Prospa Group Limited 2023 Annual General Meeting – CEO's Address

Release date: 16 November 2023

In accordance with the Listing Rules, attached is the address to be delivered by the Chief Executive Officer of Prospa Group Limited (ASX:PGL), Greg Moshal, at this morning's Annual General Meeting to be held virtually.

This announcement has been authorised for release by the Company Secretary.

ENDS

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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 $3.7 billion of funding to support the growth and operations of thousands of small businesses. We also work with more than 16,000 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.

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Thanks Gail and welcome everyone. Thank you for joining us today.

At Prospa we are committed to unleashing the potential of every small business and being a trusted financial partner of choice. I am pleased with how the team managed what was a tough year. Even with an unsettled economic backdrop, the team continued executing against our technology re-platform and product roadmap commitments.

FY23 was a year of two halves, the first half from July to December 2022 resulting in record originations across many industry segments, increased revenue, and a substantial expansion in book size. It was during this period economic conditions began to change because of back-to-back cash rate increases by the RBA, labour shortages and accelerating inflation.

The second half between January to June 2023 was the period early-stage stress was being felt across all risk bands with small business feeling the pinch caused by economic change. Prospa made quick adjustments to its risk appetite triggering adjustments to commercial and risk settings in response to a spike in losses, bankruptcy rates and financial hardship requests. It was during this period Prospa made material cost reduction adjustments and paused some product development.

Pleasingly, we still maintained our support for small business during a turbulent year, maintaining healthy yields and operating leverage.

FY23 Originations

As mentioned in Gail's opening statement, FY23 originations were pleasing despite the tighter credit risk settings we implemented in response to the rapid changes across the broader economy throughout the year. Originations closed at 753 million dollars, up 2.9% on pcp.

Demand across all channels remained steady as we proactively managed our credit risk assessment policies, eligibility criteria and commercial settings balancing new business and portfolio performance.

Our partners remain an important aspect of our business as we collectively manage the needs and solutions offered to new and existing customers. As economic conditions evolved throughout FY23 in both Australia and New Zealand, we offered support where appropriate to target a sustainable and performing portfolio with the desired industry mix.

Diversified portfolio

The core to our risk management strategy is our diversified credit exposure, and the flexibility to specifically target sectors and geographies based on changing market conditions and customer demand. This is aided by our bespoke credit decision engine, which enables real-time dynamic risk profiling and decision-making.

We also have the proven ability to direct our products to an assortment of industries and businesses with over 45% of our originations coming from returning customers.
As a result, our portfolio remains balanced and well diversified.

Portfolio Performance

As mentioned previously, over the course of the FY23 period, we observed increased challenges for many small businesses with heightened cost pressures, changes in consumer demand, and weakening revenue.

As a result of changing conditions, we proactively pulled back targets throughout the year to ensure an appropriate mix in originations that effectively represents our risk appetite.

Risk setting changes made throughout FY23 as part of our dynamic portfolio management program are starting to show encouraging signs across early loss indicators.

Net Bad Debt

Increasing challenges in the economic environment led to an overall increase year-on-year in net bad debts as a percentage of average gross loans.

Bad debt expense increased to 9.9% of average gross loans compared to 5.7% over FY22.

Many of the losses experienced were from origination cohorts settled in CY22. This triggered the subsequent proactive tightening of our credit risk and commercial settings.

Loss Provision

Overall provision for FY23 increased to 12.7% representing a total provision expense for FY23 of 58.5 million dollars, noting 11.5 million dollars of overall provision expense was driven by loan book growth.

2.6% of this increase was related to higher-than-expected arrears, and the remaining increase of 2.9% was an increase to the economic overlay taking into account the challenging and rapidly evolving environment.

Prospa is focused on dynamically managing approval rates to originate business within our board mandated risk appetite. Prospa's credit decision engine has been instrumental in supporting prudent decisions and will continue to do so as our credit risk models and scorecards evolve.

Yield

Even with tempered originations and elevating losses during the tail end of FY23, we were able to increase our yield for the year to 34.8%, somewhat offsetting the increase in our cost of funds.

Revenue growth combined with yield management delivered solid performance. Prospa's net interest margin ended at 28.5% for FY23.

Operating leverage continues to improve as the business scales up and is reflected in a 192% growth in operating cashflow from FY21 to FY23.

Our prudent approach to cost management has helped employee and operating expenses reduce to 41% in proportion to our revenue. We believe increased operating leverage reflects our capability to scale our lending solutions while efficiently managing costs at sustainable levels.

Funding costs

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 across Australia and New Zealand, which rose 3.25% and 3.5%, respectively, over the FY23 period.

The term ABS program has enabled the cost of funds to rise at a slower pace than the base rate rises, helping to cushion the cash rate increase impact.

As of 30 June 2023, Prospa had access to 921 million dollars of secured funding facilities, a 31% increase on pcp, of which 140 million dollars was undrawn.

Total cash ended the year on 96 million dollars, of which 25 million dollars was unrestricted.

In July 2023, we established a 12 million dollar corporate debt facility to support continued growth and act as a buffer in the event economic headwinds intensify during FY24.

Product Expansion on track

Investment in our technology re-platforming is in the final stages with all new Australian and New Zealand small business loan and line products originating from our new platform. Customer migration off our legacy systems is also on track. In addition, we have launched new payment options through our digital channels to offer customers extended repayment solutions to support collection outcomes.

Prospa's increased focus on the established business segment is seeing encouraging results, where we are targeting the lower risk, more premium end of the SME market. This deliberate focus on shifting to better quality originations in FY23 has led premium risk grades’ share of our total portfolio increasing 4.1% vs FY22.

Our Business Account with an attached Visa debit card, Apple Pay and Google Pay has over 1,400 customers with over 1.5 million dollars in deposits and growing. The uptake of the Prospa App continues to grow with a total base of 6,100 monthly active users on the mobile app.

We continue to invest in launching customer-centric product features and services such as the Prospa App in New Zealand and low-friction digital product discovery and onboarding experiences in both Australia and New Zealand. This new channel has seen a strong start in originations, and we will continue to leverage this strength throughout FY24.

FY24 Focus Areas

Prospa remains focused on improving the credit performance of the loan book while generating profitable growth and delivering outstanding products and services as the premier online lender to small business.

We anticipate economic uncertainty impacting the small business sectors in Australia and New Zealand will continue for some time. Leveraging our dynamic credit decision-making capability to make quick and decisive setting changes to optimise commercial and customer outcomes will be more important than ever.

We will monitor, and if necessary, adjust credit risk settings further, to support continued improvement in the credit quality of our loan book.

In parallel, we will continue to deliver on our strategic roadmap through the re-platforming program, migrating customers off legacy systems, and expanding our capital product reach.

Enhancing our Business Account offering will continue to benefit partners and customers and increase overall shareholder value.

CONCLUSION

As we conclude this section of the AGM, I would like to thank the entire Prospa team for their dedication and enthusiasm. They continue to be committed to providing our small business customers and partners with considerable support.

Thank you to the board for their continued efforts, time, and support.

A final thanks to our shareholders who maintain their support for Prospa and our growth strategy.

I'll now hand back to Gail.