Prospa's H1 FY24 trading update

Release date: 30 January 2024

Prospa Group Limited (ASX: PGL) ("Prospa" or the "Company" or the "Group") today provides a trading update for the half year ending 31 December 2023.

Group highlights[1]**:**

- Total Originations[2] of $308.3 million were down 27% on pcp (H1 FY23: $424.8 million). New Zealand originations were down 32% on pcp to $63.0 million (H1 FY23: $93.1 million). Lower originations reflect the deliberate tightening of credit settings.
- Closing gross loans have reduced to $807.4 million in December 2023, down 5.6% on pcp (H1 FY23: $855.8 million) and 6.4% on the previous half (H2 FY23: $862.2 million).
- Revenue of $145.4 million, a 7.4% increase on pcp (H1 FY23: $135.3 million), aided by maintaining yield at 34.9% (H1 FY23: 34.8%) in a high funding cost environment, notwithstanding a tightened risk appetite.
- The modelled (base) provision increased by 0.8 percentage points to 9.2%, reflecting the seasoning of past origination cohorts. This was more than offset by a 2.1 percentage point reduction in the forward-looking economic overlay to 2.2%. Overall, the expected loss provision (11.4%) is down 1.3 percentage points from FY23 (12.7%), resulting in a $17.5 million non-cash benefit in the half.
- Net bad debts remained elevated at $53.7 million (H2 FY23: $54.0 million) and increased to 12.9% (annualised) of average gross loans (H2 FY23: 12.5%).
- Total employee and operating expenses[3] as a percentage of revenue improved to 34.7%, 9.8 percentage points lower than pcp (H1 FY23: 44.5%), with further cost reductions planned to follow.
- Statutory profit before tax for the half is expected to be c. $9 million profit, compared to pcp (H1 FY23) of a $6.3 million loss. This increase is predominantly driven by the non-cash ECL provision release in the half of $17.5 million.
- EBITDA[4] for the half is expected to be c. $13 million profit, an increase on pcp (H1 FY23: $0.2 million). EBITDA, excluding the non-cash ECL provision release of $17.5 million, is expected to be a c. $4 million loss.
- Total cash ended at $117.2 million, of which $30.9 million was unrestricted[5] (FY23: $96.9 million total, $25.8 million unrestricted).
- Acquisition of Zip Business's remaining performing Australian business loans, comprising $18.4 million commercial loans to 370 small businesses.

[1] Unaudited management accounts. Numbers are subject to rounding.
[2] Small retrospective changes in origination figures may occur due to backdated cancellations or modifications to support customer outcomes.
[3] Includes capitalised costs.
[4] Earnings before interest on lease liabilities, corporate interest, tax, depreciation, amortisation, share-based payments, FX gain/loss, impairment of intangibles, and restructuring costs. EBITDA is non-International Financial Reporting Standards information.
[5] Excluding $12 million of corporate debt.

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

“The half-year results have been mixed; however, Prospa’s proactive steps to credit management have helped us navigate a challenging economic environment. We have also continued to deliver on our product and technology roadmap, with all new products now originating on our new platform.

We’re pleased to acquire Zip Business’s Australian performing loan book, which exemplifies our ability to execute on opportunities that further unleash the potential of small business.”

H1 FY24 Financials

Originations were $308.3 million, down 27% on pcp (H1 FY23: $424.8 million), reflecting the deliberate tightening of credit settings, which continued into H1 FY24. New Zealand originations were $63.0 million, down 32% on pcp (H1 FY23: $93.1 million).

Closing gross loans ended at $807.4 million, down 5.6% on pcp (H1 FY23: $855.8 million) and 6.4% on the previous half (H2 FY23: $862.2 million).

Total revenue increased 7.4% on pcp to $145.4 million (H1 FY23: $135.3 million), and portfolio yield was stable at 34.9% (H1 FY23: 34.8%).

Active customers of 20,900 were 5% up compared to pcp (H1 FY23: 19,900) while maintaining a net promoter score (NPS) above 70.

Expected loss provisioning has decreased this half to 11.4% of closing gross loans (FY23: 12.7%), with the movement being driven by a reduction in the forward-looking economic overlay to 2.2% (FY23: 4.2%) offset by an increase in the base provision to 9.2% (FY23: 8.5%). Early loss indicators have improved with this half’s origination cohorts compared to previous halves. The August 2023 cohort’s 30+ days past due at four months on book at 1.0% is significantly lower than the peak of 6.5% in August 2022. This is the latest available cohort’s data as of 31 December 2023.

Despite ongoing significant investment in product and technology, the Group’s cash operating cost base, measured by total employee and operating costs as a percentage of revenue, improved to 34.7% from 44.5% in H1 FY23. Further cost reductions are planned to follow.

Statutory profit before tax for the half is expected to be c. $9 million profit, compared to pcp (H1 FY23) of $6.3 million loss. This increase is predominantly driven by the non-cash ECL provision release in the half of $17.5 million.

EBITDA for the half is expected to be c. $13 million profit, an increase on pcp (H1 FY23: $0.2 million). EBITDA, excluding the non-cash ECL provision release of $17.5 million, is expected to be c. $4 million loss.

Portfolio Management & Funding

Net bad debts have remained flat on the prior half at $53.7 million (H2 FY23: $54.0 million). As a % of average gross loans, they have increased to 12.9% (annualised) (H2 FY23: 12.5%).

As interest rates continue to rise, Prospa’s cost of funds increased to 9.7% for the first half of FY24 (H1 FY23: 6.1%), causing the Net Interest Margin (NIM)[6] to reduce to 26.1% (H1 FY23: 29.3%).

On 15 December 2023, Prospa exercised its option to call the PROSPArous Trust 2021-1 its inaugural term ABS issuance, which was the first of its kind in the Australian market. Prospa intends to undertake its third term ABS in H2 FY24 as part of its programmatic approach to this market.

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

As of 31 December 2023, Prospa had access to $859.3 million of secured funding facilities, of which $114.5 million was undrawn. Total cash was $117.2 million, of which $30.9 million was unrestricted[7] (FY23: $96.9 million total, $25.8 million unrestricted).

Outlook

While the economic outlook across Australia and New Zealand remains uncertain, early loss indicators have reduced since their peak from mid-CY22 originations cohorts.

We continue to monitor our customer base for risks and opportunities, as demonstrated by the purchase of the Zip Business loans. Our recently revamped premium customer offering is being well received by customers and partners alike.

We remain committed to supporting our customers and partners and increasing shareholder value.

Prospa will release its H1 FY24 results on Tuesday, 27 February 2024. CEO Greg Moshal, CRO Beau Bertoli and CFO Ross Aucutt will host a webinar to discuss the results, with details to 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 $3.9 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.

[7] Excluding the $12 million fully drawn corporate debt facility