A B2B embedded payments provider

Change Financial offers investors exposure to innovation in, and the growth of, payments globally – both through its Vertexon Payments as a Service business, and through its PaySim business, used by all four major banks in Australia and many institutions overseas to test their payment systems. The company recently announced a major partnership with Mastercard for direct issuing in Oceania which is expected to drive client wins and revenue growth, and we think it will soon be due for a rerating.

Vertexon – payments as a service

There's multiple opportunities supporting Vertexon's rapid growth including growth in the number of start-up fintechs in recent years, institutions deciding they are subscale to operate their own payment platforms or cannot obtain the necessary technology skills or licencing to operate and maintain their own payment systems, and the payments industry being shaken up by M&A.

Change's payments as a service (PaaS) platform Vertexon, seamlessly integrates with banks and fintechs' core systems enabling delivery of digital and virtual card payment solutions to their customers. It includes integrated features such as Apple Pay, Google Pay, Samsung Pay, and Buy Now Pay Later (BNPL) services. Change currently manages and processes credit, debit, and prepaid cards worldwide.

PaySim – payments systems testing

Financial institutions need to adopt payment innovations, such as Apple Pay, the New Payments Platform, and to adjust for payment system evolution such as the formation of AP+ and the Visa Payments Cloud, or confront the strategic risk of being abandoned by customers – something that we have seen play out in Australia with the introduction of ApplePay and the initial reluctance of three major Australian banks to implement it.

PaySim tests payment systems to help clients meet the reliability and performance expectations of end customers. Simulating the full transaction lifecycle across multiple systems, PaySim enables banks and fintechs to complete end-to-end testing of their payment platforms and processes from a desktop.

Valuation attractive, rises with a weak AUD

We value Change Financial at A$0.14cps using a DCF model on CCA's free cash flow to equity with a cost of equity of 14%, referencing peer comparative valuation multiples for reasonableness. Reporting in USD, and with the majority of its earnings from offshore, its valuation will rise as the AUD weakens. Full details are within.

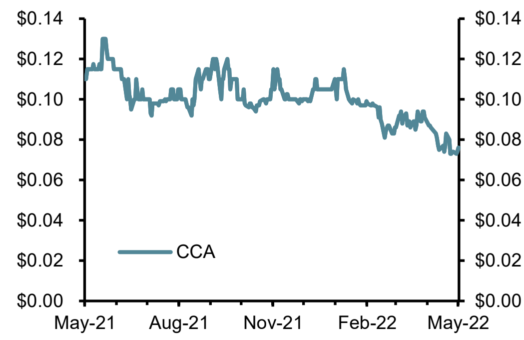
Change Financial Limited (ASX:CCA) is a global B2B fintech, leveraging innovative and scalable technology to provide tailored payment solutions, card issuing and testing to banks and fintechs. Change's technology is used by over 150 clients across 41 countries to deliver simple, flexible and fast-to-market payments services, including card issuing and testing.

Stock	CCA.AX
Market cap	A$30.2m
Price	A$0.075
Valuation	A$0.14

Company data	
Net cash	US$1.6m
Shares on issue	396.7m

Next steps	
End July 2022	June quarter update and Appendix 4C
August 2022	FY2022 results

CCA Share Price (A$)



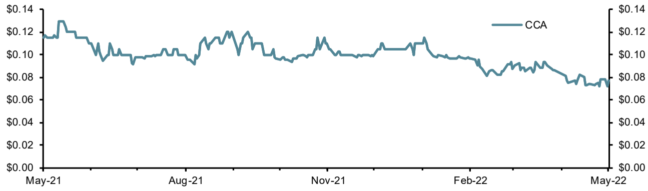
Glen Wellham, Senior Analyst
Glen.wellham@mstaccess.com.au

CHANGE FINANCIAL LIMITED — CCA-AX

Year end 30 June, US$ unless otherwise denoted

MARKET DATA				
Spot exchange rate	x		AUDUSD	$0.700
Price	A$	0.074	US$	0.05
Valuation	A$	0.14	US$	0.10
52 week low - high	A$	0.07 - 0.13		
Market capitalisation	A$m	29.8	US$m	20.9
Shares on issue (basic)	m			396.7
Options / rights (currently antidilutive)	m			1.2
Other equity (LFSP treasury shares)	m			1.2
Shares on issue (fuly diluted)	m			399.0

12-MONTH SHARE PRICE PERFORMANCE



INVESTMENT FUNDAMENTALS		FY20A	FY21A	FY22E	FY23E	FY24E
EPS - diluted reported	cps	-1.9	-0.9	-1.0	-0.9	-0.4
EPS - diluted cash	**cps**	**-1.9**	**-1.1**	**-0.8**	**-0.7**	**0.0**
EPS growth	%	-0.7	-0.4	-0.3	-0.1	-1.0
PE	x	-2.7	-4.7	-6.7	-7.8	454.7
DPS	cps	0.0	0.0	0.0	0.0	0.0
Franking	%	n.a.	n.a.	n.a.	n.a.	n.a.
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%
Payout ratio	%	0%	0%	0%	0%	0%
Operating cash flow per share	cps	-0.02	0.00	-0.01	0.00	0.00
Free cash flow to equity per share	cps	-0.01	-0.02	-0.01	-0.01	0.00
FCF yield	%	-20%	-37%	-13%	-18%	-4%
Enterprise value	US$m	17.9	16.8	20.6	20.8	22.3
EV/Total Revenue	x	69.3	2.7	2.6	2.1	1.6
EV/EBITDA	x	-5.5	-7.3	-7.4	-7.8	57.4
EV/EBIT	x	-5.5	-5.2	-5.3	-5.1	-15.9
NAV per share	US$	0.009	0.018	0.010	0.006	0.002
Price / NAV	x	6.0	2.9	5.4	9.3	25.9
NTA per share	US$	0.009	0.004	-0.006	-0.010	-0.016
Price / NTA	x	6.0	13.6	-9.1	-5.1	-3.3

KEY RATIOS		FY20A	FY21A	FY22E	FY23E	FY24E
NTA/Net Receivables	%	1002.9%	63.8%	-78.0%	-165.7%	-178.7%
Revenue growth rate	%	-85.9%	2344.1%	25.8%	25.6%	43.7%
ROE - reported	%	0%	0%	0%	0%	0%
ROE - cash	%	0%	0%	0%	0%	0%
Net debt	US$m	-3.0	-4.0	-0.3	-0.1	1.4
Interest cover	x	0.7	0.7	0.9	0.7	-0.1
Gearing (net debt / EBITDA)	x	-11.5	-0.6	0.0	0.0	0.1
Leverage (net debt / invested capital)	x	-2.4	-0.7	0.0	0.0	0.1

KEY PERFORMANCE INDICATORS		FY20A	FY21A	FY22E	FY23E	FY24E
Annual recurring revenue	$m	0.0	4.4	5.2	6.3	7.6
Revenue / Annual recurring revenue	%	1033%	143%	154%	160%	189%
Gross margin	%	100%	100%	100%	100%	100%
Cost to income ratio	%	242.9%	377.5%	135.0%	126.7%	97.3%
Growth in receivables	%	34.4%	918.2%	22.2%	-4.8%	41.2%

DUPONT ANALYSIS		FY20A	FY21A	FY22E	FY23E	FY24E
Net Profit Margin	%	-1360%	-55%	-50%	-42%	-11%
Asset Turnover	x	0.0	0.4	0.3	0.4	0.5
Return on Assets	%	-66%	-21%	-16%	-17%	-6%
Financial Leverage	x	4.0	3.5	4.7	8.0	16.0
Return on Equity	%	-267%	-74%	-74%	-134%	-94%

HALF YEARLY DATA		2H21A	1H22A	2H22E	1H23E	2H23E
Revenue	US$m	2.1	4.2	3.8	4.5	5.5
Cost of goods sold	US$m	0.0	0.0	0.0	0.0	1.0
Gross Profit	**US$m**	**2.1**	**4.2**	**3.8**	**4.5**	**4.5**
Cash Expenses	US$m	-5.3	-5.4	-5.3	-6.1	-6.6
EBITDA	**US$m**	**0.9**	**-1.3**	**-1.5**	**-1.6**	**-1.1**
EBIT	**US$m**	**0.1**	**-1.8**	**-2.1**	**-2.2**	**-1.8**
Pre tax profit	US$m	0.1	-1.8	-2.2	-2.3	-1.9
Income tax expense	US$m	0.0	0.0	0.0	0.0	0.0
Reported NPAT	**US$m**	**0.1**	**-1.8**	**-2.2**	**-2.3**	**-1.9**
Cash NPAT	US$m	0.8	-1.4	-1.7	-1.7	-1.2
EPS - diluted cash	**cps**	0.0	0.0	0.0	0.0	0.0
EPS - diluted reported	cps	0.0	0.0	0.0	0.0	0.0
DPS	cps	0.0	0.0	0.0	0.0	0.0

PROFIT AND LOSS		FY20A	FY21A	FY22E	FY23E	FY24E
Revenue and other income	US$m	0.3	6.3	7.9	10.0	14.3
Total Cash Expenses	US$m	-3.5	-8.6	-10.7	-12.6	-14.0
EBITDA	**US$m**	**-3.2**	**-2.3**	**-2.8**	**-2.7**	**0.4**
Depreciation, amortisation and impairment	US$m	0.0	-1.0	-1.1	-1.4	-1.8
EBIT	**US$m**	**-3.3**	**-3.3**	**-3.9**	**-4.1**	**-1.4**
Net interest	US$m	-0.3	0.0	-0.1	-0.1	-0.2
Profit before income tax	**US$m**	**-3.5**	**-3.3**	**-4.0**	**-4.2**	**-1.6**
Income tax expense	US$m	0.0	-0.2	0.0	0.0	0.0
NPAT	**US$m**	**-3.5**	**-3.5**	**-4.0**	**-4.2**	**-1.6**
add back non-cash items	US$m	0.0	-0.8	0.9	1.2	1.6
Cash NPAT	US$m	-3.5	-4.3	-3.1	-3.0	0.1
Weighted average diluted shares	m	185.7	398.7	399.0	449.0	449.0

BALANCE SHEET		FY20A	FY21A	FY22E	FY23E	FY24E
Cash and cash equivalents	US$m	3.0	4.0	1.4	1.1	0.3
Other receivables	US$m	0.2	2.4	2.9	2.7	3.9
Other current assets	US$m	0.2	0.4	1.8	1.5	1.9
Total current assets	US$m	**3.4**	**6.7**	**6.0**	**5.4**	**6.1**
Property, plant and equipment	US$m	0.0	0.5	0.3	0.3	0.4
Intangibles	US$m	0.0	5.5	6.0	7.0	7.8
Total non current assets	US$m	**0.2**	**6.0**	**6.4**	**7.3**	**8.2**
Total assets	US$m	**3.6**	**12.7**	**12.4**	**12.7**	**14.3**
Trade and other payables	US$m	0.6	1.4	1.8	2.3	2.6
Provisions	US$m	0.2	1.0	1.0	1.0	1.0
Contract liabilities	US$m	0.0	2.7	4.3	5.5	7.8
Borrowings	US$m	0.0	0.0	1.1	1.1	1.7
Other current liabilities	US$m	0.3	0.3	0.2	0.2	0.2
Total current liabilities	US$m	**1.1**	**5.4**	**8.4**	**10.1**	**13.2**
Provisions	US$m	0.0	0.0	0.0	0.0	0.0
Lease liability	US$m	0.2	0.3	0.2	0.2	0.1
Total non current liabilities	US$m	**0.2**	**0.3**	**0.2**	**0.2**	**0.2**
Total liabilities	US$m	**1.2**	**5.7**	**8.6**	**10.3**	**13.4**
Net assets	**US$m**	**2.3**	**7.0**	**3.8**	**2.5**	**0.9**
Net tangible assets	**US$m**	**2.3**	**1.5**	**-2.3**	**-4.6**	**-6.9**
Net capital	**US$m**	**-0.6**	**3.0**	**3.5**	**2.4**	**2.3**
Net tangible capital	**US$m**	**-0.6**	**-2.5**	**-2.5**	**-4.6**	**-5.5**
Contributed equity	US$m	34.8	42.5	42.5	46.5	46.5
Reserves	US$m	4.3	4.7	5.9	4.7	4.7
Retained earnings	US$m	-36.7	-40.2	-44.6	-48.8	-50.4
Total equity	**US$m**	**2.3**	**7.0**	**3.8**	**2.5**	**0.9**
Basic shares on issue	m	274.6	399.0	399.0	449.0	449.0

CASH FLOW		FY20A	FY21A	FY22E	FY23E	FY24E
Operating						
Net operating cashflow	**US$m**	**-2.9**	**-1.7**	**-2.0**	**-2.0**	**0.6**
Investment						
Capital expenditure	US$m	0.0	-0.7	-1.4	-1.9	-1.8
Acquisitions and divestments	US$m	0.3	-4.5	0.0	0.0	0.0
Net investment cashflow	**US$m**	**0.3**	**-5.2**	**-1.4**	**-1.9**	**-1.8**
Financing						
Equity	US$m	3.4	8.4	0.0	4.0	0.0
Debt	US$m	0.7	-0.6	1.1	0.0	0.6
Leases	US$m	-0.1	-0.2	-0.3	-0.3	-0.3
Net financing cashflow	**US$m**	**4.0**	**7.6**	**0.8**	**3.7**	**0.3**
Net cash flow	**US$m**	**1.4**	**0.7**	**-2.6**	**-0.2**	**-0.8**
Free cash flow to equity	US$m	-1.9	-7.7	-2.6	-4.2	-0.8

Source: CCA reports, MST estimates

Investment Thesis

Change Financial is an attractive way to gain exposure to the evolution of payment systems globally. Both of its businesses are ideally positioned to profit from this evolution:

- Vertexon enables banks and fintechs to deliver modern card payment solutions to their customers. As consumer expectations grow, requiring investments beyond what institutions are willing to make, and as it becomes harder to employ staff with the necessary skillset to maintain and develop existing in-house infrastructure, we believe more institutions are likely to outsource larger portions of their payments infrastructure. In Australia, most third-tier institutions already outsource their payments infrastructure, as do most of the second-tier institutions, and even ANZ is now going down this path with its JV with Worldline. However, this is a global trend, and Vertexon has a sizeable (and growing) existing customer base in Oceania, South East Asia and Latin America, as well as a reasonable presence in the US.
- PaySim is an essential utility, to test systems before they go live. Regulators are becoming increasingly aggressive around disruption to payment systems, and PaySim enables its users, such as financial institutions, to test their systems before they go live to ensure that any changes, such as upgrades or new functionality, will work seamlessly, and not cause system problems. It can simulate a wide range of systems, including online transactions, ATMs and payment terminals, and the various payment networks in between a bank's own systems.

The company obtains the majority of its revenues from offshore, reports in USD, and thus is positively leveraged to a falling Australian Dollar, which is supportive of the company's valuation.

Furthermore, we believe that the company is due for a re-rating, with the company recently delivering another quarter of positive operating cashflows. Within the next couple of years the company should consistently generate cash from its operations, before growth capital investments (capex) in technology and operations, which further push out its likely cashflow breakeven point.

Company Description

Change Financial Limited (ASX:CCA) is a global fintech, leveraging innovative and scalable technology to provide tailored payment solutions, card issuing and testing to banks and fintechs. Change's technology is used by over 150 clients across 41 countries to deliver simple, flexible and fast-to-market payments services, including card issuing and testing.

Change's payments as a service (PaaS) platform Vertexon, seamlessly integrates with banks and fintechs' core systems enabling delivery of digital and virtual card payment solutions to their customers. It includes integrated features such as Apple Pay, Google Pay, Samsung Pay, and Buy Now Pay Later (BNPL) services. Change currently manages and processes over 16 million credit, debit, and prepaid cards worldwide.

Using PaySim, Change tests payment systems to help clients meet the reliability and performance expectations of end customers. Simulating the full transaction lifecycle across multiple systems, PaySim enables banks and fintechs to complete end-to-end testing of their payment platforms and processes from a desktop. Change also provides the default standard for payments testing for many Australian companies, including Australia's domestic card payment service eftpos.

Recent Events

- April 2022 – Quarterly (Mar 21) Update and Appendix 4C
- March 2022 – Secures commercial agreement with Mastercard for direct issuing in Oceania
- March 2022 - Direct issuing strategy for Oceania and New Zealand regulatory approval
- February 2022 - Half year results and investor presentation
- January 2022 - Quarterly (Dec 21) Update and Appendix 4C
- January 2022 - Non–dilutive funding secured to support growth
- November 2021 – 2021 AGM Chairman's address & presentation

Potential Near-Term Catalysts

- July 2022 – Quarterly (Jun 22) Update and Appendix 4C
- August 2022 – Financial year 2022 result and Appendix 4E

Valuation – Significant upside apparent

Figure 1 – MST Access discounted free cashflow to equity valuation of Change Financial

Current date		19-May-22									
Next balance date		30-Jun-22									
		Jun-22	Dec-22	Jun-23	Dec-23	Jun-24	Dec-24	Jun-25	Dec-25	Jun-26	Dec-26
Free cash flow to equity	**US$m**	**-0.3**	**-2.1**	**-2.1**	**-1.1**	**0.2**	**0.5**	**1.7**	**2.9**	**4.2**	**0.7**
Discounted cash flow	**US$m**	**-0.3**	**-1.9**	**-1.8**	**-0.9**	**0.2**	**0.4**	**1.1**	**1.8**	**2.4**	**0.4**

Sum of discount streams	US$m	1.1	**CAPM**	
Future value into perpetuity	US$m	64.7	Risk free rate	2.00%
NPV of terminal value	US$m	37.7	Equity beta	2
add adjusted net cash and associates	US$m	1.6	Equity risk premium	6.00%
Value of total equity	**US$m**	**40.4**	Cost of equity	14.0%
Diluted shares on issue	#	399.0		
Value per share	**US$**	0.10	Terminal growth	3.0%
Upside/downside	%	95.3%		

Source: Company reports, MST Access estimates

We value Change Financial at US$0.10 per share, which converts to A$0.14 per share at the spot FX rate, using a DCF model on CCA's free cash flow to equity. Reporting in USD, and with the majority of its earnings from offshore, its valuation will rise as the AUD weakens. We use a two-stage model, using our explicit forecasts over the next five years, followed by a terminal value, to which we add adjusted net cash. We assume a risk-free rate of 2.0% and equity risk premium of 6.0%. We estimate CCA's equity beta to be 2. This leads to us estimating CCA's cost of equity to be 14% and terminal growth of 3.0%.

Comparative Multiples

Relative valuation techniques such as peer valuation multiples are a popular way to value many companies, including price earnings multiples and Enterprise to Revenue multiples. Our financial summary on page 2 of this report details our derivation of these current implied valuation multiples for CCA.

Figure 2 – Change Financial peer comparative valuation multiples

Identifier (RIC)	Company Name	Price / Revenue	Price / Book	Price / NTA
EML.AX	EML Payments Ltd	6.53	3.0	-19.1
NOV.AX	Novatti Group Ltd	8.89	22.6	1.8
A2B.AX	A2B Australia Ltd	1.34	1.4	2.4
SMP.AX	SmartPay Holdings Ltd	6.02	8.2	59.0
TYR.AX	Tyro Payments Ltd	8.00	10.4	15.6
	Australian average	**6.2**	**9.1**	**11.9**
PAY.TO	Payfare Inc	8.28	8.1	6.7
PAYP.L	PayPoint plc	3.18	10.3	-22.2
NETW.L	Network International Holdings PLC	6.20	3.6	-12.3
PSFE.K	Paysafe Ltd	1.90	1.1	-0.8
MQ.O	Marqeta Inc	12.04	5.9	3.2
WU	Western Union Co	1.44	19.8	-3.2
WEX	WEX Inc	3.44	3.4	-2.7
WLN.PA	Worldline SA	4.14	1.5	-3.9
AMA.MC	Amadeus IT Group SA	10.05	7.2	-7.1
SQ	Block Inc	4.59	22.9	17.6
FIS	Fidelity National Information Services Inc	4.88	1.4	-2.9
FISV.O	Fiserv Inc	4.30	2.2	-3.3
PYPL.O	PayPal Holdings Inc	8.82	10.1	11.1
MA	Mastercard Inc	18.88	48.2	-76.8
V	Visa Inc	24.26	13.6	-34.3
	International average	**7.8**	**10.6**	**-8.7**
CCA.AX	Change Financial Ltd	3.30	2.9	13.6

Source: IBES, Refinitiv, MST Access estimates for Change Financial

Risks and Sensitivities

We elaborate on Change Financial's risks and sensitivities later in this report. In summary, they can be categorised under strategic, financial and operational risks summarised as:

Strategic

Change Financial's Vertexon operates in a competitive, highly innovative industry of payments provision, with direct competitors both in Australia and internationally who are close to perfect substitutes for its payments as a service offerings.

As a payment processor, Change Financial has substantial regulatory compliance requirements, including with AML/CTF regulations, CFR and ASIC requirements. Failure to comply could see the company face civil and criminal prosecution, substantial fines, and potentially the loss of key licenses enabling it to operate various services.

However, it faces less competition for its PaySim service, which accounts for a substantial portion of its revenues, due to what are in effect scheme mandates to use its services by various industry organisations and bodies.

Financial

Being a payments company, Change Financial has a range of risks and sensitivities applicable to most companies in the financial sector. These include:

- Macroeconomic conditions
- Liquidity and funding risks
- Credit risk
- Fraud
- Compliance risks

Operational

Most companies, including Change Financial, have a range of operational risks. These include:

- Governance
- Key personnel
- Information technology
- Cybersecurity and data protection
- Force majeure events
- Litigation, claims and disputes

Contents

Payments processing industry overview – understanding the plumbing

The Australian payments ecosystem

Between reports published by the RBA and the Bank of International Settlements, we can gain significant insight into the structure and operations of the Australian payments system. Indeed, it is now so complex that the recent Australian Treasury review considered calling it "a payments ecosystem", to signify its complexity given the growth in the number of different payment systems within the overall payments system.

The Reserve Bank of Australia defines the 'payments system' as the arrangements which allow consumers, businesses and other organisations to transfer funds usually held in an account at a financial institution to one another. It includes the payment instruments – cash, cards, cheques and electronic funds transfers – which customers use to make payments and the usually unseen arrangements that ensure that funds move from accounts at one financial institution to another.

According to the RBA's statistics, non-cash payments account for most of the value of payments in the Australian economy. On average, in 2021 non-cash payments worth around $260 billion were made each business day, equivalent to around 12% of Australia's annual GDP. The use of electronic payment instruments at the retail level has been growing rapidly. In 2021, transactions (both purchases and cash withdrawals) undertaken using either credit or debit cards averaged about 460 per person, an increase of around 60 per cent on the level of five years earlier.

Arrangements for clearing most payment instruments in Australia are coordinated by the Australian Payments Network (AusPayNet). AusPayNet is a limited liability company with a board of directors drawn from its shareholders – banks, building societies and credit unions. AusPayNet manages clearing for cheques, direct entry payments, ATMs and debit cards and high-value payments.

Other payments clearing systems independent of AusPayNet include the major open credit card schemes (Mastercard and Visa), the domestic debit card system managed by eftpos Payments Australia Limited (ePAL), the BPAY system for payment of bills, and the New Payments Platform.

The Payments System Board (PSB) of the Reserve Bank oversees the payments system in Australia. It is responsible for promoting the safety and efficiency of the payments system.

Legislation

The Bank of International Settlements helpfully summarises the legislation governing payments in Australia in its 2011 "Red Book" on "Payment, clearing and settlement systems in Australia":

- The **Payment Systems (Regulation) Act 1998** gives the RBA powers to regulate payment systems and purchased payment facilities (such as stored value cards). The RBA's policies under that Act are determined by its Payments System Board (PSB), which (under the Reserve Bank Act 1959) determines payments system policy.
- The **Payment Systems and Netting Act 1998** allows the RBA to protect transactions in systems which settle on an RTGS basis from the potential application of the "zero hour rule". The Act also gives legal certainty to multilateral netting arrangements in the payments systems that are approved by the RBA. The effect of those protections is to ensure that authorised payment system rules operate according to their terms, ie payments are final and irrevocable. A system does not have to settle in central bank money to be an RTGS system for purposes of this legislation.
- The **Corporations Act 2001** provides for a single licensing regime for "clearing and settlement facilities". Under the Act, the RBA is empowered to set financial stability standards for licensed clearing and settlement facilities and is required to monitor facilities' compliance with these standards and with their legislative obligation to reduce systemic risk. ASIC is responsible for all other legislative obligations imposed on clearing and settlement facilities.
- The **Cheques Act 1986** establishes the framework under which cheques are drawn, accepted and paid.
- The **Anti-Money Laundering and Counter-Terrorism Financing Act 2006** (the AML/CTF Act), which has substantially replaced the **Financial Transactions Reports Act 1988**, significantly enhanced Australia's

regulatory scheme to detect and deter money laundering and terrorism financing. The AML/CTF Act sets out a principles-based framework, with higher-level obligations that encourage a risk-based approach to AML/CTF compliance. The **Proceeds of Crime Act 1987** makes money laundering an offence, and several supporting pieces of legislation provide for the confiscation of the proceeds of crime.

- Provisions in the **Competition and Consumer Act 2010** dealing with restrictive trade practices and consumer protection are relevant to the operation of the payments system. The Act prohibits conduct such as price agreements, boycotts and exclusive dealing with the purpose or effect of substantially lessening competition. However, the ACCC may authorise such conduct if it judges that it will result in a net public benefit.

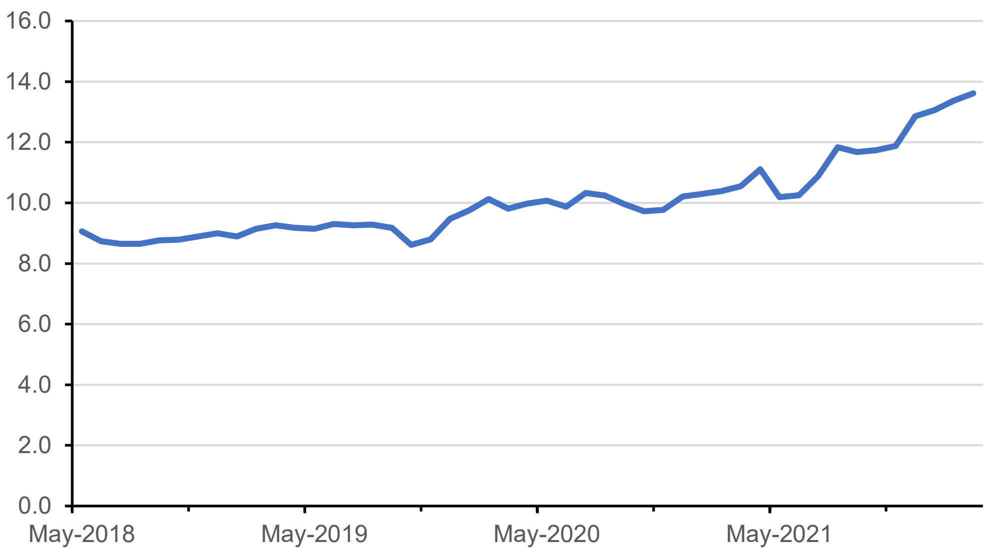
The Australian Treasury held a payments system review in 2020-2021, following a similar review in 2017. The RBA also conducted a review of retail payments alongside the Treasury review. This may lead to some further regulatory changes, given the recommendations to streamline payments regulation through ASIC, likely after the upcoming Australian general election.

Payment trends

There has been a significant change in the way people are paying in recent years, with longer term trends accelerated by the COVID pandemic, in ways that are quite beneficial for Change Financial.

Prepaid cards

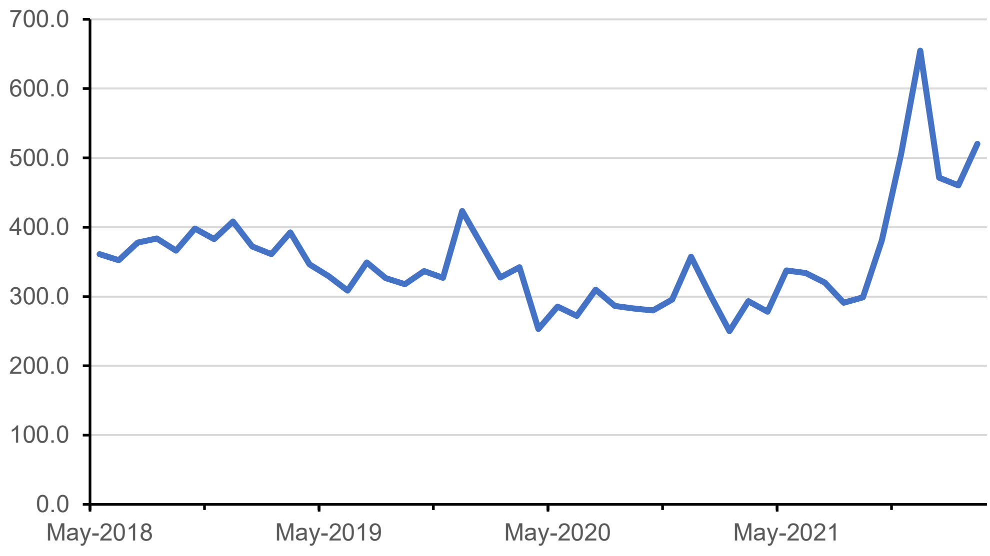
Figure 3 – Millions of prepaid cards on issue in Australia



Source: Reserve Bank of Australia Payment Statistics C2.2 Prepaid Cards series CPCSNC

There has been a steep increase in the number of pre-paid cards in Australia over the past year. Prior to the pandemic, prepaid cards were growing at a single digit percentage annual rate. The latest RBA statistics through to March 2022, suggest that prepaid cards have increased by 29% in the past 12 months. Should such growth be sustained, this is very favourable for Change Financials' Vertexon business.

Figure 4 – Value of domestic prepaid card transactions (A$m)



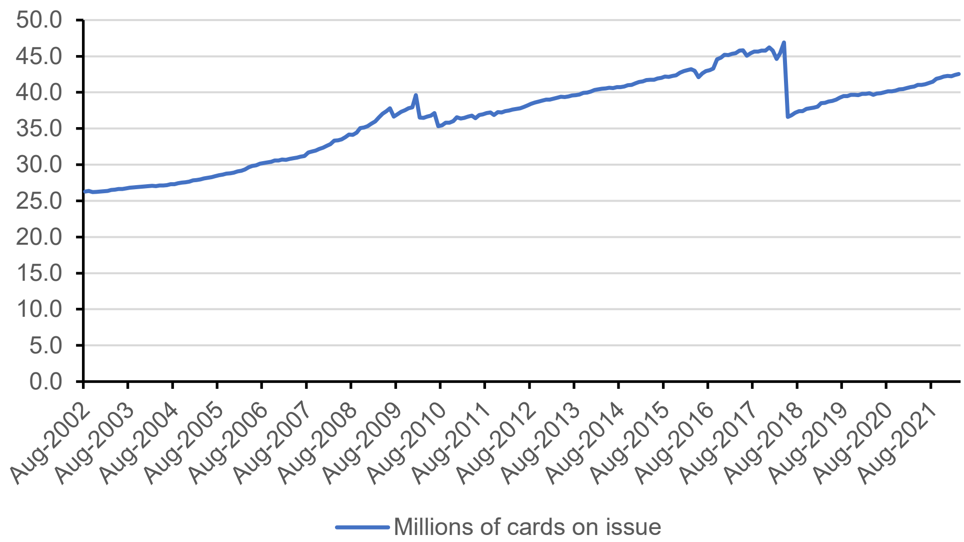
Source: Reserve Bank of Australia Payment Statistics C2.2 Prepaid Cards series CPCSDTV

Similarly, the value of domestic transactions has also increased rapidly most noticeably in the past 6 months, with the value of domestic prepaid card transactions in March 2022 77% higher than 12 months prior, with even higher growth rates on pcp in December 2021 and February 2022.

While the pandemic has seen a steep drop in the number and value of overseas transactions performed on prepaid cards due to border closures and other travel restrictions such as quarantine, we expect that this will bounce back as the number of overseas travellers reverts back towards pre-pandemic levels.

Debit cards

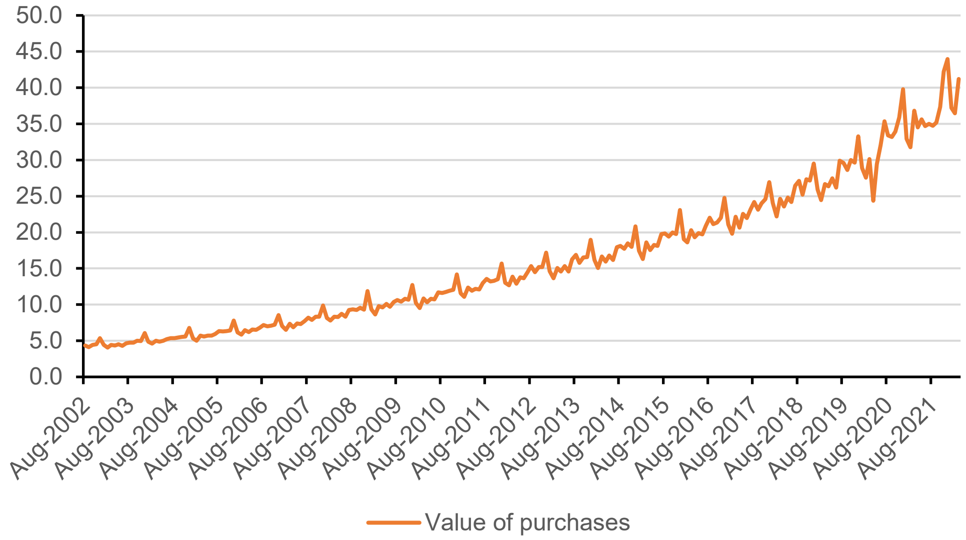
Figure 5 – Millions of debit cards on issue in Australia



Source: Reserve Bank of Australia Payment Statistics C2.2 Prepaid Cards series CPCSNC

In comparison, there are a lot more debit cards on issue in Australia, around 3-4x the number of prepaid cards. This is a much longer data series, and there have been some series breaks. With a larger number of cards on issue, recent growth rates have not been as spectacular as that occurring in prepaid cards.

Figure 6 – Value of domestic debit card transactions (A$bn)



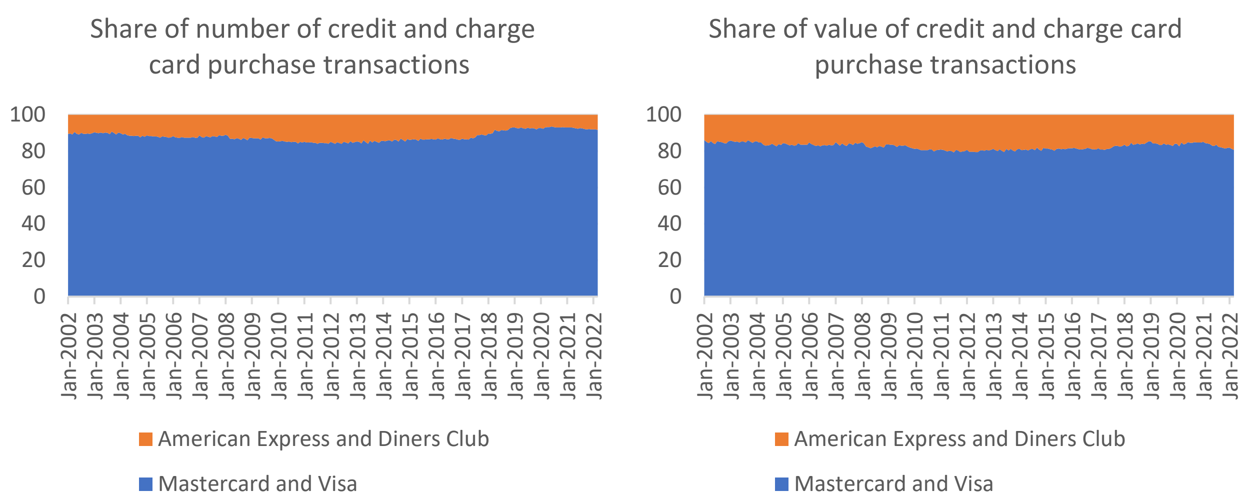
Source: Reserve Bank of Australia Payment Statistics C2.2 Prepaid Cards series CPCSDTV

There is a substantially higher value of payments which go through debit cards, than go through prepaid cards, roughly two orders of magnitude (100x). Thus, the dual focus in New Zealand on both prepaid cards as well as debit cards, could pave the way for Vertexon to address the much larger debit card market in Australia, complementing its prepaid card offering in Australia, even if it is growing more slowly.

Credit card scheme market shares

Mastercard and Visa dominate credit card payments in Australia; and the regulation of interchange fees, including those on companion AMEX cards, has seen their market share increase. There is a size of purchase effect, with AMEX and Diners Club likely to be used for higher value transactions, leading to a larger market share when measured by value of transactions, rather than volume of transactions. The sustained high market share of Mastercard and Visa supports Change Financial's move for Vertexon to partner with Mastercard.

Figure 7 – Market shares by value and volume of domestic credit card transactions (%)



Source: Reserve Bank of Australia Payment Statistics C1.3 Credit and Charge Cards – Market Share of Card Schemes, original data, series CMSCBMVN, CMSCADN, CMSCBMVV, CMSCADV

Widespread adoption of QR codes for payment potentially the next evolution of the Australian payments' ecosystem

In a speech in early May 2022 (Real-time Payments in Australia | Speeches | RBA), the RBA noted that in other countries with fast payment systems, the RBA can see innovations emerging that provide alternatives to card payments:

- In Singapore, the customers of some financial institutions can make payments to merchants from their accounts using the fast payments system. There is an option to do this by scanning a QR code using a mobile application provided by the payment service provider.
- In India, some consumers can pay merchants in-store by tapping their smartphones at merchant terminals. However, rather than these payments being made from a debit or credit card stored in the mobile phone wallet, they are made directly from customers' accounts via the fast payments system.

We note that AliPay and WePay also use QR codes to facilitate merchant payments from customer accounts (although these are in effect pre-paid accounts), and are largely China centric (although there has been an increase in Australian retailers accepting these payment schemes in recent years).

The RBA suggests that once PayTo is operational, the NPP could support similar innovations in Australia. NPPA has developed a standard for real-time payments using QR codes in person and online. PayTo should then provide opportunities for such payments to be made to merchants using QR codes. Customers could also authorise merchants to debit their accounts for one-off payments or provide standing authorisations for recurring purchases. This functionality could enable the NPP to compete more directly with card payments in future, providing consumers with more payment options and placing competitive pressure on payment costs.

As reported in the Australian Financial Review (Woolworths turns on QR payments to bind customers closer (afr.com), 11 May 2022) Woolworths Group's (ASX:WOW) WPay payment processing business may be the first Australian group to move into QR codes as an alternative for card payments in a meaningful way. Being the country's fifth largest payments processor, with their in-store merchant network and switch, and being a participant in the EFTPOS system, it is establishing QR codes at each checkout to be scanned by its Everyday Rewards app. While initially the app will be linked to payment cards, such as debit and credit cards through the Visa and Mastercard schemes, there appears to be a clear pathway to soon add the ability to link to bank accounts, initially via EFTPOS and then via the New Payments Platform over the course of the next year.

There are a growing number of specialist payments providers

Within Australia, smaller banks (notably tier 3 banks, but also some regionals) outsource their payments processing capabilities.

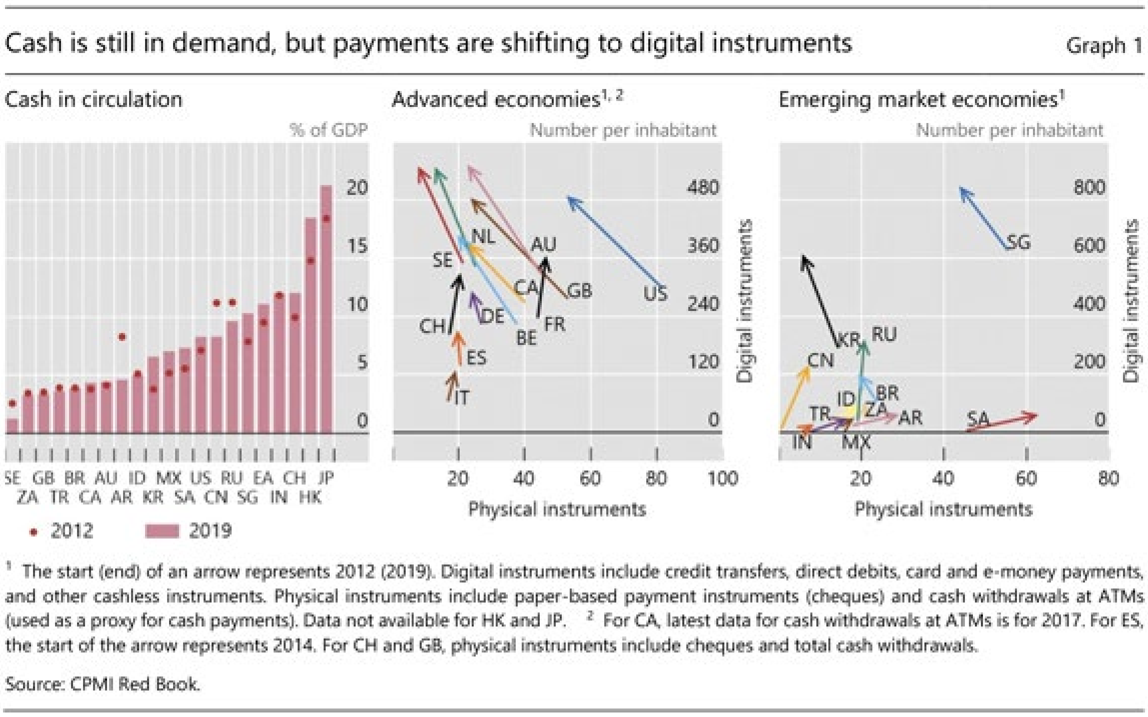
There are a growing number of dedicated specialist payment providers operating in Australia, including Change Financial, Novatti, Indue, A2B and Tyro, as well as Cuscal, Block, and the major banks. Globally there are more, and we include a list of these in our peer comparative valuation multiples table.

The number of companies operating in this space highlights that the addressable market is significant, and Change's offerings will likely be evaluated as part of market tenders when existing contracts expire, or as part of the process of system upgrades.

Other countries are grappling with similar issues, but are at different stages of payments ecosystem evolution

While not as progressed as some Nordic countries, Australia is relatively advanced globally in adopting electronic payments and reducing the use of cash.

Figure 8 – Cash and digital payment transactions



[1] The start (end) of an arrow represents 2012 (2019). Digital instruments include credit transfers, direct debits, card and e-money payments, and other cashless instruments. Physical instruments include paper-based payment instruments (cheques) and cash withdrawals at ATMs (used as a proxy for cash payments). Data not available for HK and JP. [2] For CA, latest data for cash withdrawals at ATMs is for 2017. For ES, the start of the arrow represents 2014. For CH and GB, physical instruments include cheques and total cash withdrawals.

Source: CPMI Red Book.

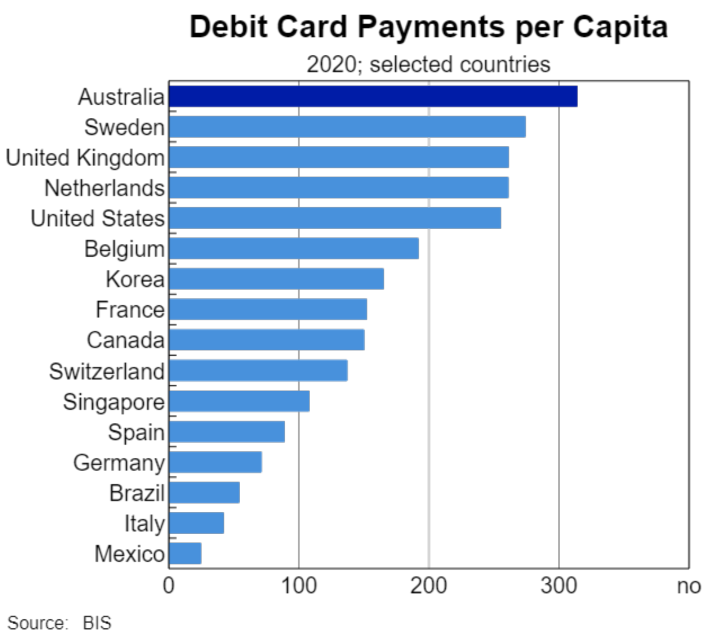
Source: Bank of International Settlements, https://www.bis.org/statistics/payment_stats/commentary2011.htm

In other countries where Change Financial operates, such as the US, cheques are still a large and significant segment of the payment ecosystem.

Just like in Australia, small financial institutions rely on outsourcing key functions in order to be able to compete on functionality. This leads to a large market for Change Financial in the US, which has a large number of small banks, as well as a growing fintech scene.

Electronic payments are also being rapidly adopted across a wide range of economies in South East Asia and Latin America, and this evolution allows Change the capture

Figure 9 – Debit Card Payments per Capita

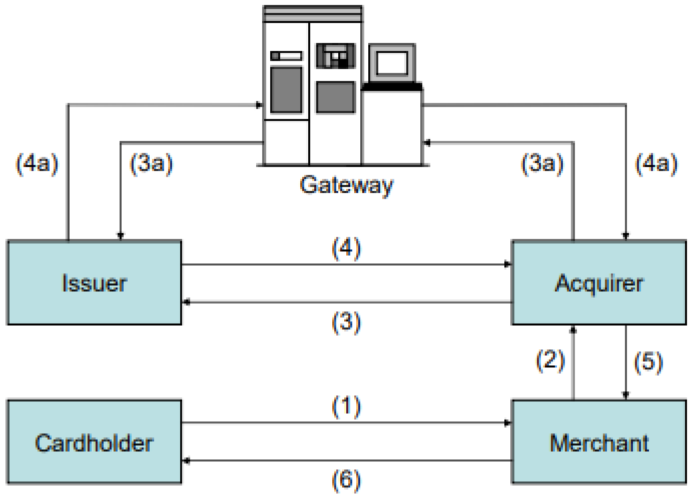


Source: Bank of International Settlements, Reserve Bank of Australia

The complexity of payment systems

There are a significant amount of interactions in each payment system, all of which require testing should a change be made. With the information flows for card networks more well-known (available on request, as previously published in a report on another company), we present the information flows for ATMs and EFTPOS.

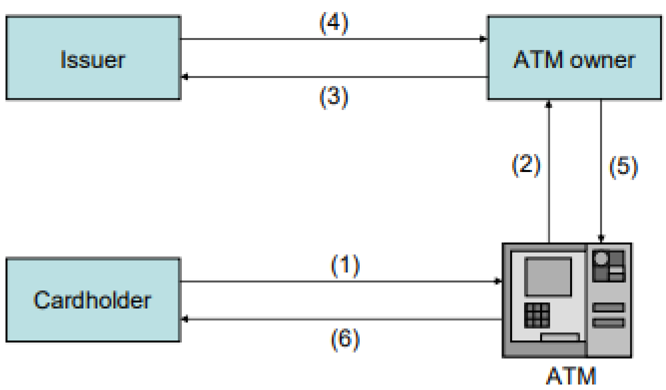
Figure 10 – Information flows for an EFTPOS transaction



Source: Bank of International Settlements

The information flows in a typical EFTPOS transaction are depicted in Figure 10. The cardholder presents their card to the merchant and enters their PIN (1), and the relevant data are transmitted to the merchant's financial institution (the acquirer) (2). If it is one of the acquirer's own cards, the account is checked internally and authorisation returned to the merchant (5). If the card is issued by another financial institution, the information is switched to the card issuer either directly via a bilateral link (3) or, if the issuer does not have this link, via a third institution acting as a gateway (3a). The issuer then checks if its cardholder has available funds. If so, it will return an authorisation message to the acquirer either directly (4) or via the gateway (4a). The acquirer passes the message to the merchant (5) and the transaction is complete (6).

Figure 11 – Information flows for an ATM transaction



Source: Bank of International Settlements

Typical information flows for an ATM cash withdrawal are similar, as depicted in Figure 11. The cardholder puts their card into an ATM, enters their PIN and the details of the withdrawal (1); the relevant information is then transmitted to the ATM owner (2). If the ATM owner and card issuer are the same institution, the transaction remains internal to that network. If the card is issued by another institution, the ATM owner will switch the information to that issuer (3). The issuer then checks the account and returns an authorisation (or a decline) via the ATM owner (4) to the ATM (5). Assuming authorisation was given, the cash is dispensed (6).

Overview of Change Financial

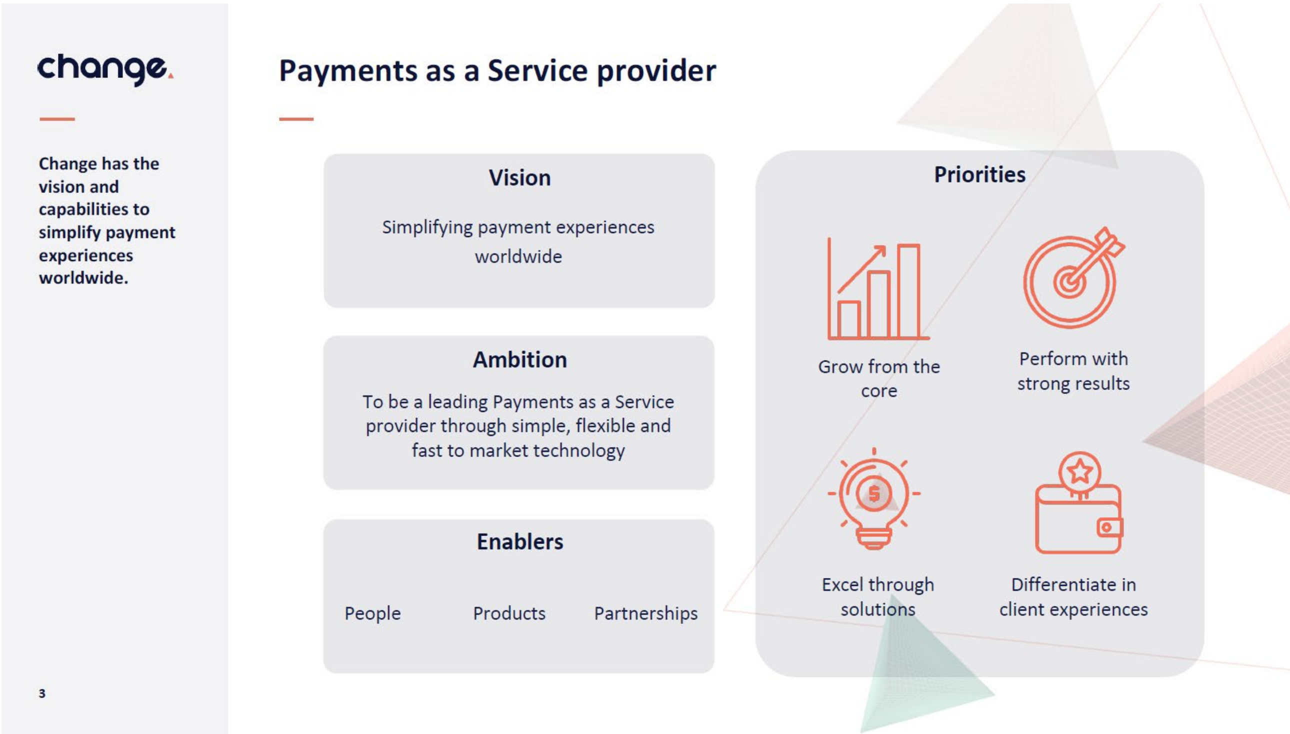
Change Financial's businesses

Change Financial Limited is a global B2B fintech, leveraging innovative and scalable technology to provide tailored payment solutions, card issuing and testing to banks and fintechs.

With the vision to simplify payment experiences worldwide, its ambition is to be a leading payments-as-a-service provider through simple, flexible and fast to market technology, enabled though its people, products and partnerships. Its priorities are to:

- Grow from the core
- Perform with strong results
- Excel through solutions
- Differentiate in client experiences.

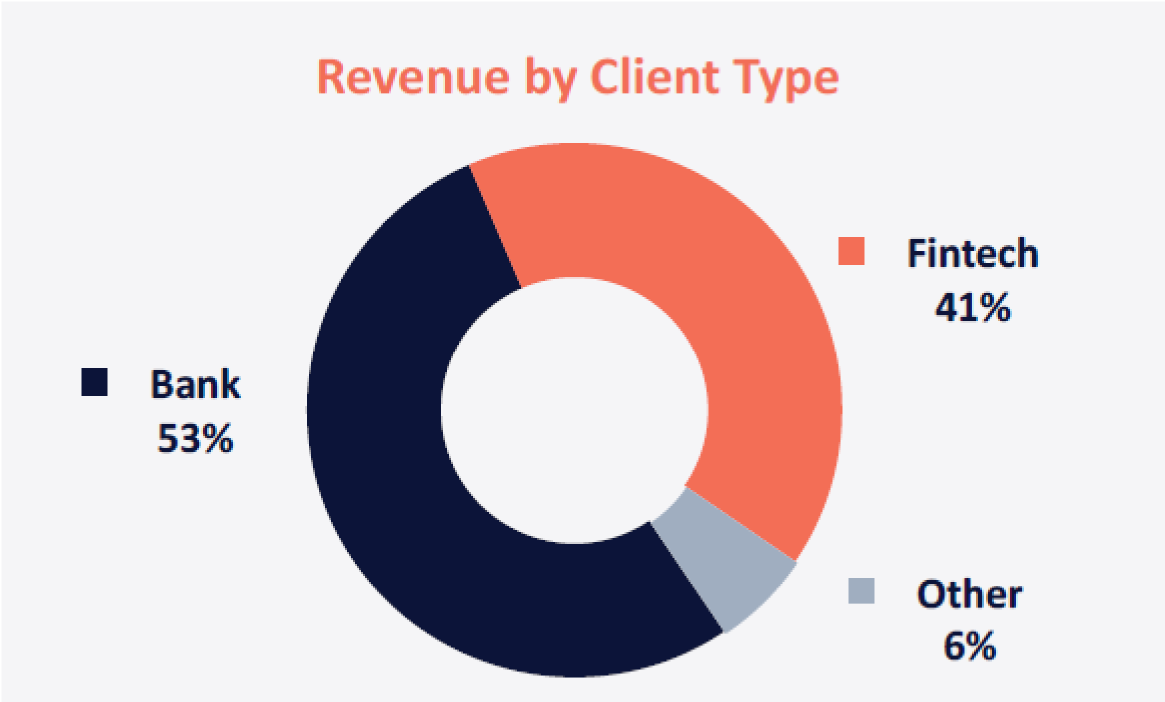
Figure 12 – Change Financial strategy



Source: Company reports, MST Access estimates

Banks made up the majority, 53%, of its revenues by client type in 1H22, although its fintech clients are also large contributors providing 41% of revenues, with 6% of revenues from other clients. Given the systems integration and card issuance to customers, we believe that these client relationships and revenues are likely to be quite sticky, with strong recurring revenues.

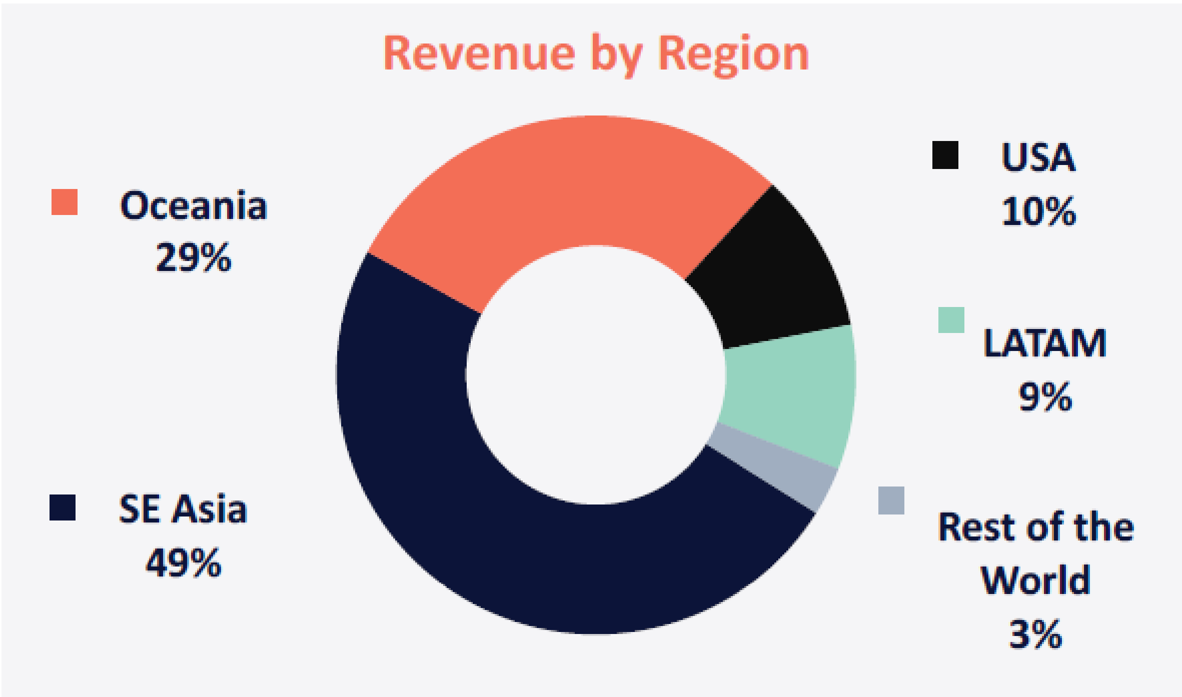
Figure 13 – Change Financial’s revenue by client type in 1H22.



Source: Company reports, MST Access estimates

The bulk, 78% in 1H22, of its revenues come from the Asia-Pacific, which it helpfully splits into South-East Asia and Oceania, with around 10% from each of the USA and Latin America, and 3% from elsewhere in the world.

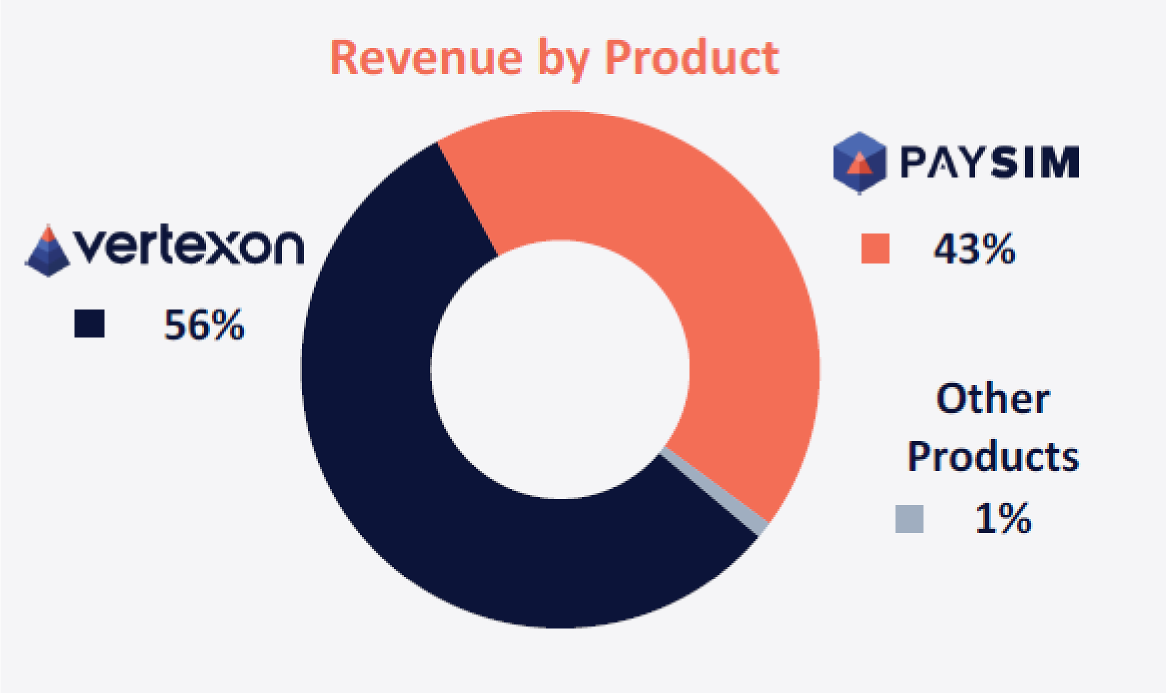
Figure 14 – Change Financial’s revenue by region in 1H22.



Source: Company reports, MST Access estimates

Change Financial has two business units, Vertexon which contributed 56% of its revenues in 1H22, and PaySim, which contributed 43% of its revenues in 1H22.

Figure 15 – Change Financial's revenue by product in 1H22.



Source: Company reports, MST Access estimates

Vertexon (56% of revenues in 1H22)

Payment as a Service (PaaS) solution delivers physical and digital cards issuing, BNPL, transaction processing and more

Change Financial launched Vertexon, its payments as a service offering, on 10 November 2021. This rebranded its existing on premises payment platform as Change added a cloud offering of its platform. Vertexon integrates with client's core systems enabling clients to easily deliver digital card solutions to customers. Through the unifying of cards, payments and processing technologies, Vertexon delivers a modern digital solution for prepaid, debit and credit cards. It provides fully integrated features such as Apple Pay, Google Pay, Samsung Pay and BNPL as well as full program management services.

Key features include

- Issuing physical, digital and virtual cards
- Prepaid, Debit and Credit card programs
- BNPL with flexible schedule and fee configuration
- Loyalty program integration
- Cardholder APIs
- Core banking interfaces
- Card management and administration portals
- Transaction processing supporting major card schemes including Mastercard, VISA, JCB, UnionPay and AMEX
- Risk Alert Management

- Cloud HSM services

Figure 16 – Vertexon payments as a service

Source: Company reports, MST Access estimates

In addition to SaaS, Vertexon offers full program management and on-premises solutions to support digital and physical card issuing, currently supporting cards across the United States, Latin America, Southeast Asia and Oceania.

Change launched its Vertexon SaaS platform on Amazon Web Services (AWS) in Sydney to service banks and fintechs in the Oceania region. The multi-tenancy design of the platform is highly scalable, with future growth expected following launch in other markets. The platform's integration enables it to be easily implemented in multiple geographic markets in a matter of days.

Change Financial has a dedicated product page for its Vertexon payments as a service platform, refer [Vertexon - Change Financial]

PaySim (43% of revenues in 1H22)

A full end-to-end payments testing, cloud-hosted and modular solution

Change Financial launched PaySim, its payments testing solution brand, on 10 November 2021. This branded an existing product, which is used by over 130 banks and fintechs across more than 30 countries, including five of the top 10 digital payment companies globally.

PaySim ensures payment systems meet the reliability and performance expectations of end customers. PaySim simulates the full transaction lifecycle across multiple systems, enabling customers to complete end-to-end testing of their payment platforms and process from a desktop. Change Financial suggests that PaySim has been widely used during the pandemic to facilitate testing without the need for access to physical devices such as automatic teller machines (ATM) or point of sale (POS) terminals. PaySim reportedly can simulate over 60,000 transaction variations and has over 42 different modules to provide coverage across multiple payment technologies and schemes.

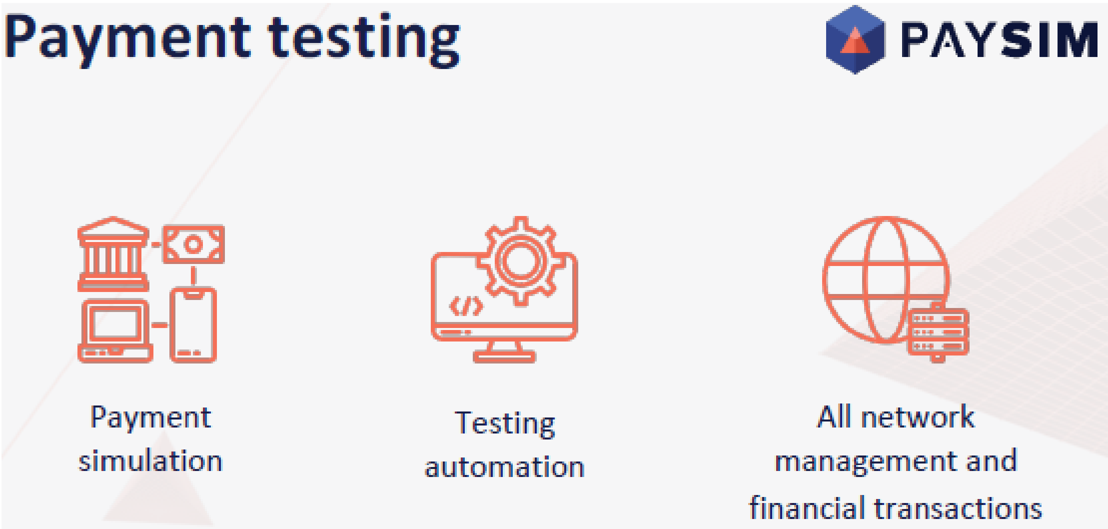
Change's PaySim offers local and global banks and fintechs the testing engine capability to help scale their businesses. PaySim is also used to certify payment participants on schemes, switches and local networks. In Australia, companies that want to join the eftpos network must use PaySim to certify their integration before connecting to the local payments network.

Key features of PaySim include:

- Payment Simulation
- ATM and POS Terminal Device simulation
- ISO20022 Simulation
- EMV compliance
- Stress Testing and Capacity Planning
- Full end-to-end regression testing
- Visa, Mastercard, UnionPay, Amex, JCB scheme validation
- Simulation of hardware failures and all error conditions
- eftpos Australia Certification

The PaySim API, launched in 2Q22, should help drive sales for existing and new clients globally, as well as supporting annual recurring revenue (ARR) growth. The API will enable clients to automate load, stress and regression testing to produce comprehensive results reporting and is the foundational component of PaySim's software as a service (SaaS) offering.

Figure 17 – PaySim payment testing



Source: Company reports, MST Access estimates

Change Financial has a dedicated product page for its PaySim payment testing simulator, refer [PaySim - Change Financial](). This product page contains a roadmap revealing current functionality as well as upcoming and future developments for the PaySim service.

A very brief history of Change Financial

- Listed in 2016
- Changed company name to Change Financial in 2017
- Strategic review in 2018 led to focus on its US issuer processor business, divesting other businesses
- Acquired Wirecard Australia and New Zealand on 1 October 2020
- In 2021, Change engaged Deloitte to develop and validate its product roadmaps and go-to-market strategy which is being executed in its key markets. As outlined in the go-to-market strategy, the focus for the 2022 financial year (FY22) is the integration of various platforms, feature development, partnerships and customer growth.

- Launched Vertexon brand on 27 October 2021
- Launched PaySim brand on 10 November 2021
- Entered direct issuing market in Oceania in March 2022

Partners

Change Financial has several key business partners listed on its website.

- Mastercard, namely Mastercard Australia and NZ for prepaid and debit; Mastercard USA for prepaid
- Mambu SaaS cloud banking platform
- Axiom Bank, issuing bank partner for prepaid and debit cards in the US
- Concerto payment system architects
- AWS, global cloud provider for Change Financial's SaaS platform
- Itoc, AWS consulting partner

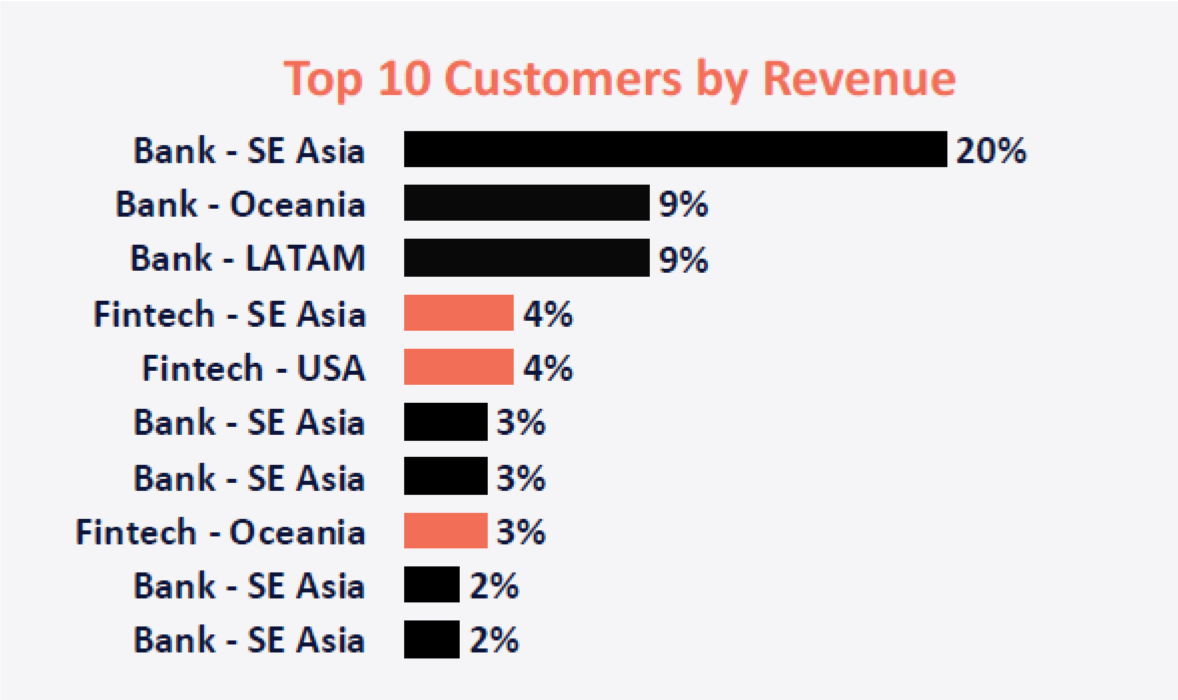
Case studies likely identify top clients by revenue

On its website, Change Financial details two case studies of banking partners which use its services.

- BDO Unibank in the Philippines, the Philippines' largest bank
- ME Bank in Australia, including post its acquisition by Bank of Queensland.

We suspect these case studies are from its top two clients by revenue in 1H22.

Figure 18 – Change Financial top 10 clients by revenue in 1H22



Source: Company reports, MST Access estimates

Its recent fintech Payments as a Service client wins, namely Alaska Prepaid, Rolling Thunder and PlutusM, should further expand and diversify its US revenues in FY23 following their onboarding in 4Q22, in partnership with its US banking partner Axiom Bank.

Outlook and Growth

Change Financial has a promising outlook as it executes its three-year growth plan, which is seeing it enhance the capabilities of its offerings, focus on Asia and Latin America in addition to the US and Australia and New Zealand, and targeting banks and fintechs before retail, government and corporate opportunities.

Figure 19 – Three year growth plan

Source: Company reports, MST Access estimates

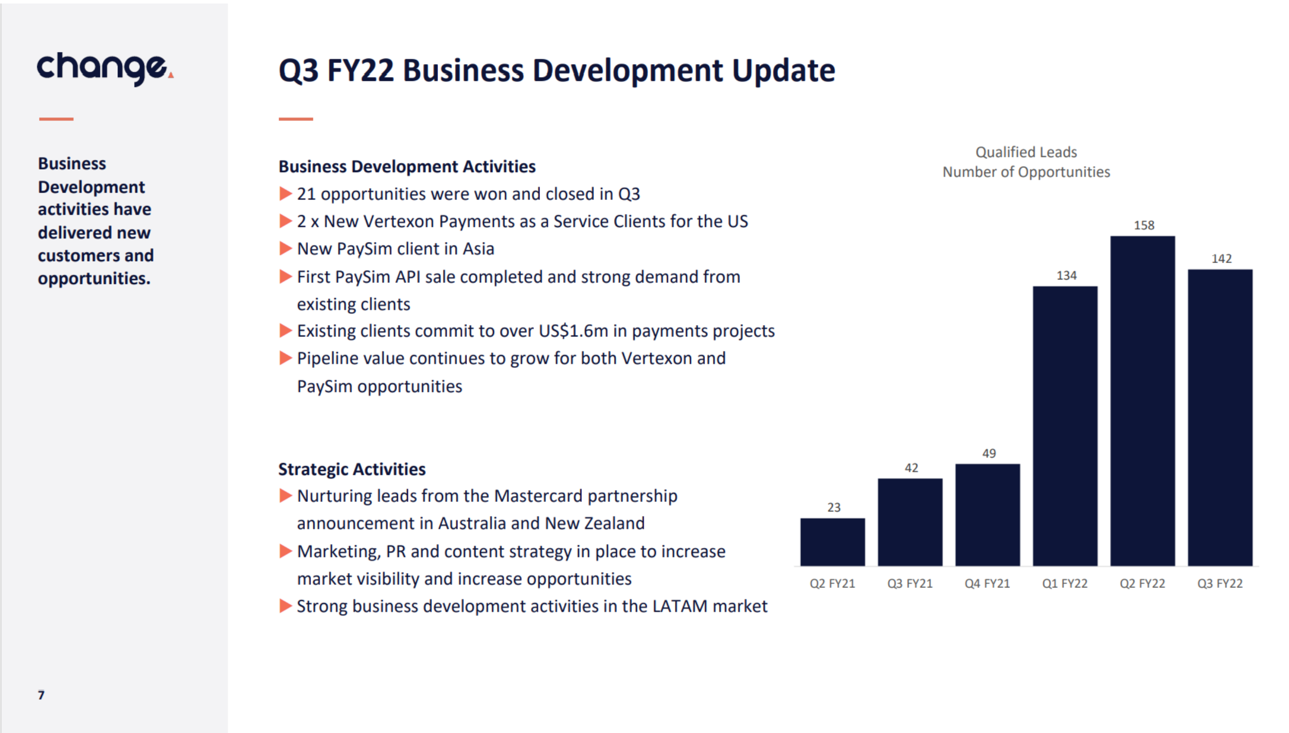
It has already largely achieved the deliverables it set itself for this year, and appears well placed on achieving its final few objectives in the last quarter of the year.

Figure 20 – Business Development Update

Source: Company reports, MST Access estimates

Change Financial continues to have a strong and growing business development pipeline, with both of its products, Vertexon and PaySim, attracting new clients. This should grow as it increases its marketing and public relations activities.

Figure 21 – Business Development Update



Source: Company reports, MST Access estimates

Partnership with Mambu

Further supporting its business development pipeline is its partnership with Mambu, once the onboarding process with Mambu is complete. Mambu presents a strong source of attractive lead generation for Change Financial, particularly in its target growth regions of South East Asia, Latin America as well as the US, Australia and New Zealand, once it goes live, likely in 1Q23.

Direct Issuing in Australia and New Zealand

Further accelerating Change Financial's growth in the near future is leveraging its Vertexon platform to move into direct card issuing in partnership with Mastercard in Australia and New Zealand. To enable this to occur, the company has already become a Registered Financial Service Provider in New Zealand, and is awaiting its Australian Financial Services Licence in Australia, which might take another six months or so.

Change Financial plans to offer both prepaid and debit cards in New Zealand and prepaid cards in Australia – in both physical and digital formats. This expands opportunities to deliver its payments as a service solution to banks and fintechs, and places it in competition with other direct issuers in the Australian market such as EML Payments and Novatti, as well as authorised deposit institutions such as Indue also providing white-label card issuance.

Many small financial institutions in Australia and New Zealand use payment partners to simplify their business, and operate competitively. For example, Auswide Bank use Indue for their card offerings, while Change Financial has a relationship with ME Bank, which following its acquisition by Bank of Queensland (BOQ) could in time broaden into a wider relationship with BOQ.

Auswide, Bank of Queensland, Suncorp and a range of other smaller institutions, have also used Citibank's white label credit cards to expand their product offering. However, with Citibank selling its Australian retail banking assets to NAB, many of these small banks may look to review these card arrangements, creating fertile conditions for Change to expand its services on the Vertexon platform such as those offered to ME Bank to other organisations and strengthen its relationships with smaller Australian banks, many of whom will already use its PaySim software. Given Citibank's white-label focus on rewards cards, bolting on a rewards platform could provide Change Financial with the edge it needs to secure more wide-spread adoption.

Revenue model transition creates a medium-term risk of a further capital raising

It is plausible that the group will again look to raise equity at some stage to continue to execute on its growth plans, although its cash position currently appears robust. It has recently commenced a revenue model transition, similar to a number of other software businesses which have transitioned their offerings to software as a service. While long term this is very positive for the group, as it lowers the upfront cost of its product encouraging broader market adoption and provides considerable visibility over revenues, it can cause short term revenue weakness early on during the transition, supporting our view that it may again look to raise capital to support its rapid growth.

Figure 22 – Revenue model transition

change.

Change is transitioning from a licence and project fee revenue model to a SaaS revenue model.

SaaS revenue to start in H2 FY22 on first US SaaS customer launch.

10

Revenue Model Transition

Previous Revenue Model

	Revenue Source	H1 FY22 Revenue
Recurring	**Maintenance** Support & maintenance contracts for existing clients	55%
Recurring	**Subscription (SaaS)** Recurring monthly / annual charges with minimal to no one-off upfront fees	N/A
Recurring	**Transactional (SaaS)** Volume and transaction based fees	N/A
Non-recurring	**Licensing** One-off upfront fees	13%
Non-recurring	**Projects** New products, features, upgrades, client requests	32%

New Revenue Model

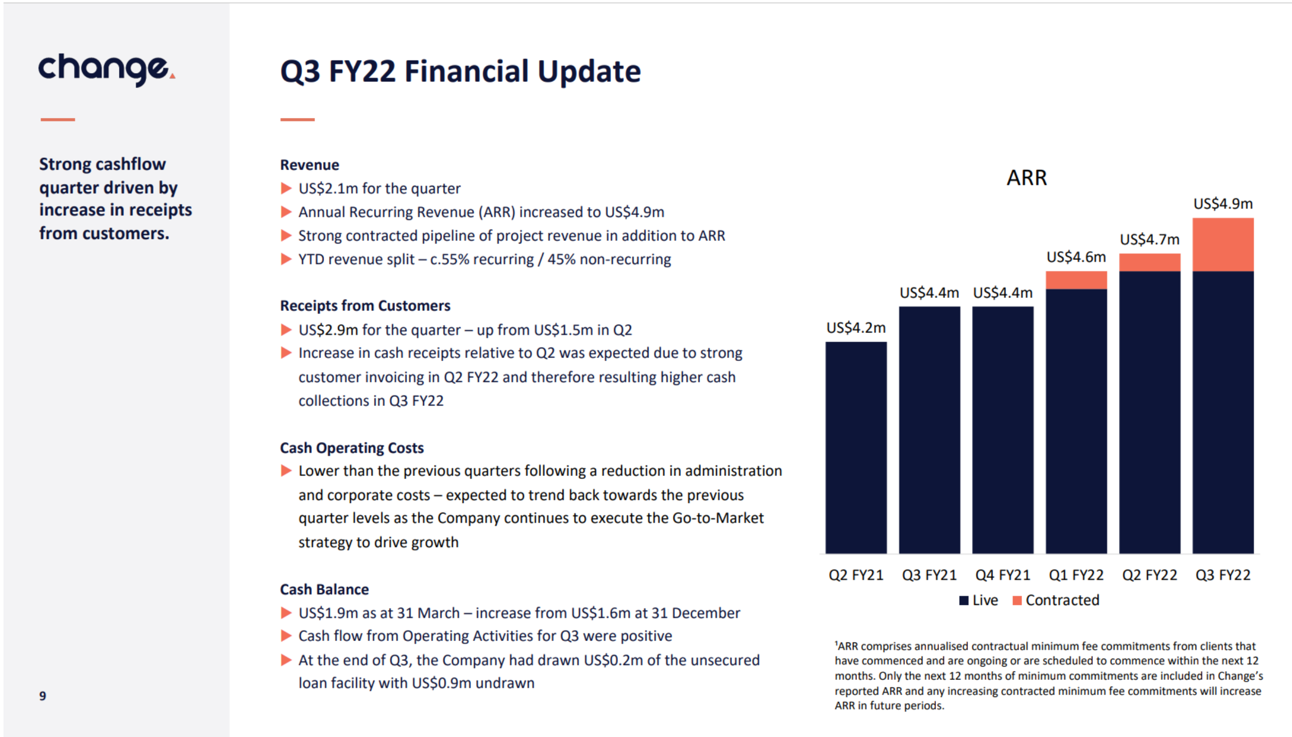
FY23+ Revenue Trend	Key Drivers of Revenue Trend
↔	Maintenance revenue tied to one-off license sales which is expected to slow as the business transitions to a SaaS subscription and transactional revenue model
↑	**Vertexon:** Actively seeking to transition existing clients to SaaS model which will drive uplift in annual revenue. Targeting all new customers to be onboarded on a SaaS basis **PaySim:** Exploring a SaaS model to lower upfront capital requirements from clients and offer more flexible pricing
↑	**Vertexon:** Transaction and volume-based fees are a key focus and driver of revenue growth
↓	Transition to SaaS / subscription model for new clients will reduce new licence fee revenue. Change will continue to license new features to existing clients
↔	Growth expected to slow as existing clients migrate to SaaS / subscription model

Source: Company reports, MST Access estimates

Quarterly cashflows and cash runway

Change delivered a very strong Q3 FY22 update, with strong revenue growth, and even strong cash receipts from customers as its annual recurring revenue continues to build. Furthermore, strong cost control saw operating costs fall, allowing it to achieve a positive operating cashflow during the quarter, and lifting its cash balance.

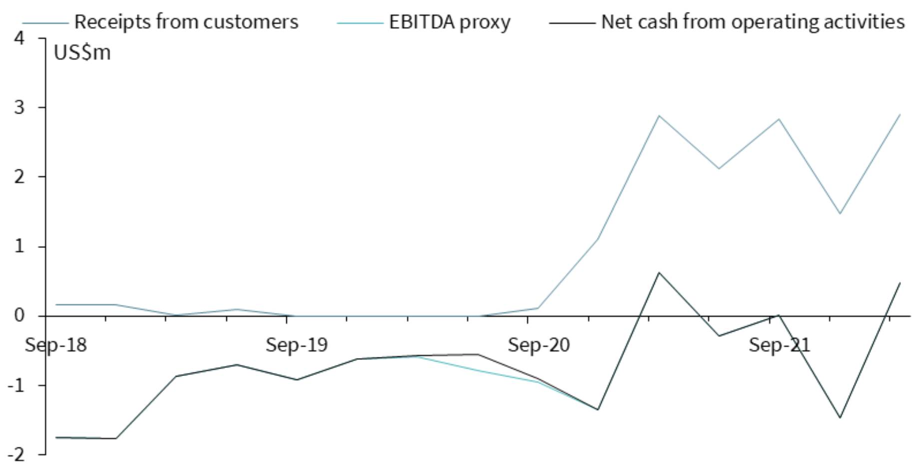
Figure 23 – Q3 FY22 Financial Update



Source: Company reports, MST Access estimates

The step change in Change Financial's quarterly performance, following its acquisition of Wirecard's assets in Australia and New Zealand incurred in Oct 2020, is evident when reviewing its quarterly cashflows. Evident in its cashflows is a reasonable degree of volatility from quarter to quarter. This appears to be due to the impact of large lumpy invoices, which can vary quarter to quarter. The strong March 2022 quarter is in part due to outstanding invoices in December 2021 which were collected during the quarter.

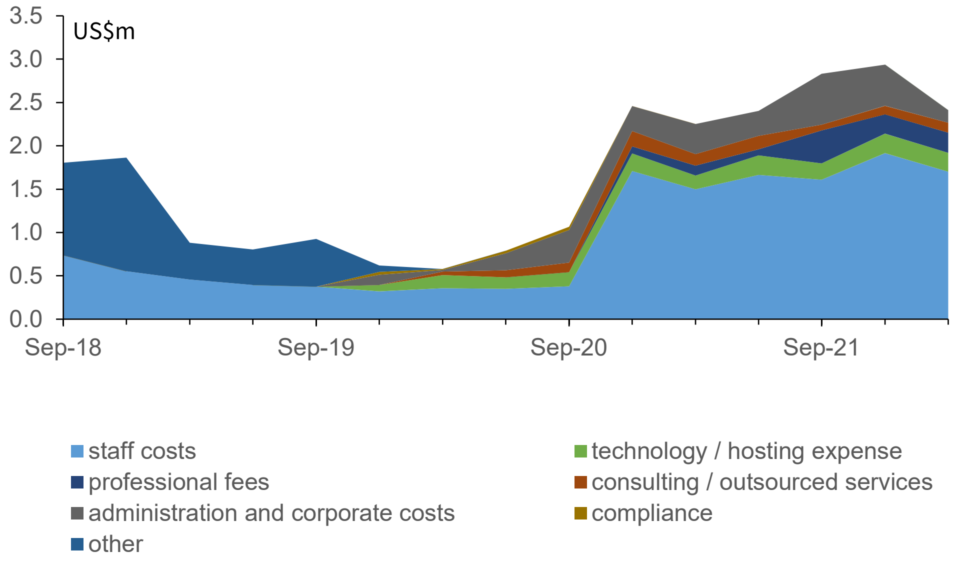
Figure 24 – Quarterly cash receipts and operating cashflow



Source: Company reports, MST Access estimates

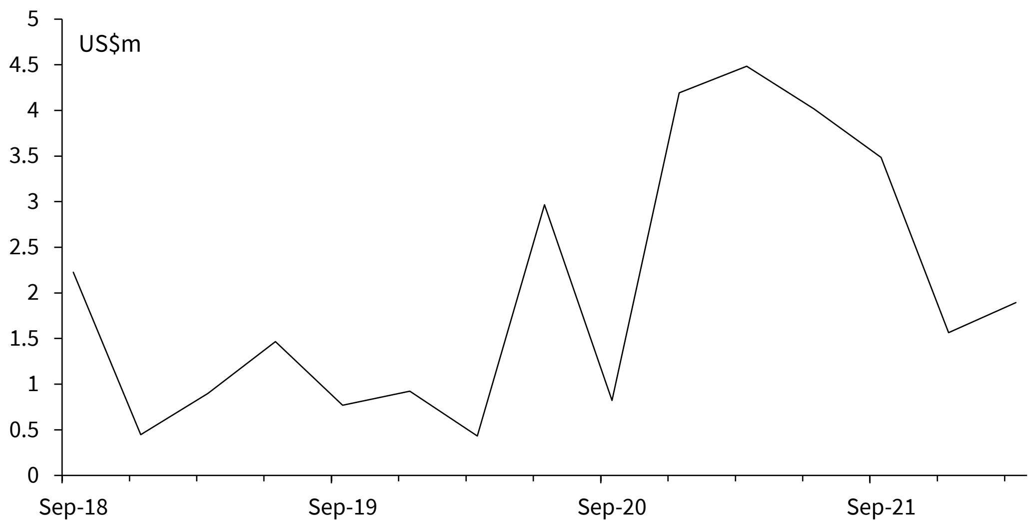
While invoicing can be lumpy, there doesn't seem to be the same lumpiness of cash expenses, which are likely a more accurate read on the operating costs of the business, and given their stability, hint at the potential operational leverage inherent in the business. Cash expenses are down by 17.9% from 2Q22, largely driven by the lower administration/corporate and staff costs of 70% and 11% respectively, although these are expected to rebound due to the company executing on its go-to-market growth strategy and resulting continued growth in Annual Recurring Revenue (ARR).

Figure 25 – Cash Expenses



Source: Company reports, MST Access estimates

Figure 26 – Cash Holdings



Source: Company reports, MST Access estimates

The higher cash balance at the end of 3Q22 was assisted by the higher cash collection in 3Q22 resulting in positive operating cash flows, supported by a number of outstanding invoices the company noted in its 2Q22 Appendix 4C. Backing out our estimate of these outstanding invoices and adding back the additional expenses it expects to incur for growth, the company may still be strategically burning a modest amount of cash, leaving it with a runway of several quarters, which would be further reduced if it were to repay the modest debt facility it has recently arranged.

Figure 27 – Cash Runway

	2022Q3 US$m	Adjustments US$m	Adjusted US$m	Comments
Net cash from / (used in) operating activities	0.483		0.483	
Cash and cash equivalents at quarter end	1.895		1.895	
Unused finance facilities available at quarter end	0.864		0.864	
Total available funding available	2.759		2.759	
Estimated periods of funding available	**N/A**		**N/A**	

Source: Company reports, MST Access estimates

Key valuation considerations

Key modelling assumptions

Our key assumptions underlying the growth in Change Financial's income over the next few years are listed below. We believe that, on balance, these assumptions could end up being on the conservative side of potential growth outcomes.

Figure 28 – Key modelling assumptions

Income statement	
Revenue	We are expecting 10% growth a half in the number of customers on annual recurring revenue contracts, starting at $2.5m in 2H22. In addition, we are expecting transaction revenue to grow by $0.5m per half following the launch of Vertexon in Ocenia, starting from nothing in 1H22. Additional modest one off maintenance and support revenues of ~$200k each half we assume will also continue to occur. Professional service revenues are expected to increase by 20% a half.
Cash expenses	Expenses are assumed to increase in absolute terms each half, while the cost to income ratio falls, hitting 100% in 1H24.
Depreciation and amortisation	These items are expected to increase as software development is capitalised and then amortised over several years.
Interest	We allow for the interest and finance charges associated with CCA's non-dilutive funding to support growth annouced on 31 January 2022
Tax	We assume that CCA will incur taxation at the Australian corporate rate of 30% from 1H27. No tax is anticipated to be paid prior to this, due to ongoing losses and then the tax shield provided by these losses.
Cashflow	
Capital expenditure	We expect capex to increase modestly as Change invests in building out its Vertexon business, with much of the development capitalised as software intangibles.
Debt	We assume that CCA draws down its full A$1.5m debt facility in 2H22, and obtains further debt in FY24.
Dividends	We do not forecast any dividends for the foreseeable future, given the high growth nature of the business.
Share capital raising	We assume an additional US$4m capital raising in FY23.
Leases	We assume that lease payments will be sustained at around US$0.3m a year
FX	We do not assume any future FX impacts on cash balances, although there will be likely be some as exchange rates move.

Source: Company reports, MST Access estimates

Income Statement

Figure 29 – Projected Income Statements

Date		Jun-20	Jun-21	Jun-22	Jun-23	Jun-24	Jun-25	Jun-26
Period		FY20A	FY21A	FY22E	FY23E	FY24E	FY25E	FY26E
Revenue and other income	US$m	0.3	6.3	7.9	10.0	14.3	19.5	25.7
Total Cash Expenses	US$m	-3.5	-8.6	-10.7	-12.6	-14.0	-15.5	-17.3
EBITDA	**US$m**	**-3.2**	**-2.3**	**-2.8**	**-2.7**	**0.4**	**4.0**	**8.4**
Depreciation, amortisation and impairment	US$m	0.0	-1.0	-1.1	-1.4	-1.8	-2.3	-3.0
EBIT	**US$m**	**-3.3**	**-3.3**	**-3.9**	**-4.1**	**-1.4**	**1.6**	**5.4**
Net interest	US$m	-0.3	0.0	-0.1	-0.1	-0.2	-0.2	-0.2
Profit before income tax	**US$m**	**-3.5**	**-3.3**	**-4.0**	**-4.2**	**-1.6**	**1.4**	**5.2**
Income tax expense	US$m	0.0	-0.2	0.0	0.0	0.0	0.0	0.0
NPAT	**US$m**	**-3.5**	**-3.5**	**-4.0**	**-4.2**	**-1.6**	**1.4**	**5.2**
Closing basic shares on issue	m	268.1	396.7	396.7	446.7	446.7	446.7	446.7
Weighted average basic shares on issue	m	182.4	396.7	396.7	446.7	446.7	446.7	446.7
Weighted average diluted shares on issue	m	185.7	398.7	399.0	449.0	449.0	449.0	449.0
Basic EPS	US$	-0.019	-0.009	-0.010	-0.009	-0.004	0.003	0.012
Diluted EPS	**US$**	**-0.019**	**-0.009**	**-0.010**	**-0.009**	**-0.004**	**0.003**	**0.011**
EPS growth	%	-65.2%	-54.5%	15.3%	-7.2%	-62.2%	-189.7%	261.5%
PE ratio	x	-2.7	-5.9	-5.1	-5.5	-14.6	16.3	4.5

Source: Company reports, MST Access estimates

Balance Sheet

Figure 30 – Projected Balance Sheets

Date		Jun-20	Jun-21	Jun-22	Jun-23	Jun-24	Jun-25	Jun-26
Period		FY20A	FY21A	FY22E	FY23E	FY24E	FY25E	FY26E
Assets								
Cash and cash equivalents	US$m	3.0	4.0	1.4	1.1	0.3	2.5	9.7
Other receivables	US$m	0.2	2.4	2.9	2.7	3.9	5.2	6.9
Lease receivable	US$m	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Other current assets	US$m	0.0	0.4	1.8	1.5	1.9	1.8	0.9
Current tax asset	US$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contract assets	US$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Held for sale - investment in associate	US$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total current assets	**US$m**	**3.4**	**6.7**	**6.0**	**5.4**	**6.1**	**9.6**	**17.4**
Property, plant and equipment	US$m	0.0	0.5	0.3	0.3	0.4	0.3	0.4
Right of use assets	US$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Intangibles	US$m	0.0	5.5	6.0	7.0	7.8	8.6	9.4
Lease receivable	US$m	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Investment in associate	US$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total non-current assets	**US$m**	**0.2**	**6.0**	**6.4**	**7.3**	**8.2**	**9.0**	**9.8**
Total Assets	**US$m**	**3.6**	**12.7**	**12.4**	**12.7**	**14.3**	**18.5**	**27.2**
Current liabilities								
Trade and other payables	US$m	0.6	1.4	1.8	2.3	2.6	2.7	3.1
Provisions	US$m	0.2	1.0	1.0	1.0	1.0	1.0	1.0
Lease liability - current	US$m	0.2	0.3	0.2	0.2	0.2	0.2	0.2
Contract liabilities	US$m	0.0	2.7	4.3	5.5	7.8	10.4	13.7
Borrowings	US$m	0.0	0.0	1.1	1.1	1.7	1.7	1.7
Other current liabilities	US$m	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Total current liabilities	**US$m**	**1.1**	**5.4**	**8.4**	**10.1**	**13.2**	**16.1**	**19.7**
Non current liabilities								
Provisions	US$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Lease liability	US$m	0.2	0.3	0.2	0.2	0.1	0.1	0.0
Total non-current liabilities	**US$m**	**0.2**	**0.3**	**0.2**	**0.2**	**0.2**	**0.1**	**0.1**
Total liabilities	**US$m**	**1.2**	**5.7**	**8.6**	**10.3**	**13.4**	**16.2**	**19.8**
Net assets	**US$m**	**2.3**	**7.0**	**3.8**	**2.5**	**0.9**	**2.3**	**7.4**
Net tangible assets	**US$m**	**2.3**	**1.5**	**-2.3**	**-4.6**	**-6.9**	**-6.3**	**-2.0**
Shareholder funds								
Contributed equity	US$m	34.8	42.5	42.5	46.5	46.5	46.5	46.5
Reserves	US$m	4.3	4.7	5.9	4.7	4.7	4.8	4.7
Retained earnings/accumulated losses	US$m	-36.7	-40.2	-44.6	-48.8	-50.4	-48.9	-43.8
Shareholder funds	**US$m**	**2.3**	**7.0**	**3.8**	**2.5**	**0.9**	**2.3**	**7.4**
Minorities	US$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total equity	**US$m**	**2.3**	**7.0**	**3.8**	**2.5**	**0.9**	**2.3**	**7.4**
Basic shares on issue	m	268.1	396.7	396.7	446.7	446.7	446.7	446.7
Diluted shares on issue	m	274.6	399.0	399.0	449.0	449.0	449.0	449.0

Source: Company reports, MST Access estimates

Cash Flow

Figure 31 – Projected Cash Flow

Date		Jun-20	Jun-21	Jun-22	Jun-23	Jun-24	Jun-25	Jun-26
Period		FY20A	FY21A	FY22E	FY23E	FY24E	FY25E	FY26E
Operating cash flows - indirect								
Net Income	US$m	-3.5	-3.5	-4.0	-4.2	-1.6	1.4	5.2
Depreciation, Amortization and Impairments	US$m	0.0	1.0	1.1	1.4	1.8	2.3	3.0
Share based payments	US$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Share of joint venture profit	US$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unrealised foreign exchange gain	US$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-cash finance charges	US$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in Net Operating Assets								
Increase in trade and other receivables	US$m	-0.2	-2.0	-0.5	0.1	-1.1	-1.3	-1.6
Increase in trade and other payables	US$m	0.4	0.7	0.5	0.5	0.3	0.2	0.4
Increase in employee benefits	US$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Increase in deferred income	US$m	0.0	2.7	1.6	1.2	2.3	2.7	3.3
Other	US$m	0.5	-0.7	-0.7	-1.0	-1.0	-1.0	-1.0
Net cash from operating activities	**US$m**	**-2.9**	**-1.7**	**-2.0**	**-2.0**	**0.6**	**4.3**	**9.2**
Investing cash flows								
Capex - property, plant, equipment	US$m	0.0	0.0	-0.1	-0.1	-0.2	-0.1	-0.2
Capex - software development	US$m	0.0	-0.7	-1.3	-1.8	-1.6	-1.6	-1.6
Receipts from sublease excluding (interest received)	US$m	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Acquisitions and divestures	US$m	0.2	-4.5	0.0	0.0	0.0	0.0	0.0
Net cash used in investing activities	**US$m**	**0.3**	**-5.2**	**-1.4**	**-1.9**	**-1.8**	**-1.7**	**-1.8**
Financing cash flows								
Equity	US$m	3.4	8.4	0.0	4.0	0.0	0.0	0.0
Debt	US$m	0.7	-0.6	1.1	0.0	0.6	0.0	0.0
Leases	US$m	-0.1	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3
Net cash used in financing activities	**US$m**	**4.0**	**7.6**	**0.8**	**3.7**	**0.3**	**-0.3**	**-0.3**
Net change in cash and cash equivalents	**US$m**	**1.4**	**0.7**	**-2.6**	**-0.2**	**-0.8**	**2.2**	**7.1**
Cash and cash equivalents at the start of period	US$m	1.5	3.0	4.1	1.4	1.1	0.3	2.5
Impact of FX on cash balances	US$m	0.1	0.4	-0.1	0.0	0.0	0.0	0.0
Cash and cash equivalents at the end of period	US$m	**3.0**	**4.1**	**1.4**	**1.1**	**0.3**	**2.5**	**9.7**
Free cash flow to the firm	US$m	-2.7	-7.1	-3.7	-4.2	-1.5	2.2	7.1
Free cash flow to equity	**US$m**	**-1.9**	**-7.7**	**-2.6**	**-4.2**	**-0.8**	**2.2**	**7.1**

Source: Company reports, MST Access estimates

Valuation

We consider a range of valuation approaches to estimate CCA's valuation, including:

- intrinsic valuation scenarios of its potential future growth profiles.
- peer multiples and growth rates.

Other equity market considerations such as short sales; any likely forthcoming changes in index inclusion; depth of stock research coverage; composition of and change in the mix of investors (such as founders, board and staff, domestic institutions, foreign institutions, and retail investors) are not incorporated in our valuation; however investors should consider such factors if they seek to develop a price target for the company. We have checked the short sales report, identified.

Figure 32 – MST Access discounted free cashflow to equity valuation of Change Financial

Current date		19-May-22									
Next balance date		30-Jun-22									
		Jun-22	Dec-22	Jun-23	Dec-23	Jun-24	Dec-24	Jun-25	Dec-25	Jun-26	Dec-26
Free cash flow to equity	**US$m**	**-0.3**	**-2.1**	**-2.1**	**-1.1**	**0.2**	**0.5**	**1.7**	**2.9**	**4.2**	**0.7**
Discounted cash flow	**US$m**	**-0.3**	**-1.9**	**-1.8**	**-0.9**	**0.2**	**0.4**	**1.1**	**1.8**	**2.4**	**0.4**

Sum of discount streams	US$m	1.1	**CAPM**	
Future value into perpetuity	US$m	64.7	Risk free rate	2.00%
NPV of terminal value	US$m	37.7	Equity beta	2
add adjusted net cash and associates	US$m	1.6	Equity risk premium	6.00%
Value of total equity	**US$m**	**40.4**	Cost of equity	14.0%
Diluted shares on issue	#	399.0		
Value per share	**US$**	0.10	Terminal growth	3.0%
Upside/downside	%	95.3%		

Source: Company reports, MST Access estimates

Many financial analysts use some form of residual income or value-added valuation approach, due to the complexities and uncertainties involved in forecasting cashflow, in part due to regulatory capital requirements. Some of the advantages of this approach are that:

- the bulk of the valuation is generally recognized upfront, in the net asset value providing greater certainty around a large component of the valuation.
- uses profit, rather than cashflow, forecasts.

We use a two-stage model, using our explicit forecasts over the next five years, followed by a terminal value, to which we add current net assets per share. We assume a risk-free rate of 2.0% and equity risk premium of 6.0%. We estimate CCA's equity beta to be 2. We estimate CCA's cost of equity to be 14.0% and terminal growth of 3.0%. This produces a valuation of US$0.10 per share which converts at spot FX rates to A$0.14 per share.

Comparative Multiples

Relative valuation techniques such as peer valuation multiples are a popular way to value many companies, including price earnings multiples and Enterprise to Revenue multiples. Our financial summary on page 2 of this report details our derivation of these current implied valuation multiples for CCA.

Figure 33 – Change Financial peer comparative valuation multiples

Identifier (RIC)	Company Name	Price / Revenue	Price / Book	Price / NTA
EML.AX	EML Payments Ltd	6.53	3.0	-19.1
NOV.AX	Novatti Group Ltd	8.89	22.6	1.8
A2B.AX	A2B Australia Ltd	1.34	1.4	2.4
SMP.AX	SmartPay Holdings Ltd	6.02	8.2	59.0
TYR.AX	Tyro Payments Ltd	8.00	10.4	15.6
	Australian average	**6.2**	**9.1**	**11.9**
PAY.TO	Payfare Inc	8.28	8.1	6.7
PAYP.L	PayPoint plc	3.18	10.3	-22.2
NETW.L	Network International Holdings PLC	6.20	3.6	-12.3
PSFE.K	Paysafe Ltd	1.90	1.1	-0.8
MQ.O	Marqeta Inc	12.04	5.9	3.2
WU	Western Union Co	1.44	19.8	-3.2
WEX	WEX Inc	3.44	3.4	-2.7
WLN.PA	Worldline SA	4.14	1.5	-3.9
AMA.MC	Amadeus IT Group SA	10.05	7.2	-7.1
SQ	Block Inc	4.59	22.9	17.6
FIS	Fidelity National Information Services Inc	4.88	1.4	-2.9
FISV.O	Fiserv Inc	4.30	2.2	-3.3
PYPL.O	PayPal Holdings Inc	8.82	10.1	11.1
MA	Mastercard Inc	18.88	48.2	-76.8
V	Visa Inc	24.26	13.6	-34.3
	International average	**7.8**	**10.6**	**-8.7**
CCA.AX	Change Financial Ltd	3.30	2.9	13.6

Source: IBES, Refinitiv, MST Access.

Governance considerations

Board of Directors

Figure 34 – Change Financial Board of Directors

Benjamin Harrison	Chairman
Thomas Russell	Alternate Director for Benjamin Harrison
Ian Leijer	Non-Executive Director
Edward Grobler	Non-Executive Director
Alastair Wilkie	Chief Executive Officer & Managing Director

Source: Company reports, MST Access estimates

Benjamin Harrison - Chairman

Benjamin has 15 years' experience in advising and investing in companies. He commenced his career as a project manager for a large international engineering consulting firm working on a number of infrastructure projects in Australia and Southeast Asia. Benjamin is a founder and chief investment officer of Altor Capital and is active in the private credit and private equity sectors in Australia. He currently holds board and advisory roles for a number of private and public companies.

Thomas Russell - Alternate Director for Benjamin Harrison

Thomas has more than 10 years' experience as an investor and corporate advisor working across a range of industries with a focus on growth companies in the technology, finance, industrial, energy and resource sectors.

Having held previous roles in the United States and Australia Thomas has been instrumental in raising capital, advising on business strategy, executing M&A transactions, managing operations and development, as well as launching technology platforms.

Ian Leijer - Non-Executive Director

Ian is a Chartered Accountant with over 25 years' experience in financial analysis, corporate transactions, business strategy and business management. Ian currently works with a number of entities on business analysis, capital raising (debt & equity) and general management. Ian also holds a Bachelor of Economics from the University of Sydney, Australia.

Edward Grobler - Non-Executive Director

Edward has more than 34 years' experience in the Payments industry. He spent 14 years working for one of the largest banks in South Africa where he was responsible for Electronic Banking and Merchant Services. Edward then joined Mastercard in 1999 as Senior Vice President for Mastercard Africa. In 2008 he was appointed as Executive Vice President for Mastercard Australasia and in 2017 he took up the role of Executive Vice President: Real Time Payments, based in the United Kingdom.

Alastair Wilkie - Chief Executive Officer and Managing Director

Alastair is an experienced financial services executive specialising in banking and payments coupled with a background in information technology and business development. Alastair has over 25 years of experience in senior leadership roles across Australia, Europe and North America. Prior to joining Change, Alastair was Founder and Chairman of companies driving digital disruption in the financial services industry. He was Chief Operating Officer at ASX listed, EML Payments, and Executive General Manager at Indue, an approved deposit taking Institution providing aggregated banking services to the Australian payment system. Alastair has held senior executive roles at Monteray Group, Bull Information Systems, Vision Consulting and ExploreIT. He has a Diploma in Management Studies from W.L. College in Scotland and studied Business Administration at the Executive Management Institute, ESSEC in Paris.

Senior Management

Figure 35 – Change Financial Senior Management

Alastair Wilkie	Chief Executive Officer
Tony Sheehan	Chief Financial Officer
Clayton Fossett	Chief Operating Officer
Vinnie D' Alessandro	Chief Product Officer
Arnold Lee	Chief Technology Officer

Source: Company reports, MST Access estimates

Tony Sheehan - Chief Financial Officer

Newly appointed in July 2021, Tony Sheehan is Change's current Chief Financial Officer and oversees the financial and commercial management and strategies of Change Financial. He has extensive experiences in fintech and the payments industries prior to his current role, through leadership roles in various companies across Australia, New Zealand and the UK. Tony commenced his career at PricewaterhouseCoopers (PwC) before working for Macquarie Capital for over six years in Sydney and London, and then private equity in London for two years; and more specifically in fintech and payments, he was the CFO and then COO for Global Payments AU/NZ for six and a half years which provides eCommerce payment and payment processing services.

Clayton Fossett - Chief Operating Officer

With over 20 years of experience in fintech, online operations and strategy, Clayton has been involved with Change Financial since its establishment. He received an MBA from Harvard Business School and has since gained experiences and held leadership roles in numerous companies. Clayton was Director of Finance Operations in Yahoo! from 2002 to 2012, a Digital Strategy Practice Leader in Guidance Solutions from 1999 to 2002 and a West Region Practice Leader for Deloitte & Touche from 1996 to 1999.

Vinnie D' Alessandro - Chief Product Officer

Starting in Change as a CTO in 2020, Vinnie is currently the Chief Product Officer who led the product team in developing Vertexon and PaySim. He has over 20 years of experience across a wide array of industry – such as tourism, energy, construction – and held leadership roles in Silver Chef as Head of Technology in July 2017 to December 2018, a Co-Founder of Gifting Owl since February 2019, a Director in Raishio since March 2019, a Chief Product Officer in Umbrella Solutions since July 2019. He holds a bachelor's degree in information technology from Queensland University of Technology (QUT).

Arnold Lee - Chief Technology Officer

Arnold has been Change's Chief Technology since August 2021. Previously he was the Group Manager, Head of Application Development and he has strong experiences involving technology and people management. Arnold has a considerable insight in the payments industry through his previous work as a Development Manager in Wirecard which involves card issuing and merchant acquiring, a Head of Technical Client Management and Support in Trayport, a Reporting Specialist Business Objects Developer for Royal Bank of Scotland from February 2007 to September 2009, and as a Reporting Specialist and Trade Floor Support in BNP Paribas from 2002 to 2007.

No short interest year to date

Change Financial has zero short selling activity occur in its stock year to date, with the stock not appearing in ASIC's latest short position reports. With no shares on issue short sold year to date a short squeeze in the stock is currently very unlikely.

An open dispersed share register absent of significant shareholders

Figure 36 – Share register shareholdings by size bands

Spread of Holdings	# Holders	# Shares	% Issued Capital
1-1000	300	178,189	0.04%
1001-5000	605	1,908,953	0.48%
5001-10000	397	3,141,628	0.79%
10001-50000	798	20,720,913	5.21%
50001 to 100000	263	20,726,342	5.21%
100001 and over ex top 20	452	219,516,289	55.17%
Top 20	20	131,696,354	33.10%
Total	**2,835**	**397,888,668**	**100%**

Source: Company reports, MST Access estimates

CCA has a relatively dispersed share registry, which should aid liquidity in the stock.

As of August 19, 2021, the top 20 shareholders own 33.1% of total issued capital, while the next 452 holders, who own more than 100001 shares own 55.17% of total issued capital.

Bart Properties Pty Ltd is the largest stakeholder, owning 3.66% of the company; as such, there is no significant shareholder with a greater than 5% shareholding the company.

Risks and Sensitivities

Macroeconomic impacts

Key influences on our valuation include:

- Economic conditions, influencing exchange rates, interest rates, inflation and bad debts.
- Equity and debt markets, influencing investment returns and risk premiums.

CCA has a direct sensitivity, and an indirect sensitivity to economic conditions and financial markets and their associated risks, including liquidity, price/volatility, credit, counterparty, and duration. We discuss these briefly below, and in more detail later in the report.

The direct sensitivity is quantifiable, driven by its payments businesses, with earnings increasing and decreasing with transaction volumes. Exchange rates can vary these volumes, and lead to considerable volatility of profit.

The indirect sensitivity is potentially more significant, yet harder to quantify. Business confidence, consumer confidence and market conditions play a significant influence on lending demand, while immigration can have a significant impact on foreign investment and FX flows.

Regulatory Requirements

As a Financial Institution, Change Financial is subject to a significant number of regulatory requirements, and could suffer from adverse changes to the requirements, including in Australia:

- Anti-money laundering and counter terrorist financing requirements administered by Austrac;
- Foreign Investment restrictions administered by the Foreign Investment Review Board;
- Privacy requirements administered by the Privacy Commissioner;
- Financial Service licencing and Credit licencing requirements administered by the Australian Securities and Investments Commission (ASIC);
- Australian Consumer Law and unfair contract terms contained in the Corporations Act administered by the Australian Competition and Consumer Commission (ACCC);

- Restrictions on merchant pricing, or interchange fees, administered by the Reserve Bank of Australia (RBA) leading to fee compression;
- Taxation legislation administered by the Australian Taxation Office (ATO);
- Accounting standards required under the Corporations Act administered by the Australian Accounting Standards Board (AASB) and ASIC;
- Design and distribution obligations, several of which will be governed by contract law.

Ultimately a significant proportion of CCA's success will be determined by the human capital within the business, therefore CCA's ability to attract and retain talent is fundamental to its long-term success as it will drive innovation across the Group.

All key management are highly aligned with shareholdings and sizeable option packages. CCA has a quality management team that is highly aligned to the future success of the business. We see this a fundamental to any business with significant growth ambitions.

Growing pains

The challenge of managing explosive growth – including hiring people with appropriate qualifications, experience and background clearances while maintaining the company's culture, training staff to have an in depth knowledge of the company's products and features, scaling fixed infrastructure and managing customer and investor expectations can be challenging, and there are many examples where problems have emerged because growth has occurred faster than management has been able to suitably manage it. It's a high-quality problem to have, but can lead to missed expectations.

Reputational risks

Reputational risks could threaten Change Financial's entire business model and social license to operate. As a payments' provider, should a prolonged disruption occur at Change Financial or with its partners (as happened in early 2021 to Tyro Payments), leading to a loss of customer and/or investor confidence, this could in turn threaten its financial viability.

Technology Changes

In addition to continued product development, Change Financial will be required to also stay abreast of emerging technology platforms, competitors, and disruptions in order to take advantage of new payment methods and/or protect against direct impacts to its capabilities. Furthermore, its service offering relies on a handful of external software and hardware vendors which contribute to its capabilities, and adverse changes to the products provided by these vendors could lead to Change Financial needing to impair intangible assets related to functionality or features.

Market & Shareholder Support

As a listed company, Change Financial is hostage to market conditions. In volatile markets, this can result in a lack of liquidity; which can lead to volatile trading where the shares trade at prices significantly diverged from their intrinsic value.

While our modelling suggests that CCA is likely to improve its cash position; there is a risk that should the company identify an additional high growth market it wishes to address, it might seek additional capital from the financial markets. We consider it unlikely that the company would seek to dilute existing shareholders in order to acquire additional businesses, and any acquisition is likely to instead be assessed by management as highly accretive over the long term.

The level of the company's share price is likely to also influence the approach management takes to growing the company. When the company trades on high revenue multiples, and capital is cheap, this incentivises management to aggressively chase further growth, potentially raising capital to fund investments to achieve this growth. Lower revenue multiples provide less incentive to aggressively chase sales growth. As a payments company, a large proportion of expenses are largely fixed, so greater revenue growth translates rapidly into improving operational leverage.

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