Prospa delivers strong top-line growth despite challenging economic conditions.

Prospa

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Prospa Group Limited (ASX:PGL) ("Prospa" or the "Company" or the "Group") is pleased to provide a trading update for the half year ending 31 December 2022. The Company has demonstrated strong growth in cash and profit metrics; while strategically investing in new products and technology to support long term growth and increasing its loan loss provision as cash rate rises continue and economic growth is expected to slow.

H1 FY23 Group highlights[1]:

- Total Originations of $425.5 million, up 35.1% on the prior corresponding period ("pcp") (H1 FY22: $314.9 million)
- Closing gross loans increased to $855.8 million, up 66.3% on pcp (H1 FY22: $514.6 million). New Zealand rose to 18.2% of closing gross loans from 16.3% at FY22
- Active customers grew to 19,900, an increase of ~1,900 from the previous quarter (Q1 FY23)
- Revenue[2] reached $135.3 million, a 72.4% increase on pcp (H1 FY22: $78.5 million)
- Expenses[3] grew 31.4% on pcp as investment in new products and re-platforming of the technology stack continued. As a percentage of revenue, they improved to 36.6%, 11.4 percentage points lower than pcp (H1 FY22: 48.0%), showing the scalability of the Company
- EBITDA is expected to be ~$0.2 million. EBITDA excluding the movement in expected loss provision is ~$29.8 million
- Operating cashflow increased to $47.0 million, up a significant 98.0% from pcp (H1 FY22: $23.7 million), and closing unrestricted cash was $40.7 million, down from 30 June 2022 of $49.9 million, reflecting the $10.4 million of platform investment during the half
- Successfully completed the second public asset-backed securitisation ("ABS") of $200 million
- Increased expected loss provision of 9.4%, up 2.2 percentage points from FY22, of which 1.1 percentage points is an increase to the macroeconomic provision reflective of increased caution in the uncertain future economic environment

Greg Moshal, Co-Founder and Chief Executive Officer said:

"I'm pleased by Prospa's strong momentum, which is underpinned by our mission to be the financial partner of choice to small businesses in Australia and New Zealand. We have continued to invest in our products and

[1] Unaudited management accounts. All references to $ are in AUD, with NZ figures converted at a rate of 0.932066 as at 31 December 2022
[2] Revenue throughout this document is before transaction costs
[3] Expenses are employee expenses and operating expenses only

technology so our customers have simple, stress-free, and seamless financial management tools, and they can focus on what they do best. Despite this increased investment, Prospa still posted an EBITDA profit for the half.

The impacts of inflation, rising rates and a tight labour market have increased uncertainty in the operating environments for many small businesses. We are seeing stress in some of our lower risk grades and have revised our commercial credit risk assessment policies in-line with these changing conditions. Notwithstanding the macro environment and tightening credit, we continue to grow our business by meeting customer demand, building out our product roadmap, and applying a strong focus on our portfolio management settings."

H1 FY23 Financials

Prospa delivered total originations of $425.5 million, up 35.1% on pcp (H1 FY22: $314.9 million). Small business loans represented 75.9% ($323.2 million) of originations during the half, up 33.5% on pcp (H1 FY22: $242.2 million).

Pleasingly, the New Zealand business continues to grow, with originations contributing $93.3 million for the half. The Line of Credit product continues to gain traction following its full national launch in July 2022. The Line of Credit across Australia and New Zealand comprised 24.1% ($102.4 million) of total originations.

The Company achieved 10.9% quarterly growth in active customers to 19,900 with a rolling six-month net promoter score (NPS) of greater than 70. As a result of strong demand for funds, closing gross loans reached $855.8 million, an increase of 66.3% on pcp (H1 FY22: $514.6 million).

Total revenue increased by 72.4% over pcp to $135.3 million (H1 FY22: $78.5 million), supported by a higher portfolio yield of 34.8% (H1 FY22: 34.3%).

Expected loss provisioning has increased this half from 7.2% of closing gross loans to 9.4%, including a macroeconomic economic overlay of 2.4% (FY22: 1.3%).

Despite significant investment in product and technology, the Group's operating cost base, measured as employee and operating costs as a percentage of revenue, improved to 36.6% from 48.0% in H1 FY22, demonstrating the scalability of the business.

EBITDA has been impacted by a $29.6 million increase in expected loss provisioning during the H1 FY23 period, coming in at ~$0.2 million for the first half. The Company believes EBITDA will improve throughout H2 FY23 as a result of ongoing dynamic commercial and risk setting adjustments underway to manage risk across all risk grades.

Portfolio Management & Funding

While the economic outlook remains uncertain, Prospa continues to take proactive measures to address credit performance in specific portfolio segments. As at 31 December 2022, any expected losses are adequately covered within the increased provision. Net bad debts as a percentage of average gross loans are 6.9%, compared to 6.6% in H1 FY22.

The focus remains on the credit quality of the book, given continued uncertainty in the operating environment for small businesses.

As interest rates continue to rise, Prospa's cost of funds has increased to 6.1% for the first half of FY23; however, its Net Interest Margin (NIM)[4] remained stable at 29.3% compared to 29.4% in pcp (H1 FY22).

In December 2022, Prospa undertook its second ABS of $200 million, following on from its inaugural issue in H1 FY22. As of 31 December 2022, Prospa has had access to $1.0 billion of secured funding facilities, a 74.0% increase on pcp, of which $208 million was undrawn. The Company also had $40.7 million in unrestricted cash, an increase of 14.8% on the prior quarter (Q1 FY23) and restricted cash of an additional $84.3 million.

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[4] Net Interest Margin includes bank interest and referral income received

Ross Aucutt, Chief Financial Officer said:

"Our strong underlying performance continues despite emerging challenging economic conditions across Australia and New Zealand. Prospa's business model continues to be highly cash generative even with significant investment in our products and technology platform. We are in an interesting situation where our total cash balance was $125 million, exceeding our market capitalisation of $100 million as of 31 December 2022 by almost 25%.

Capital management remains a core focus for our business. The Company continues to invest in its technology, new product development and growth. We apply a prudent approach to our loan book through the dynamic management of risk and commercial settings and we've been able to successfully pass through a small percentage of the cost of funds increases without dampening demand while retaining a stable NIM."

Outlook

The Company remains focused on maintaining its position as the premier online lender to small business while delivering profitable growth.

Customers remain at the core of Prospa's focus. In August 2022, the Company launched a new mobile application to improve customers' experience, further adding to its innovative digital cash flow management tools. The new application provides customers with a single view of their balance for all Prospa credit products, including the recently launched Business Account with a VISA business debit card and Overdraft that has been offered to a pilot cohort of customers. This new product suite enables customers to better understand and manage their business cash flow, to grow, run, and pay anywhere, anytime.

This new wave of financial and transactional products coupled with the Company's recent rebranding, positions it well into the future as it meets a greater set of customer needs.

Prospa is committed to enhancing shareholder returns and purchased 1.55 million shares via an on-market buy-back between July 2022 and December 2022. The buy-back will expire on 16 February 2023 and there is no intention to extend it at this stage, with the Board preferring to preserve capital for investment in technology and growth.

Prospa will release its first half financial year 2023 results on 24 February 2023. CEO Greg Moshal, Chief Revenue Officer Beau Bertoli and CFO Ross Aucutt will host a webinar to discuss the H1 FY23 results, details of the webinar will be released in the coming weeks.

This announcement has been authorised for release by the Board.

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About Prospa

Prospa Group Limited (ASX: PGL) is a leading fintech with a commitment to unleash the potential of small business in Australia and New Zealand. We do this through an innovative approach to developing simple, stress free and seamless financial management products and services.

Since 2012, we have provided more than $3 billion of funding to support the growth and operations of thousands of small businesses. We also work with more than 14,000 trusted brokers, accountants, and aggregator partners, to deliver flexible funding solutions to their clients.

At Prospa, we're serious about our impact on our people, communities, and the planet. Our core company value of One Team is backed by our recognition as a Great Place To Work in Australia and a WORK180 Endorsed Employer for Women.

For more information about Prospa, visit prospa.com or investor.prospa.com.