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Openpay

COMPANY SNAPSHOT

Reuters/Bloomberg:	OPY.AX / OPY AU
Market cap:	US\$223.1 A\$313.2
Current price:	A\$3.85
Average daily turnover:	US\$3.96m A\$5.69m
Current shares o/s	107.9m
Free float:	64.8%

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Buy now, pay later

- Openpay (OPY) is a payments technology company based in Melbourne, Australia. It partners with merchants to offer customers an omni-channel buy-now, pay-later option at checkout whilst remaining interest-free. The platform essentially facilitates seamless, secure and rapid payment between the two transacting parties.
- As at the recent 4Q20 update, OPY had ~2.2k active merchants (+52% on pcp), ~319k active customers (+140% on pcp) and total transaction value (TTV) for the full year of ~A\$193m (+98% on pcp).

Company profile

The OPY payment platform is an omni-channel buy-now, pay-later (BNPL) instalment solution for consumers in Australia, New Zealand and the UK. Established in 2013 as an in-store layby solution, OPY's offering was soon broadened and officially launched as a BNPL platform to a range of merchants. The platform facilitates seamless, secure and rapid payments between the merchant and customer, allowing the customer to split the purchase into equal instalments over the life of the plan.

Recent growth trends and market opportunity

OPY has shown solid recent growth across all its key metrics:

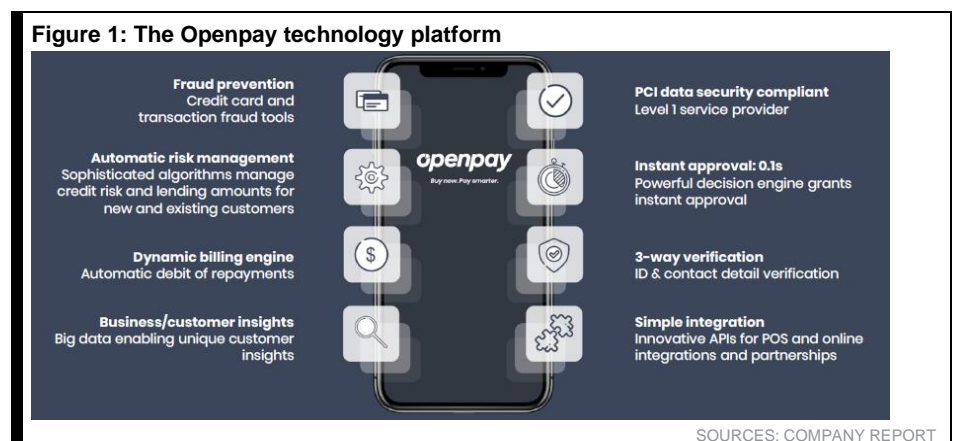
- Active plans at 4Q20 exceeded 824k (+229% on pcp), with growth in plans seen across its key verticals, e.g. Healthcare (+127% on pcp), Retail (+168%) and Automotive (+92%). Traction in the UK was also evident with active UK plans increasing to 187k (vs 92k at 3Q20).
- TTV in the 4Q grew to ~A\$63m (+119% on pcp) driven by marketing initiatives (e.g. 'OpenMay') and the UK ramping up.
- Active customers now total ~319k (+140% on pcp) with active merchants on platform growing 52% on pcp to ~2.2k.

OPY operates predominantly in the retail eCommerce space focusing on its key verticals of healthcare, retail, automotive and home improvement. It subsequently has a large and growing addressable market with eCommerce and BNPL payments becoming a larger component of overall retail sales. Recent industry reports have found online retail sales now account for ~9% (~A\$29bn in FY19) of total retail sales in Australia with BNPL having an ~8% share of FY19 online payments (vs global adoption forecasts of ~3% by 2023).

How it differs from peers

Focused on an older, financially savvy consumer cohort (average age 39 years), OPY aims to differentiate itself from other BNPL providers by targeting higher value ticket items across its key verticals, with plans up to A\$20k and plan durations up to 24 months (with no interest charged). For merchants, these comparatively larger plan sizes and longer terms raise the ability for them to increase average transaction values and lower cart abandonment rates.

Figure 1: The Openpay technology platform



SOURCES: COMPANY REPORT

Openpay

Background

Company overview

Openpay (OPY) commenced operations in 2013, having been originally established to offer an in-store digital layby solution. Initially launched for a select group of merchants across Australia and New Zealand, operations were soon commercialised for a wider range of merchants and officially launched as Openpay in 2016. The company's BNPL platform is predominantly offered across four key sectors, being: Consumer retail; Automotive; Healthcare and Home Improvement. Currently, OPY operates across Australia, New Zealand and more recently the UK. OPY targets a more established/financially savvy customer cohort, with the average customer age of 39 years and average transaction value across key verticals of ~A\$316 (at 1H20).

The OPY platform allows consumers to pay for purchases (between \$50-\$20,000 in value - predominantly ANZ) on an instalment basis, with plans ranging between 2 and 24 months. The launch of Openpay in the UK (June 2019) has seen recent traction, with plans typically in the 2-3 month range (up to ~£1200). From a merchant perspective, the benefits derived from offering OPY as a payment option at checkout are: increased order size; reduced cart abandonment rates and ease of integration.

Figure 2: Consumer and Merchant benefits

Consumer Benefits	Merchant Benefits
Transparent, Interest-free instalment plan.	Potential for increased average order value.
Cashflow management.	Ability to offer an alternative payment option in line with customer demand.
Budgeting tool.	Increased insight into customer behaviour and improved data.
Funding flexibility (minimising credit card usage).	No non-payment risk to merchants as OPY pays the merchant upfront.
Omni-channel offering.	Potential for lower cart abandonment rates due to the seamless checkout experience.

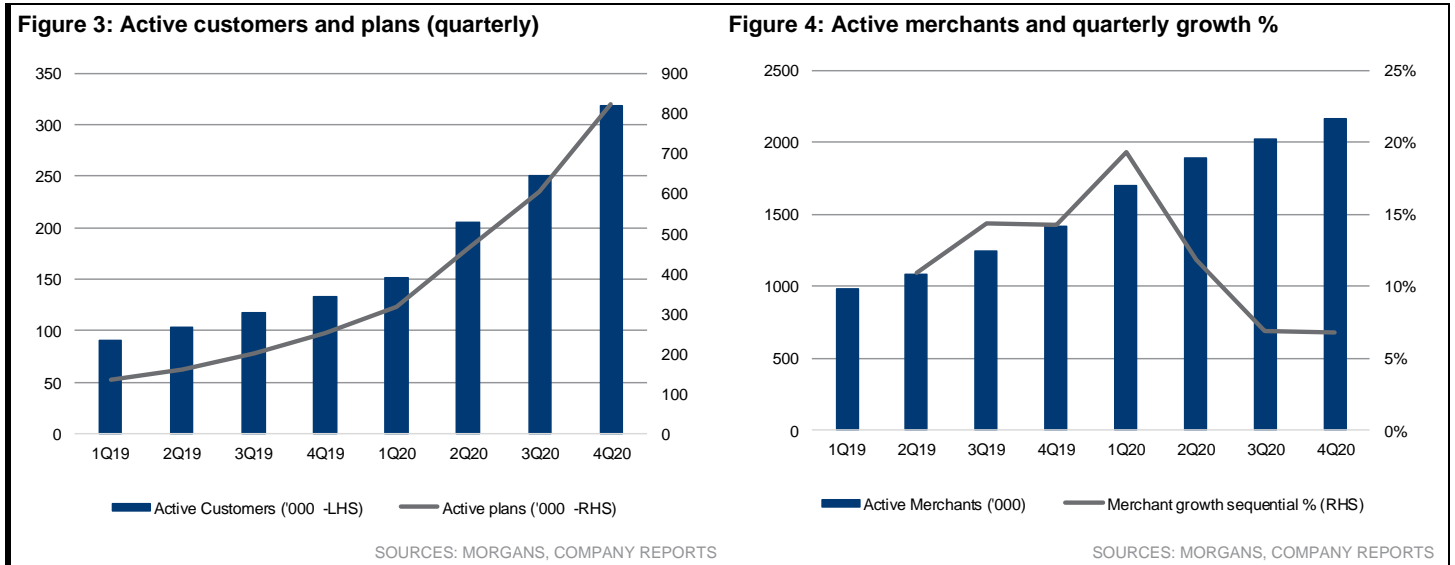
SOURCES: MORGANS, COMPANY REPORTS

Complementary to the BNPL platform, OPY has also launched a B2B offering called "Openpay for Business", a Software as a Service (SaaS) portal. The portal allows companies to manage trade accounts in one system (end-to-end), including applications, credit checks etc. Post its 1H20 result, OPY signed Woolworths Ltd. as its first B2B customer.

Growth outlook

OPY has shown solid/consistent growth across all key business metrics, including: active customer growth, active plans, active merchants, merchant fees and transaction volume. We note the following:

- Active customers on the platform at 4Q20 totalled ~319k which were up 140% on pcp and 28% sequentially.
- Active plans have seen robust growth, with ~824k plans as at 4Q20, up 230% on pcp and 37% sequentially.
- Active merchants on the platform at 4Q20 now total ~2.2k, up 52% on pcp and 7% sequentially. Examples of key merchants on the platform include Bunnings in Australia and JD sports in the UK.



Figures 5 and 6 show OPY's FY19 total transaction value (TTV) split across key verticals as well as the revenue split between merchant and customer fees. We note Retail accounted for ~50% of TTV in FY19 and there was broadly an equal split (52% merchant vs 48% customer) of revenue earned between customer and merchant fees.

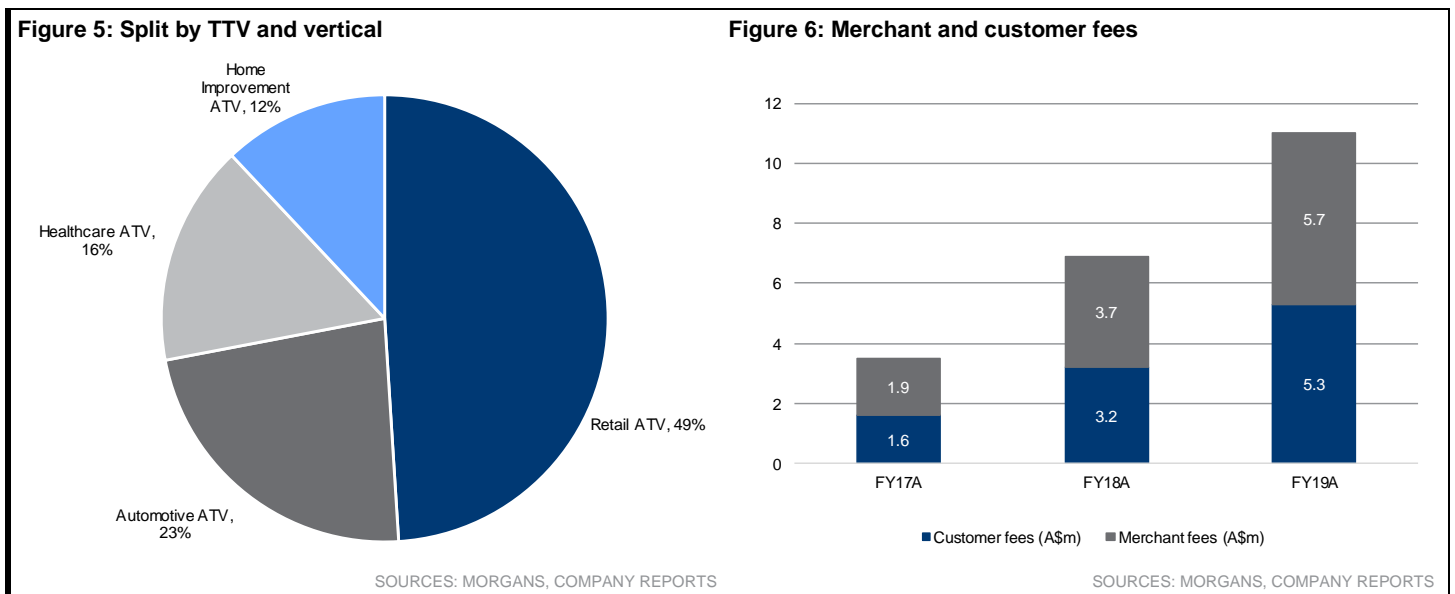
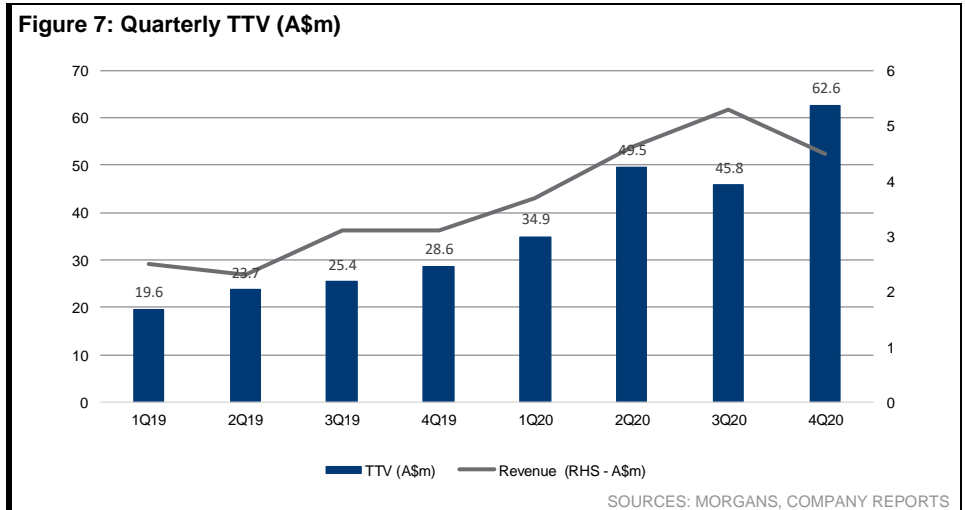


Figure 7 highlights the quarterly TTV and revenue growth on the platform. TTV reached ~A\$63m in 4Q20 (+~120% on pcp and +37% sequentially) whilst revenue generated in 4Q20 was A\$4.5m (+45% on pcp but down 15% on the previous quarter, partially due to A\$0.6m in deferred revenue - AASB9 impacts in UK).



Industry overview

Industry size

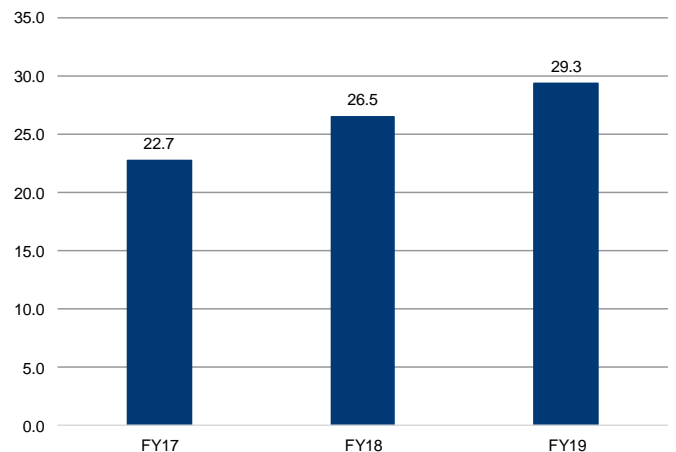
Openpay operates predominantly in Australia and New Zealand and has recently launched in the UK. Figure 8 below shows the FY19 total retail turnover in Australia and its subcategories. FY19 total turnover was ~A\$330bn. Turnover, ex-food/dining was ~A\$148bn which could be the potential addressable market for OPY in Australia. The growing trend in consumer adoption of online channels has continued, with over A\$29bn in retail sales occurring online in FY19 (~9% on total retail sales).

Figure 8: FY19 retail turnover by industry

Category	A\$m	% of market
Food retailing (eg supermarket, liquor)	135,236	41%
Household goods	55,281	17%
Clothing, footwear and personal accessory	26,010	8%
Department stores	18,833	6%
Other (e.g. books, sporting, pharma.)	47,401	14%
Café's, restaurants, takeaway	46,801	14%
Total	329,563	100%
Addressable - ex food	147,526	45%

SOURCES: MORGANS, ABS 8501.0

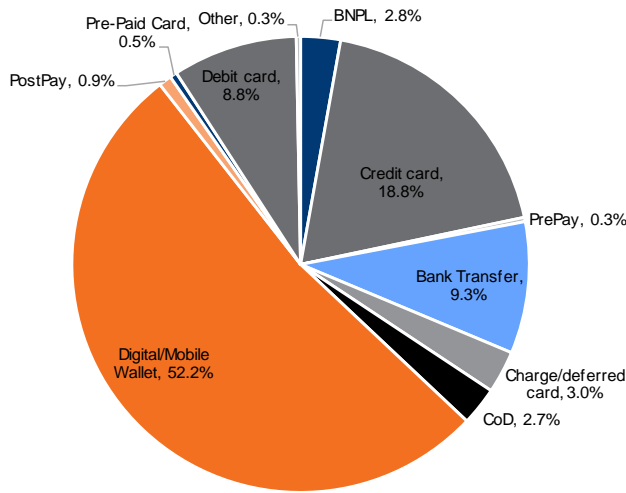
Figure 9: Australian online retail sales (A\$b)



SOURCES: MORGANS, NAB ONLINE RETAIL SALES 2017-2019

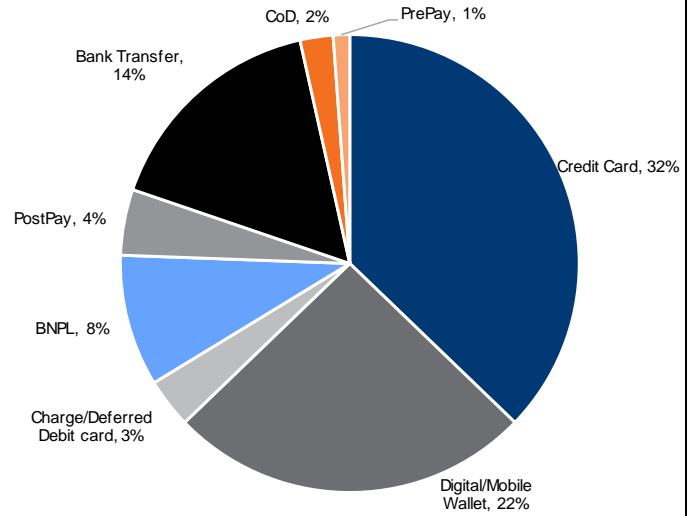
BNPL operators, like OPY, as well as new digital payment platforms also appear set to benefit from the seismic shift occurring in the way retail consumers purchase goods and services. Whilst cash currently remains the leading payment method in-store at point-of-sale (POS), the use and demand for alternative payment methods is rising to meet 'millennial' and 'Gen Z' demand for both expediency and frictionless transactions. In the 'Global retail e-commerce sales' report by Statista, it is estimated that eCommerce will surpass US\$6.5trn in transaction volume globally by 2023. Figure 10 shows Worldpay's estimate of payment methods online by 2023 while Figure 11 highlights the acceleration of BNPL within Australia - accounting for ~8% of online payments (FIS Worldpay Global Payments Report 2019). The comparison of the two charts highlights the rapid early adoption within Australia of the BNPL option with the ~8% penetration in 2019 compared to the global forecast of ~3% adoption by 2023.

Figure 10: Global eComm payment methods 2023 estimate



SOURCES: MORGANS, WORLDPAY GLOBAL PAYMENTS REPORT 2019

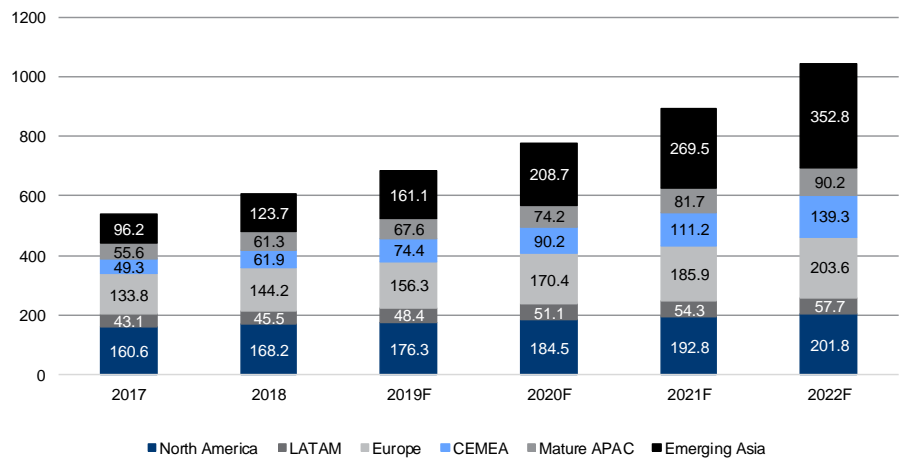
Figure 11: 2019 eComm mix by payment method (Australia)



SOURCES: MORGANS, FIS WORLDPAY GLOBAL PAYMENTS REPORT 2019

Figure 12 shows the forecast number of non-cash transactions (NCT) by region over 2019-2022F. The World Payments Report (Capgemini 2019) forecast NCTs will increase by a 14% CAGR over that period led by emerging Asian markets (estimated CAGR of 30% from 2017-2022F). In line with Australia's early adoption of BNPL, the report also found that Australia ranks third globally in per-inhabitant NCTs (behind Norway and South Korea), due to the proliferation of tap-and-go-payments and the expansion of the New Payments Platform (NPP).

Figure 12: Number (bn) of NCTs globally



SOURCES: MORGANS, WORLD PAYMENTS REPORT 2019 (CAPEGEMINI)

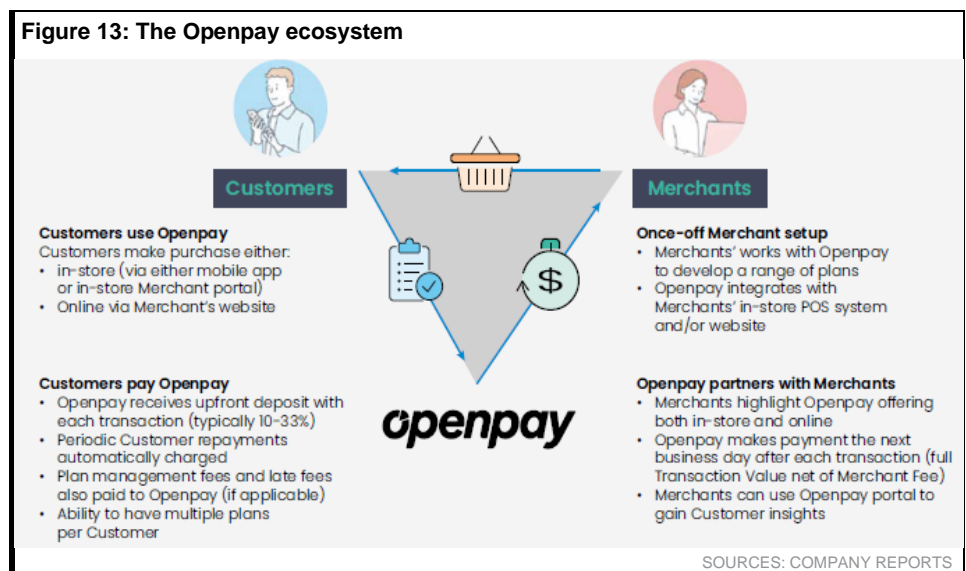
The OPY business model

How it works (and where it differs from peers)

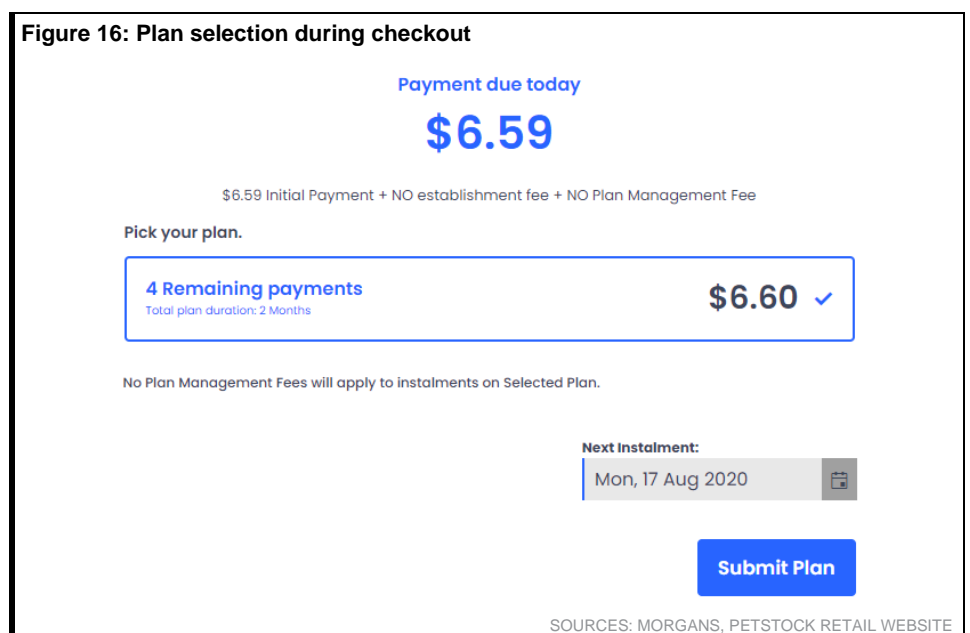
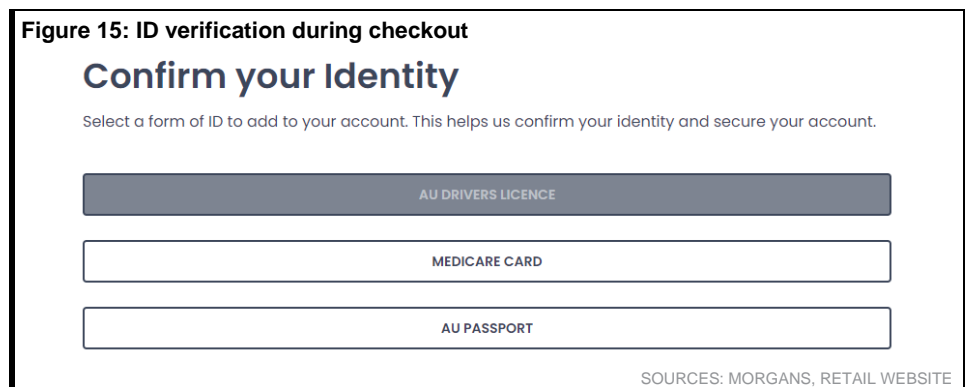
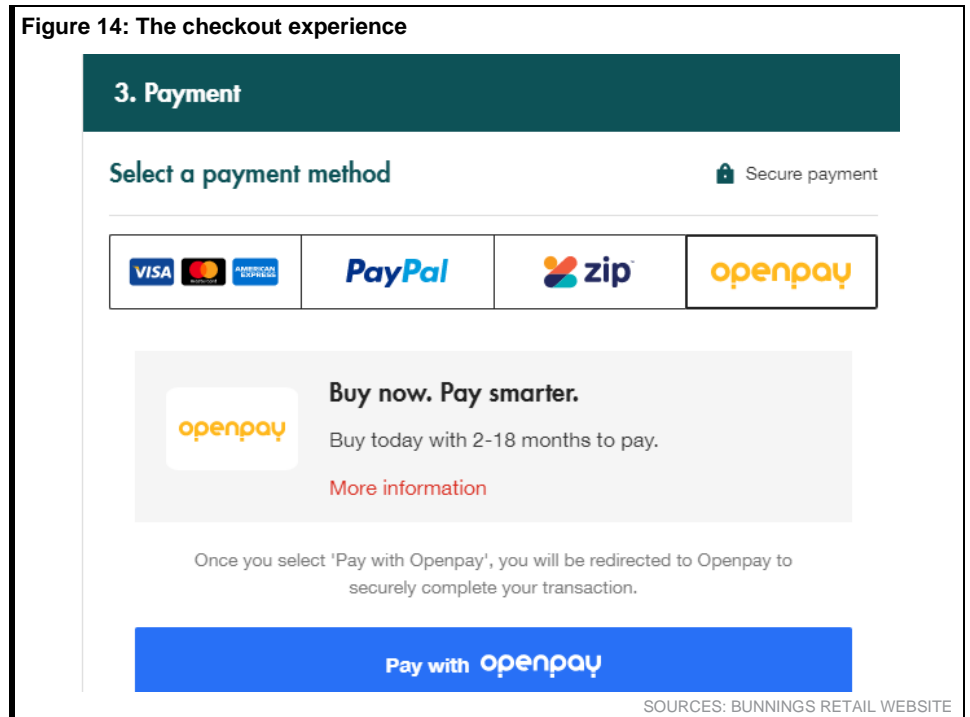
To use the platform, customers must first create an account with OPY (either online, in store or via the OPY mobile app).

An example of a typical customer journey is as follows:

1. A consumer will select to purchase a product online/in-store. Participating stores are found via the Openpay mobile app/website.
2. At the time of purchase, the merchant will provide OPY with the purchase details either direct via POS integration or the OPY web browser. Customers also have the option to scan a barcode/QR code with their mobile app at the merchant's checkout.
3. The customer will select the desired repayment plan (duration/frequency).
4. OPY's proprietary data analysis system will determine eligibility. If approved, the customer then confirms the payment plan and automatically makes the initial deposit (typically 10-33% of the transaction price).



The below diagrams document the OPY checkout experience:



OPY derives its revenue from both merchant and customer fees, which are generated on each discrete order by the end consumer (either online or in-store). These merchant fees are generally a percentage of order value (~4-5%). The primary model adopted on the platform is the funded model, which allows the merchant to get paid within 24 hours of a purchase, net of fees. From the customer's perspective, no interest is charged on any of OPY's current plans.

In Australia, on selected plans, OPY receives an ongoing plan management fee included with each instalment payment (ranging from A\$1-A\$5) as well as an initial plan establishment fee (for higher value plans) between A\$25-A\$99. A late fee of A\$9.50 is charged per overdue instalment. In the UK and New Zealand, OPY does not charge customers any fees for the provision of credit/payments (in line with regulations).

The funded model and the debt facilities used to offer it are outlined below:

- **Funded model:** The merchant receives the full purchase price within 24 hours, net of OPY fees (typically 4-5%) . OPY has debt facilities in place to help facilitate this model.
- **Debt facilities:** 1) The 'GCI facility' – Up to A\$40m receivables purchase facility (LVR up to 85%); 2) The '255 Finance' facility – A\$25m revolving warehouse facility (LVR up to 75%). 3) 'Global Growth Capital' facility – a £25m UK debt facility. 4) An unsecured working capital facility of A\$10m. At the recent fourth quarter update, OPY had ~A\$70m cash on hand and undrawn debt facilities of A\$45m (in Australia) and £20m (in the UK).
- The repayment profile selected by the customer and the upfront deposit allows OPY to efficiently recycle its capital. Based on the average monthly repayment over 1H20, OPY can recycle its capital 3.8x per year (vs 3.1x at FY19).

Target market (the key difference)

OPY has a distinctly different target market and differentiation to most other BNPL players who are predominantly millennial/Gen Z focused and have lower average order sizes (~A\$200). Some of the key differences when compared to peers include:

- OPY will generally target the higher value ticket items. It has larger payment plan sizes (up to A\$20,000) and range (2-24 months) with no interest.
- OPY focuses on its key verticals: Automotive (estimated ATV ~A\$830); Healthcare (estimated ATV ~A\$1,071) and Home Improvement (estimated ATV ~A\$2,080) where there appears to be fewer BNPL providers.
- B2B offering: OPY recently launched its B2B offering with an agreement with Woolworths.

Key risks

Key OPY risks include: 1) loss of key merchant relationships; 2) failure to execute the growth phase of the business, e.g. increasing merchant numbers and transactions numbers, etc; 3) regulatory risks; 4) technology risks; 5) key personnel risks; 6) competitive threats, e.g. new and existing market entrants in the BNPL space; and 7) market risks, e.g. equity and currency risks.

Management team

Figure 17: Board of Directors and Management Team

Name	Role	Experience
Patrick Tuttle	Independent Chairman	Joined OPY in September 2019. Has over 30 years experience in non-bank, consumer, SME and asset-based finance. Mr Tuttle is a Chartered Accountant and has previously acted as divisional finance director for numerous operating businesses within MQG. He joined Pepper Group in 2001 and was appointed Co-Group CEO of Pepper's global business in 2012.
Michael Eidel	CEO and MD	Joined as CEO in March 2019 with over 20 years experience in payments, banking, growth transformation, product and strategic development. He has previously held senior executive roles at Credit Suisse, Mckinsey and CBA.
Kelly Bayer Rosmarin	Independent Non-Executive Director	Joined OPY in February 2019 with experience in growing and operating large global businesses, leadership, banking, risk management and regulated markets. She is currently CEO at Optus, having previously held the role of Group Executive at CBA's Institutional Banking & Markets division.
Sibylle Krieger	Independent Non-Executive Director	Ms Krieger joined Openpay in September 2019. She is a professional independent Non-Executive Director with over 35 years' experience as a commercial lawyer, economic regulator and Non-Executive Director of a range of companies.
David Phillips	Non-Executive Director	Joined Openpay in 2017 with nearly 25 years experience in Financial Services. The last 14 years of which was at Investec as Head of Structured Finance, Global Co-Head of Investec Aviation Finance and Head of Emerging Companies.
Yaniv Meydan	Non-Executive Director	Co-Founder of Openpay and has extensive experience in structured and property finance, receivables financing and business operations in both Australia and offshore. Mr Meydan has been CEO of Meydan Group since 2004 and responsible for its global operations.
Richard Broome	Co-Founder / Head of Innovation	Co-founder of Openpay and has pioneered technology products for consumer, commercial, government and military use globally.
Andrew Burns	CFO	Prior to joining Openpay, Andrew spent 10 years with The Citadel Group as its CFO responsible for strategic, commercial and operational finance as well as treasury and funding. Overall, he has 20 years experience in senior leadership roles with strong competencies in financial management, accounting and process improvement.
Andrew Harding	MD, UK	Andy has over 20 years' experience in Retail in the UK and International in various roles including strategy, sales, multi-channel, marketing, and eCommerce.

SOURCES: MORGANS, COMPANY REPORTS

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