

Pushpay Holdings Ltd

Mass Exodus Diminishing Catholic Opportunity

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NEUTRAL 

Following a recent period of slowing net customer growth, Pushpay (PPH) faces critical juncture and has indicated that its near-term focus has shifted towards the Catholic church market. However, we conclude that any Catholic opportunity would be slow to take off and the commercial opportunity limited due to 1) the substantially smaller size of the Catholic addressable market, 2) structural constraints that would force PPH to rely on generating subscription revenue over processing revenue, 3) incompatibility between PPH's current product and the Catholic church's greatest need to stem the flow of parishioners leaving the church, 4) the Catholic church's historic adoption rate of new technology, and 5) PPH's present price proposition, which the Catholic church would likely find unattractive. Despite penetrating the largest US Evangelical megachurches and boasting a high quality product, we remain cautious regarding PPH's front book growth, rate of churn and unexciting Catholic prospects. We retain our NEUTRAL rating.

NZX Code	PPH	Financials: Mar/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$1.64	NPAT* (NZ\$m)	26.9	58.1	67.8	69.9	PE	16.8	31.2	26.7	26.0
Target price	NZ\$1.75	EPS* (NZc)	9.8	5.3	6.1	6.3	EV/EBIT	54.9	21.2	19.3	19.1
Risk rating	High	EPS growth* (%)	-3.1	-46.1	16.6	2.9	EV/EBITDA	43.7	18.9	17.5	17.4
Issued shares	1104.1m	DPS (NZc)	0.0	0.0	0.0	0.0	Price / NTA	n/a	n/a	18.5	10.6
Market cap	NZ\$1,811m	Imputation (%)	0	0	0	0	Cash div yld (%)	0.0	0.0	0.0	0.0
Avg daily turnover	3,034k (NZ\$5,284k)	*Based on normalised profits					Gross div yld (%)	0.0	0.0	0.0	0.0

Whats changed

- **Earnings:** FY21 EBITDA increased to US\$62.5m from US\$60.6m (+3.1%)
- **Target price:** Reduced to NZ\$1.75 (-12.5%) driven by increased capex and a slower FY22 revenue growth rate of 8.6% (from 10%)

Parish Soft acquisition the likely route to attaining overnight Catholic market share

If PPH was to actively pursue opportunities within the Catholic market, we would view Catholic software provider Parish Soft as a potential acquisition target. Owned by Ministry brands, Parish Soft provides a database and record keeping to over 9,000 Catholic parishes and 185 dioceses in North America. We estimate an acquisition of Parish Soft would cost PPH up to US\$40m, but would be the next logical step in gaining exposure to the Catholic church before internally cross-selling PPH's own developed Catholic product. Any transaction would be highly contingent on Ministry Brands (currently for sale itself) allowing a spin off sale.

Catholic Total Addressable Market (TAM) of ~US\$45m driven mainly by subscription fees

We estimate the US Catholic TAM to be ~US\$45m but falling annually given the structural decline in Catholic church attendance and donations. Of 20 sampled US dioceses, 15 experienced donation decrease from 2018 to 2019. Although highly unlikely at this stage, we estimate winning the whole US Catholic church (196 dioceses overseeing 16,900 parishes) would generate ~US\$15m additional EBITDA for PPH under its current product offering, while a single diocese is likely to generate just ~US\$80k ceteris paribus.

Soft front book lowering market expectations

PPH's penetration of the top 100 US megachurches has been a historic sign of success, but also a crimp on future growth. As PPH's FY21 base increases, the growth rate for FY22 also unsurprisingly declines. The recent fall in stock performance reflects softening growth expectations for the company; however in the longer term, PPH remains well positioned to move into new verticals while possessing the resources and capabilities to consolidate its position in the US Evangelical market through inorganic growth.

Pushpay Holdings (PPH)

Priced as at 26 Jan 2021 (NZ\$) **1.64**

12-month target price (NZ\$)*	1.75
Expected share price return	6.7%
Net dividend yield	0.0%
Estimated 12-month return	6.7%

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

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	1,316

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

Valuation Ratios	2019A	2020A	2021E	2022E	2023E
EV/EBITDA (x)	>100x	43.7	18.9	17.5	17.4
EV/EBIT (x)	n/a	54.8	21.2	19.3	19.1
PE (x)	16.3	16.8	31.2	26.7	26.0
Price/NTA (x)	7.2	n/a	68.0	18.5	10.6
Free cash flow yield (%)	-0.2	2.2	5.4	4.4	4.5
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

Why the Catholic church opportunity is limited for PPH

The Catholic market opportunity is likely to be a tangential business for PPH, contributing only marginally to revenues and profitability due to four main reasons:

- **#1 We calculate the US Catholic TAM to be significantly smaller in comparison to PPH's existing TAM:** We estimate the US Catholic TAM to be ~US\$45m in comparison to our estimate of the Protestant TAM of US\$2.8bn. With lower levels of donations and high levels of specific content, we suspect PPH would generate more revenue from subscription fees than processing fees.
- **#2 US Catholic attendance is in structural decline:** Since 1948 Catholic attendance in the US has fallen consistently, as has the number of Catholic priests. We expect average weekly Catholic attendance to continue falling, with COVID-19 accelerating the trend given the inability of many Catholic churches to provide online alternatives during lockdown.
- **#3 Catholic giving is significantly behind Evangelical and other protestant denominations:** Studies show that just 15% of Catholics tithe compared to 44% of Evangelical Protestants. Survey results also suggest that the majority of Catholics are opposed to online giving with tradition and denominational differences driving the contrast degree of giving.
- **#4 A Catholic specific product would need to focus on Catholic-specific engagement rather than fundraising:** To be marketable to the Catholic church, any solution would need to be simple, off the shelf and easy to implement. Additionally, it would require Catholic features and need to provide a solution to the Catholic church's greatest need: to stem the flow of parishioners leaving the church. There are also significant language differences between denominations that would need to be addressed.

Changes to forecasts

We increase our forecast digital penetration for FY21 by 2.5% to 67.5% (compared to the 1H21 result of ~65%) reflecting our understanding of the timing of physical church closures in the US. We expect the majority of US churches to be predominantly operating online for the entirety of 2H21, with minimal physical re-opening diluting digital donations (unlike 1H21). We note a large number of US churches remained opened for the first two months of PPH's fiscal year (March to May) as churches were deemed essential activities by Donald Trump. It wasn't until the U.S Supreme Court on 29 May 2020, ruled in favour of restricting religious services and gatherings that all churches were forced to shut and operate digitally (impacting the digital penetration of donors). We also note a number of US citizens inertia to the status quo in the first few months of COVID-19, reducing the percentage of digital donations in 1H21.

Additionally, anecdotal feedback from a number of pastors has suggested that older demographics have taken to digital giving better than expected in recent months, with the example of many older people already paying utility bills online. Although we do not expect to see a large reversion in digital penetration for FY22, we flatten our expectations given the unknown timing of churches fully re-opening and the impact on donations. We also slow our digital growth rate for FY23. Given conversations that suggest congregations have not been materially affected economically by COVID-19 and with the Biden government also likely to provide greater support for lower income families (and donors) we marginally increase our average giving per person in FY22.

This takes our FY21 EBITDA to US\$62.5m and FY22 revenue growth rate to 8.6%. In light of PPH commentary around the Catholic church and product development, we also increase our capex forecasts going forward.

Figure 1. Changes to forecasts FY21E–FY23E

(US\$'000)	FY21E			FY22E			FY23E		
	Old	New	chg	Old	New	chg	Old	New	chg
Revenue	198,005	201,522	1.8%	215,824	216,840	0.5%	237,675	233,899	-1.6%
EBITDA	60,614	62,495	3.1%	65,268	65,825	0.9%	68,176	66,064	-3.1%
EBITDA margin %	30.6%	31.0%	0.4%	30.2%	30.4%	0.1%	28.7%	28.2%	-0.4%
NPAT	35,836	37,182	3.8%	43,000	43,383	0.9%	46,290	44,712	-3.4%
EPS (cent)	3.2	3.4	3.8%	3.9	3.9	0.9%	4.2	4.0	-3.4%

Source: Forsyth Barr analysis

Front book – no changes to forecasts

For its 1H21 result, PPH reported net additions for small churches (0–199 people) of +296 and for its medium and large churches (200+ people) +13 net additions. This has clearly slowed from previous halves (fig.3) and our forecast 2H21 net additions of +154 and +37 respectively remain unchanged. With very little visibility beyond FY21 we assume 325 net new small churches for FY22 and 250 for FY23, and 50 net additions for medium and large churches in both FY22 and FY23.

Valuation

We continue to value PPH using a blended DCF and EV/forward sales approach. Our DCF valuation decreases marginally in light of increased capex expectations, while our EV/Sales valuation multiple decreases to 6.1x given the decline in our FY22 revenue growth forecast from 10.0% to 8.6%. With the stock currently trading on an EV/sales multiple of 6.5x by our numbers this implies the market is pricing in growth of ~9.0%, against our forecast of 8.6%.

Figure 2. Blended DCF and multiple valuation approach (NZ\$)

	Valuation	Rolled forward	Dividends	Target price
DCF 50%	1.66			
EV/Sales US and Australia tech 50%	1.57			
Blended Average	1.62	1.75	0.00	1.75

Source: Forsyth Barr analysis

Upgrades in guidance offset by reduced growth expectations

We believe the market is predominantly rewarding PPH for its FY22 revenue growth rate by its EV/forward sales multiple. With FY21 consensus numbers increasing during FY21, driven by upgrades to company guidance, the growth rate for FY22 has slowed with the stock performance reflective of this. We demonstrate the highly sensitive valuation output from changes in FY22 revenue growth to implied multiples (fig. 5), with a 6% revenue growth rate implying a valuation of NZ\$0.90, yet 10% growth implies a valuation of NZ\$2.10.

Figure 3. Sensitivity to FY22 growth on valuation output

FY22 revenue growth rate	Implied EV/sales multiple	Implied valuation NZ\$	Rolled forward cost of equity (NZ\$)
6%	3.1	0.8	0.9
7%	4.3	1.1	1.2
8%	5.4	1.4	1.5
9%	6.6	1.7	1.8
10%	7.7	1.9	2.1

Source: Forsyth Barr analysis

Why we have lost confidence that PPH can achieve greater than 10% FY22 organic growth

We have very little (if any) visibility over both PPH's front book and rate of churn. Given the disappointing 1H21 net customer additions, growth in competitors (which we have seen continue in recent months), rising FY21 forecasts and unexciting Catholic church prospects, we would be surprised if PPH was able to deliver greater than 10% FY22 revenue growth on a purely organic basis. In our view, this is suggestive that PPH would look to increase its revenue growth via inorganic expansion.

Revenue sensitivity to potential Catholic contracts

At this stage we have no Catholic revenue uplift in our forecasts. We believe it premature to factor in any Catholic contracts due to 1) the uncertain success of any contract wins, 2) an unknown quantity of parishes added to the platform, 3) the timing of any contract win, and 4) the product offering that the Catholic church would be paying for. We provide a sensitivity to the FY22 growth rate by contracts won, with Catholic dioceses assumptions covered off on page 10 of this report. A contract won of 430 parishes (5 Dioceses) on our assumptions would provide revenue uplift of ~US\$1.1m in FY22 but would increase the FY22 revenue growth rate by just 0.6%.

Figure 4. Sensitivity to PPH's FY22 revenue growth by the number of Catholic Dioceses won in FY22

Dioceses	Parishes	FY21 Revenue (US\$m)	Catholic Revenue (US\$m)	New FY22 Revenue (US\$m)	Growth rate
0	-	200	-	217	8.6%
1	86	200	0.2	217	8.7%
5	430	200	1.1	218	9.2%
10	860	200	2.2	219	9.7%
15	1,290	200	3.3	220	10.3%
20	1,720	200	4.5	221	10.8%
25	2,150	200	5.6	222	11.4%

Source: Forsyth Barr analysis

#1 US Catholic TAM ~US\$45m and falling...

There are 196 Catholic dioceses in the US and 16,900 parishes, giving an average of 86 parishes per diocese. Of our sampled 20 dioceses taken, average giving income per diocese in 2019 was ~US\$4m.

This generates an assumed total giving estimate of ~US\$725m across the Catholic church in the US. In comparison our total giving estimate of the US Protestant church is ~US\$140bn. Taking into account the likely post COVID-19 scenario, we assume a generous digital penetration of 40%, taking total volume to US\$291m. and applying a 2% processing fee gives a processing TAM of ~US\$6m.

Currently the average protestant church is charged US\$3,741 for the PPH giving platform and we apply a 40% discount given the number of parishes by which a diocese would add to the platform. As a result, this takes the subscription by parish to US\$2,245 and with 16,900 parishes creates a total subscription TAM of ~US\$45m.

Figure 5. US Catholic TAM Calculation

TAM calculation for US Catholic church	
Average giving income/diocese (US\$m)	3.7
Number of dioceses US	196
Estimated total giving (US\$m)	725.2
Digital penetration assumption	40%
Total volume (US\$m)	290.1
PPH fees	2%
Total Revenue (US\$m)	5.8
Giving platform subscription/church currently (US\$)	3,741
Discount subscription on bulk	40%
Assumed subscription/parish	2,245
Subscription opportunity (US\$m)	37.9
Total TAM (US\$m)	43.7

Source: Forsyth Barr analysis, diocese websites

Figure 6. Sample Diocese P&L (Diocese of San Francisco)

Income Statement 2019	US\$m
Giving revenue	9.3
Fees for services	5.2
Investment income	8.8
Insurance income	37.8
Rental income	2.4
Other income	3.2
Total revenue	66.7
Salaries	11.2
Professional fees	2.7
Depreciation	2.9
Other	40.0
Total expenses	56.8
Net income	9.9

Source: Forsyth Barr analysis, diocese website

Giving revenue makes up a small proportion of diocese total revenue typically

Typically giving revenue only makes up a small proportion of total income for Catholic dioceses (fig.13 for example shows the income statement for the Diocese of San Francisco, where 14% of revenue is generated from donations). However, we believe at this stage the remaining revenue streams are unattainable for PPH's current product proposition.

Sensitivity: ~US\$15m EBITDA uplift if win whole US Catholic church

We believe the two largest unknown variables to PPH winning a Catholic diocese would be 1) the discount applied to subscription fees and 2) the additional acquisition costs and costs of customer servicing. As a result we provide a sensitivity to additional EBITDA generated through the addition of one or all (196) US Catholic dioceses added to the PPH processing platform.

PPH provides little visibility on individual church acquisition costs (CAC) and as a result we use a variable EBITDA margin as an alternate method. Our base case assumes a subscription fee discount of 40% and EBITDA margin of 35% (our forecast PPH EBITDA margin for FY21 is 31%). Our gross margin assumption of 65% also remains unchanged.

Figure 7. EBITDA Sensitivity to one diocese contract win (US\$)

		EBITDA margin				
		25%	30%	35%	40%	45%
	-20%	71,949	86,339	100,729	115,119	129,509
Sub	-30%	63,885	76,662	89,439	102,216	114,993
Fee	-40%	55,821	66,985	78,149	89,314	100,478
Discount	-50%	47,757	57,308	66,860	76,411	85,962
	-60%	39,693	47,631	55,570	63,508	71,447

Source: Forsyth Barr analysis

Figure 8. EBITDA impact: all US dioceses contract win (US\$m)

		EBITDA margin				
		25%	30%	35%	40%	45%
	-20%	14.1	16.9	19.7	22.6	25.4
Sub	-30%	12.5	15.0	17.5	20.0	22.5
Fee	-40%	10.9	13.1	15.3	17.5	19.7
Discount	-50%	9.4	11.2	13.1	15.0	16.8
	-60%	7.8	9.3	10.9	12.4	14.0

Source: Forsyth Barr analysis

Declining giving revenue set to continue

It is commonly known that the Catholic church is experiencing a decline in aggregate giving income. From 2018 to 2019 our sample of 20 dioceses shows an average decline of giving revenue of -4%. Of the 20 sampled, 15 dioceses reported a decline in donations, with four showing an increase and one flat.

Figure 9. 2019 giving revenue per diocese sample of 20

Dioceses	Giving income 2019 (US\$)
Archdioceses of San Francisco	9,290,022
Archdiocese of Mobile	5,084,120
Archbishop of Anchorage-Juneau	2,017,788
Archdiocese of Hartford	1,245,164
Diocese of Orlando	2,251,849
Diocese of Honolulu	866,827
Diocese of Boise	4,399,938
Diocese of Joliet	12,451,232
Diocese of Dodge City	1,724,609
Diocese of Houma-Thibodaux	2,236,063
Diocese of Fall River	7,550,452
Diocese of Gaylord	780,371
Archdiocese of Saint Paul and Minneapolis	11,983,565
Diocese of Grand Island	652,667
Diocese of Buffalo	134,714
Diocese of Charlotte	6,136,888
Archdiocese of Cincinnati	4,498,532
Diocese of Knoxville	508,990
Diocese of Amarillo	61,027
Diocese of Burlington	486,563
Average	3,718,069

Source: Forsyth Barr analysis, diocese website

Figure 10. Decline in average giving/diocese

Dioceses	% change on 2018
Archdioceses of San Francisco	-1%
Archdiocese of Mobile	-3%
Archbishop of Anchorage-Juneau	-3%
Archdiocese of Hartford	-16%
Diocese of Orlando	-10%
Diocese of Honolulu	-8%
Diocese of Boise	3%
Diocese of Joliet	-5%
Diocese of Dodge City	0%
Diocese of Houma-Thibodaux	-6%
Diocese of Fall River	37%
Diocese of Gaylord	29%
Archdiocese of Saint Paul and Minneapolis	-7%
Diocese of Grand Island	-19%
Diocese of Buffalo	-49%
Diocese of Charlotte	96%
Archdiocese of Cincinnati	-3%
Diocese of Knoxville	-29%
Diocese of Amarillo	-49%
Diocese of Burlington	-26%
Average	-4%

Source: Forsyth Barr analysis, diocese website

Catholic processing fees clearly unattractive

With Catholic donors significantly lower in number and size than the Evangelical church, we do not see Catholic processing volume fees as an attractive opportunity for PPH. Instead of steady growth as experienced in Evangelical churches, we would expect total processing volumes to continue decreasing each year.

We also suspect that should PPH be successful in providing its services to a Catholic diocese, the digital penetration would be significantly lower than nondenominational and pentecostal churches due to 1) older average demographics in the Catholic church, 2) more formalised service structure driving digital and 3) less community based fellowship with a stronger emphasis on tradition.

Opportunity for PPH would likely be the subscription fee with bespoke Catholic functionality

For the subscription revenue, we assume that Church Community Builder (CCB) product in its current form would also be a poor fit for Catholic church given the differing service structure. We believe PPH would have to develop a Catholic-specific product, able to meet Catholic needs, with the majority of fees coming via subscription rather than processing fees.

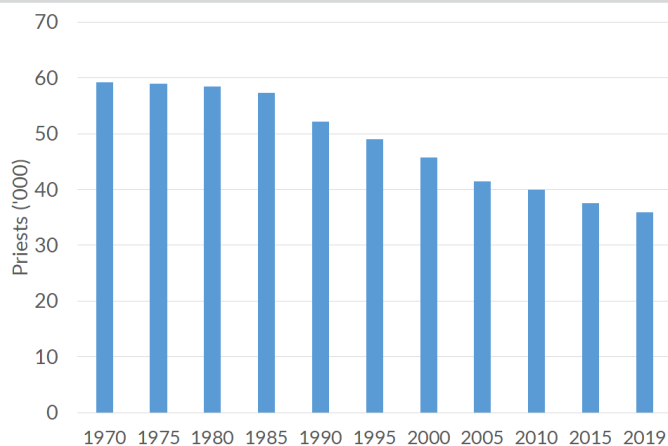
#2 US Catholic attendance: a prolonged period of structural decline

Catholic church attendance has been in steady structural decline since the Second World War, despite the number of Catholics in the US rising between 1970 and 2005. Since 2010 the total number of Catholics in the US has fallen. We expect both the number of Catholics and average weekly Catholic attendance to continue falling, with COVID-19 accelerating this trend due to inability of many Catholic churches to remain open during lockdown and lack of online alternatives.

Mass Exodus of US Catholics

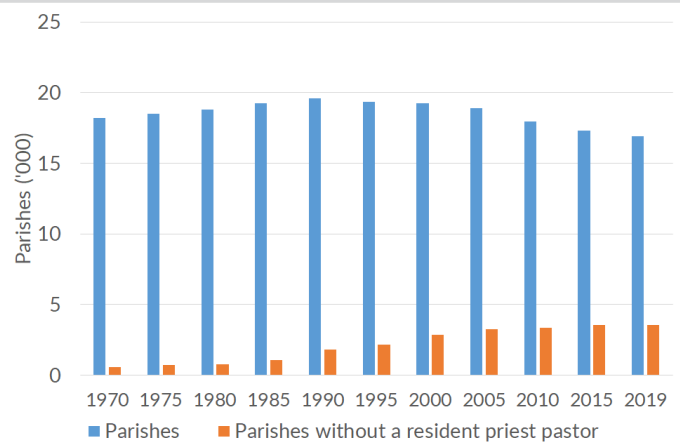
Since 1970 the Catholic church has seen a significant and consistent fall in the number of priests and parishes across the US, in part due to the rise of secularism, diverging societal principals and growing attractiveness of non-denominational and less traditional churches reducing demand. As a result, the aggregate US Catholic population has fallen in recent years, with the increase in those turning away from the Catholic faith more than offsetting 1) in-bound foreign born adult Catholics, and 2) adult converts to Catholicism. Both the Official Catholic Directory and a survey run by the Center for Applied Research in the Apostolate report that Catholics as a percentage of the US population is now falling consistently.

Figure 11. Total US Catholic priests 1970–2019



Source: Forsyth Barr analysis, Center for Applied Research in the Apostolate

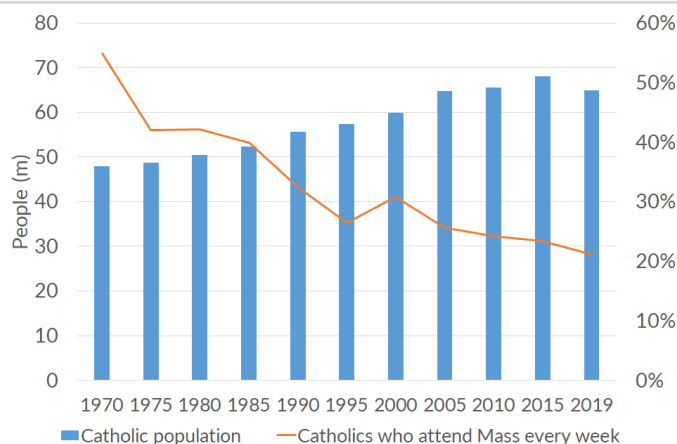
Figure 12. Total US Catholic Parishes 1970–2019



Source: Forsyth Barr analysis, Center for Applied Research in the Apostolate

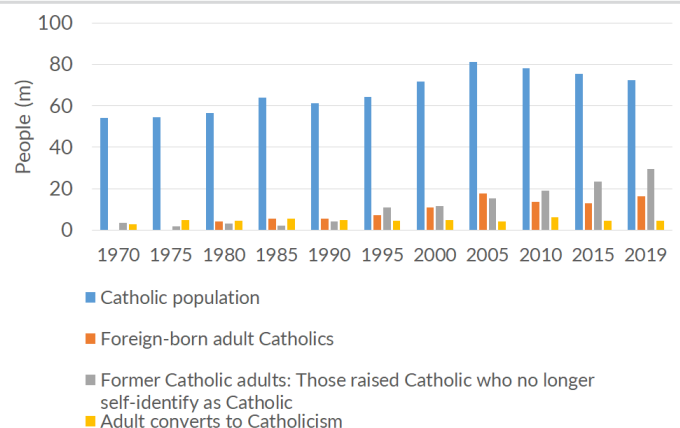
Although the number of parishes and priests have fallen consistently over time, the estimated number of Catholics in the US reached a peak between 2005 and 2010 primarily due to the number of Hispanics moving to the US before 2005. Despite a rise in the Catholic population, weekly attendance has fallen significantly from over 50% in 1970 to less than 20% in 2019.

Figure 13. US Catholic population/mass attendance 1970–2019



Source: Forsyth Barr analysis, Center for Applied Research in the Apostolate

Figure 14. Survey US Catholic population 1970–2019



Source: Forsyth Barr analysis, Center for Applied Research in the Apostolate

#3 US Catholic giving well behind Evangelical and other Protestants

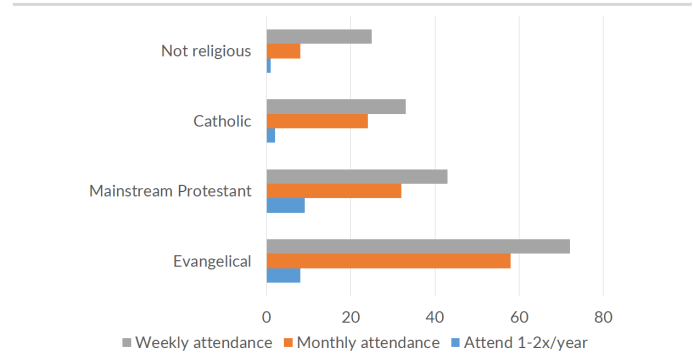
The percentage of donors and number of actual donors tithing in the Catholic church is considerably lower than other denominations. The University of Notre Dame released a 2012 survey showing that just 15% of Catholics tithe as opposed to 44% of Evangelical church goers.

Figure 15. Percentage of attendees that tithe by denomination

Denomination	Percentage of people that tithe
Mormon	75%
Evangelical Protestant	44%
Black Protestant	35%
Mainline Protestant	19%
Jewish	18%
Catholic	15%
Other religion	14%
Not Religious	3%

Source: Forsyth Barr analysis, University of Notre Dame

Figure 16. Survey: weekly attendance by denomination %



Source: Forsyth Barr analysis, University of Notre Dame

Survey shows Catholics opposed to online giving

In 2013 Committee on National Collections (CNC) ran a survey of self-identified Catholics to find hurdles and opportunities regarding online giving across the Catholic church. We note these findings were pre COVID-19 but post COVID-19 we would still expect to see a high degree of inertia to the status quo. The most relevant findings were:

- **Catholics don't donate very much:** About a third of working-age Catholics give US\$100 or less to their parish per year (34%). Another third give US\$101 to US\$500 (33%) per year, and another third give US\$501 or more (33%). **Those ages 16 to 34 are most likely to say they give US\$100 per year or less (42%).** Older respondents, those ages 35 to 64 are most likely to give US\$501 or more per year (38%).
- **Catholics have shown little interest in giving digitally:** 4% indicated that they have given to a Catholic organization online at some point. **Only 10% of working-age Catholics say that they would most prefer to give to a Catholic organization online** over other methods. **48% would prefer giving in person and 33% a donation through the mail.**

Findings from the University of Notre Dame survey

The University of Notre Dame ran a similar survey 'Unleashing Catholic Generosity' to determine why Catholic giving was lower than other denominations. The main reasons were as follows:

- "American Catholics tend to compartmentalize: they tend to separate money from matters of faith and to think that money and material possessions have little to do with spiritual or religious issues".
- "Unfortunately, Catholic parishioners, compared with members of other American faiths, currently report a lack of communication regarding the mission and vision of their parish".
- "In comparison to other faith communities, Catholics also report lower levels of involvement in and 'ownership' of their parishes. These all currently serve to reduce Catholic generosity".
- "Social scientists have found Catholics to be less generous in religious and philanthropic financial giving than adherents of other faiths for decades (Greeley and McManus, 1987; Zech, 2000; Smith, Emerson, and Snell, 2008)".
- "Culture is especially important in understanding variations in generosity, and, therefore, in explaining limited Catholic giving. By culture we mean the assumptions, beliefs, and meanings that people develop in and absorb from their social surroundings that motivate and guide behavior. Viewing material possessions and monetary wealth as not actually belonging to the individual but to God is associated with more generous giving".
- "According to Church law, Catholics are not required to measure out a tenth of everything they earn to give to the Church or other charitable organizations. Instead, Catholics are called to recognize everything they are and have as gifts from God and are challenged to give cheerfully and generously".

#4 A Catholic specific product would need to focus on engagement rather than fundraising

Any provision of services to the Catholic church would require PPH to expand its offering and develop a Catholic-specific product. The solution would have to be very niche and focus on engagement rather than fundraising as PPH's current product does not lend itself to organisations focussed on and prioritising increased attendance. We also suspect PPH would earn more fees from subscription revenue than processing revenue given low donation levels and assumed digital penetration. We suspect that modifications to the current product would take at least six months to roll out fully.

Catholic specific features would require significant resource and investment allocation

Given that many of the Catholic parishes across the US are small and consist of 100 people or less, any form of product provided by PPH would need to be simple, off the shelf and easy to implement. The Catholic church in general has been a slower adopter of technology historically than other denominations. This is driven in part by a high degree of inertia, the difference partly explained by millennial vs elderly based congregational age differences. As a result we make a number of assumptions of what a Catholic app would need to be marketable:

- Include Catholic specific features: such as Catholic principals, digital Rosary Beads (prayer counting).
- Catholics' greatest challenge is to address the rising decline in attendance and any technology would need to focus on engagement rather than giving and donations in order to bolster attendance rates.
- There are very few children and kids ministries within the Catholic church compared to Non-denominational churches. Church Community Builder's focus on events and children would be largely irrelevant for the Catholic church.

A fast entry into the Catholic market? Acquire potential target Parish Soft...

One option for PPH would be to buy the Catholic accounting specialist Parish Soft. Parish soft is owned by Ministry brands and provides accounting solutions to over 9,000 Catholic Parishes in North America and 185 dioceses. It stores parishioner information, financial data, charitable giving and record keeping amongst other features. With over 10,000 churches and an average monthly fee of US\$69, we estimate revenue to be around US\$8.2m, which, when an EV/Sales of 5x is applied, would cost around US\$41m. The table below gives insight into a number of other current Catholic apps.

Figure 17. Current Catholic apps in the market

App	Description
The Catholic Novena app	Helps users pray novenas (Catholic tradition of repeatedly praying for successive days or weeks).
Laudate	Offers daily readings, the Liturgy of the Hours, prayers and links to the Catechism and other Church documents.
MyParish App	Premium Catholic parish app that helps improve parish communication and outreach.
FORMED	Similar to a Catholic Netflix, FORMED offers studies, vidoes, audio recordings and ebooks.
Click to Pray	Connects users with other Catholics worldwide, inviting users to pray for others on the platform or ask for prayer themselves.
Hallow: Prayer and Meditation	Prayer and meditation app that provides suggested bible readings and audio-guided prayers.
Shalom World App	Catholic based family entertainment streaming app, broadcasting live channels and on-demand videos.
One Minute Pause	Encourages users to pause for a minute throughout the day to reflect on God.
Magnificat	Gives users access to daily readings, various articles, Hymns for the Month and Lectio Divina.
Breadbox Media	Catholic-based podcast network platform.
Daily Readings	Mobile guide for the Catholic Mass readings.
iBreviary	Portable breviary that can be used to pray the full texts of the Liturgy of the Hours.
National Catholic Register	Catholic journalism app that gives users access to the latest news, blogs and commentary.
RosaryPlusRD	Displays all the prayers users need to pray the Catholic rosary.
Universalis	Provides the Liturgical Calendar, daily catholic readings and mass readings, along with other resources and readings.
Reimagining the Examen	Modernised examen based on St. Ignatius's short prayer that is used to reflect on what God has done in our daily lives.
Pray as You Go	Provides 15 minute daily devotionals to help guide people in prayer.
Relevant Radio	Catholic podcasting app that includes all shows produced by Relevant Radio, as well as audio prayers, and a Confession helper.
Mass Times for Travel	Helps users find a Mass nearby, wherever you are in the world.
Comprehensive Catholic Hymnal	Hymnal app that contains hymns and melodies from Catholic hymn books worldwide.

Source: Forsyth Barr analysis

Appendix: Denominational differences

The major differences between the Catholic and Evangelical denominations are as follows:

- **Theology:** Whilst the Catholic bible differs only slightly from the Protestant bible (the addition of 7 books: Tobit, Judith, 1 Maccabees, 2 Maccabees, Wisdom of Solomon, Ecclesiasticus and Baruch plus additions to Esther and Daniel in the Catholic version), Catholic theology differs considerably. Differences include views on purgatory, divinity of Mary, a requirement to confess to priests who act as intercessors, Papal supremacy (the pope has full, supreme and universal power over the whole Church unhindered), Papal infallibility, salvation is not gained from faith alone (but works and faith) and transubstantiation (Catholic idea that during Mass, the bread and wine used for Communion become the body and blood of Jesus Christ).
- **Where donations go:** On speaking to a number of Catholic dioceses, a portion of donations go straight to the pope. This is known in some churches as Peter's Pence (where 2.5% of all donations go to the Vatican for administrative expenses). As a result donation proceeds are more centralised, providing less incentive for donors to give, knowing a proportion is not spent on local community based projects (unlike the Evangelical model).
- **Decision making process:** Decisions in the Catholic church are made by bishops within each diocese and on specific occasions decisions are passed up to the Archbishop. Decisions in Evangelical churches are made by the pastors of individual churches.
- **Tradition/service structure:** Services are based around tradition in the Catholic church, with very little ad lib content. Evangelical services are more informal and based on community values.
- **Current challenges and goals:** The Catholic church's biggest challenge is falling attendance and as a result the focus is on engagement. Typically an Evangelical church's greatest challenge is to fundraise for additional campuses or outreach projects.

Figure 18. Typical Catholic church

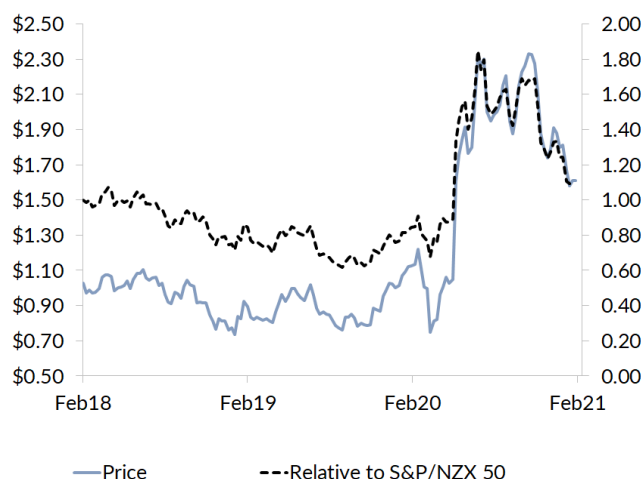


Source: Forsyth Barr analysis, church website

Figure 19. Typical Evangelical church



Source: Forsyth Barr analysis, church website

Figure 20. Price performance


Source: Forsyth Barr analysis

Figure 21. Substantial shareholders

Shareholder	Latest Holding
Christopher & Banks V Limited	15.7%

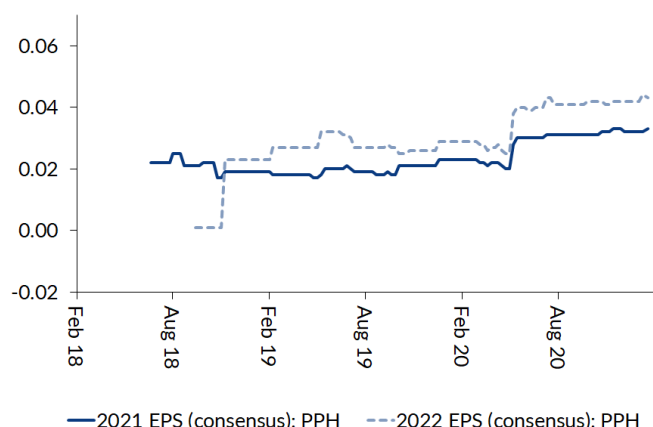
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 22. International valuation comparisons

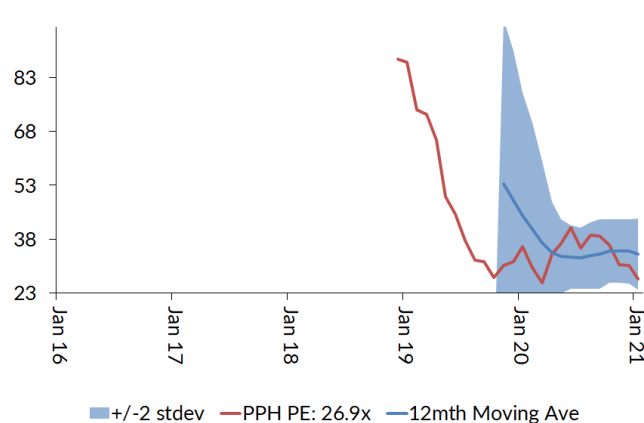
Company	Code	Price	Mkt Cap (m)	PE 2021E	PE 2022E	EV/EBITDA 2021E	EV/EBITDA 2022E	EV/EBIT 2021E	EV/EBIT 2022E	Cash Yld 2022E
(metrics re-weighted to reflect PPH's balance date - March)										
Pushpay Holdings	PPH NZ	NZ\$1.64	NZ\$1,811	31.2x	26.7x	19.4x	18.4x	21.8x	20.3x	0.0%
ADOBE INC	ADBE US	US\$472.07	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%
PPH Relative:				-6%	-11%	-57%	-54%	-54%	-57%	-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 23. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 24. One year forward PE (x)


Source: Forsyth Barr analysis

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