Prospa's Q4 FY23
Business Trading Update

Release date: 28 July 2023

Prospa Group Limited (ASX: PGL) ("Prospa" or the "Company" or the "Group") today provides an unaudited trading update for the quarter ending 30 June 2023[1].

Key updates:

- Delivered quarterly revenue of $75 million, a 40% increase on pcp (Q4 FY22: $53.9 million). Full year revenue of $286 million up 61% on pcp (FY22: $178 million).
- Employee and operating expenses as a percentage of revenue improved to 37.5% (FY22: 47.2%).
- Closing gross loans ended the quarter and year at $862 million, up 23% on pcp (Q4 FY22: $701.3 million).
- Quarterly originations of $155 million, down 37% on pcp (Q4 FY22: $245.6 million) as the Company proactively tightened credit risk settings in response to a deteriorating macroeconomic environment.
- Consistent with this macroeconomic environment, expected credit loss ("ECL") provisions have been increased to 12.7% of closing gross loans (H1 FY23: 9.4%), of which nearly 60% of the provision increase relates to incremental macroeconomic overlay. In total non-cash ECL provision expense for FY23 was $58 million (FY22: $17.3 million).
- Impairment of all software intangible assets of $25 million.
- FY23 EBITDA[2] expected loss of $29 million (FY22: $12.1 million profit).
- Adjusted EBITDA, excluding non-cash ECL provision expense of $58 million, expected to be a profit of $29 million (FY22: $29.4 million).
- Yield for the quarter was maintained at 34.7% (Q4 FY22: 34.1%), while Net Interest Margin ("NIM") was 27.4% versus the previous quarter of 27.7% and pcp of 30.3%.
- New Zealand originations contributed $32 million for the quarter. The Business Line of Credit product continues to gain momentum representing 33% of the New Zealand origination mix.
- As of 30 June 2023, Prospa had access to $921 million of secured funding facilities, a 31% increase on pcp (Q4 FY22: $702.0 million), of which $140 million was undrawn.

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[1] These are unaudited management accounts and may change.

[2] EBITDA is earnings before corporate interest, tax, depreciation, amortisation, and impairment and restructuring expenses.

- Closing cash of $97 million, of which $26 million was unrestricted (FY22: $49.9 million unrestricted). Prospa also has access to a newly established $12 million corporate debt facility to support the growth of the Group and to act as a potential cash buffer to economic headwinds.
- Customer sentiment remains high, with Net Promoter Score 70+ for the quarter.

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

"*Prospa continues to provide balanced lending support to small businesses in the current economic environment.*

Final quarter FY23 originations were pleasing despite the tighter credit risk settings implemented in response to the rapid changes within the broader economy throughout the second half.

Our portfolio yield remains steady; however, losses were higher as certain small businesses experienced heightened cost pressures, changes in consumer demands and weakening revenue. While seeing steady demand through all channels, we proactively manage our credit risk assessment policies.

We are working closely with our partners and existing customers as economic conditions evolve in Australia and New Zealand, offering support where appropriate to target a sustainable and performing portfolio.

Investment in the final stages of our technology re-platforming continues. It's pleasing to see the Australian and New Zealand LOC originating from the new platform, with the NZ SBL currently in pilot."

Fourth quarter FY23 highlights

Revenue for the quarter increased to $75 million, up 40% on pcp (Q4 FY22: $53.9 million), supported by a 34.7% portfolio yield. This was supported by closing gross loans for the quarter, and year, ended at $862 million, up 23% on pcp (Q4 FY22: $701.3 million).

Despite a challenging inflationary backdrop and the continued investment in product and technology, the Group's operating cost base, measured as employee and operating costs[3] as a percentage of revenue, improved to 37.5% (FY22: 47.2%), demonstrating the business' scalability.

The Company adopted a deliberate approach to credit tightening in response to early signs of a worsening macroeconomic environment, delivering originations of $155 million for the quarter, down 37% on pcp (Q4 FY22: $245.6 million).

New Zealand originations contributed $32 million for the quarter. The Business Line of Credit product continues to gain momentum representing 33% of the New Zealand origination mix.

The ECL provision increased this half to 12.7% of closing gross loans from 9.4%, including a macroeconomic overlay of 4.3% (H1 FY23: 2.4%), reflecting the uncertain economic outlook for the next 12 months. This has resulted in a total ECL Provision expense of $58 million in FY23.

FY23 EBITDA is expected to be a loss of $29 million. Adjusted EBITDA, excluding the non-cash ECL provision expense, is expected to be a $29 million profit (FY22: $29.4 million), highlighting the underlying cash generation capacity of the business.

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[3] Employee and operating expenses exclude restructuring costs.

Loss before tax is expected to be $65 million (FY22: $1.7 million profit).

As per last quarter's update, the Company continues to execute its core system re-platforming roadmap, which is on track for completion in CY24. The Company remains vigilant as it manages operating expenses across all functions, streamlining the cost base, focusing on operating leverage and driving efficiencies.

Non-cash impairment of Software Intangible Assets

As part of the year-end assessment of the carrying value of assets (applied under AASB[4] 136 *Impairment of Assets*), the Company has considered indicators of impairment. For Prospa, these indicators include higher net assets compared to market capitalisation. As a result of performing this impairment assessment, software intangible assets have been fully impaired.

The impairment charge of $25 million will be disclosed in the FY23 financial statements and will not impact EBITDA. This non-cash item will not impact the Company's funding lines.

Portfolio Management & Funding

The Company's NIM in Q4 FY23 reduced to 27.4% (Q4 FY22: 30.3%) due to rising interest rates and tighter risk appetite resulting in lower yielding originations. There were no significant changes to funding facilities during the quarter. As of 30 June 2023, Prospa had access to $921 million of secured funding facilities, a 31% increase on pcp (Q4 FY22: $702.0 million), of which $140 million was undrawn (Q4 FY22: $59.2 million).

Total cash ended the year at $97 million (FY22: $105.8 million), of which $26 million was unrestricted (FY22: $49.9 million unrestricted). In addition, and not included in the closing cash position, and as announced to the ASX on 7 July 2023, Prospa established a $12 million corporate debt facility to support the growth of the Group and act as a cash buffer to economic headwinds.

Prospa Chief Financial Officer Ross Aucutt said:

"We've ended the year with a sound underlying cash NPAT result during challenging economic conditions. We are focused on our risk settings with regular reviews over the past nine months, and we will continue to monitor and adjust as appropriate. Despite this, we have continued to invest in our product and technology platforms, which we see as essential in differentiating us from our competitors.

We focused on reducing our expense base during the quarter whilst strengthening our capital management position by entering into a corporate debt facility, enhancing our cash generation and management capabilities and maintaining our strong funding capacity."

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[4] Australian Accounting Standards Board

Outlook

The Company anticipates a period of continued economic uncertainty impacting the small business sectors in Australia and New Zealand. Prospa remains focused on providing profitable and sustainable lending to small business. The Company continues to actively leverage its dynamic credit decisioning capability to make quick and decisive setting changes to optimise commercial and customer outcomes.

In parallel, the Company remains focused on driving ongoing operational efficiencies as its re-platforming program continues to be rolled out, benefiting partners and customers and increasing overall shareholder value.

The Company will release its full year results on Wednesday, 30 August 2023. Investors are invited to join a webinar with Prospa's CEO Greg Moshal, CRO Beau Bertoli and CFO Ross Aucutt at 2pm on Wednesday, 30 August 2023. Materials for the webinar will be lodged with the ASX prior to the presentation.

To register, please click here. You will receive a calendar notification with dial-in details and the webinar link. Investors can submit questions prior to the webinar to melanie@nwrcommunnications.com.au or do so via the Q&A function on Zoom during the webinar.

This announcement has been authorised for release by the Board.

ENDS

For further information, contact:

Company Secretary	Media and Investor Relations
Stephanie Rowland	**Melanie Singh**
Legal Counsel and Company Secretary	Senior Investor Relations Manager, NWR
stephanie.rowland@prospa.com	+61 439 748 819
	melanie@nwrcommunications.com.au

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 $3.6 billion of funding to support the growth and operations of thousands of small businesses. We also work with more than 15,000 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.