limited	5.1%

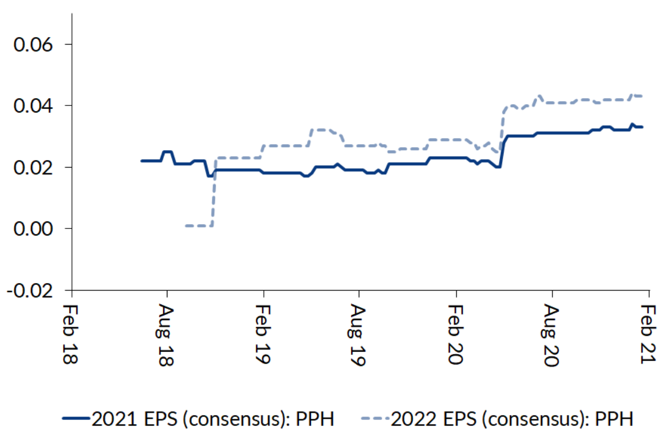
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 16. 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$1.68**	**NZ$1,855**	**31.9x**	**27.4x**	**19.9x**	**18.8x**	**22.3x**	**20.8x**	**0.0%**
ADOBE INC	ADBE US	US$472.07	US$225,978	42.7x	39.8x	39.2x	28.5x	46.6x	32.4x	0.0%
ATLASSIAN CORP PLC-CLASS A	TEAM US	US$230.10	US$57,341	>50x	>50x	>75x	>75x	>75x	>75x	0.0%
J2 GLOBAL INC	JCOM US	US$98.79	US$4,504	12.3x	11.2x	9.0x	8.3x	11.2x	10.7x	0.0%
PAYCOM SOFTWARE INC	PAYC US	US$412.33	US$24,126	>50x	>50x	70.9x	58.0x	>75x	74.7x	0.0%
PAYLOCITY HOLDING CORP	PCTY US	US$199.75	US$10,836	>50x	>50x	>75x	56.2x	>75x	n/a	0.0%
PAYPAL HOLDINGS INC	PYPL US	US$247.83	US$291,329	>50x	>50x	45.3x	37.9x	53.1x	41.9x	0.0%
REALPAGE INC	RP US	US$86.96	US$8,857	44.1x	39.0x	29.1x	25.5x	33.3x	n/a	n/a
RINGCENTRAL INC-CLASS A	RNG US	US$383.26	US$34,352	>50x	>50x	>75x	>75x	>75x	n/a	n/a
VEEVA SYSTEMS INC-CLASS A	VEEV US	US$293.35	US$44,432	>50x	>50x	70.2x	62.3x	74.0x	65.3x	0.0%
WORKDAY INC-CLASS A	WDAY US	US$235.16	US$56,437	>50x	>50x	49.2x	44.5x	66.6x	60.9x	0.0%
ZOOM VIDEO COMMUNICATIONS-A	ZM US	US$389.66	US$113,714	>50x	>50x	>75x	>75x	>75x	>75x	0.0%
			Compco Average:	**33.1x**	**30.0x**	**44.7x**	**40.1x**	**47.5x**	**47.7x**	**0.0%**
EV = Current Market Cap + Actual Net Debt			**PPH Relative:**	**-3%**	**-9%**	**-56%**	**-53%**	**-53%**	**-56%**	**-100%**

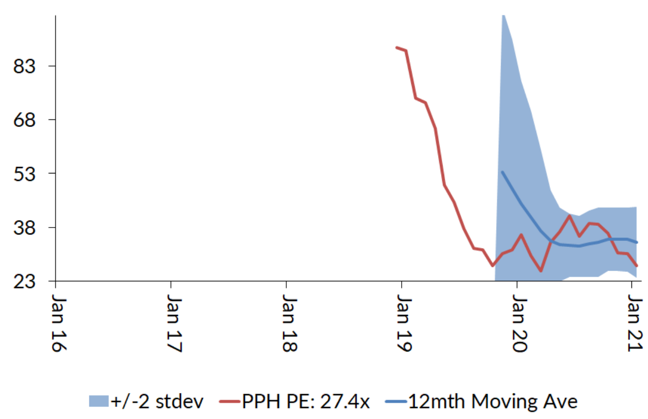
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (PPH) companies fiscal year end

Figure 17. Consensus EPS momentum (NZ$)



Source: Forsyth Barr analysis

Figure 18. One year forward PE (x)



Source: Forsyth Barr analysis

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