

Pushpay Holdings

Debunking the Myths: Downgrade to U/P

JAMIE FOULKES

jamie.foulkes@forsythbarr.co.nz
+64 4 914 2217

UNDERPERFORM

During the greatest ever year for demand in church technology we fully expected Pushpay (PPH) to capitalise on its dominant position in the US church market based on 1) its previous track record of penetrating over 50% of the top 100 US churches, 2) superb feedback from church customers, 3) the large gap between its product offering and competitors at the start of COVID-19, and 4) the sizeable and growing market that PPH was serving. Instead, our recent research suggests that over the past twelve months PPH has lost significant ground to its competition, with Tithe.ly growing its churches by 12,000 in the same period PPH grew by 309 (1H21 result). On our estimates, PPH's penetration of the top 100 churches has fallen from 58 in July 2020 to 52 as of March 2021. We believe much of this is linked to PPH increasing its already premium price vs low cost competition. We downgrade our rating to UNDERPERFORM based on 1) strong share price performance, 2) focus on the limited Catholic market, 3) top 100 US church churn, and 4) increasing competitive pressures in the US church tech market.

NZX Code	PPH	Financials: Mar/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$2.07	NPAT* (NZ\$m)	26.9	58.1	70.6	75.3	PE	21.2	39.3	32.4	30.4
Target price	NZ\$1.83	EPS* (NZc)	9.8	5.3	6.4	6.8	EV/EBIT	69.0	26.7	23.4	22.4
Risk rating	High	EPS growth* (%)	-3.1	-46.1	21.4	6.6	EV/EBITDA	55.0	23.8	21.3	20.5
Issued shares	1104.1m	DPS (NZc)	0.0	0.0	0.0	0.0	Price / NTA	n/a	n/a	22.7	12.7
Market cap	NZ\$2,286m	Imputation (%)	0	0	0	0	Cash div yld (%)	0.0	0.0	0.0	0.0
Avg daily turnover	3,784k (NZ\$7,027k)	*Based on normalised profits					Gross div yld (%)	0.0	0.0	0.0	0.0

What's changed?

- **Earnings:** FY22 revenue raised growth from +8.6% to +9.9% (now includes Catholic revenue of US\$0.5m per diocese)
- **Target price:** Increased from NZ\$1.75 to NZ\$1.83
- **Rating:** Changed from NEUTRAL to UNDERPERFORM

Peer price discrepancy compounded by recent gap closure in product offering

With PPH's subscription price rising during COVID-19 we question whether the alignment between the company and its customer base has begun to dissolve as it navigates the tricky balance of operating as a profit maximising entity in a non-for-profit sector. This is further accentuated by competitors offering low cost subscription prices and now seen as more 'missional' providers. Tithe.ly's current subscription offer of US\$99 per month for a bundled solution is 3x cheaper than PPH's average subscription price.

Catholic market limited earnings potential even with the addition of Catholic schools

With a large proportion of total giving in the US Catholic market given through stocks, vehicles, property and bequests (all of which are not applicable for PPH's processing platform) we believe much of the remaining proportion of income is given by parents in the form of school fees for Catholic schools. The number of Catholic schools in the US is rapidly diminishing, but we believe there is a small opportunity for PPH to provide school/Parish payment reconciliations.

Valuation expensive following rally in share price

Following a re-rating of the stock, PPH now trades on a forward EV/sales of 8.3x. Our forecast FY22 revenue growth of 9.9% implies an EV/sales multiple of nearer to 6.7x, even with the inclusion of Catholic revenue, while our DCF remains broadly unchanged.

Pushpay Holdings (PPH)

Priced as at 09 Apr 2021 (NZ\$)

2.07

12-month target price (NZ\$)*						Spot valuations (NZ\$)				
Expected share price return						1. DCF				
Net dividend yield						2. Revenue Multiple				
Estimated 12-month return						3. n/a				
Key WACC assumptions						DCF valuation summary (NZ\$m)				
Risk free rate						Total firm value				
Equity beta						(Net debt)/cash				
WACC						Less: Capitalised operating leases				
Terminal growth						Value of equity				
Profit and Loss Account (US\$m)						Valuation Ratios				
Sales revenue	98.2	129.6	201.5	219.4	238.9	EV/EBITDA (x)	>100x	54.9	23.8	21.3
Normalised EBITDA	1.6	25.1	62.5	68.3	70.8	EV/EBIT (x)	n/a	68.9	26.7	23.4
Depreciation and amortisation	(3.8)	(5.1)	(6.8)	(6.2)	(5.8)	PE (x)	20.6	21.2	39.3	32.4
Normalised EBIT	(2.2)	20.0	55.7	62.1	65.1	Price/NTA (x)	9.1	n/a	85.9	22.7
Net interest	0.2	(0.8)	(0.6)	0.6	1.9	Free cash flow yield (%)	-0.2	1.7	4.3	3.6
Associate income	0	0	0	0	0	Net dividend yield (%)	0.0	0.0	0.0	0.0
Tax	20.2	(5.7)	(14.5)	(17.6)	(18.8)	Gross dividend yield (%)	0.0	0.0	0.0	0.0
Minority interests	0	0	0	0	0	Capital Structure				
Normalised NPAT	18.8	16.0	37.2	45.2	48.2	Interest cover EBIT (x)	n/a	n/a	n/a	>100x
Abnormals/other	0	0	0	0	0	Interest cover EBITDA (x)	9.9	n/a	n/a	>100x
Reported NPAT	18.8	16.0	37.2	45.2	48.2	Net debt/ND+E (%)	-45.8	44.8	-10.3	-66.7
Normalised EPS (cps)	6.9	5.8	3.4	4.1	4.4	Net debt/EBITDA (x)	n/a	2.0	n/a	n/a
DPS (NZ cps)	0	0	0	0	0	Key Ratios				
Growth Rates						Return on assets (%)	-4.1	14.8	34.7	34.1
Revenue (%)	40.5	32.0	55.5	8.9	8.9	Return on equity (%)	42.5	26.1	36.6	31.0
EBITDA (%)	n/a	>100	>100	9.2	3.7	Return on funds employed (%)	67.1	14.0	49.2	56.3
EBIT (%)	n/a	n/a	>100	11.5	4.8	EBITDA margin (%)	1.6	19.4	31.0	31.1
Normalised NPAT (%)	n/a	-15.0	>100	21.5	6.7	EBIT margin (%)	-2.2	15.4	27.6	28.3
Normalised EPS (%)	n/a	-15.2	-42.0	21.4	6.6	Capex to sales (%)	0.4	0.3	1.2	1.8
Ordinary DPS (%)	n/a	n/a	n/a	n/a	n/a	Capex to depreciation (%)	36	20	101	141
Cash Flow (US\$m)						Imputation (%)	0.0	0.0	0.0	0.0
EBITDA	1.6	25.1	62.5	68.3	70.8	Pay-out ratio (%)	0.0	0.0	0.0	0.0
Working capital change	(5.7)	(1.1)	2.5	2.0	2.8	Revenue				
Interest & tax paid	0	(1.0)	(1.5)	(18.3)	(19.1)	Subscription Revenue	26.7	35.3	48.4	50.3
Other	1.4	0.4	(0.4)	0.8	0.8	Processing Revenue	69.3	92.0	150.6	165.9
Operating cash flow	(2.8)	23.5	63.1	52.9	55.4	Other Revenue	2.3	2.3	2.5	3.2
Capital expenditure	(0.3)	(0.4)	(2.5)	(4.0)	(4.1)	Total Revenue	98.2	129.6	201.5	219.4
(Acquisitions)/divestments	(0.0)	(84.4)	0	0	0	Revenue model				
Other	0.1	(1.9)	(1.4)	0	0	% S churches	44%	41%	44%	46%
Funding available/(required)	(3.1)	(63.2)	59.2	48.9	51.3	Implied number S churches	3,366	3,354	3,804	4,129
Dividends paid	0	0	0	0	0	% M/L churches	56%	59%	56%	54%
Equity raised/(returned)	0	0	0	0	0	Implied number M/L churches	4,283	4,826	4,876	4,926
(Increase)/decrease in net debt	(3.1)	(63.2)	59.2	48.9	51.3	Processing volume (US\$bn)	4.2	5.0	7.9	8.7
Balance Sheet (US\$m)										
Working capital	8.1	11.3	17.1	18.6	20.3					
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	110.0	108.2					
Net debt/(cash)	(13.9)	49.7	(9.5)	(58.4)	(109.7)					
Lease liability	0	2.3	2.3	2.3	2.3					
Other liabilities	5.7	9.9	18.0	20.2	22.4					
Shareholder's funds	44.3	61.3	101.6	145.9	193.1					
Minority interests	0	0	0	0	0					
Total funding sources	36.0	123.3	112.4	110.0	108.2					

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

Why and how our expectations have changed since July

In the midst of COVID-19 we expected that PPH would go some way towards executing against its long term target of providing its services to 50% of medium and large churches in the US. Now that goal is in serious doubt. There are currently over 300,000 Evangelical churches in the US of which roughly a third are classed as medium to large. At FY20 PPH had a total of 4,826 medium and large churches on its processing platform, giving it an estimated market share of ~5% in the medium and large church category, with significant headroom for growth during FY21. At 1H21 PPH had 4,839 medium and large churches on its processing platform, winning just 13 in the first six months of the year.

2020 was all set for a bumper year of new customer wins...

We believed PPH's expansion would include further growth in the megachurch segment, of which it had penetrated ~25% of the 1,200 US megachurches in the lead up to COVID-19. Feedback from customer churches regarding the product and dealing with the company was highly complementary, and with many churches forced to adopt digital giving for the first time, PPH was in a strong position to win a large number of new church customers over the course of FY21.

...lack of new churches masked by growth of current church customers through increased digital giving...

Our top 100 church analysis shows seven megachurches to have left PPH since July 2020. In the same period it picked up just one new top 100 church. Earnings guidance upgrades over the course of FY21 have been driven by 1) increase in proportion of digital donations from current customer churches, and 2) resilience in overall giving despite the global pandemic closing churches physically, rather than material new church customer wins. We estimate that digital giving on average would have increased from sub 50% for many churches to as high as 90% in the peak of lockdown restrictions. Large church feedback has suggested the FY21 average will settle around 80% but PPH believes the number to be nearer 65% at 1H21. This may be linked to the mix of small churches PPH also serves.

...and a US K-curve recovery supporting donations...

Church feedback has indicated that donations over the course of the year were strong in April and May 2020, falling back slightly in the US summer before a strong Christmas period and softer start to 2021. Resilience in donations across the year has been supported by the 'K-curve' with one pastor suggesting that donations remained stable across the year, given that for all those who have experienced unemployment, it was largely offset by additional generosity from those congregation members whose finances had improved during 2020. This was partly due to unusually high levels of household savings (up 15–20%).

...plus stable online church attendance...

With attendance levels online superseding physical attendance in the first few months of lockdown, we believe the US election in November 2020 disrupted overall attendance levels across US Evangelical churches. As one US pastor described it, there was strong Evangelical support publicly for Donald's Trump's policies (abortion, foreign policy, recognition of Jerusalem as Israel's capital city etc) but his character and dealings with people was highly divisive across churches. This led to many congregation members (and key donors) disagreeing with pastors on their public view and resulted in many large churches losing up to 10% of their congregations which moved to new churches. Longer term, we expect this attendance churn to normalise.

Feedback from Catholic contacts has suggested that there is fear among Catholic churches that people will not return to church again after lockdown restrictions, as many Catholic churches have not gone online and people have been able to cope for a year without church. This is supported by Gallup's recent church membership survey which suggested membership was now at record lows.

...while competition has increased its product offering, expanded its customer base, and undercut PPH on cost...

As PPH has increased its subscription fees during 2020, low cost competition has offered discounts, bursaries and scholarships during a year of financial uncertainty for many churches. This has led to significant customer wins for peers, in addition to a vastly improved product offering. PPH needs to be active in the M&A market or compete closer on price to grow its market share, in our view.

...leaving low expectations for new church customers at the FY21 result

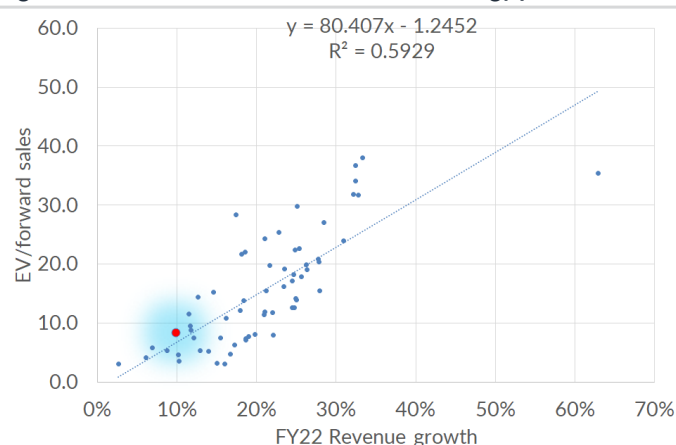
Ahead of the FY21 result (12 May), key areas of investor uncertainty include 1) front book growth during 2H21, and 2) progress and intentions in the Catholic space going forward. We believe the most important number at the FY21 result will be net new customers on PPH's processing platform, which we expect to be in the range of 400–600 churches.

Valuation

We update our blended DCF and peer multiple valuation and derive a target price for PPH of NZ\$1.83. Our FY22 forecast revenue growth increases from 8.6% to 9.9% through the addition of Catholic revenue assumptions (five dioceses won in FY22). Against peers, this growth rate implies that the stock should be trading on an EV/forward sales multiple of 6.7x based on its peer set (a blend of the largest Australasian technology peers and the Emerging Cloud Index).

With no details from the company on its Catholic progress, we assume at this stage the market has no Catholic revenue in its forecasts, while PPH's current EV/forward sales multiple of 8.3x implies the market is pricing in revenue growth of +11.8% in FY22. Taking our assumed annual back book growth of +6.5% into account, it implies that the market is pricing in front book growth of +5.3% in FY22. On our numbers this would be the equivalent of 300 large churches or 1,700 small/medium churches. In contrast, PPH gained (net) 13 large churches and 296 small/medium churches in 1H21.

Figure 1. PPH vs US and Australasian technology peers



Source: Forsyth Barr analysis, Bloomberg

Figure 2. DCF and EV/forward sales valuation approach

NZ\$	Valuation	Rolled forward	Dividends	Target price
DCF	1.66			
EV/Sales US and Australia tech	1.72			
Blended Average	1.69	1.83	0.00	1.83

Source: Forsyth Barr analysis

Changes to earnings forecasts

We update our earnings forecasts before the FY21 result on 12 May.

- We add Catholic revenue for the first time from FY22 onwards with the assumption that PPH wins five Catholic dioceses per year going forward. We assume that each diocese will generate ~US\$0.5m of revenue initially, but declining at ~3% per annum.
- We lift our new sales staff to 50 (from 39) in FY22. There are currently 38 job openings on PPH's website: 13 in customer account management, six in engineering, seven in marketing, six in operations, three in product, three in sales. With the most additions in customer account management followed by marketing, it is strongly suggestive that PPH is aiming to reduce church churn and further advance its marketing campaign going forward. With nine new FTEs advertised for engineering and product we feel our previous increase in future CAPEX is justified.
- We also lift our marketing spending in FY22 by +10% given the slowdown in new church customers and the company goal of breaking into the Catholic market.

Figure 3. Changes to forecast FY21E–FY23E

(US\$'000)	FY21E			FY22E			FY23E		
	Old	New	chg	Old	New	chg	Old	New	chg
Revenue	201,522	201,522	0.0%	216,840	218,390	0.7%	233,899	236,980	1.3%
EBITDA	62,495	62,495	0.0%	65,825	65,662	-0.2%	66,064	67,592	2.3%
EBITDA margin %	31.0%	31.0%	0.0%	30.4%	30.1%	-0.3%	28.2%	28.5%	0.3%
NPAT	37,182	37,182	0.0%	43,383	43,264	-0.3%	44,712	45,828	2.5%
EPS (cent)	3.4	3.4	0.0%	3.9	3.9	-0.3%	4.0	4.1	2.5%

Source: Forsyth Barr analysis

Why we add Catholic revenue to our forecasts (US\$0.5m per diocese)

Industry feedback suggests the main opportunity within the Catholic church for PPH is centred around donor management for Catholic schools and Parishes. As a result, we believe there may be some take up from Catholic dioceses, although this is a small and diminishing market and highly reluctant to change from tradition.

The diocese of Worcester, Massachusetts: a case study of 97 parishes scaled up to form assumption of total Catholic income

We use the Diocese of Worcester Massachusetts to model total Catholic income, given the available disclosure of the diocese financial statements and 97 of its Parish financial statements. We note that Massachusetts is the fourth richest state in the US, which is likely to generate above average donations as a result. With no disclosure of channel split, we have not stripped out stocks, vehicles or property donations (all of which are not applicable for PPH) and as such the remaining relevant donation numbers are likely to be overstated. We make the following assumptions in our calculations:

- Catholic School fees could be paid through the PPH app and some parents would be willing to do so
- Foundational giving makes up at least 20% of total diocese income according to US Catholic church feedback
- Catholic digital penetration would be around 20% given the aged demographic and reluctance to adopt digital giving historically
- PPH would offer subscription based fees at a 40% discount to evangelical churches (parishes grouped under one diocese)
- Revenue generated per diocese falls by ~3% per annum due to sharply falling Catholic congregations, sustained and growing Parish and school closure (due to shortage of priests and nuns), decreasing donations and limited room for growth in digital adoption. We see reluctance to convert to digital giving as passing the collection plate physically is a key part of the traditional, liturgical action during regular Catholic mass services.

Figure 4. Total US Catholic hierarchy revenue model implies TAM of US\$100m once schools and parish donations added

	Diocese of (Worcester, MA)	Parish average	Total Catholic hierarchy (multiply by 16,900 parishes)
Processing revenue (US\$m)			
Total 97 parish income (includes Catholic schools)	41.5	0.4	7,224
- Of which bequests	(2.1)	(0.0)	(357)
- Of which merchandise, candles, flowers etc	(12.0)	(0.1)	(2,093)
Remaining Parish donations, fundraising, collections [A]	27.4	0.3	4,774
Total Diocese income	25.2	0.3	4,394
- Of which is from the parish	(1.2)	(0.0)	(212)
- Of which cemetery income & central administration fees	(8.1)	(0.1)	(1,417)
Of which from foundations (conservative 20%)	(5.0)	(0.1)	(879)
Remaining Diocese donations, fundraising, collections [B]	10.8	0.1	1,886
Total church donations, fundraising and collections [Parish plus diocese] [A+B=C]	38.2	0.4	6,659
Parental school fees all Catholic schools [see below fig.5 calculation] [D]			8,962
Combined church donations and school fees [C+D=E]			15,622
Digital adoption [F=Ex20%]	-	-	3,124
Digital adoption with PPH 2% fee [G=F*2%]	0.3	-	62
Subscription revenue (US\$)			
Giving platform subscription/church currently [H]		3,741	
40% Discount on bulk [I=Hx60%]		2,245	
Average revenue per diocese (86 Parishes/diocese av) US\$m [J=Ix86]	0.2		
Total revenue per diocese potential (US\$m) [G+J]	0.5		100

Source: Forsyth Barr analysis

Figure 5. Workings for Catholic school giving: of our assumed US\$15bn of total Catholic income, US\$9bn is from schools

	Fees (US\$)	Children	Total tuition fees (US\$m)
Elementary school	4,800	1,110,758	5,332
High school	12,000	489,242	5,871
Total	16,800	1,600,000	11,203
Parents fund (80%)			8,962
Parish/foundations funded (20%)			2,241
			11,203

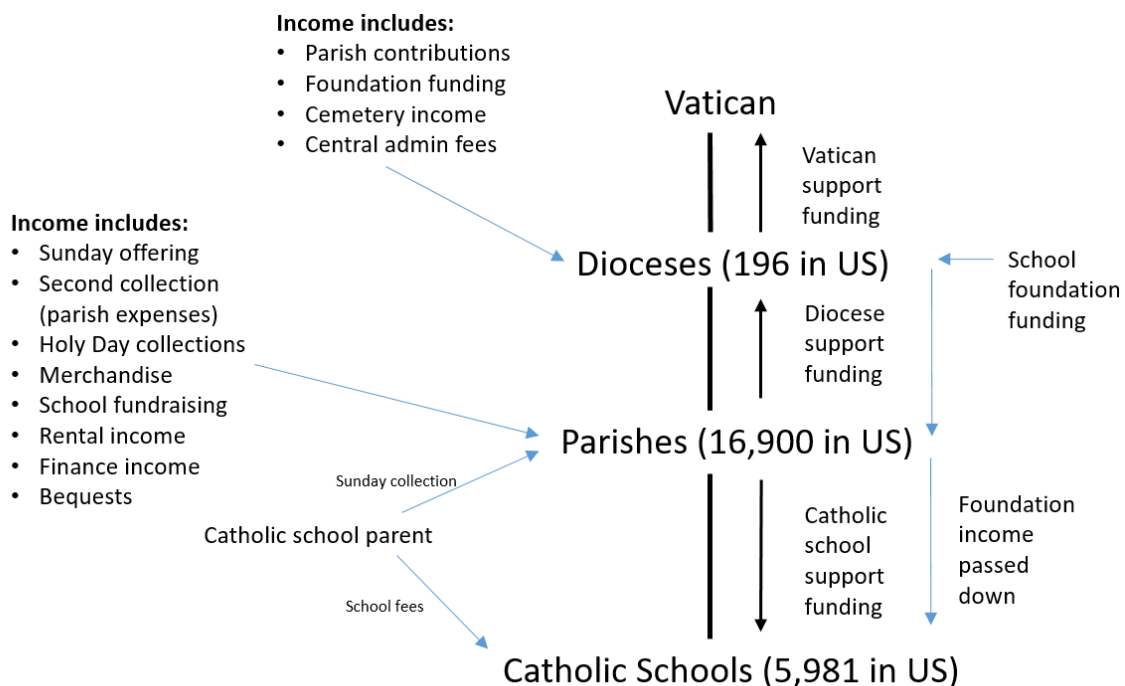
Source: Forsyth Barr analysis

Understanding Catholic finances

With a large number of varied income streams received across different levels of the Catholic structure, we provide our thoughts on where PPH could generate revenue from within the Catholic church on a realistic basis over the next five years. A large amount of donations to the Catholic church are 1) included as school fees for Catholic schools and 2) include other income such as investment, insurance, rental, bequests, cheques, stocks, vehicles, property, foundation giving or alumni, giving all of which is unrelated to PPH's current proposition. Much of the Catholic churches cash and cheque donations currently come from 'second collections' – a second or even third passing of the plate during the liturgical mass with much larger uptake on specific one-off Holy Days such as Easter and Christmas. Again, this is unsupportive of PPH's recurring giving proposition.

Funding distribution up the chain differs by diocese, state and country, in particular the amount passed from each diocese to the Vatican and from parish to diocese.

Figure 6. Income streams and funding structure for Catholic church



Source: Forsyth Barr analysis

A focus on Catholic schools & how they are funded

Unlike other countries around the world, Catholic schools in the US are not government funded, mainly to maintain independence from the government determined secular school curriculum. Funds for a child going to a Catholic school are generated mainly from parents (~80%) and by supporting donations from the parish or foundations. Each school is attached to a specific parish within a diocese and supporting donations go through the church before it reaches the school.

- In the first 100 years of US Catholic education nuns typically taught for no payment and were given a room and board in return. As a result schools could exist with very little tuition collected and would be supported by the parishes. Sunday collections essentially ran the church and the parish, with the only real school costs reflecting maintenance and stationary.
- In the 1950s all teaching staff were nuns, priests or brothers, living in a convent or monastery.
- From 1965 onwards when women's rights were drastically improved, with many US women choosing against becoming nuns, and since then the number of nuns in the US has declined by over 70%.
- Now less than 3% of teachers at Catholic schools are religious, with teachers now lay people demanding a salary in order to afford a home instead of living in a monastery.
- This led to tuition fees of which parents pay roughly 80% on average a child's education and the rest is funded through donations within the Catholic parish. Currently the priest still controls the school despite the fall in funding from the church.

Foundation funding takes away share of opportunity for PPH

Many schools generate additional funds from alumni, third parties or foundations. Big Shoulders is an example of a Boston foundation that has given significant funding to schools in the area. The Big Shoulders website already provides the ability to provide funding on a recurring basis via Click and Pledge. As a result, we do not see this area of funding as an immediate opportunity for PPH.

How many Catholic schools are there?

There are currently 5,981 Catholic schools in the US. Each school must be attached to a Catholic parish and in order for a school to be classed as Catholic, the local Bishop or Cardinal has to agree that the school meets the Catholic criteria, with a school unable to have mass unless classed as Catholic. Of the 196 dioceses, 160 contain schools, with the number of schools per diocese ranging enormously. The Boston diocese has 112 schools, the Archdiocese of Los Angeles has 230 schools, and 36 dioceses have no schools.

There were more children being home-schooled (pre COVID-19) than currently attending Catholic schools

US Catholic school enrollment numbers have declined steadily since the 1960s. In 1965 there were 5.5 million children attending Catholic schools, today there are less than 1.6 million children. In comparison there were 2.5 million children home-schooled in the US in 2019. Tuition costs for an elementary school average US\$4,800/year and for a high school US\$12,000/year.

As a result of lower enrollment the number of Catholic schools has also declined historically. In 2020 230 Catholic schools closed. We estimates the closure rate has been ~3% on average per annum historically. Parishes are closing due to lack of priests, while schools are closing due to lack of enrollment as parents move to more secular private schools. We note a large number of Catholic schools have been closed, sold and turned into apartment buildings to offset the lack of financial income.

Technology opportunity but limited

There are some children who attend both the school and parish and subsequently there are some (limited) parents who pay both tuition fees and donations to the parish. In general, the majority of parents sending their children to Catholic schools are not religious but send their children to Catholic schools as they are considered to be good quality education, private schools.

For those parents that do pay into both school and church we see a narrow window of opportunity for a software application to provide reconciliation between what is given to church and what is given to school so that both parent, school and church are able to see what has been paid all in one place. With both a strong, sustained decline in church numbers and number of Catholic schools, combined with an aging Catholic church population, we see the opportunity as currently small and diminishing.

Who's doing it already?

There are currently two providers in the fundraising/school donor management space, Blackbaud (philanthropy focus) and FACTS tuition management (school donor management focus). FACTS is owned by Nelnet, the student loan service provider. Both companies are relatively basic in their offering but firmly established (FACTS serves 11,500 US schools and services over US\$9bn of payments). The opportunity for PPH would be to manage both philanthropy and tuition all in one place, although we are unconvinced as to the long term commercial opportunity in this space. For reference FACTS charges a subscription fee of US\$45 each year per family.

The Catholic church has struggled for income during COVID-19

Unlike the Evangelical church, the Catholic church in general did not have the same level of online church offering during COVID-19. This lack of communication and engagement with congregation members has resulted in 1) fears that after a year of no church many parisheners will not be coming back to church, and 2) donations in 2020 suffered considerably. The Washington Post reported that the Archdiocese of Washington saw a 30% decline in giving during lockdown and is still 10% down since churches re-opened. This was partially offset by some increase in Catholic Charity giving, although we do not expect this to remain elevated. The executive director of the Diocesan Fiscal Management conference, Patrick Markey, stated that a 20% reduction in income in 2021 would be a good result for the Catholic church.

We expect uptake of digital giving with the Catholic church to be low, given the traditions of passing the plate. Physical collection has always been part of the Catholic mass. The Epiphany of the Lord Catholic Church, Oklahoma for example states on its website:

'The passing of the offering baskets at Mass is a liturgical action. While it is a way of collecting the funds we need to operate, it also represents our growth in Christ and the offering sacrifice of praise that is part of every Mass. At Mass, we are becoming the self-giving love of Christ, and one way to show that is with the offering.'

Megachurches churches now saturated and churning

Since PPH's 1H21 result we have become increasingly suspicious that the largest US Evangelical churches (megachurches) have become saturated. Our analysis of the top 100 churches confirms this view, with an additional two churches within the top 100 leaving PPH since November 2020, and no wins. With no other visibility on total church numbers for the FY21 result, we expect churches on the donor management platform (generating processing revenue) to be between 8,500 and 8,700 (we forecast 8,680).

Top 100 US church providers re-run since November shows more churn

Between July 2020 and November 2020 our study of the top 100 US Evangelical churches saw PPH's share fall from 58 to 54. Our latest analysis shows PPH's share fall further to 52.

Figure 7. Number of PPH churches per category

	Jul-20	Nov-20	Apr-21
Top 50	31	30	28
Top 100	58	54	52

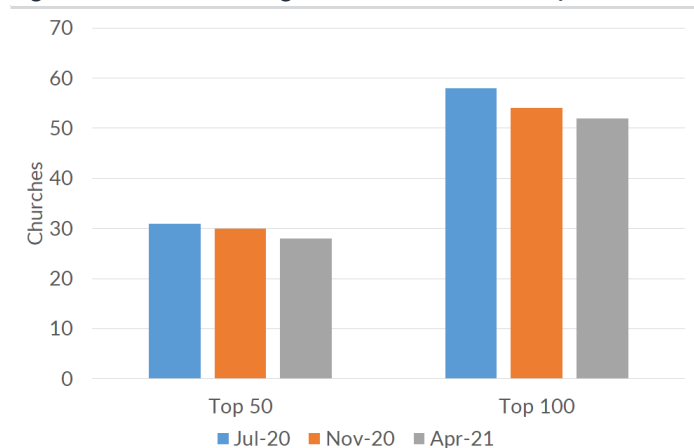
Source: Forsyth Barr analysis, church websites

Figure 8. PPH historic subscription price rises

	FY17	FY18	FY19	FY20
PPH average monthly subscription fees (US\$)	133	226	290	312

Source: Forsyth Barr analysis, PPH

Figure 9. PPH share of largest US churches since July 2020



Source: Forsyth Barr analysis, church websites

Product gap closing and fee gap widening, driving shift towards lower cost players

As first mover in the space, PPH committed a high degree of marketing expenditure in the past five years (over US\$33m since FY16), and as a result has effectively educated the church market on giving technology. However, this has also benefitted other competitors which have undercut PPH on subscription fees over the past year – taking advantage of lower head count, marketing spend and R&D expenses. We note Tithe.ly, for example, offers a full suite of products for US\$99 a month, while PPH's average monthly subscription fee is US\$312 a month, which has steadily increased from US\$133 a month in FY17.

Although this annual difference of US\$2,500 in fees is not material to the very largest churches, we note that Tithe.ly's product offering has also caught up with PPH's considerably over the last year with now very little difference between the two products (church feedback suggests that PPH is likely to be the strongest still in the data analytics category). We do, however, expect to see the gap continue to close going forward.

We also note that there are competitors offering decreased processing fees, with one of the top 100 churches leaving PPH in March 2021 stating to us: 'We are now transitioning to a new payment platform called MyWell. Processing fees will decrease by about 1/2 which will be a good stewardship move and MyWell has partnered with Rock RMS which is our new membership/finance database'.

Competitors growing at 12,000 churches in same period PPH grew 300 (donors can now donate Bitcoin via Tithe.ly)

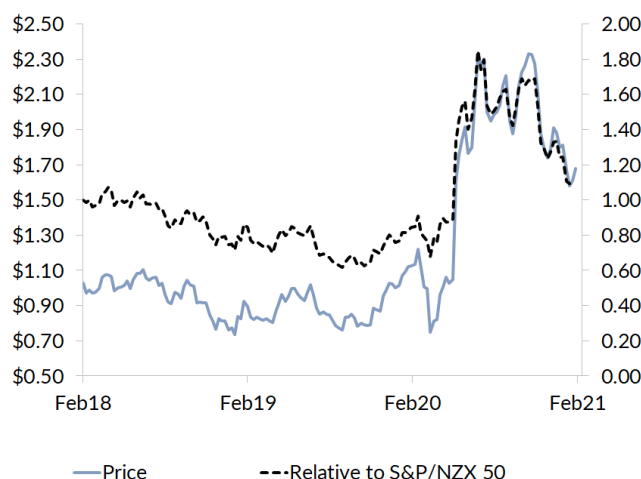
Both Tithe.ly and Givelify among others have seen phenomenal growth during COVID-19 due to 1) very low fees, 2) an off the shelf product which churches can quickly onboard, 3) a full suite of products (app, donor management, giving, messaging, websites), and 4) no long term contract (PPH ties customers into three year contracts). We believe Tithe.ly added over 12,000 churches during lockdown including small and very large churches. At Tithe.ly's recent product launch it was clear the company is intent on innovating: including adding the ability to pay donations in Bitcoin (which translate into a monetary donation for the receiving church). We also note that PPH does not yet have a direct function to build websites, while Tithe.ly's product launch demonstrated its ability to build solid websites, including live streaming pages and Youtube integration – both areas which are in high demand for churches currently operating online.

Appendix: Diocese of Worcester, MA – total parish income

Figure 10. Total income for the parishes within the diocese of Worcester, MA includes: cash, cheques, stocks, property, vehicles, foundations, bequests, merchandise, investments, Holy Day second collections, parish repairs, rental income and school donations

Annunciation Parish, Gardner	2,160,299	St. Columba Parish, Paxton	219,848
Blessed Sacrament Parish, Worcester	350,603	St. Denis Parish, Ashburnham	206,030
Cathedral of St. Paul, Worcester	633,010	St. Denis Parish, Douglas	322,080
Christ the King Parish, Worcester	565,626	St. Edward the Confessor Parish, Westminster	251,619
Good Shepherd Parish, Linwood	242,461	St. Francis of Assisi Parish, Athol	812,026
Holy Cross Parish, East Templeton	166,941	St. Francis of Assisi Parish, Fitchburg	327,681
Holy Family of Nazareth Parish, Leominster	489,502	St. Francis of Assisi Parish, South Barre	212,189
Holy Family Parish, Worcester	492,578	St. Gabriel the Archangel Parish, Upton	686,938
Holy Trinity Parish, Bolton/Harvard	595,390	St. George Parish, Worcester	567,527
Immaculate Conception Parish, Lancaster	208,308	St. James Parish, South Grafton	303,991
Immaculate Conception Parish, Worcester	550,434	St. Joan of Arc Parish, Worcester	271,974
Immaculate Heart of Mary Parish, Winchendon	234,012	St. John Parish, Worcester	1,060,248
Mary, Queen of the Rosary Parish, Spencer	359,151	St. John Paul II Parish, Southbridge	898,576
North American Martyrs Parish, Auburn	306,472	St. John the Baptist, East Brookfield	156,130
Our Lady Immaculate Parish, Athol	375,554	St. John, Guardian of Our Lady Parish, Clinton	883,125
Our Lady of Czestochowa Parish, Worcester	490,452	St. Joseph & St. Pius X Parish, Leicester	343,540
Our Lady of Good Counsel Parish, West Boylston	354,240	St. Joseph Basilica, Webster	384,275
Our Lady of Mt. Carmel and Our Lady of Loreto Parish, Worcester	432,590	St. Joseph Parish, Charlton City	880,369
Our Lady of Lourdes Parish, Worcester	225,922	St. Joseph Parish, Auburn	434,639
Our Lady of Providence Parish, Worcester	281,821	St. Joseph Parish, North Brookfield	215,401
Our Lady of the Angels Parish, Worcester	491,781	St. Joseph Parish, Fitchburg	291,188
Our Lady of the Assumption Parish, Millbury	146,097	St. Joseph the Good Provider Parish, Berlin	143,022
Our Lady of the Lake Parish, Leominster	668,727	St. Leo Parish, Leominster	644,158
Our Lady of the Rosary Parish, Worcester	285,322	St. Louis Parish, Webster	476,937
Our Lady of the Sacred Heart Parish, West Brookfield	189,728	St. Luke the Evangelist Parish, Westborough	942,709
Our Lady of Vilna Parish, Worcester	92,689	St. Mark Parish, Sutton	478,055
Prince of Peace Parish, Princeton	226,156	St. Martin Mission, Templeton	57,934
Sacred Heart - St. Catherine of Sweden Parish, Worcester	302,482	St. Mary of the Assumption Parish, Milford	803,889
Sacred Heart of Jesus Parish, Hopedale	326,353	St. Mary of the Hills Parish, Boylston	338,641
Sacred Heart of Jesus Parish, Webster	323,844	St. Mary Parish, Jefferson	650,996
Sacred Heart of Jesus Parish, Milford	658,012	St. Mary Parish, Shrewsbury	1,095,700
St. Aloysius Parish, Gilbertville	99,529	St. Mary Parish, North Grafton	575,506
St. Aloysius-St. Jude Parish, Leicester	196,853	St. Mary Parish, Uxbridge	527,115
St. Andrew Bobola Parish, Dudley	489,502	St. Matthew Parish, Southborough	731,735
St. Ann Parish, North Oxford	207,641	St. Patrick Parish, Whitinsville	515,584
St. Anna Parish, Leominster	327,681	St. Patrick Parish, Rutland	325,673
St. Anne Parish, Shrewsbury	536,737	St. Paul Parish, Blackstone	326,639
St. Anne Parish, Southborough	422,244	St. Peter Parish, Petersham	46,230
St. Anne-St. Patrick Parish, Fiskdale	577,455	St. Peter Parish, Northbridge	300,317
St. Anthony of Padua Parish, Dudley	262,318	St. Peter Parish, Worcester	507,761
St. Anthony of Padua Parish, Fitchburg	364,600	St. Andrew the Apostle Mission, Worcester	110,167
St. Augustine Mission, Wheelwright	36,958	St. Philip, Grafton	224,101
St. Augustine Parish, Millville	189,315	St. Richard of Chichester Parish, Sterling	573,736
St. Bernadette Parish, Northborough	381,818	St. Roch Parish, Oxford	406,390
St. Bernard Parish, Fitchburg	370,366	St. Rose of Lima Parish, Northborough	777,707
St. Boniface Parish, Lunenburg	461,091	St. Stephen Parish, Worcester	311,186
St. Brigid Parish, Millbury	442,328	St. Theresa Parish, Blackstone	180,180
St. Cecilia Parish, Leominster	621,943	St. Vincent de Paul Parish, Baldwinville	173,378
St. Christopher Parish, Worcester	271,807	Total	41,461,583

Source: Forsyth Barr analysis

Figure 11. Price performance


Source: Forsyth Barr analysis

Figure 12. Substantial shareholders

Shareholder	Latest Holding
Sixth Street Advisers	17.8%
Mawer Investment Mgmt	6.0%
Harbour Asset Management & Jarden Securities Limited	5.1%

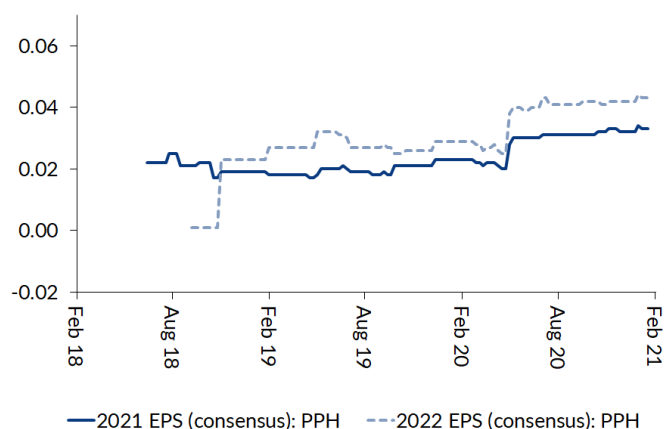
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 13. International valuation comparisons

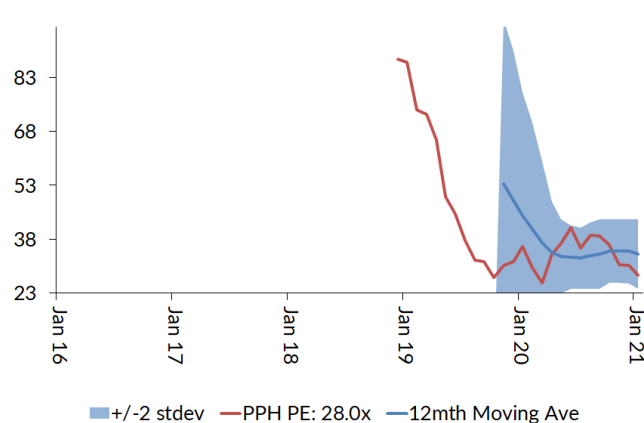
Company	Code	Price	Mkt Cap (m)	PE 2021E	PE 2022E	EV/EBITDA 2021E	EV/EBITDA 2022E	EV/EBIT 2021E	EV/EBIT 2022E	Cash Yld 2022E
(metrics re-weighted to reflect PPH's balance date - March)										
Pushpay Holdings	PPH NZ	NZ\$2.07	NZ\$2,286	39.3x	32.4x	24.3x	22.2x	27.2x	24.4x	0.0%
ADOBE INC	ADBE US	US\$500.52	US\$239,246	44.6x	40.4x	41.5x	29.6x	49.2x	33.2x	0.0%
ATLASSIAN CORP PLC-CLASS A	TEAM US	US\$223.59	US\$55,911	>75x	>50x	>75x	>75x	>75x	>75x	0.0%
J2 GLOBAL INC	JCOM US	US\$123.21	US\$5,563	31.9x	13.1x	11.4x	10.4x	19.1x	13.1x	0.0%
PAYCOM SOFTWARE INC	PAYC US	US\$376.34	US\$22,650	>75x	>50x	>75x	53.7x	>75x	n/a	n/a
PAYLOCITY HOLDING CORP	PCTY US	US\$187.90	US\$10,217	>75x	>50x	71.7x	54.0x	>75x	n/a	0.0%
PAYPAL HOLDINGS INC	PYPL US	US\$263.24	US\$308,300	69.6x	54.8x	59.7x	39.5x	>75x	44.5x	0.0%
REALPAGE INC	RP US	US\$87.87	US\$8,971	>75x	n/a	34.7x	n/a	n/a	n/a	n/a
RINGCENTRAL INC-CLASS A	RNG US	US\$314.26	US\$28,438	<0x	>50x	<0x	>75x	<0x	n/a	n/a
VEEVA SYSTEMS INC-CLASS A	VEEV US	US\$263.85	US\$40,164	>75x	>50x	>75x	54.7x	>75x	56.8x	0.0%
WORKDAY INC-CLASS A	WDAY US	US\$254.92	US\$61,946	<0x	>50x	>75x	49.7x	<0x	68.6x	n/a
ZOOM VIDEO COMMUNICATIONS-A	ZM US	US\$329.92	US\$96,902	>75x	>50x	>75x	>75x	>75x	>75x	0.0%
Compco Average:				48.7x	36.1x	43.8x	41.7x	34.1x	43.2x	0.0%
PPH Relative:				-19%	-10%	-45%	-47%	-20%	-44%	-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 14. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 15. One year forward PE (x)


Source: Forsyth Barr analysis

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