2024 Annual Meeting Addresses

Lower Hutt, New Zealand - 19 September 2024

Chair's Address

2024 was a transitional year for PaySauce. We delivered our maiden net profit after tax, positive cashflow and successfully executed the strategies that will enable us to deliver an acceleration of growth and drive the long-term sustainability of our business.

Reinvesting for Long-Term Growth

In F24, our primary strategic objective was to reinvest for long-term growth. Achieving cashflow self-sufficiency placed us in a privileged position to reinvest in areas crucial for PaySauce's long-term value—our software. We made two pivotal decisions that shaped our path forward. First, we embarked on building a brand-new payroll engine to power a unified payroll platform for all PaySauce products, including wholesale payroll. Second, we strengthened our existing tech stack to facilitate future technical and security enhancements.
The new payroll engine was successfully built, and we signed off a proof of concept with a third party to embed payroll into their product. Although competing tech priorities for the client prevented this from evolving into a multi-year sales contract, the new engine remains critical to our future growth plans. Our focus on strengthening the existing tech stack was also successful, and I am pleased to report that we have migrated all PaySauce and goPayroll customers to AWS.

These strategic choices impacted our capacity to deliver new features for our existing customer base, resulting in a slower rate of new customer acquisition. However, our platform is now in a stronger position to reduce operational maintenance and enable faster product development moving forward.

Commitment to Existing Customers

While a significant portion of our focus has been on reinvesting for long-term growth, we dedicated development resources to enhance our service delivery by investing in our Salesforce CRM solution and upskilling our talented customer service team. This commitment has been rewarded with increased customer advocacy, as evidenced by our NPS growing from 48 in March 2023 to 58 in March 2024.

We have also engaged with industry bodies to grow our presence and brand awareness in the trades and construction verticals. Our sales team has focused on customer acquisition through accounting partner channels, adding new partners and expanding our customer base with existing ones.

Governance and Leadership

Turning to governance, we are thrilled to welcome James Sybertsma (Jim) to the board this year. With over 25 years of experience in financial leadership roles across various industries and company sizes, from start-ups to scale-ups, Jim brings a wealth of expertise. Pending election today, Jim will continue to bring his commercial perspective to the board as Chair of PaySauce's Audit and Risk Committee, ensuring our financial and risk reporting frameworks continue to evolve as we execute our growth strategy.

Outlook and Gratitude

The board and management remain confident about the company's prospects. While the current high-interest rate environment is expected to drop in the short to medium-term, for PaySauce, much of the future interest is locked in at higher deposit rates for the next 6 to 12 months. The forecasted interest rate drop is driving increased business confidence, and we anticipate growth from both new businesses starting and existing businesses expanding their headcount. We are excited about the ability of the Gen 2.0 payroll engine to improve the customer experience for our existing and new customers, and will assess any future wholesale opportunities as they arise.

On behalf of the board, I want to thank the PaySauce team for their dedication over the past year. To our shareholders, thank you for your trust and continued support.

CEO's Address

FY24 was a landmark year for PaySauce, generating our maiden profit as well as positive cash flows for the year. This was a huge milestone for PaySauce, and for me personally as it's something that's been a very clear goal of mine since starting the company all those years ago.

As well as our maiden net profit of $1.2m (or $0.2m before recognition of a deferred tax asset) and free cashflow generated of $0.3m, we also grew our Annualised Recurring Revenue (or ARR) 19% year on year to $8m. We surpassed the rule of 40 for a second year running at 46 which is above the industry benchmark and a key metric that many tech businesses are striving for in these tougher economic times. As this metric indicates - growing revenue and generating positive cash flow at the same time places us in a privileged position where we're in charge of our own destiny as we strive toward the next big steps in our strategy.

As Shelley mentioned - reinvesting for long term growth was one of the key objectives of our strategy for FY24, particularly into Product & Development. We added several key roles during the year as we bolstered our Product & Development team. Jacques Labuschagne joined the team as Head of Delivery, leveraging his previous expertise to improve the discipline and structure in our development function. This expertise has given my co-founder, Troy, the confidence to retire from the daily operations of the company, and hand over the role of Chief Technology Officer to Jacques. As my co-founder, Troy was our first developer and I remain in awe of his ability to stand up a market-fit product in record-breaking time. If it weren't for Troy, none of us would be in this room today. Troy remains the third largest shareholder and an ardent supporter of PaySauce.

It was Troy's vision to split into squads to focus work into two streams, the first: delivering the Gen 2.0 payroll engine, and the second: continuing to improve the existing product supporting the current customer base. Overall, we grew our Product & Development Team by 50%, including specialist DevOps talent and more development capability. Migrating the PaySauce production servers and back-end tools to Amazon Web Services

(AWS), will allow us to scale quickly and give us the flexibility to offer continuous product upgrades.

The long term focus has meant that we haven't released as many new products and features for our customers during the year as we have done in previous years. Despite this and the tough economic conditions faced by businesses recently - we've still continued to grow our customer base on the existing platform, adding over 1,500 customers in FY24. We've doubled down on our Sales and Marketing efforts to gain traction in the New Zealand market in new verticals - more recently in Auckland as a territory that is under-represented for PaySauce with our campaign targeting tradies. We also continued to develop our relationship with Master Builders and Master Plumbers, as well as other well known brands around the industry, and we continued to grow our presence in the construction and trades space both attending and presenting at conferences, roadshows and seminars nationwide.

We also grew our Sales team and continued to leverage the trust that businesses have with their accountants, hitting both the physical and virtual pavements as the team brought on more than 50 new accounting firms to our partnership programme, who in turn referred more than 600 paying customers in FY24.

Looking to the year ahead - we're building on the foundations of the product, people and partnership advancements that we've made in this last year, which will power our go-forward strategy around Loving our Customers, Supercharging Growth and Building for Scale.

Loving our Customers starts with defining our target customers as those with 1-5 employees. By understanding the unique challenges that face these small business owners, we will give them the two things they need the most: peace of mind and time. Our customers are our strongest advocates and our most effective marketing channel.

Supercharging growth is critical for us to attract new customers to PaySauce. At the beginning of the year, we'd envisaged this growth from a wholesale opportunity, which hasn't eventuated. Over the next 18 months, we'll leverage the Gen 2.0 payroll engine to create a better customer experience for our core target market. We'll continue to engage third parties looking to embed a wholesale payroll solution into their technology, and assess these as they arise, but for the time-being, we've prioritised our core customer base of employers with 1-5 employees over actively seeking new wholesale payroll customers. Building a unified product that delights both our new and existing customers with new web and mobile user interfaces is a key step in winning the product battle in the payroll space. Marketing campaigns will continue to increase our brand awareness and show small businesses that we understand them. Developing new and existing partnerships with industry bodies and trusted advisors like our Accountant channel will continue to be a focus as we look to nurture our existing business, and grow new business within these channels.

Scalability is significantly closer with the investment made last year to ensure we can support customer growth in a sustainable way. From onboarding new customers, to providing an intuitive, self-service payroll experience to ensuring that back end processes are powered by reliable tooling with the optimal level of human input.

Financials

We're very proud to have delivered our maiden net profit after tax. The recognition of a million dollar deferred tax asset inflated that value from $0.2m underlying NPAT to $1.2m on the face of the accounts. Important to note that approximately $1.5m of further deferred tax assets are available to recognise in future as appropriate.
As a SaaS business, the underlying NPAT result is highly correlated to free cash flow. The $941k improvement in FY24 led to positive free cash flow in FY24 of $0.3m.
The 32% increase in recurring revenue came from both processing fees (14%) and interest income (18%). The increased interest income contributed to the 4 basis point improvement in the gross margin to 77% for FY24. Furthermore, process improvements and efficiency gains made this year and in previous years continue to reduce the impact that our growing customer base has on our costs to serve those customers. The rule of 40 score remains above the benchmark, but has declined 21 points. That metric is a combination of the growth rate and the profitability and the downward movement is driven from the ARR growth rate. We'll drill into the revenue breakdown in a couple of slides

Putting the current year's result into context of the last four years is best illustrated in charts. In these two charts, you can see that we've consistently increased revenue at a faster rate than we've increased costs, and the impact on free cash flow has resulted. Our investment has been deliberate and strongly correlated with positioning our business for long-term efficiency, rather than immediate short-term gains.
The increased free cash flow enabled us to settle the $650k bank loan in June 2024, replacing it with a much lower working capital facility.

Total recurring revenue grew 32% from $5.7m to $7.6m in FY24, from processing fee revenue growth of 17% (or $0.8m) on last year, and interest revenue growth, up 96% (or $1.1m) on last year. The revenue growth from processing fees slowed in FY24, as our customers were impacted by higher costs resulting from the higher interest rates. This forms a natural hedge for PaySauce and we anticipate that we will see increased processing fees from new and existing customers as those interest rates drop, offsetting the revenue impact of the declining yield from interest earned on customer funds.

Drilling deeper into the customer numbers, the decline in the rate of growth is evident from the chart. We attribute the slowdown to four primary factors:

- We reached market penetration in our primary sector (dairy) earlier than anticipated;
- Marketing activities targeting new verticals have commenced, but there's a long runway to gaining traction from new
- We made a conscious decision to focus our development efforts on the future payroll platform, our Gen 2.0 payroll engine, rather than new features in our current platform to attract new users; and
- Our target market of employers with 1-5 employees found the impact of the higher interest rates challenging and reduced their appetite for additional expense

Our expenses grew 18% year on year, by $1.1m to $7.5m for the year. $0.7m of this increase was into people costs - with employee expenses growing from $3.7m in FY23 to $4.5m in FY24.

Breaking down our key SaaS categories - our largest cost is general and administration costs - this grew primarily as a result of investment into our people as we added new hires and managed wage inflation across critical back office functions in finance, management, people experience and operations (increase of $547k year on year - 21%).

Our R&D cost grew with several new hires including a new Head of Delivery role, specialist DevOps talent, and additional software developers (increase of $218k year on year - 12%). This investment also led to an improvement in efficiencies within the team - reducing the proportion of time spent maintaining the product relative to time spent developing the product. The impact increased the percentage of developer time capitalised by 7 percentage points from 49% to 56% in FY24.

Cost to Serve increased primarily due to wage inflation and direct costs due to increases in customer numbers - our customer support headcount remained the same and absorbed the increase in customer count as a result of the investment made into improved systems, tools and processes (increase of $178k year on year - 11%).

Customer Acquisition increased primarily due to splitting the sales & marketing functions into two with specialist talent. Investment into digital marketing remained low - a deliberate choice as we prioritised building and nurturing relationships with our key partner channel - Accountants. (increase of $57k year on year - 8%).

The customer lifetime value is a key metric we monitor to understand each stage of the customer's journey with PaySauce. Average revenue per user increased 11% to $91 per month and the cost to serve those customers reduced 6% to $21 per user per month. The improvement in margin per user was slightly offset by a 3% YoY reduction in the average lifetime of a customer, as a result of increased churn rates. Churn rates have increased as more of our customers have either stopped employing staff or gone out of business altogether as they've faced economic challenges. These factors combined have led to an increase in customer lifetime value (CLTV) of 15% year on year to $5,890 per customer.

Acquiring new customers was also more challenging this year with the cost of acquisition (CAC) per customer increasing 24% year on year to $510 per customer. That cost 's equivalent to 5.5 months of revenue per customer which is low relative to industry benchmarks. The total customer lifetime value of $43.4m is derived by multiplying our average customer lifetime value by the closing number of customers at 31 March 2024, being a 23% year on year improvement on the previous year.

Since the 2024 Annual Report was released, we have released a market update showing the top line revenue numbers to June 2024. In that period, we grew recurring revenue 20% year on year to $2.1m for the quarter to June 2024. Of this, there was an 18% year on year growth in processing fees, contributing $1.5m, with interest revenue contributing the remaining $0.6m.

The quarterly trajectory shows the total value of quarterly interest income has grown more in line with processing fees over the last year, particularly relative to the previous year. Looking forward, we anticipate the proportion of interest revenue relative to total revenue to decline slightly, but with a faster increase in processing fees.

Outlook

The key challenge for us is to accelerate customer growth. We understand the challenge and we've set ourselves up to be able to address that. The effort over the last 18 months to strengthen our platform has positioned us to deliver more improvements to more customers faster.

We've got a clear market that we're building for - employers with 1-5 employees. The Product team is hyper-focused on the those customers and has clear priorities to build solutions that meet their needs and the needs of their accountants.

We'll continue to nurture our relationships with Accountants, listening to them to understand their clients needs to ensure we offer their clients value for money while giving them the two things they need - peace of mind and time

We'll nurture and evolve the industry partnerships we've formed, being front of mind for future clients, and clearly understanding their collective needs.

We'll pause seeking new wholesale opportunities until we've utilised our gen 2.0 payroll engine to deliver a beautiful mobile experience for customers

Overall, I'm very happy that the ground work has been completed to enable us to deliver the customer benefits that will drive our future growth and I'm looking forward to the opportunity to share our next quarterly update with you early in October.

ENDS

PaySauce is a SaaS fintech platform providing solutions for people at work in 14 jurisdictions across the Asia-Pacific region. The technology enables small employers to digitally onboard, pay and manage employees from any device. The platform includes rosters, mobile timesheets, payroll calculations, banking integration, automated payments, PAYE filing, labour costing, automated general ledger entries and digital employment contracts. The PayNow feature enables customers' employees to access the pay they've earned before payday, providing a free alternative to payday lenders.

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