earlypay

FY23 AGM Presentation

22 November 2023


CEO James Beeson


CFO - COO Paul Murray

Board of Directors & Senior Management

Presenting Today

CEO - James Beeson

CFO / COO - Paul Murray

Geoffrey Sam OAM, Non-Executive Chairperson

Qualifications: BCom (UNSW), MHA (UNSW), MA (Econ & Soc Studies) (Manchester UK), FAICD

Responsibilities: Member of the Audit & Risk Committee and Member of the Nomination & Remuneration Committee

Shares: 2,160,188 Ordinary Shares

James Beeson, Managing Director & CEO

Qualifications: Global Executive MBA, Master of Applied Finance, BCom, CPA, GAICD

Shares: 15,952,453 Ordinary Shares
Performance Rights: 1,072,734

Ilkka Tales, Non-Executive Director

Qualifications: BBus

Responsibilities: Chairperson of the Audit & Risk Committee.

Shares: 300,000 Ordinary Shares

Stephen White, Non-Executive Director

Qualifications: M.Mngt, GAICD

Responsibilities: Member of the Audit & Risk Committee and Member of the Nomination & Remuneration Committee

Shares: Nil

Sue Healy, Non-Executive Director

Qualifications: Fellow RCSA, MAICD

Responsibilities: Chairperson of the Nomination & Remuneration Committee, Member of Audit & Risk Committee.

Shares: 768,735 Ordinary Shares

Paul Murray, CFO, COO & Company Secretary

Qualifications: Global Executive MBA, MCom (Hons), Chartered Accountant ANZ

Shares: Nil

Executive Summary - Agenda / Highlights

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1	**FY23 Financials Summary**	→ Underlying Proforma (excluding one-off's) NPAT of $4.8m → Reported Loss after Tax of $7.7m, driven by outsized single customer exposure/costs
2	**Timelio Acquisition**	→ Adds $33m invoice finance receivables & $5m trade finance receivables → Expected to be EPS accretive + broad range of strategic benefits
3	**Refinancing**	→ Invoice and Trade Warehouse Facility documentation in final review → Settlement is expected before the end of the calendar year
4	**Capital Management**	→ Refinancing expected to release c. $20m of cash → EPS accretive capital management initiatives may include on-market share buyback, repayment of corporate debt, reinstatement of dividend
5	**Outlook**	→ YTD Trading – Demand strong but management cautious on growing Funds in Use (FIU) given macro-environment → FIU lower since June 2023 driven by the exit of large, low margin clients who didn't meet revised credit appetite → Lower FIU and income will be more than offset by addition of Timelio portfolio → YTD Credit Impairment Expenses higher than long term average but significantly lower than FY23 proforma expense of $7.0m → Re-affirming FY24 NPAT is expected to exceed FY23's underlying proforma NPAT of $4.8m

FY23 Summary - Proforma (excluding Major Default & Recovery)

Reported Results significantly impacted by “one offs”. Underlying business remains profitable and cash generative with a strong balance sheet

Profit and Loss ($m)	FY22 Proforma	FY23 Proforma		*Δ pcp*
Year End Funds in Use	*296.4*	*294.3*	1	*-1%*
Average Funds in Use	*255.0*	*306.0*		*20%*
Interest Income	25.6	33.8		32%
Interest Expense	(9.4)	(18.2)		94%
Net Interest Revenue	**16.3**	**15.5**	2	**-5%**
Mgmt / Admin Fees	26.1	25.5		-2%
Net Revenue	**42.4**	**41.0**		**-3.3%**
Opex	(24.5)	(26.1)	3	*6%*
Direct Costs	(3.7)	(3.7)		*0%*
Credit Impairment Expense (CIE)	(0.6)	(7.0)	4	*1148%*
Recovery Costs	-	(1.2)		*na*
PBT	**13.6**	**3.0**		**-78%**
Amortisation	1.5	0.5		*-67%*
Intangible write-offs	-	2.1	5	*na*
One-offs (tax affected)	-	0.5		*na*
Underlying PBT	**15.1**	**6.1**		**-59%**
Underlying NPAT	**13.6**	**4.8**	6	**-65%**
EPS (cents per share)	4.8	1.7		-65%
DPS (cents per share)	3.2	-		na
Net interest margin	*6.4%*	*5.1%*		*-20%*
Net revenue margin	*16.6%*	*13.4%*		*-19%*
Underlying Cost to Income [1]	*63.0%*	*65.0%*		*3%*
Underlying ROE[2]	*15.9%*	*6.5%*		*-59%*

1. Flat FIU growth reflective of a more cautious risk appetite given tightening credit environment and strategic reduction in EF originations
2. Decrease in net interest revenue as a result of:
   - 1H’23 onboarding larger IF/TF clients at tighter margins
   - Delayed IF/TF pricing increases in Q1 FY23
   - No interest costs incurred on Trade finance loans for 9 months of FY22 – funded by cash on balance sheet
   - EF fixed loans against variable funding costs (partial)
3. Opex increase overstated by amortisation, intangible write-off and “one offs”: Underlying decrease of 2% on pcp
4. Increase in Credit Impairment Expense includes:
   - General provision increased by $2.2m
   - Specific provision increased by $4.8m
5. Non-cash impairment of Trademark Intangibles
6. Underlying FY23 NPAT of $4.8m

1. Underlying Cost to Income calculated as (Opex + Direct Costs – Amort – Intangible write-offs – One Offs) / Net Revenue
2. Underlying Return on Equity calculated as Underlying NPAT divided by Net Assets

Product Segment: Invoice & Trade Finance

Cautious FIU growth given economic backdrop

FY23 Invoice & Trade Finance (proforma)

	Proforma		
IF & Trade Reporting ($m)	**FY22**	**FY23**	***Δ pcp***
Key Metrics			
Year End Funds in Use	167.3	182.8	*9%*
Ave. funds in use[1]	149.3	179.2	1 *20%*
Invoices purchased (TTV)	2351.2	2620.4	*11%*
Interest income	14.5	20.1	*39%*
Interest expense	(4.1)	(10.3)	*149%*
Net Interest Revenue	**10.3**	**9.8**	2 ***-5%***
Mgmt / Admin Fees	21.2	21.9	*4%*
Net Revenue	**31.5**	**31.7**	***1%***
Opex	(16.0)	(17.0)	*6%*
Direct Costs	(2.1)	(1.9)	*-8%*
Credit Impairment Expense (CIE)	(0.1)	(6.0)	3 *8761%*
Recovery Costs	-	(1.2)	*na*
PBT	**13.4**	**5.6**	***-58%***
Net interest margin	*6.9%*	*5.5%*	*-21%*
Net revenue margin	*21.1%*	*17.7%*	*-16%*
Cost to income	*57.2%*	*59.5%*	*4%*

1. Small FIU increase: strong SME demand, offset by more disciplined / cautious underwriting given uncertain economic environment
2. Slight decrease in NIM due to prior period 'equity' funding of Trade receivables (i.e. no interest cost relative to the current trade warehouse)
3. CIE increase in general and specific provisioning to better reflect current and expected future credit conditions

FY23 Equipment Finance (proforma)

	Proforma		
EF Reporting ($m)	**FY22**	**FY23**	***Δ pcp***
Key Metrics			
Year End Funds in Use	129.1	111.5	*-14%*
Ave. funds in use[1]	105.7	126.7	20%
Loan Originations	95.2	39.1	1 *-59%*
Interest income	11.1	13.1	*18%*
Interest expense	(4.7)	(7.6)	*61%*
Net Interest Revenue	**6.4**	**5.5**	***-14%***
Client Admin Fee	4.2	3.5	2 *-16%*
Net Revenue	**10.6**	**9.0**	***-15%***
Opex	(5.4)	(3.2)	*-40%*
Direct Costs	(1.7)	(1.9)	*11%*
Credit Impairment Expense (CIE)	(0.5)	(0.9)	*90%*
Recovery Costs	-	-	*na*
PBT	**3.1**	**3.0**	***-1%***
Net interest margin	*6.0%*	*4.3%*	3 *-29%*
Net revenue margin	*10.0%*	*7.1%*	*-29%*
Cost to income	*66.5%*	*56.1%*	*-16%*

1. Materially lower originations in FY23 due to funding constraints, cautious approach to credit and competitive market. Originations recommenced late in FY23 due to improved market opportunity
2. Admin fees decreased due to decreased loan originations
3. Lower interest margins due to most of the floating rate corporate bond interest expense being allocated to EF

1. EPY calculations of Average Funds In Use

Update on Major Default & Recovery and Operational Changes

Recovery process nearing formal close with operational changes strengthening risk profile of business moving forward

Recovery Update

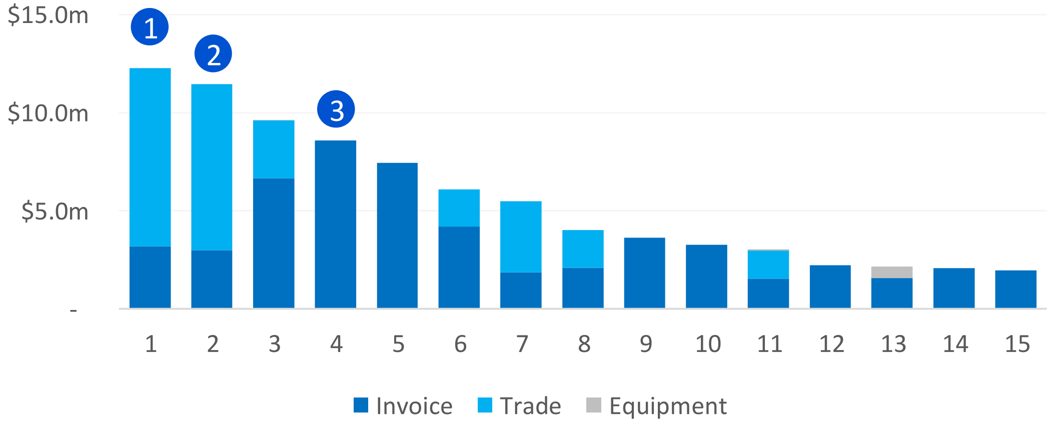
- December 2022: Earlypay's largest borrower entered voluntary administration owing $29m across invoice, trade and equipment finance.
- Earlypay appointed a Receiver and Manager in December 2022 and the sale of the business was announced at the end of FY23
- $8.3m of sale proceeds remain in Trust pending resolution of dispute with the director and related entities. Listed for trial in December 2023
- Earlypay continues to pursue the director and related entities.
- Current provisioning remains unchanged

Operational Changes

- Following the admin process of a major default, implemented initial single counterparty (debtor) exposure limit of $10m, although most new borrowers have been less than $5m FIU.
- Substantial reduction and increased selectivity in offering trade finance. Trade finance facilities to be conservatively sized relative to client's IF funding limit.

Top 15 Clients (by Funds in Use)

As of 30 October 2023



1. Trade FIU secured by real property & stock. Trade in process of being refinanced
2. Grossed-up residual major default exposure excludes yet to be disbursed proceeds from business sale. Also doesn't include remaining specific provision held against this exposure.
3. Recently exited: Funding to a small factoring business (at low margins). This was a legacy arrangement that does not meet the current 'direct to SME' business model.

Timelio acquisition

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Highly synergistic acquisition that is expected to contribute strongly to Earlypay's future success

Overview

- On 13 Nov 2023, completed acquisition of select assets of Timelio
  - Assets include select client receivables, IP, software, & other assets
- Timelio is a specialist invoice & trade finance provider to Aust. SMEs

Deal Structure

- $3.0m purchase price: $1.285m cash + 7,671,940 EPY shares at $0.2236 ($1.715m)
- No payment at completion - purchase price (cash & scrip) withheld (hold-back mechanism) for at least 6 months post completion; used to offset any post-acquisition losses relating to specified receivables

Increased Industry Activity

- Increasing industry consolidation
- Sub-scale players experiencing growth/funding challenges
- This is a positive for our market position as SME borrowers will be drawn to larger, more established SME lenders like Earlypay

Acquisition Rationale

Adds scale to core competency	+ $33m of invoice finance receivables; and + $5m of trade finance receivables
New Offering; Supplier Early Payment Platform (SEPP)	SEPP facilitates corporates paying supplier invoices early for a small discount Intend to grow SEPP which also offers potential cross-selling opportunities across EPY's other products
High-quality client portfolio	High quality pool of SMEs. Better average quality than EPY but lower average margin Many are former Bendigo Bank clients acquired via Timelio's 2022 acquisition of their IF portfolio
Specialist SME lending team	Timelio team covering various functions will further bolster existing staff capabilities (Finance & Treasury, Technology, Marketing, SEPP Manager) Additional 'on the ground' presence in Victoria
Attractive Synergies	Expected to be EPS accretive (under EPY funding) Broad range of strategic benefits & relationships

Refinancing

Invoice & Trade Warehouse Facility expected to settle before the end of the December, bringing substantial benefits

Target Structure

Structure	Facility Size	Cost of Funds
(I) Invoice Finance and Trade Warehouse 1		
Warehouse Facility – Senior	$200m	Sub-2% + BBSY
Warehouse Facility - Mezzanine	$10m	~7% + BBSY
(II) Equipment Finance Warehouse 2		
Warehouse Facility - Senior	$110m	Sub-3% + Swap
Warehouse Facility - Mezzanine	$20m	~7% + Swap
Total Warehouse Facilities	**~$340m**	**Ave. Sub-2.5% margin**

Corporate*		
Bond (Floating Rate Notes)	$20m	Sub-7% + BBSW

**Refer capital management slide*

- **Two warehouse structures**
  - Senior funding provided by two of Australia's largest banks
  - Proposed single mezzanine provider across both warehouses

1. New invoice and trade warehouse
   - Final documentation review; expected to achieve financial close before the end of December 2023
   - Significantly simplified funding model (cash and operational requirements), lower cost of funding, increased scalability
   - Introduction of mezzanine layer (Q3 FY24)
   - Approx. $20m of equity/cash released
2. Equipment finance warehouse
   - Paused until Q3 FY24 given:
     - Modest pricing enhancements from existing structure and need to focus internal resourcing
     - Main benefit will be scalability. Additional pricing benefits will come through increased scale

Capital Management Plans

Refinancing will enable capital management initiatives that will drive EPS growth

- Refinancing of Invoice and Trade Warehouse facility*, Earlypay will release c. $20m of cash
- Board currently considering mix of one or more EPS accretive capital management initiatives:

1. **Repayment of corporate debt**: All or partial repayment to reduce interest expense
    - By way of example, if assume full $20m repayment at rate of c. 11% (broadly current rate) , annual interest saving of c. $2.2m
2. **On-Market Buy Back**: Announced buy-back with FY23 results of up to 28m shares
    - As of 22 November 2023, only acquired 0.16m shares (c. $34k)
    - Paused over last month pending Timelio transaction and refinancing activities

*Based off current terms

FY'24 YTD Trading

Cautious approach in challenging macro conditions; Benefiting from strong demand for core product and market dynamics

YTD Trading

- Strong demand for invoice finance product throughout Q1, which has accelerated further in October and November
  - Uncertain macroeconomic environment for SMEs with input cost pressures, rate increases from the RBA and increased pressure from the ATO to recover debt
  - Earlypay's market share is likely increasing with industry consolidation and ongoing reluctance of banks to lend to SMEs without real estate security
- Despite elevated invoice finance demand, Earlypay taking cautious approach to new business and FIU has reduced in H1 due to:
  - Tighter risk settings given heightened risks of SME insolvency and own lessons learnt from major default
  - Actively exiting clients that do not meet current risk appetite or business model (ie. exiting legacy funding of small factoring businesses at tight margins)
- Timelio portfolio more than offsets lower FIU and income and contributes to a higher quality and more granular portfolio
- Equipment finance portfolio growing again through targeted distribution to SMEs that can also benefit from invoice finance
- YTD FY24 Credit Impairment Expenses are tracking higher than long term averages, but significantly below FY23's proforma expense of $7m
- Delay in refinancing and the continuation of relatively expensive funding has delayed the expected improvement in Net Revenue Margins

Outlook

A stronger H2 expected after key initiatives are completed and organic growth resumes

Guidance

- Re-affirming guidance that FY24 NPAT is expected to exceed FY23's underlying proforma NPAT of $4.8m, driven by a stronger H2:
  - Lower interest expense with the refinancing of invoice and trade warehouse facilities (expected to settle before the end of December)
  - Resumption of growth in Invoice Finance Funds in Use (FIU) within new single borrower exposure limits and disciplined credit underwriting
  - Targeted resumption of growth in Equipment Finance
  - Integration of Timelio business and ongoing business simplification supporting Opex cost control
  - The Board intends to reinstate the Ordinary Dividend in FY24 as retained earnings are rebuilt

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22 November 2023

CEO ADDRESS

Opening Remarks – Slide 2 – Board and Management

Thanks Geoff and welcome everyone to the Earlypay Annual General Meeting.

Although FY23 was a challenging one, I'm confident that the business now has much stronger foundations on which to grow, and that the next few years will be an exciting period where we will deliver significant value to our shareholders and I'll elaborate on some of the reasons throughout this address.

Slide 3: Executive Summary – Agenda / Highlights

As a broad agenda for today, I'll cover at a high-level the FY23 results and provide a brief update on the recovery process for the major default we experienced, along with the various subsequent operational improvements. I'll then talk to the Timelio acquisition, which we completed on the 13th of November. Although this was not a large acquisition in terms of purchase price, we see significant strategic benefits and growth opportunities. Based on the early integration work, we could not be happier with how the two businesses are coming together.

We expect to settle on the refinancing of the invoice and trade warehouse facility before the end of this calendar year which, as we have previously outlined, is expected to release approximately $20m of free cash for various capital management initiatives.

Lastly, I'll provide an update on YTD trading and guidance.

Slide 4: FY23 Summary Proforma (ex. major default and recovery)

As announced in our FY23 results, we reported a net loss after tax of $7.7m, which was primarily driven by credit losses and related recovery expenses associated with the default of a major customer in December 2022, who at the time was our largest single borrower exposure.

Presented on this slide is our Proforma FY23 financials, which removes the impact of that defaulted exposure and recovery costs. On an underlying proforma basis (which also excludes various other one-offs) we reported an NPAT of $4.8m. For a breakdown of the adjustments made to get from reported earnings to proforma earnings, shareholders can refer to our FY23 results presentation lodged with the ASX.

From my perspective, there are three key items that stand out when looking at the FY23 results:

1. The first item is that our Year-end growth in Funds in Use was largely flat year on year. This was mainly due to a deliberate reduction in equipment finance originations as we shifted to a more conservative risk appetite given the current credit environment. We also shifted the focus of our sales team away from larger businesses to smaller SMEs to build a more

granular and diversified invoice finance portfolio.

2. The second relates to pressure on net interest margins which fell from 6.4% in FY22 to 5.1% in FY23. This was driven by a few factors, notably the onboarding of several larger clients early in FY23 at tighter margins, and delayed pricing increases on our invoice and trade products in Q1 when rates really started to rise, although this issue was rectified before the end of the first half. And finally trade finance receivables were equity funded for approximately 9 months in FY22, thus no interest costs were incurred during that period, flattering FY22 margins.

3. And lastly Credit Impairment Expense increased from $0.6m in FY22 to $7.0m in FY23, noting that this excludes the losses due to the large default and related recovery expenses. The increased provisions cover both general and specific provisions and, in both instances, we felt it was appropriate in this economic environment to increase our provisioning to better reflect the current and expected future credit conditions.

Despite the significant disruption caused by the default of our largest customer, it's important to highlight that on an underlying basis, Earlypay was, and still is, a profitable business and given the magnitude of the credit loss also serves to highlight the strength of our balance sheet.

Slide 5: Product Segment

Looking at the invoice and trade product segment we saw continued growth in Funds in Use year on year. Despite this growth however, net interest revenue fell 5% for many of the reasons I mentioned earlier that affected Net Revenue Margins. Again, the significant increase in Credit Impairment Expense and Recovery costs weighed heavily on earnings for this segment.

In FY23 we reduced our equipment finance originations by 59% as the fast pace of origination in the first half of FY22 was slowed due to our view on credit conditions, the competitive market environment and funding constraints. Our net interest margin fell due the FY22 originations written at tighter margins than the back book and most of the floating rate corporate bond interest expense being allocated to equipment finance, but overall profitability of that segment was strong driven by tight cost control on Opex.

Slide 6 – RevRoof Update and Operational Changes

In December 2022 we announced that our largest borrower at the time entered voluntary administration with an outstanding exposure of around $29m across invoice, trade and equipment finance.

After appointing a Receiver / Manager in late December, the sale of the main business was announced at the end of FY23, although $8.3m of the proceeds remain in Trust pending resolution of a dispute with the director and related parties which is listed for trial in December. Separately, we continue to pursue the shortfall from the director and related entities. As the legal matter remains ongoing, we are unable to quantify the exact settlement proceeds, although we remain comfortable with our current provisioning levels.

From an operational perspective, this large default prompted a swift and comprehensive review of our risk governance, underwriting polices, operational procedures and loan book exposures.

Notably we implemented a maximum single borrower exposure limit of $10m, with most new borrower exposures now less than $5m. Additionally, we tightened our credit risk appetite and ongoing client monitoring across all products and only offer trade finance sparingly to strong invoice finance customers. The transition of existing customers onto our own proprietary invoice finance management system has also been prioritised to reduce the operational risk inherent in our legacy platform and processes.

Slide 7 – Timelio Acquisition

As I mentioned at the outset, we are pleased to have recently completed the acquisition of select assets from Timelio, a specialist invoice and trade finance provider with a strong presence in Victoria. We believe this transaction is uniquely complementary to the Earlypay business and will contribute meaningfully to our future success - not just from a financial perspective in our core invoice finance business, but also through the addition of the Early Supplier Payment business, and the addition of their talented team.

The acquisition adds around $38m of new Funds in Use with mostly high quality customers, many of which were former Bendigo Bank customers prior to Timelio buying the Bendigo invoice finance book in 2022.

The purchase price of the transaction was $3.0m, payable with $1.3m in cash and $1.7m in Earlypay ordinary shares. Importantly, no payment was made on completion, with the $3m purchase price (both cash and shares) being withheld for at least 6 months post completion to be used to offset any potential losses relating to certain receivables.

We expect the transaction to be EPS accretive under our funding structure along with providing many strategic benefits, some of which I mentioned earlier.

Slide 8 – Refinancing

We are pleased to advise that the refinancing of our invoice and trade warehouse facility is in the final stages and is expected to reach financial close before the end of the calendar year. The new warehouse will result in simpler treasury operations, a lower cost of funds and a material release of cash due to its capital efficient structure.

It is noted the refinancing of the invoice and trade warehouse facility has been delayed given management's focus on completing the Timelio acquisition and operational complexity in moving to a modern warehouse.

The refinancing of the equipment finance warehouse has been pushed into Q3 FY24 given the modest pricing enhancements over the existing structure and limited bandwidth in the Finance & Treasury team.

It is expected that the mezzanine funding will be inserted into both the invoice & trade finance and equipment finance warehouses at completion of the equipment finance warehouse as the mezzanine provider is expected to be the same for both warehouses.

Slide 9 – Capital Management Plans

As a result of the invoice and trade warehouse refinancing, we expect to release approximately $20m of cash and have several capital management initiatives in mind to drive EPS growth, including continuing the share buyback, repaying the corporate bond and reinstating dividends as earnings are rebuilt.

These initiatives are largely dependent on the capital released from the refinancing and we expect to be more active in the execution of these plans as we approach completion of the refinancing.

Slide 10 – FY'24 Trading

For the year-to-date FY24, we have seen strong demand for our invoice finance product which has accelerated further in October and November. We see two main drivers for this:

1. The challenging macroeconomic environment with input cost pressure, tighter supplier payment terms, rate increases from the RBA and increased pressure from the ATO to recover outstanding debts; and
2. The likely increase in our market share as the invoice finance market experiences consolidation and banks continue to be reluctant to lend to SMEs unless it is real estate backed.

Despite the elevated demand for our core invoice finance product, we have been measured in taking on new customers. This is due to a combination of the current credit environment with higher actual and expected insolvencies among Australian SMEs, as well as a tighter risk appetite resulting from lessons learnt from the major borrower default earlier in the year.

This revised approach to underwriting has also meant that we have exited several customers that no longer meet our risk profile or business model, resulting in a reduction of Funds in Use since the end of FY23. On balance, these customers were larger and at tighter margins than the overall portfolio so the impact on Net Revenue will be much less than the impact on Funds in Use.

That said, the Timelio portfolio will more than offset the lower Funds in Use and Net Revenue and we now have a higher quality and more diversified portfolio.

After a period of low originations, the size of the equipment finance portfolio has now stabilised and is starting to grow again as we promote that product to a targeted set of SMEs and brokers where we can also promote invoice finance.

So far in FY24, credit provisioning is tracking higher than long term averages but significantly below last year's proforma credit impairment expense of $7.0m.

The delay in the refinancing, continuation of relatively expensive funding, and a material amount of funds held in trust pending the legal dispute with the director, has also meant that interest expense and Net Revenue Margins have not adjusted higher as soon as we had hoped.

Slide 11 – Outlook

We re-affirm our guidance of FY24 NPAT exceeding FY23 underlying proforma NPAT of $4.8m driven by a stronger second half. This will mostly be supported by the financial benefits of the warehouse refinancing and a resumption of organic Funds in Use growth for invoice finance and equipment finance. The integration of the Timelio acquisition will also contribute to earnings in the second half, although the benefits will accrue more to FY25 as the operational benefits from the integration are realised.

Additionally, the Board remains committed in its intention to reinstate the ordinary dividend in FY24 as retained earnings are rebuilt.

Thank you.

-- ENDS --

This release was authorised by the Board of Earlypay Limited.

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