

# Why Cyan has sold out of Afterpay

21 October 2019 | Cyan Investment Management

Afterpay (APT) has been one of Cyan's most successful investments, having risen 30-fold from our initial investment at the \$1 IPO in April 2016 to our exit on the 9th October at \$33.50. In the 3.5 years since then, whilst we have made changes to our overall weighting, the Cyan C3G Fund has always held shares in the company.

So why our change of outlook now? Here are four reasons:

## Competition and low barriers to entry

Whilst Afterpay's execution has been almost flawless, their product offering is simply not that unique. Success attracts competition and the Buy Now Pay Later (BNPL) space is crawling with competition.

Affirm, Openpay, Flexigroup, Latitude, Klarna, Splitit, Sezzle, QuadPay and Zip all offer similar instalment payment schemes, and the floodgates of new entrants does not seem to be abating.

Added to that, we have seen a concerning number of companies domestically that are building businesses based on online lending to the personal consumer. Harmony, Latitude, MoneyMe, SocietyOne, Symple, Wisr and Zip all offer personal loans to consumers that, in many cases, we've heard stated, "the big banks won't lend to". For us, that spells long-term trouble.

## Macro-economic outlook

Further to the competition concerns we can add the benign consumer outlook. This week the ASX has been rocked by substantial downgrades from consumer centric stocks such as Nick Scali and Southern Cross Media. Recent RBA rate cuts clearly reiterate the economy is sluggish and this can only lead to slowing consumer behaviour.

## Slowing investor momentum

Whilst it could be argued Afterpay's price rise has been justified by its underlying performance (APT's customer numbers have risen 120x from 38,000 at IPO to 4.6m at June 19) there is certainly significant financial growth factored into the current share price.

If APT becomes successful in the international markets it has already entered (largely the US and UK) its current valuation, in our eyes, is well justified. Our fear, in the short-term, is that the market will cease looking so much into the future and focus more on the now which, among other things, includes the ongoing concerns about the regulatory oversight of these new quasi-credit products.

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And that brings us to the final and primary reason for our divestment:

### Opportunity

Cyan operates predominantly in the micro - small cap space. We aim to find the companies today that investors will be talking about tomorrow. Afterpay now sits well outside that bracket: everyone knows it, everyone has an opinion on it, it's a well held ASX100 company.

Running a relatively small fund we don't need to be looking at an \$8bn mkt cap businesses in order to make a meaningful investment. So, we've made the decision to cease worrying about whether Afterpay is worth \$4bn or \$8bn or \$20bn.

We feel we're better off spending our energy looking for the next \$50m company that could be worth \$100m or \$200m or \$1bn..the next Afterpay.

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