

26th August 2021

# Earlypay Limited (ASX: EPY)

## Record second half earnings and beats FY21 guidance with \$8.7m NPATA

### Highlights

- NPATA of \$8.7m up 13% on pcg and ahead of Guidance
- EBITDA of \$21m up 11% on pcg and in line with Guidance
- EPS 3.84cps up 0.1%
- Final dividend of 1.3cps, taking FY21 dividend to 2.3cps fully franked (FY20: 1.75cps)
- H2'21 was a record half for earnings with significant growth in client numbers and revenue
- No material losses or defaults despite COVID

### FY22 Outlook

- Earlypay expects continued NPATA growth in FY22 of 40%+ compared to FY21, based on current business momentum and trading conditions
- Dividend policy 60% of NPATA
- Earlypay has a strong balance sheet with \$44.8m in cash as at 30 June 2021, positioning the business well to drive further growth both organically and through acquisition

Earlypay CEO Daniel Riley said of the result: "We are pleased to report a strong FY21 result, which shows significant organic growth through the period, backed by a healthy balance sheet and improvements to funding facilities. The strong results reflect substantial investment in the business' technology platform, which is driving record volumes that we expect to see continue. The FY21 NPATA result of \$8.7m is weighted toward H2 with \$5.2m, a record result in the seasonally weaker half. This underlies the fundamental resilience of the business, with no defaults experienced throughout the period of COVID and a substantial bounce-back in H2 positioning Earlypay ideally to continue its trajectory of growth ongoing."

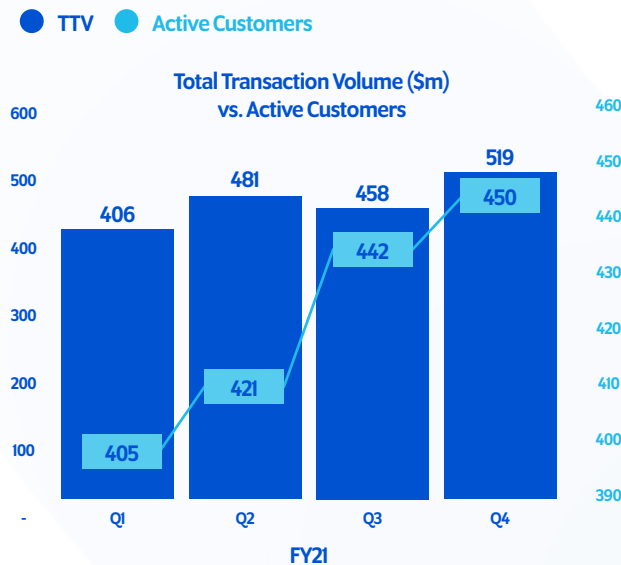
### Invoice Finance

In FY21, the implementation of Earlypay's online strategy, together with expansion of the sales team, is driving strong organic growth in customer numbers. This growth has been achieved through both the expansion of addressable market, as well as a vast improvement in customer experience through the new online platform.

<sup>1</sup>FY21 Underlying NPATA includes \$1.5m adjustment for non-cash amortisation of acquired intangibles

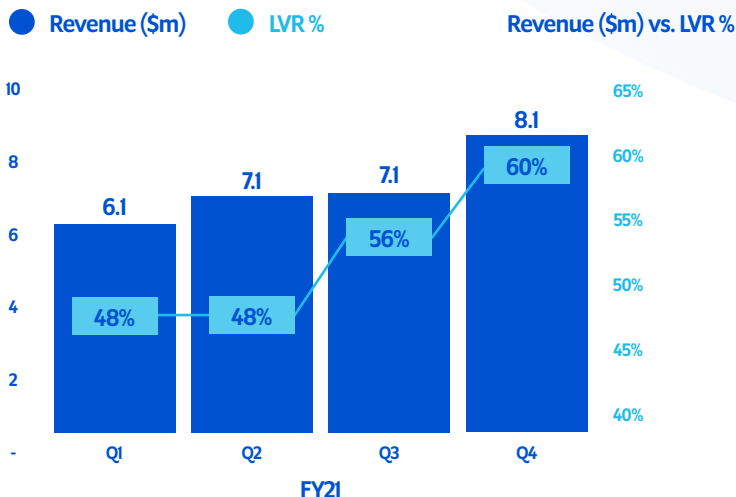
<sup>2</sup>FY21 Underlying EPS based on Underlying NPATA

In Q1, transaction volumes were experiencing lows as a result of COVID and the associated government stimulus for SMEs. From Q1, transaction volumes have reached new highs, with the business recording Total Transaction Volume (TTV) of \$1.86 Billion across FY21, up 9% on prior year (FY20: \$1.71 Billion). Notably, TTV in Q4'21 of \$0.52 Billion, exceeded previous quarterly records and is up 28% on Q1, driven primarily by organic growth in client numbers.



Revenue followed a similar trend across FY21, with Q4 revenue increasing by 33% compared to Q1. This uplift has been driven by strong growth in client numbers and TTV, interest margin improvement as Government stimulus for SME's reduced, and utilisation (LVR) of client facilities returning to historic levels.

Current business volume, growth momentum and normalisation of key metrics indicates continued, stable uplift at all levels for Invoice Finance during FY22



## Equipment Finance

Earlypay maintained a stable equipment finance book throughout the impacts of COVID in FY21, increasing origination volumes in Q4 to return to growth as trading conditions stabilised. The Equipment Finance loan book is \$95m at 30 Jun'21, compared to \$91m at 31 Dec'20.

Earlypay experienced no material defaults or losses throughout the peak of COVID and ageing in 30+ days is less than 1% at 30 Jun'21 reflecting Earlypay's limited exposure to industries and assets impacted by COVID.

Earlypay is prepared for an acceleration in origination volumes in FY22 as it mobilises its growing sales team of 30 to promote the product, noting demand for Equipment Finance is currently subdued in NSW/ VIC due to lock-down restrictions.

## Consolidated Income Statement

As previously advised the first half of FY21 was adversely affected by the introduction of government stimulus to support SMEs through COVID. The subsequent reduction in stimulus has resulted in an increase in demand from SME's for working capital, which saw Earlypay experience a substantial turnaround in H2 to record earnings for a half.

Earlypay's strong results were also driven by an investment in the business' technology platform which is driving record volumes. The FY21 NPATA result of \$8.7m, is weighted toward H2 with \$5.2m, a record result in the seasonally weaker half and is seen by EPY as a base from which it will regain historical growth rate.

\$m	FY20	FY21
Invoice Finance	30.8	28.3
Equipment Finance	11.5	14.0
<b>Underlying Revenue<sup>1</sup></b>	<b>42.2</b>	<b>42.3</b>
Other /Corporate	5.3	1.5
<b>Group Revenue</b>	<b>47.5</b>	<b>43.9</b>
Employee Benefits (Direct)	(12.8)	(13.2)
Bad & Doubtful Debts	(1.5)	0.7
Trust Expenses	(1.0)	(1.6)
Commission	(1.9)	(1.9)
Insurance	(2.1)	(1.7)
IT Expenses	(1.1)	(1.3)
Other <sup>2</sup>	(13.3)	(5.3)
Adjustments <sup>3</sup>	5.2	1.5
<b>Adjusted EBITDA</b>	<b>19.0</b>	<b>21.0</b>
D&A	(0.8)	(0.8)
Interest Cost	(9.4)	(8.5)
Tax <sup>4</sup>	(0.9)	(3.1)
<b>Underlying NPATA</b>	<b>7.8</b>	<b>8.7</b>
EPS	3.84	3.84
DPS	1.75	2.30
<b>Key Metrics</b>		
EBITDA Margin	40.0%	47.9%
NPATA Margin	16.3%	19.9%
ROE	14.8%	15.0%

Underlying revenue was flat on pcp with growth in equipment finance offsetting lower invoice finance revenue which was affected by Government stimulus

A reduction in costs drove higher earnings which included:

- Bad & doubtful Debt is positive \$0.7m in FY21 following a reduction in ageing of the loan portfolio in line with AASB9 (combination of ageing and hardship). No material losses or defaults despite challenging conditions and business disruption

- Net Interest Costs fell \$0.8m on the back of improvements to all Earlypay's Warehouse Facilities

FY21 EBITDA margin of 48% and ROE 15%, key margins continue to improve

Final dividend of 1.3cps, taking full year DPS to 2.3cps fully franked

<sup>1</sup>Underlying revenue excludes legacy recruitment business (FY20 generated \$4.7m revenue with \$4m on-costs)

<sup>2</sup>Other includes legal, marketing, impairment of goodwill, amortisation – customer relationships, other expenses and on-hire staff costs

<sup>3</sup>Adjustments include adding back amortisation – customer relationships

<sup>4</sup>Effective tax rate in FY20 was 5% through utilisation of losses from acquired businesses

## Consolidated Financial Position

\$m	FY20	FY21 <sup>1</sup> Pro Forma
Cash and cash equivalents	38.2	44.8
Receivables - Debtor Finance	168.8	200.4
Receivables - Finance Lease <sup>2</sup>	95.1	93.4
Intangible Assets	25.5	31.0
Other	7.4	6.2
<b>Assets</b>	<b>335.0</b>	<b>375.7</b>
Trade payables - Debtor Finance	95.8	84.7
Borrowings <sup>3</sup>	183.9	206.3
Other	2.9	8.2
<b>Liabilities</b>	<b>282.6</b>	<b>299.1</b>
<b>Net Assets</b>	<b>52.4</b>	<b>76.6</b>
<b>Total Equity</b>	<b>52.4</b>	<b>76.6</b>
<b>Key Metrics</b>		
NTA	26.9	45.5
NTA per share	0.13	0.19
NAB per share	0.25	0.32

\$44.8m cash provides substantial headroom to aid in achieving organic growth and to pursue further strategic acquisitions

Material increase in receivables is indicative of the growing loan book

Borrowings reflects the debt facilities used to finance the loan books

Net assets have improved by 48% on pcp with NTA improving by 72%

## Funding Structure

Earlypay has implemented improvements to size and pricing across all Warehouse Facilities during FY21, providing in excess of \$100m headroom to support continued growth of loan book, together with cost savings.

\$m	Facility Size	Drawn	Cost
<b>Invoice Finance</b>			
Warehouse Facility 1	\$100m	\$90m	Sub-3%
Warehouse Facility 2	\$35m	\$4m	Sub-3%
Mezzanine	\$9m	\$2m	Sub-8%
<b>Equipment Finance</b>			
Warehouse Facility 3	\$120m	\$54m	Sub-3%
Mezzanine	\$27m	\$13m	Sub-8%
<b>Corporate</b>			
Bond	\$20m	\$20m	7.95%
Equity	\$40m	\$34m	n/a
<b>Total Funds Available</b>	<b>\$351m</b>	<b>\$217m</b>	<b>Avg. Sub 4.5%</b>
<b>Current headroom</b>		<b>\$134m</b>	

"Improvements to all three Warehouse Facilities provides significant cost savings, with average cost of debt reducing to 4.24% in FY21, compared to 5.24% in FY20 and 6.38% in FY19

EPY's has approximately \$134m headroom, positioning the Company well to compete for large, high credit quality clients, with sufficient room for growth across all products."

Earlypay continues to progress additional funding structures to support Equipment Finance and Trade Finance and will provide an update to the market as it approaches commencement of the new facilities.

## Outlook

Following a strong finish to FY21 and with continued growth momentum into FY22, Earlypay anticipates growth in NPATA in excess of 40%.

## Invoice Finance

The key driver of earnings growth for FY22 is Invoice Finance, with:

- A significantly improved earnings base compared to the start of FY21
- A strong organic growth profile
- Margin improvement on FY21 is expected as key invoice metrics that influence revenue, including LVR and debtor days, continue to normalise toward long-term historical averages
- Earlypay is leveraging automation available through the online platform to generate efficiencies in service delivery, supporting growth on a stable cost base. Earlypay expects further improvement to margin as a result.

Further growth drivers for FY22 include expansion of Earlypay's Trade Finance and Equipment Finance offerings.

## Trade Finance

Earlypay is experiencing strong demand for its new Trade Finance product that supports SME clients in purchasing inventory. When the clients sell the final product to their customers, the loan converts to EPY's established Invoice Finance product. The Trade Finance product generates gross margin of 20%+.

In addition to earnings contribution, the new Trade Finance product is strategically important for Earlypay as it will support client retention, increase revenue and margin from existing clients, plus enhance Earlypay's competitive market position for new business.

Earlypay continues to progress a funding structure for Trade Finance and has balance sheet capacity for growth in the meantime, supported by a \$18.9m capital raise completed on 1st July 2021.

## Equipment Finance

Earlypay is prepared for an acceleration in origination volumes in FY22 as it mobilises its broader sales team to promote the product, however, notes that demand for Equipment Finance is likely to remain subdued particularly in NSW/VIC due to extended lock-down restrictions.

Earlypay CEO Daniel Riley commented: “Earlypay’s online platform has transformed traditional invoice finance into a fast and flexible working capital solution for SME’s. Earlypay provides leading onboarding times for SME lending, real-time data for clients on funding availability, flexibility to fund some or all invoices and no limitations on frequency of drawdown requests, with all communication managed within the platform.

Earlypay’s approach has significantly improved the growth profile for Invoice Finance and this product is expected to underpin 40%+ earnings growth for FY22.

Further growth opportunity exists with Trade Finance, with the recent launch of a new SME lending product that supports clients in purchasing inventory. Earlypay is experiencing strong demand for this product, and aside from the earnings benefit it brings through its 20%+ margin, the product also enhances our competitive offering which we expect to continue to grow client retention and acquisition.

The solidification of our balance sheet and funding facilities, together with investment in our product offering, has positioned Earlypay ideally for continued growth throughout FY22.”

This release was authorised by the Chief Executive Officer of Earlypay, Daniel Riley.

Sincerely,



**Daniel Riley**  
CEO

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## About Earlypay

Earlypay provides finance to SME businesses in the form of secured invoice financing and equipment financing.

Through the Earlypay online platform, SME's receive an advance payment of up to 80% of a client's invoice to help their business overcome the cash pressure of delivering goods or services in advance of payment from their customers (often 30 to 60 days). This is a flexible line of credit that is utilised in line with sales volume. Earlypay will consider an additional advance to a client (above the usual 80%) on occasion, for an additional fee and when there is adequate security from the client to cover the position.

Other services include trade finance to assist clients finance purchases, as well as equipment finance to assist SME's with capital expenditure on items required to operate their business.