

Beforepay Group Limited

ASX Announcement (ASX: B4P)

27 January 2023

Beforepay Q2 FY23 Quarterly Activities and Appendix 4C Cash Flow Report (Unaudited)

Beforepay delivers strong growth, reduced operating expenses with defaults showing expected seasonal increase in Q2 FY23

Beforepay Group Limited (Beforepay or the Company) (ASX: B4P) has released its Appendix 4C for the quarter ended 31 December 2022 (Q2 FY23).

Beforepay continues improvement across key metrics in Q2 FY23. Highlights include:

- Continued strong growth, with pay advances of \$164.7m, up 114% from Q2 FY22 (year-on-year or YoY) and up 18% on Q1 FY23 (quarter-on-quarter or QoQ).
- Net transaction margin (NTM) was \$1.82m, down from \$3.23m or (44%) QoQ and up 911% YoY from \$0.18m in Q2 FY22. The quarter result was driven by increases in pay-advance volumes offset by expected seasonally higher defaults in the quarter.
- Underlying EBITDA loss increased to (\$3.01m), up 28% from (\$2.34m) in Q1 FY23, driven by a decline in NTM due to seasonally higher net transaction loss (NTL). The EBITDA loss was partly mitigated by reduced operating expenses.
- Balance-sheet strength with \$18.7m in cash on hand as at 31 December 2022.

Beforepay CEO Jamie Twiss, said, "Beforepay has continued to grow and perform strongly, with total volume of pay advances up 18% in the quarter and 114% year-on-year. With more than 200,000 active users, continued strong underlying growth, and flat or declining operating costs, we continue to execute our strategy of moving quickly towards profitability. The expected seasonal increase in defaults reduced net transaction margin in the quarter."

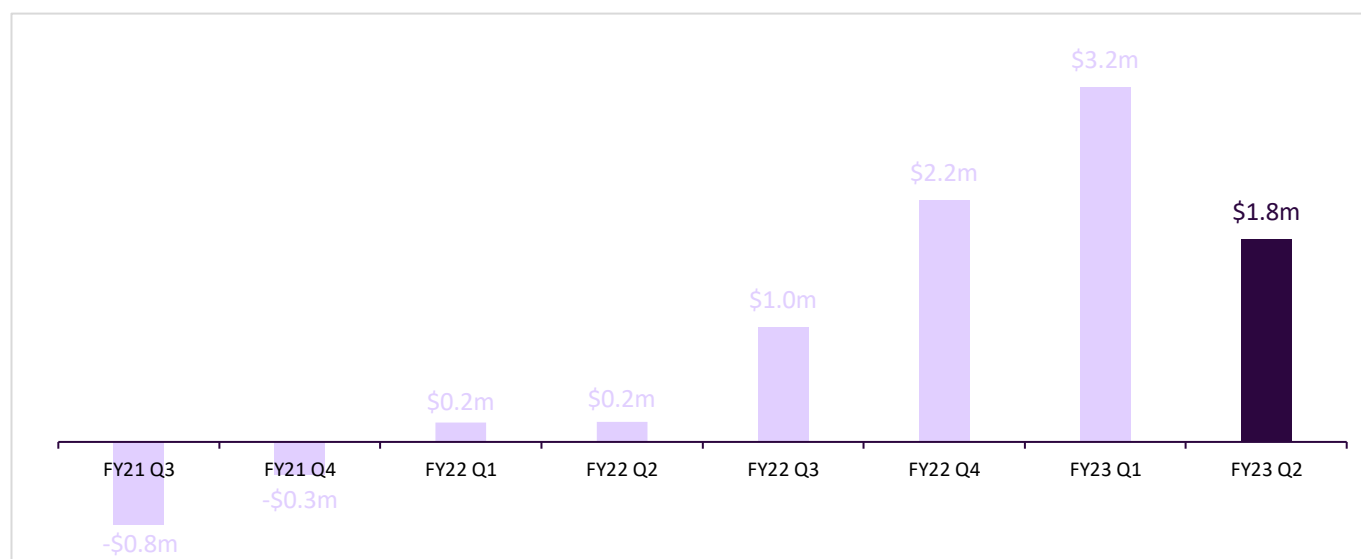
Overview

	Q2 FY23	Q2 FY22	Q1 FY23	YoY Change %	QoQ Change %
Platform metrics					
Pay advances	\$164.7m	\$77.0m	\$139.2m	114%	18%
Average pay advance	\$394	\$261	\$388	51%	1%
Active users (no. users) ¹	203,937	139,071	185,075	47%	10%
Financial metrics					
Beforepay income	\$8.12m	\$3.42m	\$6.46m	138%	26%
Net transaction loss % (of pay advances plus fees)	2.9%	3.1%	1.6%	(7%)	82%
Net transaction margin	\$1.82m	\$0.18m	\$3.23m	911%	(44%)

¹ Customers of Beforepay who have taken out a pay advance in the previous 12 months from the relevant date. This includes customers who have not yet repaid their most recent cash out and are not eligible to re-borrow until they have done so.

Net transaction margin % (of pay advances)	1.1%	0.2%	2.3%	362%	(52%)
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Net transaction margin by quarter



	Q2 FY23	Q1 FY23	Change
Balance sheet			
Cash position	\$18,710,523 ²	\$21,991,295	\$(3,280,772)
Equity position	\$28,507,073	\$30,174,041	\$(1,666,968)

Financial Performance – Q2 FY23

- Total Pay Advances grew by 114% YoY to \$164.7m driven by both new customer acquisition and continued usage by existing customers.
- Active users grew by 47% YoY to 203,937 and up 10% on Q1 FY23 (185,075).
- Beforepay income increased by 138% YoY to \$8.12m in Q2 FY23, up 26% on Q1 FY23 (\$6.46m). Beforepay generates its revenue through charging users a fixed fee of 5% per cash out received which is recognised over the period in which the customer advance is repaid.
- Net transaction loss % increased to 2.9%, down 7% YoY and up 82% on Q1 FY23. This is driven by a combination of higher limit increases and expected seasonal defaults, both disclosed in our Q1 FY23 quarterly update. In October 2022 management reduced loan limits to address the spike in defaults for loans maturing by mid-December 2022. The net transaction loss was partially offset by recoveries which continued to perform well during the quarter.
- Direct service costs as a percentage of pay advances were flat at 0.3% in Q2 FY23 (previously 0.3% in Q1 FY23). Our direct service costs do not vary with the size of the pay advance amount.
- Net transaction margin % (of pay advances) decreased 52% to 1.1% compared to 2.3% in Q1 FY23, driven primarily by higher seasonal net transaction losses, and up 362% from Q2 FY22.
- Total operating expenses (excluding one off and/or significant items) were \$4.83m in Q2 FY23,

² Cash position as at 31 December 2022 represents statutory cash and cash equivalents (including held by third parties).

which declined 13% from \$5.57m in Q1 FY23.

- Within these operating expense numbers, advertising and marketing expenses attributable to customer acquisition were \$1.61m in Q2 FY23 or 12% lower than Q1 FY23 (\$1.84m). This was primarily driven by the reduction in above-the-line advertising and additional focus on optimising performance marketing expenditure resulting in average customer acquisition cost (CAC) declining 37% to \$45 in Q2 FY23 from \$71 in Q1 FY23. Employee, general and administration and other costs were \$3.22m in Q2 FY23 or 14% lower than Q1 FY23 (\$3.73m) related to non-recurring one-off employment and recruitment costs and termination costs reflecting the timing of expenditure.
- Underlying EBITDA loss increased to (\$3.01m), up 28% from (\$2.34m) in Q1 FY23, driven by a fall in net transaction margin due to higher net transaction losses in the quarter, partially offset by reduced operating expenses.

Outlook

- Consistent with previous years, management expects that defaults will stabilise in line with normal seasonal trends.
- January 2023 month-to-date growth in new user numbers and pay advance numbers have been consistent with the prior quarter.

Balance sheet

- Reported cash on hand as at Q2 FY23 was \$18.7m compared to \$21.9m at Q1 FY23, reflecting the growth in customer pay advances during the quarter. Cash utilisation of \$3.2m during the quarter comprised cash from operating activities (\$7.3m), cash from investment activities (\$nil) less cash from financing activities (\$4.1m).
- As at Q2 FY23, Beforepay had drawn \$29.5m under its third-party debt facility (\$15.5m undrawn), up from \$25.3m in Q1 FY23 to fund the net growth in pay advances during the quarter. The third-party debt facility has a capacity which increases to \$45.0m by December 2023 and expires in January 2024.
- Beforepay had a total equity position of \$28.5m as at Q2 FY23. This compares to \$30.2m at Q1 FY23.
- Beforepay retains a highly capital efficient model with an average pay advance duration³ of approximately 25 days. As a result, the third-party funding cost of the average pay advance⁴ is c. 0.64% of the amount advanced, based on a 25-day loan duration. A 1% increase in interest rate would increase this to approximately 0.69%.

Growth strategy

- Beforepay's growth strategy through new customer acquisition and customer retention remains unchanged. The momentum of growth in both revenue and user numbers combined with a positive net transaction margin demonstrates that the Company is successfully executing its strategy.
- The Company remains focused on continuing to grow without adding significant cost to the current operating expense base.

³ The average time required across all pay advances in a period to fully repay the pay advance. Pay advances which default and remain unsettled are removed.

⁴ The total dollar value of pay advances in a period divided by the number of pay advances in that period.

- Beforepay will continue to explore new growth opportunities, however, maintains a current focus on its path to profitability by managing costs and delivering on growth in its current products and geographies.

Our business

- Beforepay remains committed to providing an ethical, customer-friendly product to help working Australians manage temporary cash-flow challenges.
- Our product advances people small sums of money over short periods of time, which helps them get through short-term challenges whilst not living beyond their means. Beforepay makes ongoing enhancements to customers' eligibility criteria and risk assessments.
- Our fee model is simple, transparent, and affordable, and gives our customers total control, charging only a small transaction fee, zero interest, and never any late fees.
- Average pay advances are small (with an increase to an average of ~\$394 in Q2 FY23), and if a customer does not pay back within the required time, the only penalty is that the service is suspended.
- Beforepay's service remains well regarded by customers, with an average 4.8-star rating (out of 5) across the Google Play Store and Apple App Store.

Our customers

- During December 2022, 72% of our customers were in full-time employment, 13% were part-time, 12% were in casual employment, and 2.3% were other⁵.
- The average annual individual customer gross income was \$58,145 during December 2022 (counting only the main source of income)⁶. This is compared to the ABS's individual median income of \$63,000 (as of August 2022)⁷.
- The four main employment industries for our customers were construction at 13%, retail trade at 11%, hospitality and restaurant services at 11% and healthcare and social services at 10%.

⁵ Customer employment type in customers who took out a pay advance in December 2022. Employment type is derived from customer disclosures only.

⁶ The average annual individual customer gross income has been derived from all customers who borrowed in December 2022. The average annual individual customer gross income is derived using the annualised net income identified by Beforepay's pay cycle detection tool, which is then grossed up using the ATO tax tables. Therefore, Beforepay's average annual individual customer gross income figure may be understated due to ignoring any secondary sources of income.

⁷ <https://www.abs.gov.au/statistics/labour/earnings-and-working-conditions/employee-earnings/aug-2022>

Appendix 1: Use of Funds

Pursuant to Listing Rule 4.7C.2, the Company confirms that, in the months since listing on the ASX, it has incurred expenditure largely in line with the Use of Proceeds set out in its Replacement Prospectus dated 29 November 2021, other than for marketing and customer acquisition costs, and overseas expansion focused on the US, as detailed below. The Company is well funded to achieve its strategic objectives and planned activities.

Intended Use of Funds \$m	Replacement Prospectus	Actual Spend Since IPO (Jan-Dec 2022)	Commentary
Funding increase in cash outs	\$5.9m	\$6.2m	Funding the growth in the equity funded portion of the loan book
Marketing and customer acquisition	\$16.9m	\$9.5m	Direct digital customer acquisition and above the line marketing spend has been lower than allocated as a result of the company's shift to digital marketing and move away from higher cost advertising (such as above the line advertising)
Overseas expansion focused on the US	\$7.6m	\$0.3m	Costs in exploring opportunities for future growth expansion in the US have been lower than allocated as a result of the company's shift in focus to a path to profitability and delivering on growth in its current geographies rather than overseas expansion
Costs related to the IPO offer	\$4.6m	\$4.7m	Advisor fees (legal, compliance, tax and accounting advisors) under the Underwriting Agreement, ASX listing costs and Prospectus insurance
Total	\$35.0m	\$20.7m	

In accordance with Listing Rule 4.7C, payments made to related parties and their associates included in item 6.1 of the Appendix 4C was A\$237,326 that comprised of payments made to Executive and Non-Executive Directors relating to salary and wages, (inclusive of superannuation and applicable taxes withheld) and Director fees on standard terms.

This announcement has been authorised for release to the ASX by the Board.

For more information, please contact:

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About Beforepay

Beforepay was founded in 2019 to support working Australians who have not been well-served by the traditional financial-services industry. The product is an ethical, customer-friendly way to help people manage temporary cash-flow challenges. We provide our customers with early access to a portion of their pay, on-demand, in exchange for a single fixed fee, which helps them to get through short-term challenges whilst not living beyond their means. For more information visit www.beforepay.com.au.

Important notice

This announcement contains selected summary information only and is provided for general information purposes only. It should be read in conjunction with Beforepay's continuous disclosure announcements available at www.beforepay.com.au/investor-hub/asx-announcements. Nothing in this announcement constitutes financial product, investment, legal, tax, accounting or other advice and it is not to be relied upon in substitution for the recipient's own exercise of independent judgment regarding the operations, financial condition and prospects of the Beforepay Group. Before making an investment decision, the recipient should consider its own financial situation, objectives and needs, and conduct its own independent investigation and assessment of the contents of this announcement, including obtaining investment, legal, tax, accounting and such other advice as it considers necessary or appropriate.

This announcement has been prepared without taking account of any person's individual investment objectives, financial situation or particular needs. The information in this announcement has been obtained from and based on sources believed by Beforepay to be reliable. To the maximum extent permitted by law, no member of the Beforepay Group make a representation or warranty, express or implied, as to the accuracy, completeness, timeliness or reliability of the contents of this announcement. To the maximum extent permitted by law, no member of the Beforepay Group accepts any liability (including, without limitation, any liability arising from fault or negligence) for any loss whatsoever arising from the use of this announcement or its contents or otherwise arising in connection with it.

This announcement may contain forward-looking statements, guidance, forecasts, estimates, prospects, projections or statements in relation to future matters ('Forward Statements'). Forward Statements can generally be identified by the use of forward looking words such as "anticipate", "estimates", "will", "should", "could", "may", "expects", "plans", "forecast", "target" or similar expressions. Forward Statements including indications, guidance or outlook on future revenues, distributions or financial position and performance or return or growth in underlying investments are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. No independent third party has reviewed the reasonableness of any such statements or assumptions. No member of the Beforepay Group represents or warrants that such Forward Statements will be achieved or will prove to be correct or gives any warranty, express or implied, as to the accuracy, completeness, likelihood of achievement or reasonableness of any Forward Statement contained in this presentation. Except as required by law or regulation, Beforepay assumes no obligation to release updates or revisions to Forward Statements to reflect any changes. This announcement includes information regarding past performance of Beforepay and investors should be aware that past performance is not and should not be relied upon as being indicative of future performance.

Investors should note that certain financial data included in this announcement is not recognised under the Australian Accounting Standards and is classified as 'non-IFRS financial information' under ASIC Regulatory Guide 230 'Disclosing non-IFRS financial information' ('RG 230'). Beforepay considers that non-IFRS information provides useful information to users in measuring the financial performance and position of the Beforepay. The non-IFRS financial measures do not have standardized meanings under Australian Accounting Standards and therefore may not be comparable to similarly titled measures determined



in accordance with Australian Accounting Standards. Readers are cautioned therefore not to place undue reliance on any non-IFRS financial information and ratios in this announcement. All dollar values are in Australian dollars (\$) or A\$) unless stated otherwise. All figures are unaudited. Change percentages are calculated using unrounded figures and may differ slightly from a number calculated using rounded figures.

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Beforepay Group Limited

ABN

63 633 925 505

Quarter ended ("current quarter")

31 December 2022

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers ¹	163,159	297,798
1.2 Payments for		
(a) research and development		
(b) product manufacturing and operating costs	(509)	(1,007)
(c) advertising and marketing	(1,613)	(3,456)
(d) leased assets		
(e) staff costs	(1,943)	(4,546)
(f) administration and corporate costs	(1,056)	(1,905)
1.3 Dividends received (see note 3)		
1.4 Interest received	(0)	(0)
1.5 Interest and other costs of finance paid ²	(750)	(1,204)
1.6 Income taxes paid		
1.7 Government grants and tax incentives		
1.8 Other (provide details if material) ³	(164,665)	(303,872)
1.9 Net cash from / (used in) operating activities	(7,377)	(18,192)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(g) entities		
(h) businesses		

¹ Receipts from customers comprises repayment of customer advances, inclusive of Beforepay fees income

² Interest associated with the Debt Facility which funds customer pay advances

³ Payments to customers comprises cash outs (Pay Advances) to customers)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
	(i) property, plant and equipment	(1)	(5)
	(j) investments		
	(k) intellectual property		
	(l) other non-current assets		
2.2	Proceeds from disposal of:		
	(a) entities		
	(b) businesses		
	(c) property, plant and equipment		
	(d) investments		
	(e) intellectual property		
	(f) other non-current assets		
2.3	Cash flows from loans to other entities		
2.4	Dividends received (see note 3)		
2.5	Other (provide details if material)		
2.6	Net cash from / (used in) investing activities	(1)	(5)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)		
3.2	Proceeds from issue of convertible debt securities		
3.3	Proceeds from exercise of options		
3.4	Transaction costs related to issues of equity securities or convertible debt securities		
3.5	Proceeds from borrowings ⁴	4,184	8,710
3.6	Repayment of borrowings		
3.7	Transaction costs related to loans and borrowings		
3.8	Dividends paid		
3.9	Other (provide details if material) ⁵	(86)	(169)
3.10	Net cash from / (used in) financing activities	4,098	8,541

⁴ Borrowings from the debt facility to fund customers cash outs (Pay Advances)

⁵ Repayment of lease

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	21,991	28,367
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(7,377)	(18,192)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1)	(5)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	4,098	8,541
4.5	Effect of movement in exchange rates on cash held		
4.6	Cash and cash equivalents at end of period	18,711	18,711

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	18,711	18,711
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (provide details)		
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	18,711	18,711

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	237
6.2	Aggregate amount of payments to related parties and their associates included in item 2	
<i>The company made payments to Executive & Non-Executive Directors relating to Salaries & Wages (inclusive of superannuation and applicable taxes withheld) and Directors Fees on normal commercial terms. Not included are any non-cash items (i.e. convertible note interest).</i>		

7.	Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i> <i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1	Loan facilities	45,000	29,491
7.2	Credit standby arrangements		
7.3	Other (please specify)		
7.4	Total financing facilities	45,000	29,491
7.5	Unused financing facilities available at quarter end		15,509
7.6	<p>Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.</p> <p>AMAL Trustees Pty Ltd is trustee for the Longreach Direct Lending Fund (Longreach). There are no changes to existing financial covenants, including an interest rate of 9.5% per annum as provided in the Q1 FY23 statement. The financing facility has a capacity which increases to \$45 million by 15 December 2023 and expires in January 2024. Unused financing facilities available at quarter end is subject to meeting the Eligible Receivable test under the facility agreement.</p>		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(7,377)
8.2	Cash and cash equivalents at quarter end (item 4.6)	18,711
8.3	Unused finance facilities available at quarter end (item 7.5)	15,509
8.4	Total available funding (item 8.2 + item 8.3)	34,220
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	4.7
	<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1	Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
	Answer: N/A	
8.6.2	Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
	Answer: N/A	
8.6.3	Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
	Answer: N/A	
	<i>Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.</i>	

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date:27 January 2023.....

Authorised by:By the Board.....
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.