prospa

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Prospa 1H21 Results[1]: Strong originations growth; Highly scalable and agile business ready to meet increased small business demand

- Originations grew strongly month on month, increasing 265.3% from 4Q20 to 1Q21 and a further 25.9% from 1Q21 to 2Q21
- New Zealand originations have reached highest monthly levels since inception with the company surpassing $100 million in total loans originated[2]
- 1H21 loan originations of $180.7 million remained below pre-pandemic levels, down 41.1% on the pcp[3] (1H20: $306.8 million), although recovery is accelerating with December and January originations volume reaching 69% and 75% of pcp respectively
- 1H21 revenue (before transaction costs) of $55.7 million, down 26.4% on pcp (1H20: $75.7 million)
- Portfolio remains balanced and well-diversified and continued to perform well throughout the half
- Portfolio yield improving to pre-COVID[4] levels, with six-month portfolio yield stable at 32.5%
- 1H21 EBITDA of $4.1 million[5]
- Effectiveness of Prospa's purpose-built Credit Decision Engine evident with static loss rates remaining within the Board's mandated 4-6% range and early loss indicators stable
- Funding platform well placed for balance sheet growth, with $420.3 million in available third-party facilities ($120.6 million in available undrawn facilities) and $110.9 million of cash (of which $47.0 million is unrestricted)
- Prospa's Net Promoter Score remains more than 77[6], and Prospa is ranked #1 in the Non-bank Financial Services category in Australia and New Zealand on independent review site TrustPilot[7]

Prospa Group Limited ("Prospa" or "the Company"), Australia's number one online lender to small business, is pleased to announce its results for the six months ended 31 December 2020 ("1H21").

Greg Moshal, Chief Executive Officer, said:

"Our mission remains more relevant than ever as SMEs across Australia and New Zealand seek to invest in their businesses in response to change and opportunities. It has been great to see a resurgence in confidence amongst our small business customers, reflected by our strong quarter on quarter growth in the first half of the year. Whilst demand in Australia remains marginally lower than pre-COVID levels, we are seeing an accelerated recovery in originations that has continued into 2021. In what we believe is a positive indicator, New Zealand originations are not just back on track, but have reached their highest volumes since inception.

"Our first half result clearly demonstrates the resilience of Prospa's business model. Leveraging the strength of our data, insights, and multi-channel distribution network, we have been able to rapidly scale to meet and capitalise on increasing

1 Note all figures in AUD unless otherwise specified.
2 Over $100 million loans originated since inception as at 31 January 2021.
3 pcp: prior corresponding period.
4 Pre-COVID defined here as up to the 3Q20 period
5 EBITDA is earnings before corporate interest, tax, depreciation, amortisation and share-based payments.
6 Average for the period July 2020 to December 2020.
7 Prospa is ranked #1 in Australia in the Non-bank Financial Services category on independent review site TrustPilot with a TrustScore of 4.9 and 6,192 reviews as at 23 February 2021. Prospa is ranked #1 in New Zealand in the Non-bank Financial Services category on independent review site TrustPilot with a TrustScore of 4.9 and 791 reviews as at 23 February 2021.

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demand. We have significant funding capacity with trusted partners and our efficient management of expenses and cash during the half has enabled a solid foundation to support future growth."

Half year financial highlights

Loan originations continued to improve over the period, with 2Q21 originations of $100.7 million up 25.9% on the prior quarter (1Q21: $80.0 million) demonstrating increasing demand in the small business sector for Prospa's core Small Business Loan and Line of Credit products. This momentum has continued into the first month of 2H21, with originations in January now at 75% of pre-COVID volumes[8], indicating that the Company's scalable business model is growing back to pre-COVID levels of originations.

Total loan originations for 1H21 were $180.7 million, down 41.1% on the pcp (1H20: $306.8 million), as small business demand remained below pre-pandemic levels and the Company saw a significantly lower contribution from Victoria due to the region's extended lockdown during the half.

Prospa's New Zealand operations performed above expectations with originations in 1H21 of A$24.0 million, down 11.1% on pcp (1H20: A$27.0 million); a result of the ongoing robust performance of the economy post the country's initial lockdown period. Prospa recorded its highest monthly originations volume in New Zealand to date in December 2020, demonstrating a fast rebound in demand for capital, and in January surpassed $100.0 million in loans originated in the country since inception.

Revenue (before transaction costs) for 1H21 of $55.7 million was a decrease of 26.4% on pcp (1H20: $75.7 million). This was a result of Prospa's deliberately restrained risk appetite at the height of the pandemic (particularly during the fourth quarter of FY20) which has delivered lower average gross loans and revenue in the half compared to pcp.

As a result of lower customer acquisition at the height of the pandemic and customers with outstanding loans finishing their repayments, the number of active customers of 11,300 was down on the prior half (2H20: 13,300) and average gross loans of $343.5 million was down 22.3% on the prior half (2H20: $442.1 million). As demand continues to return, Prospa expects growth in originations and new customers to support an increase in average gross loans in the second half.

Gross profit margin was strong during 1H21 at 79.0% (1H20: 81.6%), a result of portfolio yield improving to pre-COVID levels, with six month yield stable at 32.5%, and funding rates maintained.

Prospa reported 1H21 EBITDA of $4.1 million (1H20: $5.6 million) as the company benefited from a tight focus on cost management.

The net loss after tax for 1H21 was $3.2 million (1H20 profit: $0.6 million). Lower revenue in this half was largely offset by a 36.5% reduction in operating expenses ($12.5 million in 1H21 compared to $19.7 million in 1H20) and the 26.3% reduction in employee expenses ($16.5 million in 1H21 compared to $22.4 million in 1H20). This reflects the Company's efficient management of expenses and cash, and the streamlining of the business in response to COVID-19, enabling a leaner and more efficient cost base from which to grow.

Flexible cashflow solutions and scale to meet increased small business demand

As Australia's number one online lender to small business, the Company has significant scale through its technology, distribution and funding platform to support its growth.

Prospa provides loans that allow small businesses to manage their cashflows more effectively and invest in their future. Loans originated over the last 6 months have typically enabled small businesses to hire new staff, invest in new equipment, purchase supplies or deliver new products and services.

The Prospa Small Business Loan allows small businesses to access lump sum finance of between $5,000 and $300,000 to take advantage of opportunities to grow their businesses. The loan is repayable in daily, weekly or monthly instalments

8 Originations volume for the month of January 2021 was 75% of originations volume for the pcp (January 2020).

with an average loan size of A$36,000[9] and average term of 15 months in Australia, and an average loan size of NZ$30,000 with a 14 month average term in New Zealand.

Prospa's Line of Credit product, with a maximum line size to $100,000, is a re-drawable facility that can be utilised for short term cash flow needs or unplanned expenses. The average facility limit on the Line of Credit is $40,000 with an average utilisation rate of 48.4%[10].

The first half of 2021 showed the resilience of small businesses in the face of some of the most difficult trading conditions in their lifetimes, with many quickly adjusting to the new environment and reopening as various and localised restrictions lifted. Prospa's ability to swiftly adapt and scale to this returning demand has been underpinned by its in-depth knowledge of the small business economy, which also allowed it to proactively support customers who were experiencing difficulties.

This gave the company flexibility to identify risks and opportunities to support lending in different sectors and geographies that had been more resilient to the impact of COVID-19 during the half. In particular, the building and trade sector showed good demand for funding throughout the pandemic, and geographically the company's reduced risk appetite in Victoria was offset by targeted focus on growth in New Zealand.

Funding platform with significant headroom to support growth

Prospa has emerged from the pandemic well-funded, with no corporate debt and with significant headroom to support the small business economy. This includes a strong balance sheet and committed funding lines from a diverse range of domestic and international senior and junior funders.

As at 31 December 2020, Prospa had $420.3 million in available third-party facilities including available undrawn facilities of $120.6 million; a significant competitive advantage to help service increasing demand in both Australia and New Zealand. Net cash from operating activities was $13.0 million in 1H21, compared to $14.0 million in 1H20. Cash and cash equivalents grew to $110.9 million at 31 December 2020 (30 June 2020: $110.3 million). This includes unrestricted cash of $47.0 million (30 June 2020: $55.3 million), and ensures Prospa is in a strong position to leverage future growth opportunities.

Funding costs decreased 13.8% on pcp in 1H21 to $8.1 million (1H20: $9.4 million) due to lower average drawn notes. The average funding cost rate was maintained (1H21 5.4% per annum compared to 1H20 5.4% per annum).

Prospa's proprietary CDE drives improved credit losses

Prospa continued to proactively manage credit risk on new lending, leveraging data, industry insights and its purpose-built credit decision engine ("CDE") to provide fast credit decision capability at scale and to lend within the Board's mandated 4-6% stable static loss rate tolerance. Loss indicators on the existing portfolio including COVID-19 affected customers were reviewed daily during the half and trended downwards over that period.

As a result of improving economic and trading conditions, Prospa's COVID-19 deferral period for customers has now concluded. The remaining customers have either resumed payment or are now being worked through on a case by case basis through our standard collections processes. As at 31 December 2020, any expected losses from this group are adequately covered within Prospa's provisions for expected credit losses. Loan impairment expense fell to $10.9 million, a decrease of 22.7% on pcp (1H20: $14.1 million). This was due to a 25.5% reduction in gross loan receivables in the half.

Of the total provision percentage, the standard modelled provision percentage reduced from 6.3% (at 30 June 2020) to 5.7% (at 31 December 2020), whilst the forward looking Economic Overlay marginally fell from 4.8% to 4.7% over the same period. Although Australia and New Zealand are showing positive signs of recovery from the downturn experienced in 2020, the economic overlay provision has been maintained as a precautionary measure until there is more stability in the expected economic environment.

9 Average fresh capital originated, excluding re-financed amounts, for the period 1H21.
10 Utilisation rate is the % of active utilised lines as at 31/12/2020.

Strong platform for future growth

Whilst COVID-19 has posed many challenges, it has also given rise to opportunities within the SME lending market. SMEs remain amongst the most dissatisfied customer segment with traditional bank offerings, yet a majority still use their bank accounts for business banking.

Prospa is confident that the way in which it handled the impact of COVID-19 on its customers and its business will underpin its long-term relationship with customers and its future growth. The significant amount of data gathered over the last 8 years – particularly during COVID-19 – places Prospa in a unique position to expand the role it plays in helping SMEs manage cash flow.

As a result, Prospa will continue to increase investment in its people, its business and its technology to enable the business to scale new credit products faster and more efficiently, addressing more customer needs and pain points.

Outlook and strategic priorities

Greg Moshal added:

"The significant work undertaken over the last 6 months has placed Prospa in the strongest possible position to capitalise on growing demand for capital. While we have maintained our provision until we see a more stable economic environment, the current business trajectory and outlook of the broader economy and small business market gives us confidence that the balance sheet will return to growth in the second half as originations and new customer numbers continue to improve.

"As outlined at our 2Q results, we believe that now is the right time to invest in our short and long term growth by increasing investment in research and development and sales and marketing. We have taken substantial steps to strengthen the core business and create on-going capacity to invest in our technology and capabilities we need for the future, which will in turn allow us to accelerate product innovation and customer engagement over the long term.

"Our long term vision is to further enhance our award winning product set to include an integrated suite of cashflow management products, enabling Prospa to play a more integral and broader role in the payments and transactions within our customers' businesses as we continue to help them grow, run and pay. We will provide the market with a more detailed update on strategy at the end of the financial year."

Webcast

Prospa Group CEO, Greg Moshal, CFO, Ross Aucutt, and CRO Beau Bertoli, will present the company's Half Year results at 10.00am AEDT on Thursday 25th February 2021. To pre-register for the webcast please click here:

This announcement has been authorised for release by the Board.

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About Prospa

Prospa Group Limited (ASX: PGL) is a financial technology company and a leading provider of cash flow products and services that help small businesses to grow and prosper. Headquartered in Sydney, the company operates across Australia and New Zealand and employs over 200 people. Prospa has a Net Promoter Score over 77 and is ranked #1 in the Non-bank Financial Services category in Australia and New Zealand on TrustPilot. The company has been recognised as the MFAA National Fintech Lender of the Year three years in a row and received the Excellence in Business Lending Award at the FinTech Australia Finnie Awards 2020.