Full Year Results 2023

Prospa Group Limited ("PGL")

Prospa

Greg Moshal
Co-Founder
& Chief Executive Officer

Beau Bertoli
Co-Founder
& Chief Revenue Officer

Ross Aucutt
Chief Financial Officer

01

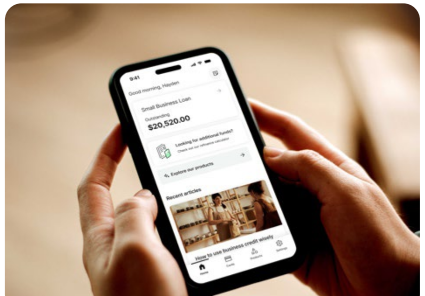
We exist to unleash the potential of every small business

02

A trusted financial partner of choice for SMEs

03

Make business happen



FY23 Agenda

FY23 Full Year Performance

Revenue[1]	$285.6m	+ 60.2%	FY22: $178.3m
Operating Cash Flow[2]	$96.8m	+ 64.5%	FY22: $58.8m
Closing Gross Loans	$862.2m	+ 22.9%	FY22: $701.3m
Total Opex / Revenue[3]	41.3%	- 14.5%	FY22: 55.8%
Originations[4]	$753.7m	+ 2.9%	FY22: $732.5m
Yield	34.8%	+ 0.7%	FY22: 34.1%
EBITDA[5]	-$28.5m	Large	FY22: $12.1m
Adjusted EBITDA[6]	$30.0m	+ 2.1%	FY22: $29.4m

1. All references to Revenue in this document represent Total income before transaction costs.
2. Operating Cashflow before changes in operating assets.
3. Total employee and operating costs which represent all operating (profit and loss) and capital (intangible asset) expense in the period.
4. All references to Originations in this document are from all sources, including Small Business Loan, Line of Credit (including undrawn amounts), Back to Business Loan, Back to Business Line (including undrawn amounts) in Australia and New Zealand. Small retrospective changes in origination figures may occur as result of back dated cancellations or modifications to support customer outcomes. All figures are expressed in AUD terms unless otherwise specified.
5. EBITDA in this document represent Earnings before interest on lease liabilities, tax, depreciation amortisation, share-based payments, FX Gain/Loss, impairment of intangibles, and restructuring costs.
6. Adjusted EBITDA excluding movement in ECL provision expense.

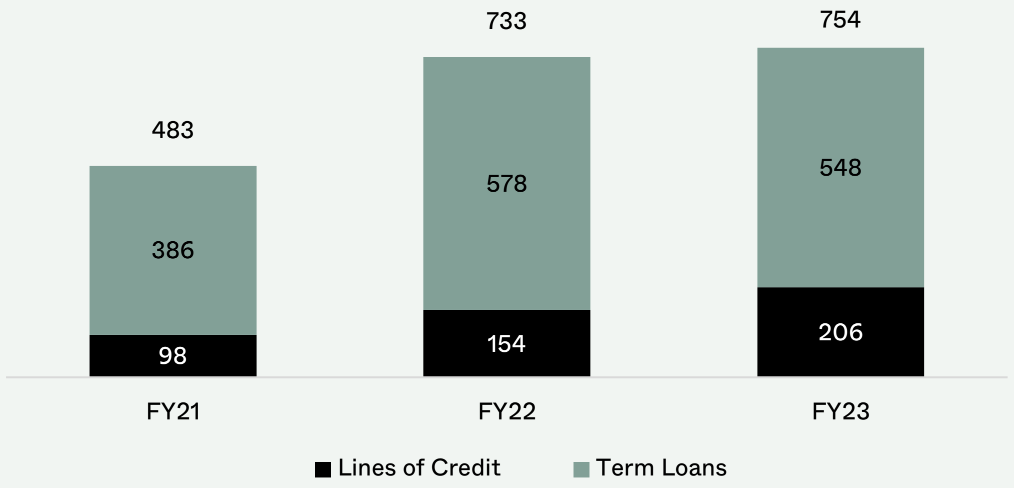
01

Prospa update

Urban Jungle Studios, AU

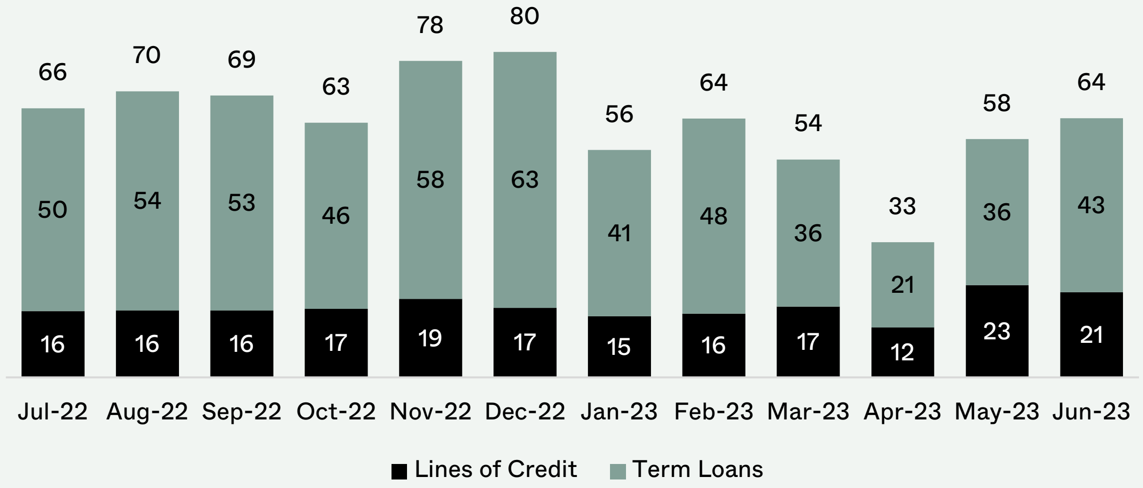
Originations reflect our risk appetite due to evolving changing economic conditions

Total originations ($m)[1]



FY23 monthly originations ($m)[1]

Credit risk tightening began in H1, with more material changes in H2.



1. Totals may not add precisely due to rounding.

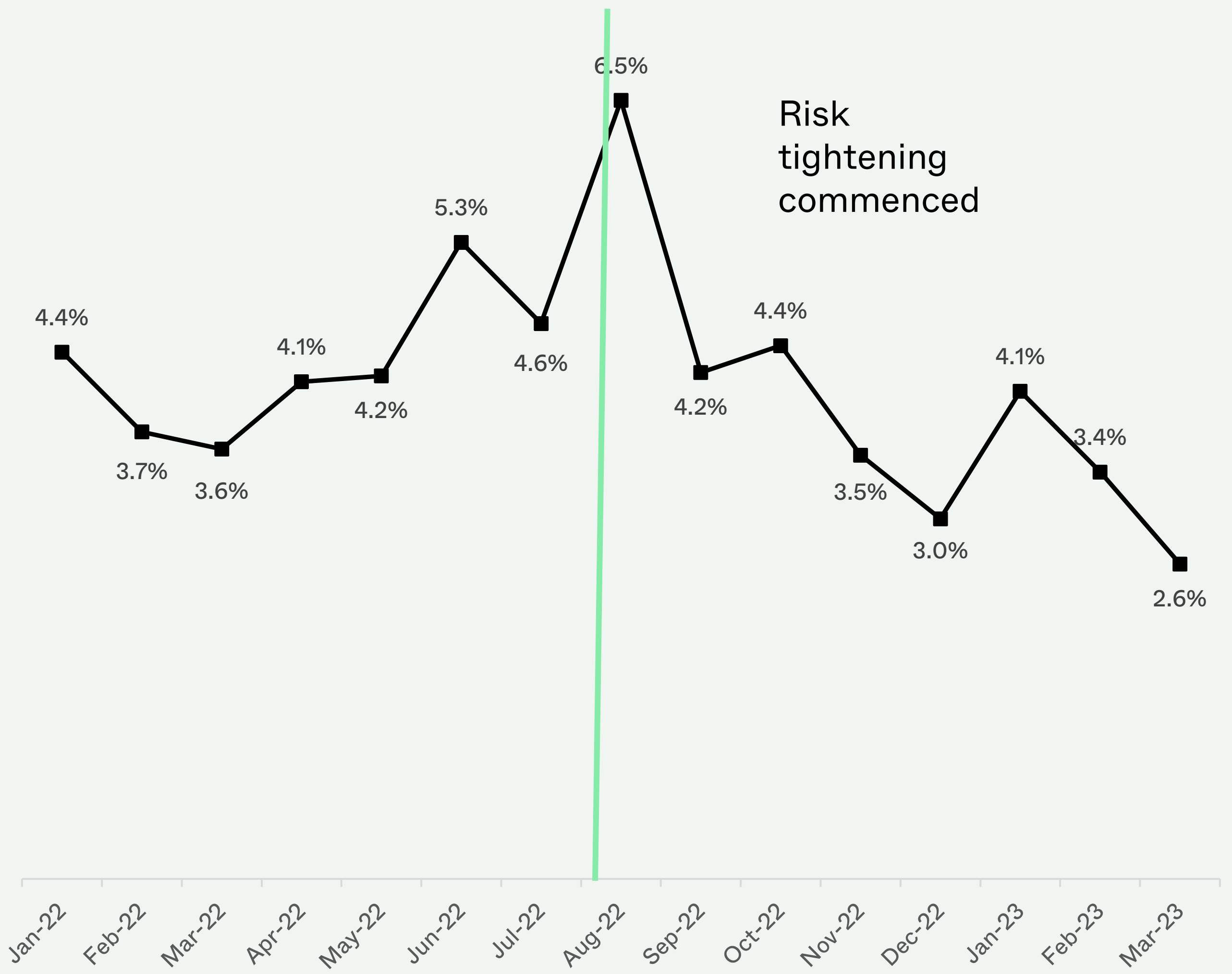
Early loss indicators improving in line with tighter credit settings

Origination cohorts in mid-CY22 began showing elevated arrears as small businesses across Australia and New Zealand felt the impact of macroeconomic headwinds.

Prospa proactively tightened credit settings during H1 FY23 to isolate the impact of this on the portfolio, with further tightening throughout H2 FY23.

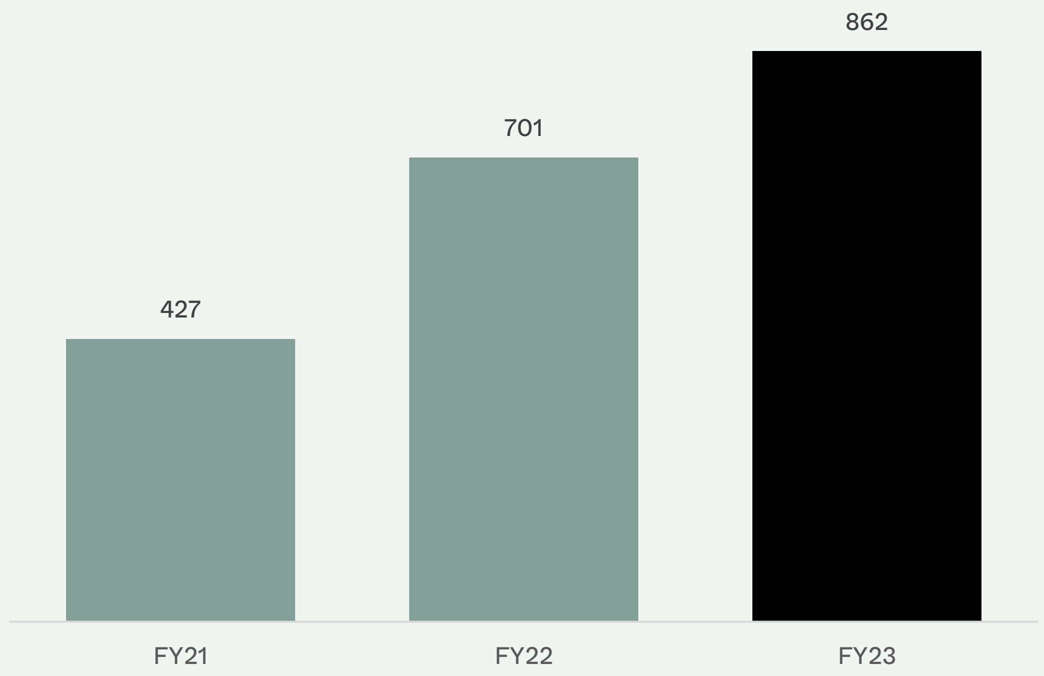
Lower realised arrears rates followed, with 30+ DPD % at 4 months on book, a key early loss indicator, reducing from the peak of 6.5% for Aug-22 originations to 2.6% for Mar-23 originations.

30+ DPD at 4 months on book (% of initially originated amount)

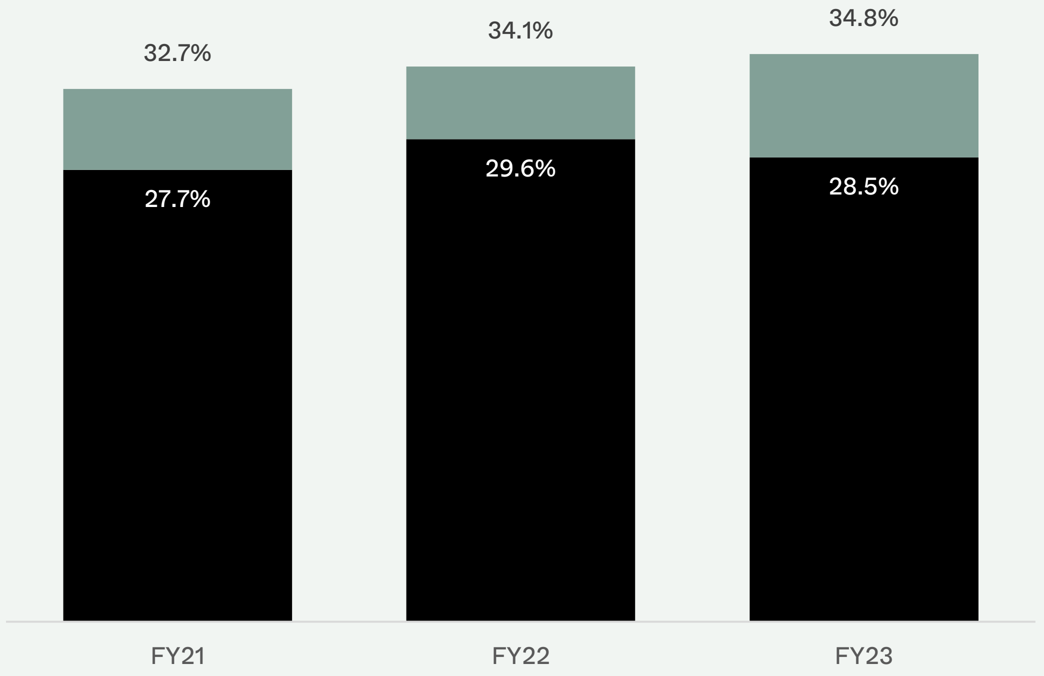


Maintenance of yield despite slowing originations

Closing gross loans ($m)



Portfolio yield[1] and NIM[2] (%)



1. Portfolio Yield is Gross Yield before commissions
2. Totals may not add precisely due to rounding.

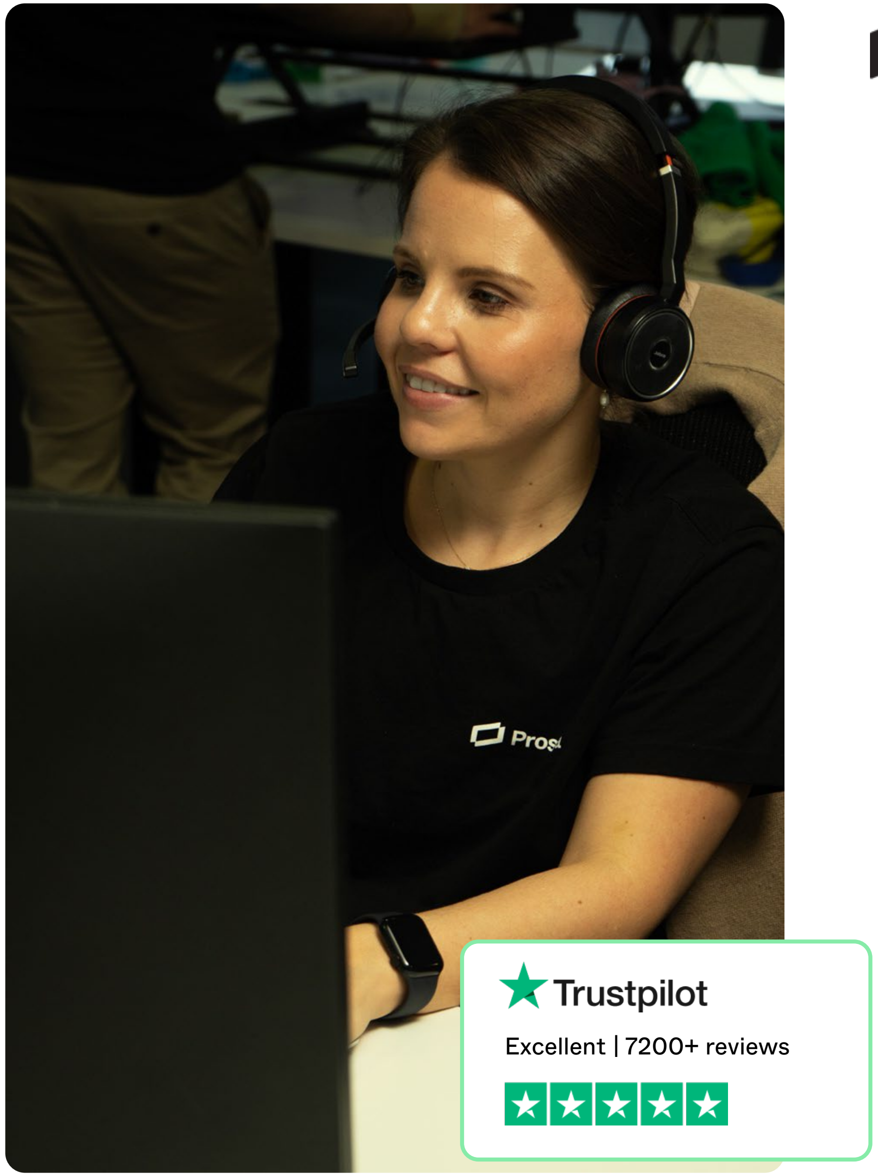
We are well-placed to support small businesses despite current economic environment

Awareness of alt lenders is growing, and Prospa's industry-leading Trustpilot score puts us in a prime seat to help the right small businesses.

Over half of SMEs are aware of alt lending

Two in three businesses looking for funding in next 6 months

Prospa recognised as a trusted lender, with rating of 4.9 on Trustpilot

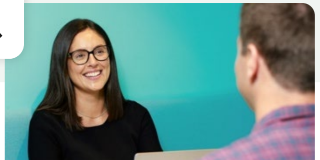


1. RFi Group research, The economic impact of Prospa lending to small business, commissioned by Prospa , June 2023
2. In the Non-Bank Financial Services category, Prospa is the most trusted small business lending specialist on independent review site TrustPilot, with over 7,300 reviews and a TrustScore of 4.9 in Australia, and over 1,000 reviews and a TrustScore of 4.9 in New Zealand as at 8 August 2023.

ESG

FY23 Prospa was certified as a Great Place to Work, recognising the importance of investing in both our people and the impact we have on the community we operate in.

Our ESG strategy is aligned with our purpose, values and long-term goals.



Environment

- Achieved Carbon Neutral status in FY23 in partnership with Trace Pty Ltd
- Switching to Green Energy for Prospa Head Office in FY24, and are actively scoping and exploring reduction strategies

Social

- We strive for greater gender parity and inclusion, and continued to make strong progress in FY23
- We continue to invest and maintain our ongoing partnership with Kiva, since 2013
- Endorsed by Work180 as Employer of Choice
- All leaders participated in 'Inclusion in action' training and a 'leading at Prospa' induction program

Governance

- Corporate governance policies and practices are reviewed against the ASX Corporate Governance Council's Principles
- Further information in relation to corporate governance practices is set out in the Corporate Governance Statement, which is publicly available
- Code of Conduct and Values refreshed to ensure a culture of governance and shared responsibility

02

FY23 Financials

Smokin Hot n Saucy, AU

Summary FY23 Financials[1]

Record portfolio balances and prudent cost management propels the cash-generating capability of the business.

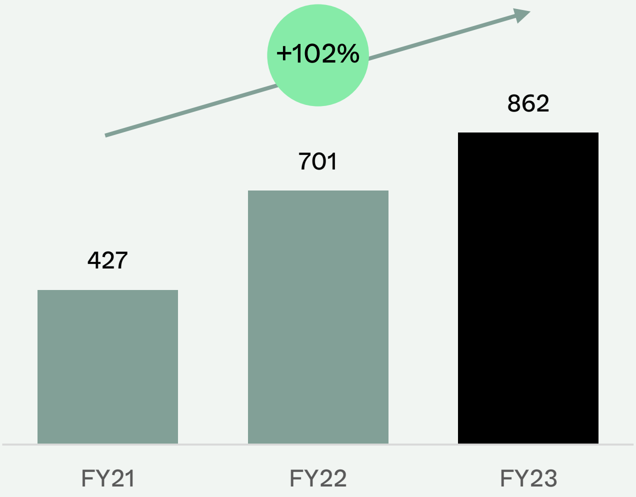
	$m	FY23	FY22	FY21	Var. $ on pcp	Var. % on pcp
1	**Originations**	**753.7**	**732.5**	**483.4**	**21.2**	**2.9%**
2	**Total revenue**	**285.6**	**178.3**	**117.7**	**107.3**	**60.2%**
3	Transaction costs	(15.4)	(11.4)	(7.3)	(4.0)	34.9%
4	Funding costs	(52.0)	(23.3)	(17.9)	(28.7)	123.3%
	Gross profit[2]	**218.1**	**143.6**	**92.6**	**74.6**	**51.9%**
5	Loan impairment	(139.4)	(47.3)	(27.3)	(92.1)	194.7%
6	Employee expenses[3]	(65.4)	(48.2)	(38.1)	(17.2)	35.7%
7	Operating expenses	(41.8)	(35.9)	(29.4)	(5.9)	16.3%
	Total expenses	**(246.6)**	**(131.4)**	**(94.8)**	**(115.2)**	**87.7%**
	EBITDA	**(28.5)**	**12.1**	**(2.2)**	**(40.6)**	**(335.0%)**
8	**Operating cash flow[4]**	**96.8**	**58.8**	**33.1**	**37.9**	**64.5%**
	Unrestricted cash	**25.8**	**49.9**	**39.8**	**(24.1)**	**(48.4%)**

1. 2.9% increase in annual originations on pcp with risk setting changes limiting growth in the second half.
2. Revenue before transaction costs up 60.2% on pcp with yield increasing to 34.8% vs 34.1% in FY22.
3. Increase in transaction costs trending in line with portfolio growth.
4. Please refer to slide 16 for further detail on funding costs.
5. Please refer to slide 21 for further detail on loan impairment costs.
6. Employee cost increase of $17.2m driven predominantly by a change in capitalisation policy with impact of $8.1m on pcp. Normalised employee cost growth of $8.9m was largely driven by further investment in product and technology and higher sales and marketing activity driving higher revenue.
7. Increase in operating expenses mainly attributable to higher technology investments. Operating leverage is evident with employee and operating expenses jointly increasing by 27.4% on pcp vs revenue growth of 60.2%.
8. Continuing significant growth in operating cash flow, reflecting the strong cash profitability of the business.

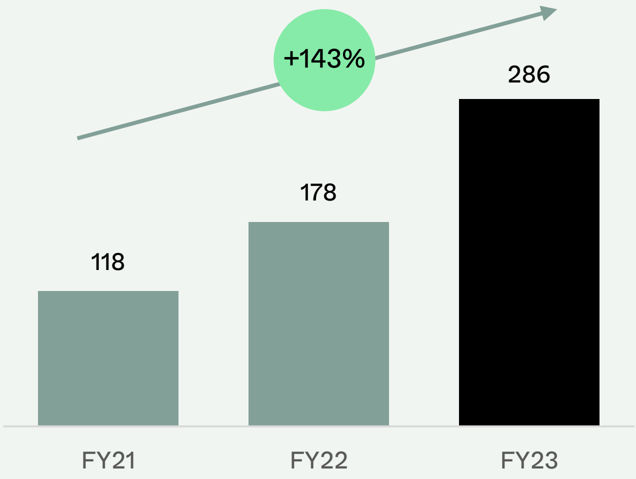
1. Totals may not add up precisely due to rounding.
2. All references to Gross Profit in this document is calculated as total revenue less transaction costs and funding costs.
3. FY23 excludes $0.8m restructuring costs, and FY21 excludes $2.7m of Jobkeeper benefit.
4. Operating cash flow before changes in operating assets.

Continued top-line performance with strong cash generation

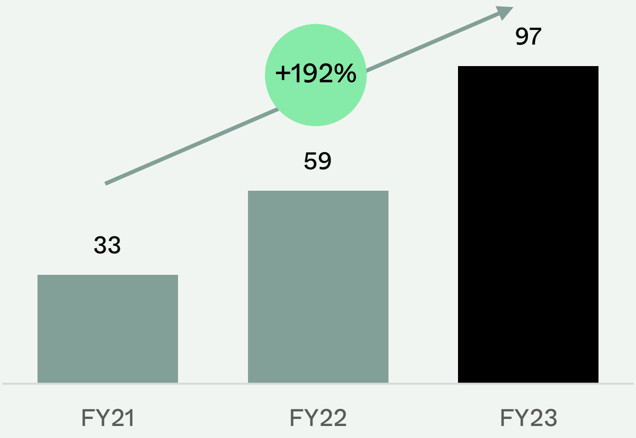
Closing gross loans ($m)



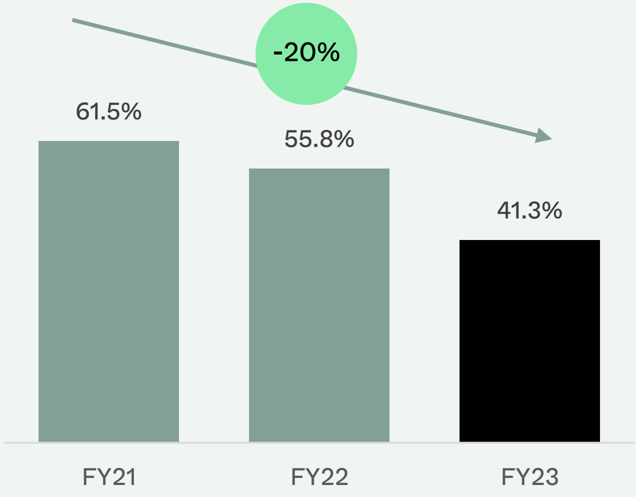
Revenue ($m)



Operating cash flow ($m)[1]

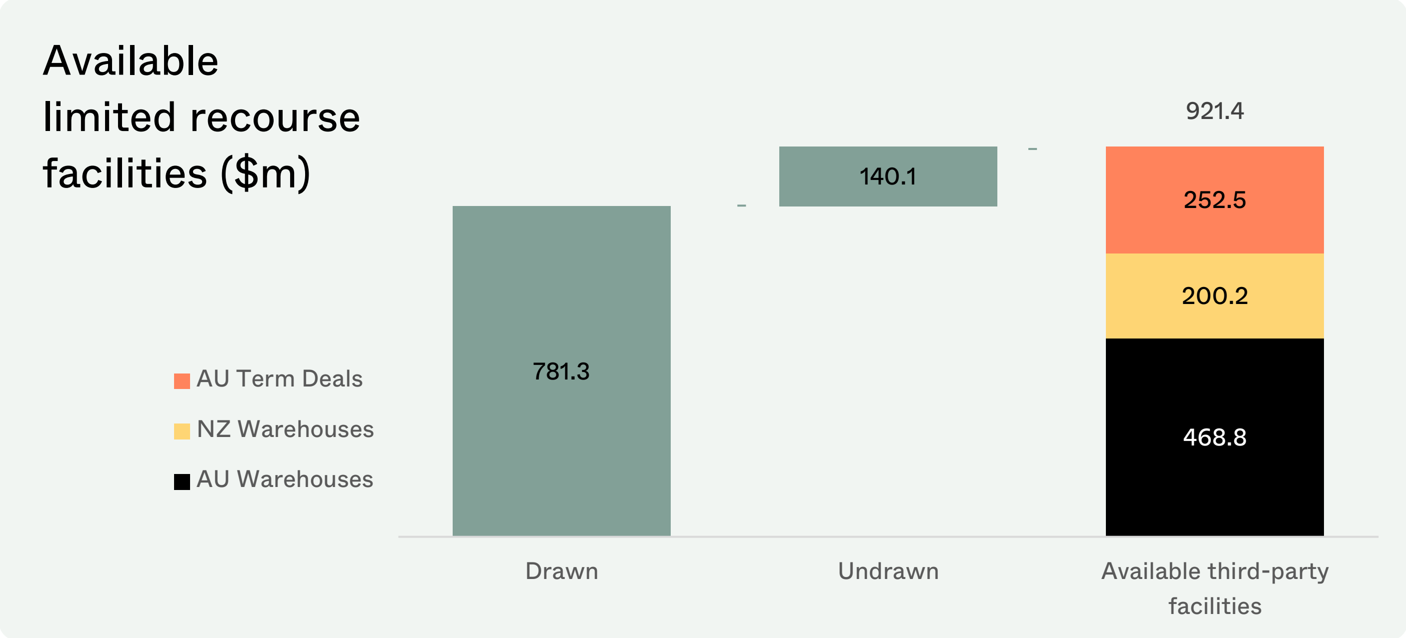


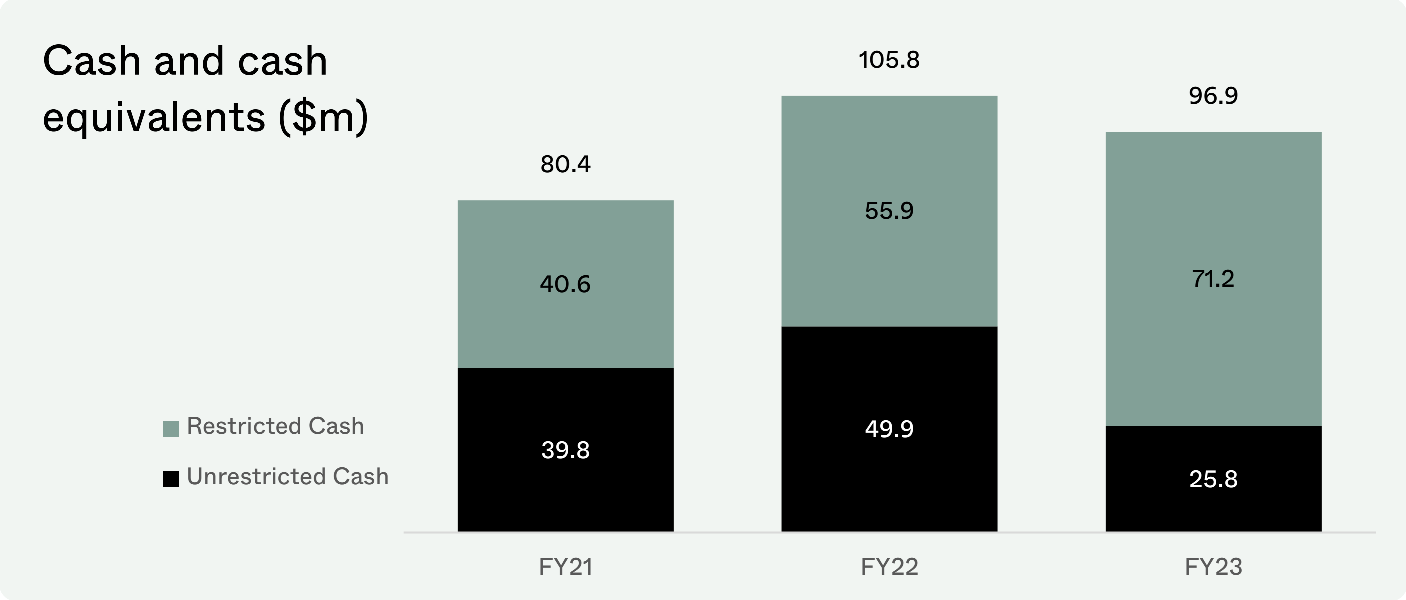
Total OPEX as % of revenue[2]



1. Operating cash flow before changes in operating assets.
2. Total employee and operating costs represent all operating (profit and loss) and capital (intangible asset) expense in the period.

Enhanced funding platform positions for continued growth





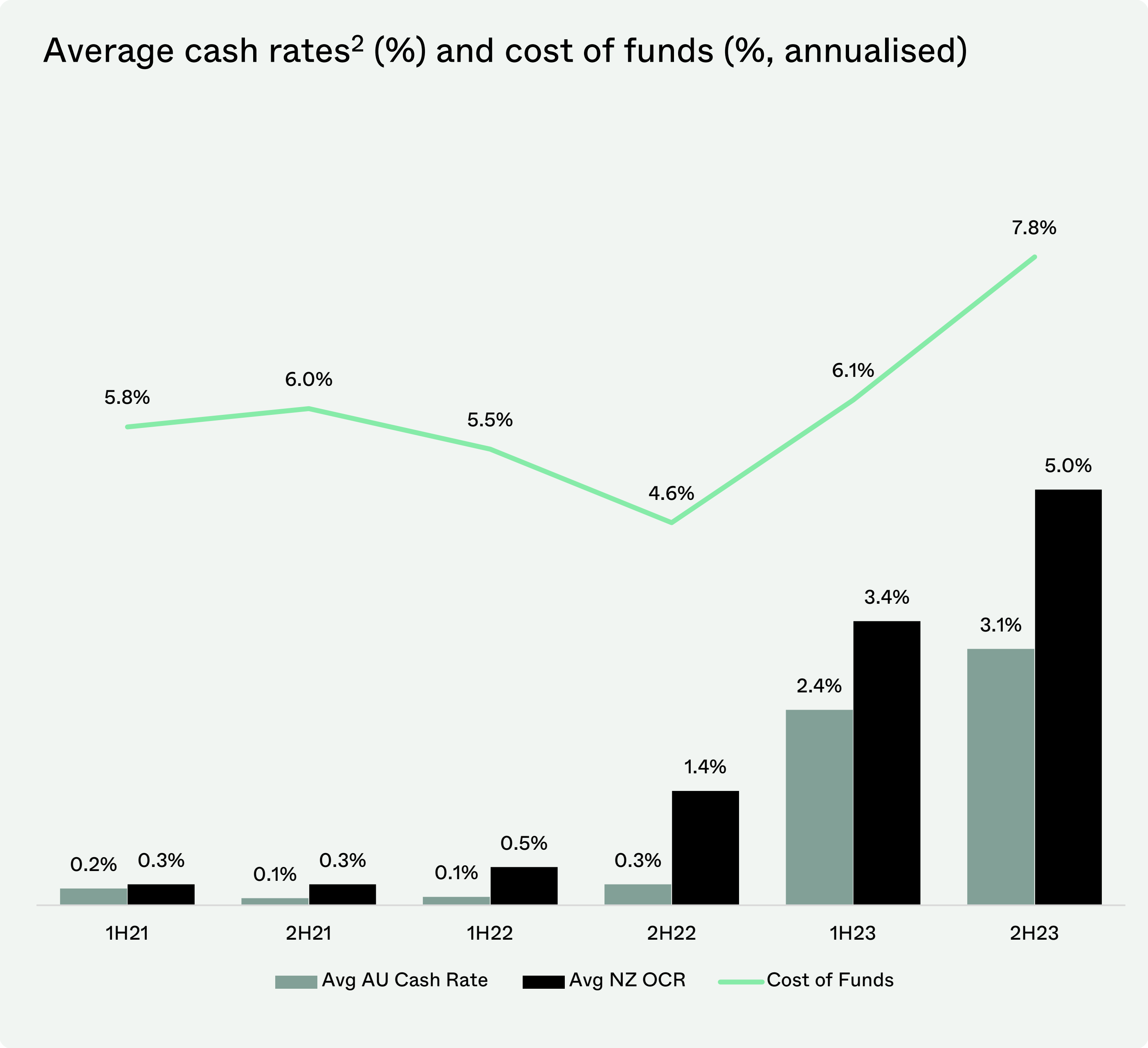
On 7 July 2023, Prospa established a $12 million corporate debt facility to support growth and act as a potential cash buffer to economic headwinds (not included in the unrestricted cash shown at 30 June 2023).

Sensitivity of funding cost to cash rates

FY23 saw funding costs increasing 123% over FY22 despite closing gross loans only increasing 23%.

Prospa's funding structures are linked to the cash rates[1] across AU and NZ, which rose 3.25% and 3.5%, respectively, over the year.

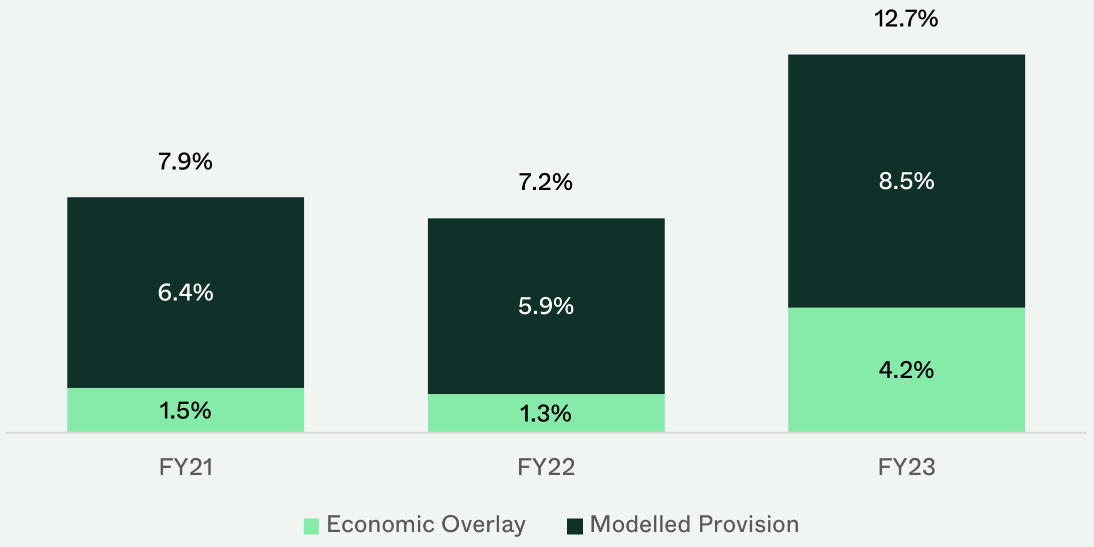
The term ABS program has enabled the cost of funds to rise at a slower pace than the base rate rises.



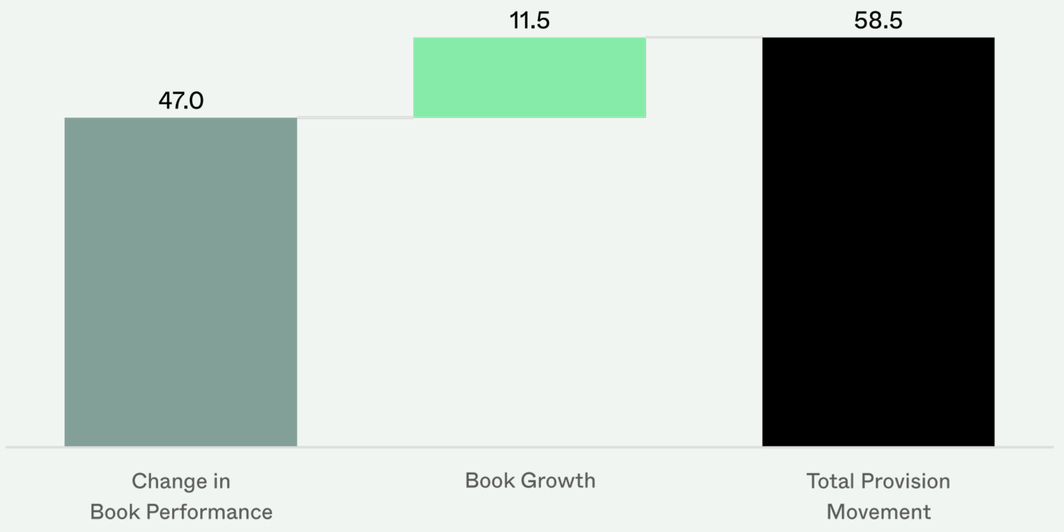
1. Warehouses and term deals pay a variable funding cost based on 1-month BBSW and BBSY in Australia, and 1-month BKBM in New Zealand, which in turn are linked to the Cash Rate and OCR in their respective country.
2. Average of monthly cash rates in the respective periods.

Loan loss provisioning increased with higher-than-expected arrears and deterioration in forward-looking economic outlook

Provision composition



FY23 Provision expense breakdown ($m)

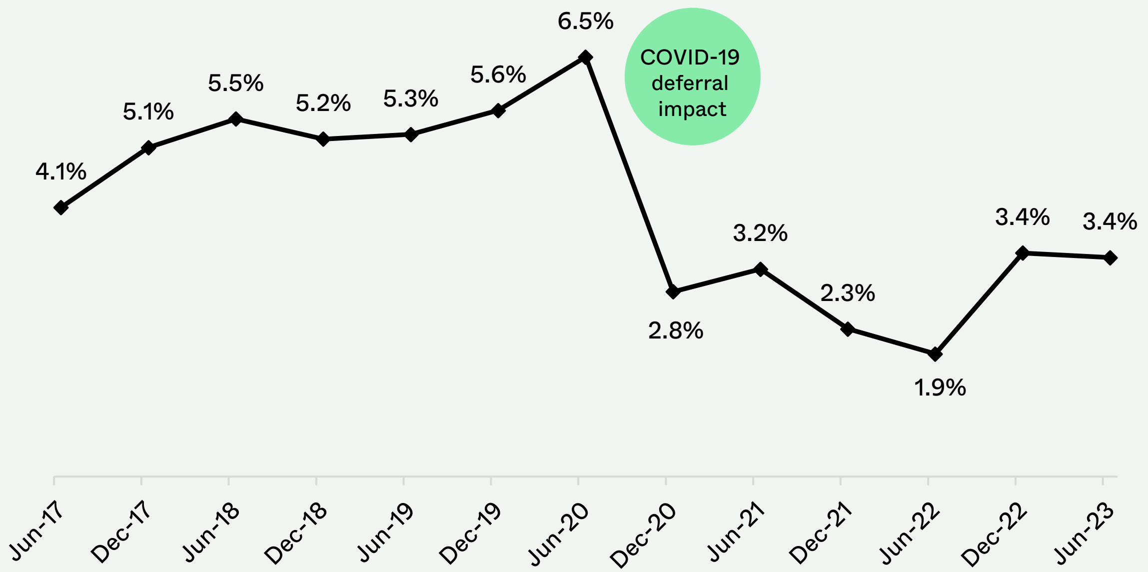


1. Refers to delinquency data across all products as a % of closing gross loans and references point-in-time information at 6-month intervals. Historical values may change due to refinements in Days Past Due calculation methodology.

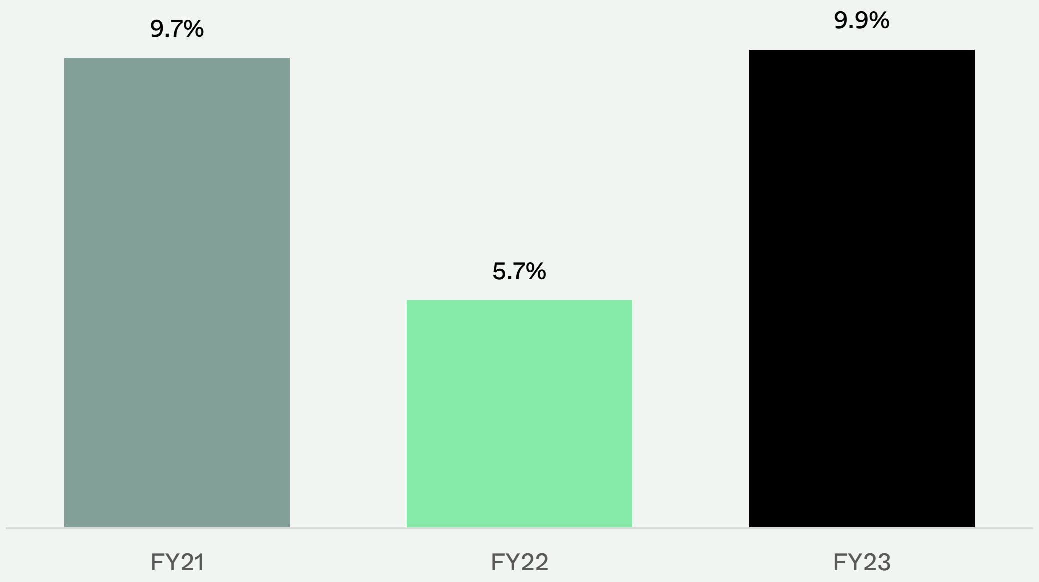
Net Bad debts increased in line with elevated arrears

Prospa is focused on dynamically managing approval rates to originate business within the board mandated risk appetite.

Coincidental delinquency[1] (90+ days past due)



Net bad debt as a % of AGL



1. AGL is average gross loans. Percentage represents the net bad debt expense as % of AGL, annualised.
2. Bad debt expense offset by loss recoveries received in the period.

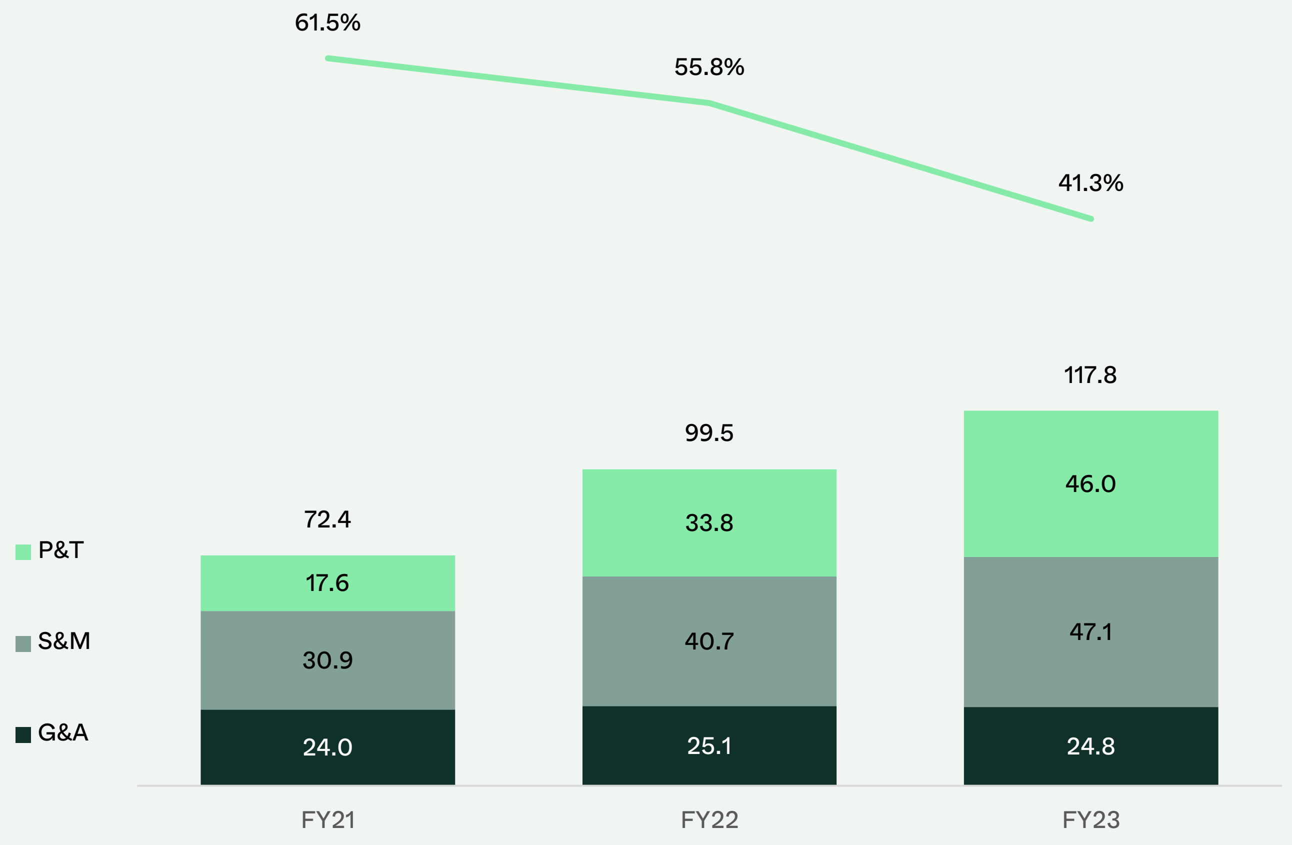
Cost discipline to deliver sustainable growth

Successful balance of growth with operational efficiency, evidenced by total employee and operating expenses[1] reducing to 41.3% of revenue, 14.5 percentage points lower than FY22 and 20.2 percentage points lower than FY21.

General and Administrative costs have remained flat in dollar terms over the period.

Product and Technology costs increased 36.1%, reflecting greater IT investment to scale existing products through the technology re-platform and grow the Business Account.

Total employee & operating cost[1] ($m) & Total % of revenue



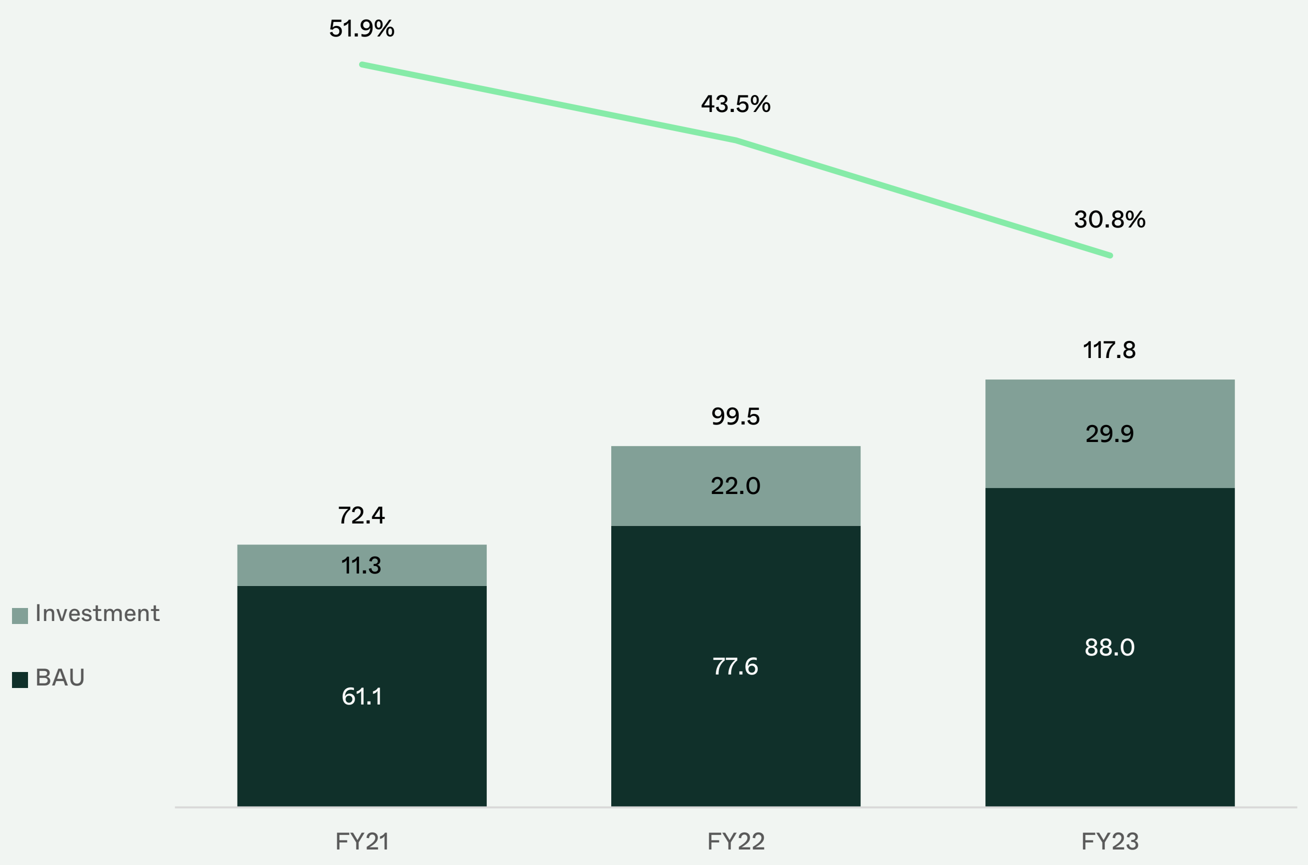
1. Total employee and operating costs represent all operating (profit and loss) and capital (intangible asset) expense in the period. FY21 excludes a $2.7m benefit from JobKeeper.

Scalability in underlying cost base

While Prospa's book has undergone significant growth, the cost base has been tightly managed. BAU-related total employee and operating costs have reduced to 30.8% of revenue, 12.7 percentage points lower than FY22 and 21.1 percentage points lower than FY21.

In March 2023, Prospa undertook a cost restructure, resulting in a streamlining of our operating model and rationalisation of product builds. This resulted in a $0.8 million restructuring charge (not included in cost charts), and $1 million run rate saving per month.

Total investment & BAU cost[1] ($m) & BAU % of revenue



1. Total employee and operating costs split into Investment and Business as Usual-related costs. Expenses represent all operating (profit and loss) and capital (intangible asset) expense in the period. FY21 excludes a $2.7m benefit from JobKeeper.

Impairment of Software Intangibles

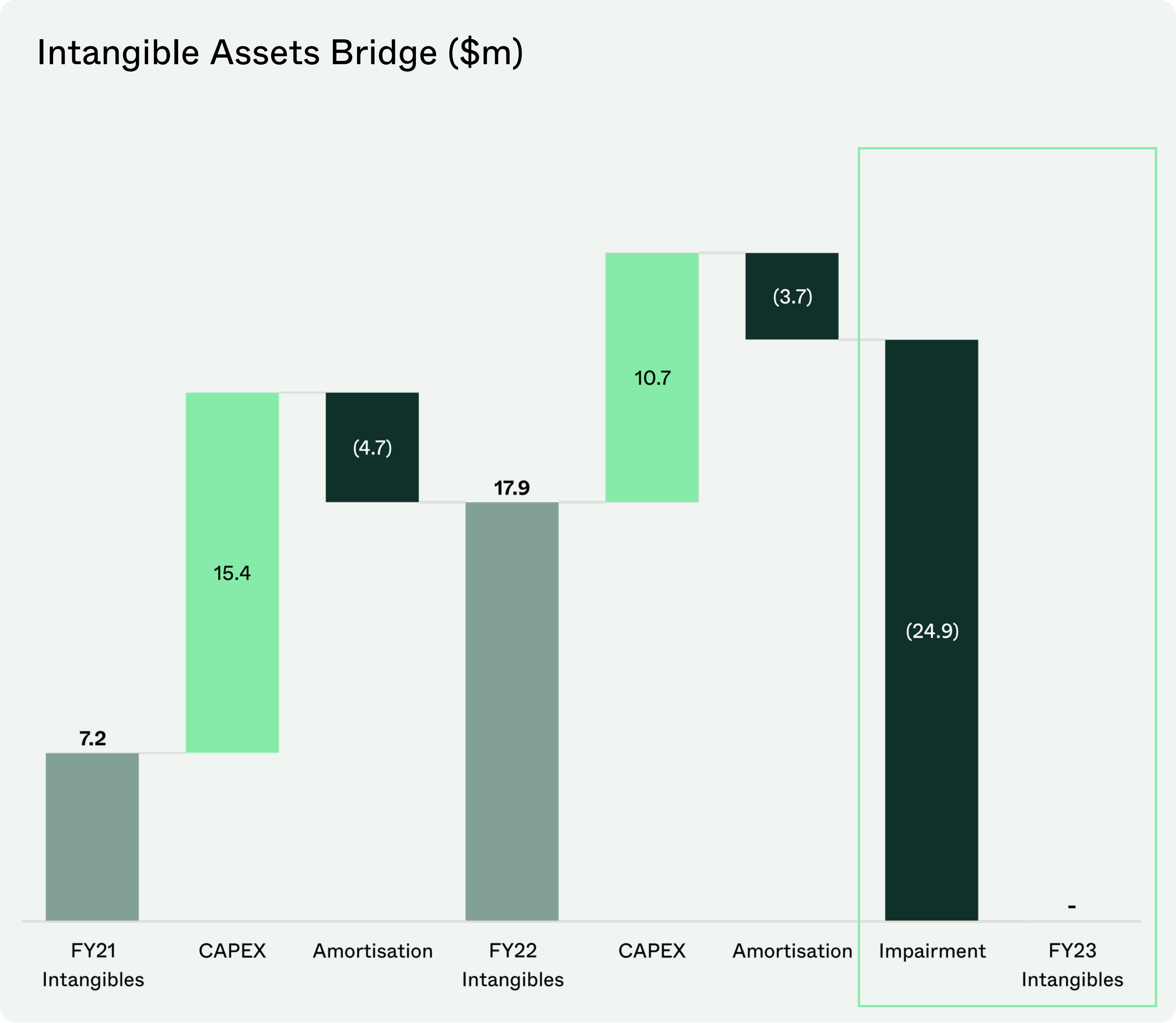
During the year, Prospa continued to invest in system re-platforming, improving and building new products.

Some of this investment was capitalised during the first half of the year in line with Prospa's accounting policy.

Prospa ceased capitalisation when the requirements under the policy were no longer met.

As part of the year-end assessment of the carrying value of assets (as required by AASB 136 Impairment of Assets), Prospa has tested for impairment, and as a result software intangible assets have been fully impaired.

The Board believes that the development of the software remains an appropriate and important use of shareholder capital, with a focus on building a stronger and more sustainable business in the long term.

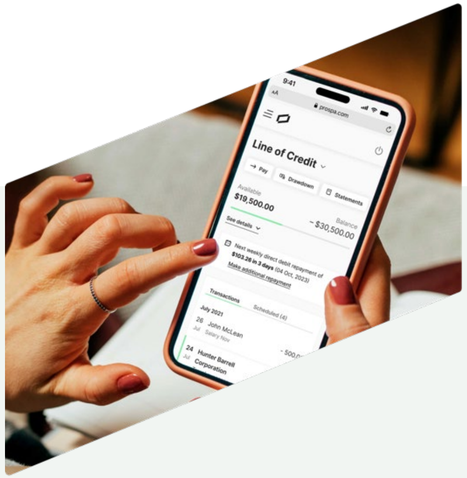


03

Outlook

The Invisible Agency, NZ

FY24 Focus



Complete roll out of new platform

- **H1:** Onboarding new customers on new Prospa technology platform
- **H2:** Migration off legacy systems for existing customers
- The new platform will drive efficiencies from FY25 and enable new growth opportunities

Attract and engage high quality customers

- Improved product proposition to win share of high quality customers
- Enhance overall value proposition to trusted partners to drive greater lead generation
- Continued risk management to build profitability and sustainability

Build customer affinity and lifetime value

- Roll out of new products and tools within the All-In-One Business Account to expand utility and connection with Prospa
- Cross-sell credit products within the Business Account
- Integrated digital experience across lending and transaction products to drive lifetime value

Questions

Backyard Roadies, NZ

04
Additional information

Full Year Profit and Loss

12 Months to 30 June 2023 ($m)	FY23	FY22
Interest income	255.8	163.4
Other Income	29.8	14.9
Revenue	285.6	178.3
Transaction costs	(15.4)	(11.4)
Funding costs	(52.0)	(23.3)
Gross Profit	218.1	143.6
Loan impairment	(139.4)	(47.3)
Employee expenses	(65.4)	(48.2)
Operating expenses	(41.8)	(35.9)
Total Expenses	(246.6)	(131.4)
EBITDA	(28.5)	12.1
Depreciation	(2.5)	(2.6)
Amortisation	(3.7)	(4.7)
Impairment of intangible asset	(24.9)	-
Interest on lease liabilities	(0.2)	(0.3)
Share based payments	(3.9)	(2.9)
Forex gain/(loss)	0.4	0.1
Restructuring costs	(0.8)	-
PBT	(64.1)	1.7
Tax	19.2	5.1
NPAT	(44.9)	6.7

1. Totals may not add up precisely due to rounding.

Statutory Balance Sheet

Statutory Balance Sheet ($m)[1]	Jun-23	Jun-22
Cash and cash equivalents	96.9	105.8
Loan receivables	752.7	650.5
Bank deposits	0.0	-
Other financial assets	1.3	0.6
Derivative financial assets	0.7	2.8
Prepayments and other assets	3.1	3.2
Property, plant and equipment	0.1	0.3
Right-of-use assets	5.9	7.9
Intangible assets	-	17.9
Deferred tax assets	38.3	19.7
Total assets	**899.0**	**808.9**
Trade and other payables	10.6	12.8
Employee benefits	9.1	8.0
Current tax liabilities	-	1.5
Funding debt	779.1	640.8
Lease liabilities	7.3	9.5
Total liabilities	**806.0**	**672.7**
Net assets	**93.0**	**136.2**
Issued Capital	610.9	611.8
Reserves	(415.9)	(418.4)
Retained earnings	(102.1)	(57.2)
Total equity	**93.0**	**136.2**

1. Totals may not add up precisely due to rounding.

Statutory Cash Flows

12 months to 30 June 2023 ($m)[1]	FY23	FY22[2]
Interest income received	256.2	161.5
Other income received	17.7	11.5
Interest paid	(52.6)	(24.2)
Payments to suppliers and employees	(124.5)	(90.0)
Operating cash flow before changes in operating assets	**96.8**	**58.8**
Net increase in loans advanced to customers	(230.3)	(297.9)
Operating cash flow	**(133.5)**	**(239.1)**
Payment for other financial assets	(0.2)	(0.6)
Payments for intangibles	(10.7)	(15.4)
(Increase)/decrease in bank deposits	(0.0)	1.1
Investing cash flow	**(10.9)**	**(14.9)**
Proceeds from borrowings	430.8	389.1
Repayment of borrowings	(292.3)	(107.6)
Principal repayment of lease liabilities	(2.5)	(2.3)
Share buyback	(0.6)	(0.4)
Treasury share purchase	(0.2)	-
Proceeds from exercise of options	-	0.0
Proceeds from sale of loan shares	-	1.3
Cash settled employee rights	-	(0.0)
Financing cash flow	**135.2**	**280.1**
Net cash flow	**(9.2)**	**26.1**

1. Totals may not add up precisely due to rounding.
2. Comparative information has been restated to align to the presentation with the current period in respect of the reclassification of net movement in loans advances to customers from investing activities to operating activities.

FY23 Key Metrics

12 months to 30 June 2023 ($m)	FY23	FY22
Loan book		
Originations	753.7	732.5
Gross originations[1]	991.0	973.8
Gross loans (period end)	862.2	701.3
Average gross loans	819.5	523.4
Realised portfolio yield, annualised (%)	34.8%	34.1%
Premium risk grades (%)	49.5%	45.4%
NIM as a % of average gross loans (%)	28.5%	29.6%
Funding		
Funding cost rate, annualised (%)	7.0%	5.0%
Average funding debt	741.1	467.4
Productivity metrics		
Total employee and operating expenses % of revenue[2]	41.3%	55.8%
Customer metrics		
Active customers	21,000	16,100
Net promoter score	70+	80+
Composition of loan impairment		
Impairment expense: net bad debt expense	81.0	30.1
Impairment expense: provision movement	58.5	17.3
Provision rate (%)	12.7%	7.2%
Net bad debt expense as a % of average gross loans	9.9%	5.7%

1. Originations including carryover from refinances.
2. Total employee and operating costs represent all operating (profit and loss) and capital (intangible asset) expense in the period.

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