Half Year Results 2024

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

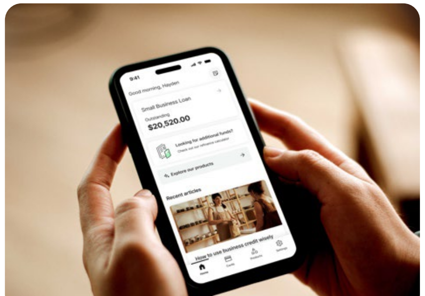
We exist to unleash the potential of every small business

02

A trusted financial partner of choice for SMEs

03

Make business happen



1H24 Agenda

01

Prospa update

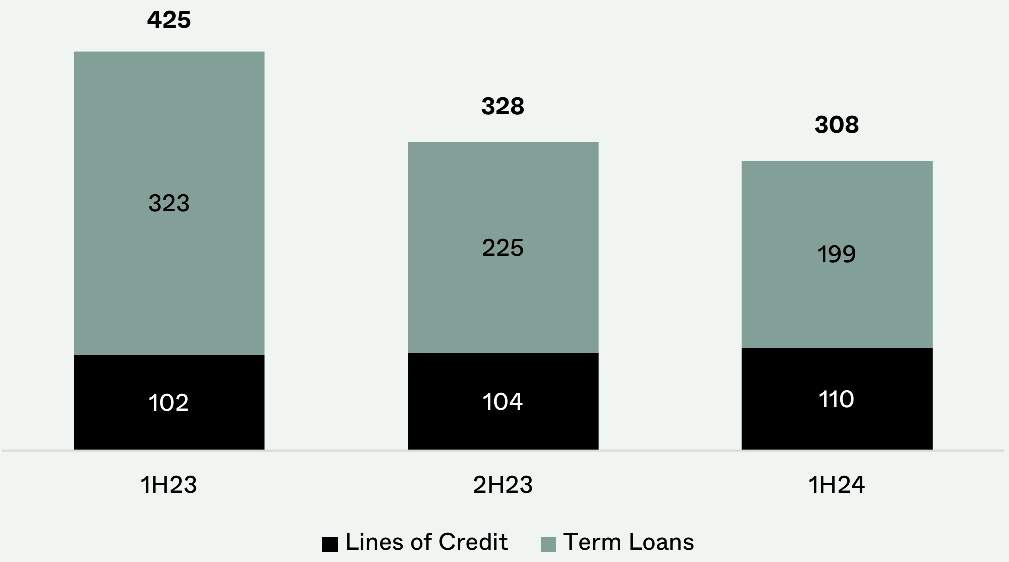
1H24 Performance

Originations[1]	$308.3m	- 27.4%	1H23: $424.8m
Closing Gross Loans	$807.4m	- 5.6%	1H23: $855.8m
Revenue[2]	$145.4m	+ 7.4%	1H23: $135.3m
Yield	34.9%	+ 0.1%	1H23: 34.8%
Total Opex / Revenue[3]	34.7%	- 9.8%	1H23: 44.5%
EBITDA[4]	$13.7m	Large	1H23: $0.2m
Adjusted EBITDA[5]	-$3.8m	Large	1H23: $29.8m
Operating Cash Flow[6]	$37.9m	- 19.5%	1H23: $47.0m

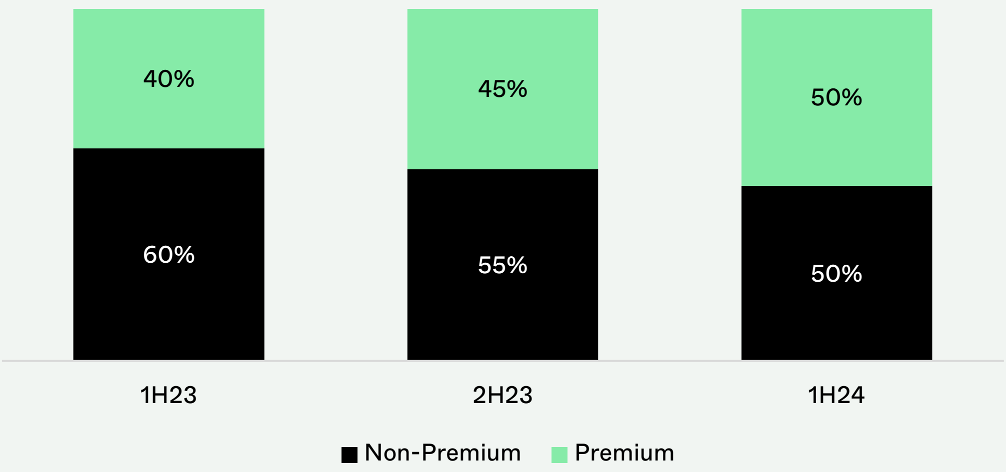
1. All references to Originations in this document are from all sources, including Small Business Loan, Line of Credit (including undrawn amounts), Back to Business Loan, Back to Business Line (including undrawn amounts) in Australia and New Zealand. Small retrospective changes in origination figures may occur as result of back dated cancellations or modifications to support customer outcomes. All figures are expressed in AUD terms unless otherwise specified.
2. All references to Revenue in this document represent Total income before transaction costs.
3. Total employee and operating costs which represent all operating (profit and loss) and capital (intangible asset) expense in the period.
4. Earnings before corporate and lease 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. EBITDA less ECL provision expense.
6. Operating Cashflow before movement in loans advanced.

Originations reflect our risk appetite with a focus on profitability via more premium customers

Total originations[1] ($m)



Originations by customer risk band



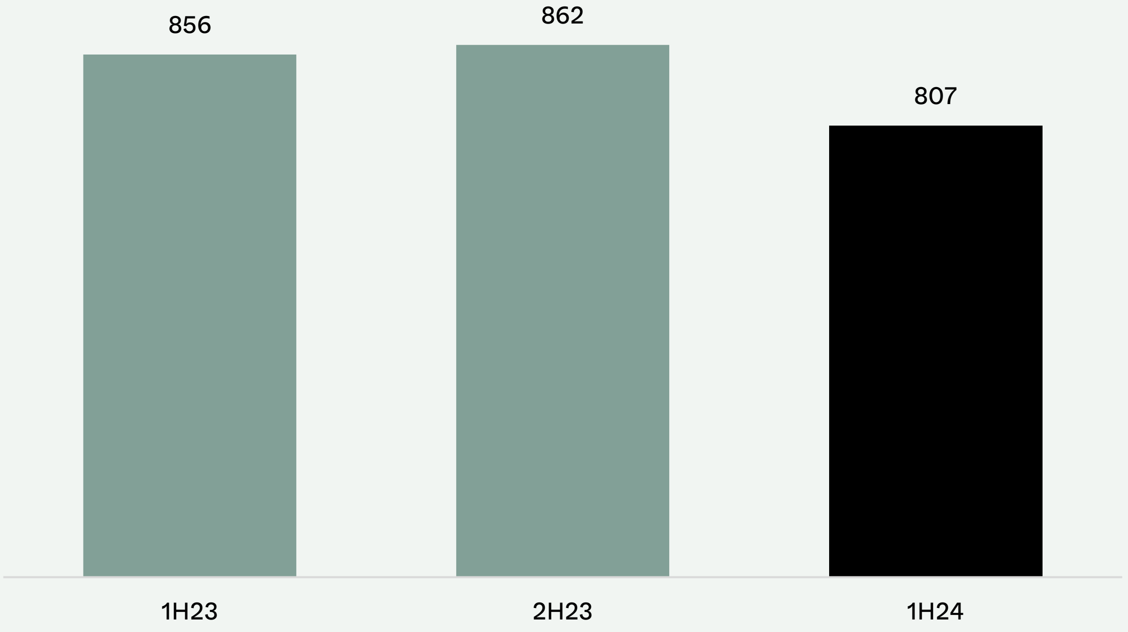
On 22 February 2024, Prospa also achieved $4 billion of lifetime originations.

1. Totals may not add precisely due to rounding.

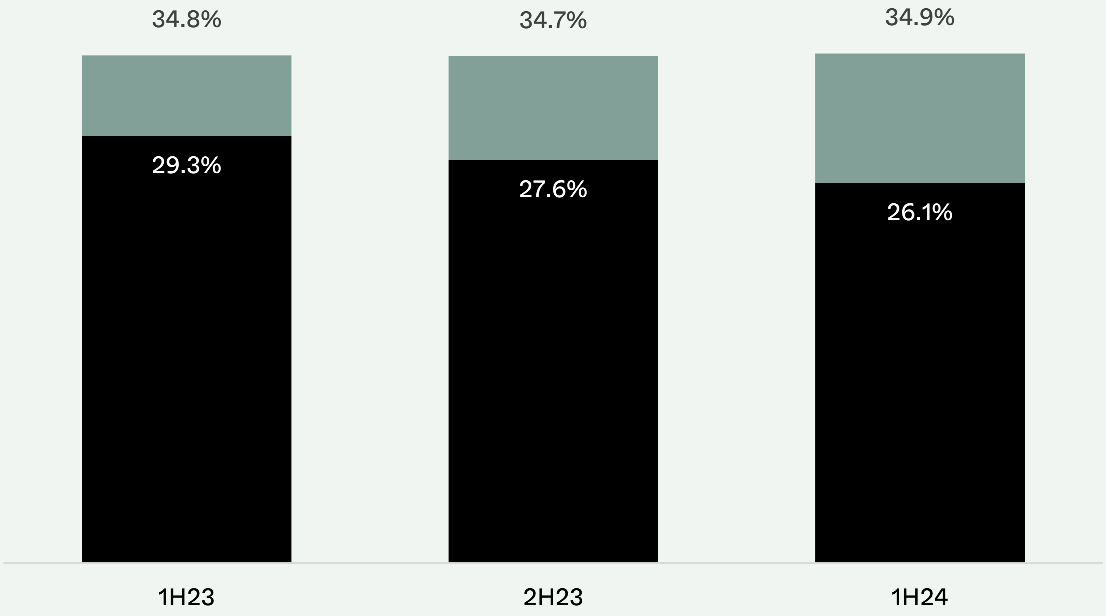
Maintenance of yield despite slowing originations

While the portfolio has reduced, yield has been successfully maintained in light of the tighter risk appetite, partially offsetting the higher funding costs.

Closing gross loans ($m)



Portfolio yield and NIM[1] (%)



1. NIM is equal to (revenue less funding cost) divided by average gross loans, annualised. NIM includes bank interest and referral income received.

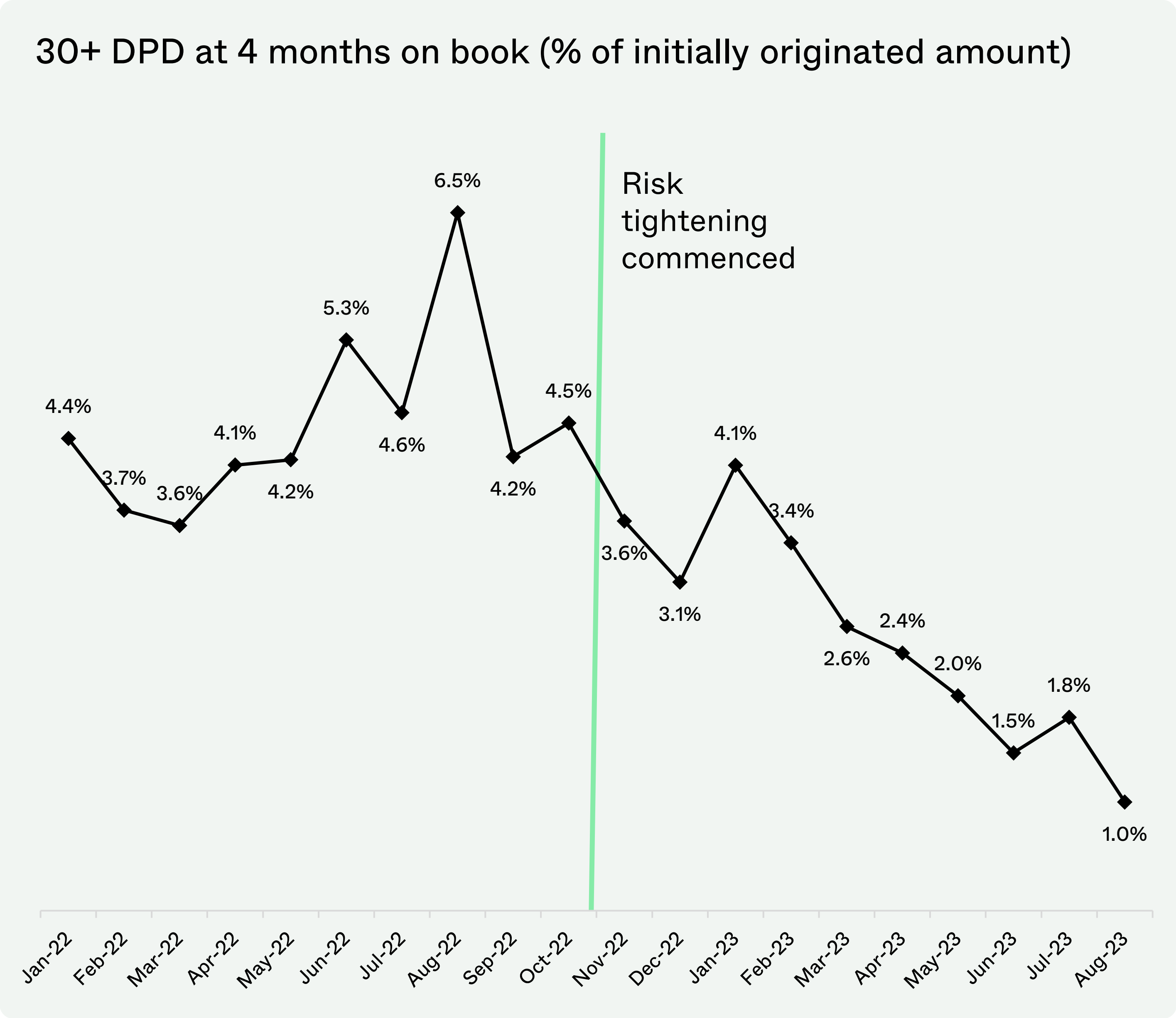
Early loss indicators improving in line with tighter credit settings

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 from Q2 FY23 to curb the impact of this on the portfolio, with further tightening throughout H2 FY23.

H1 FY24 saw a further refining of risk settings with some easing of lending restrictions to some customer segments.

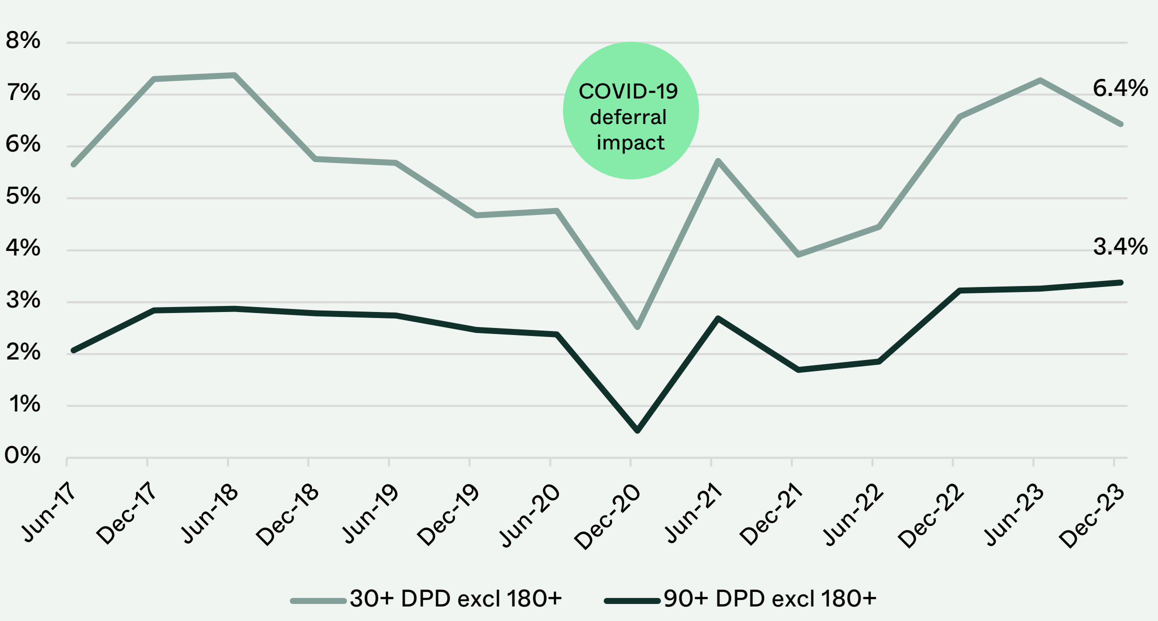
Realised early arrears rates have dropped, with the 30+ DPD % at 4 months on book, a key early loss indicator, reducing from the peak of 6.5% for Aug-22 originations to 1.0% for Aug-23 originations, the latest available cohort.



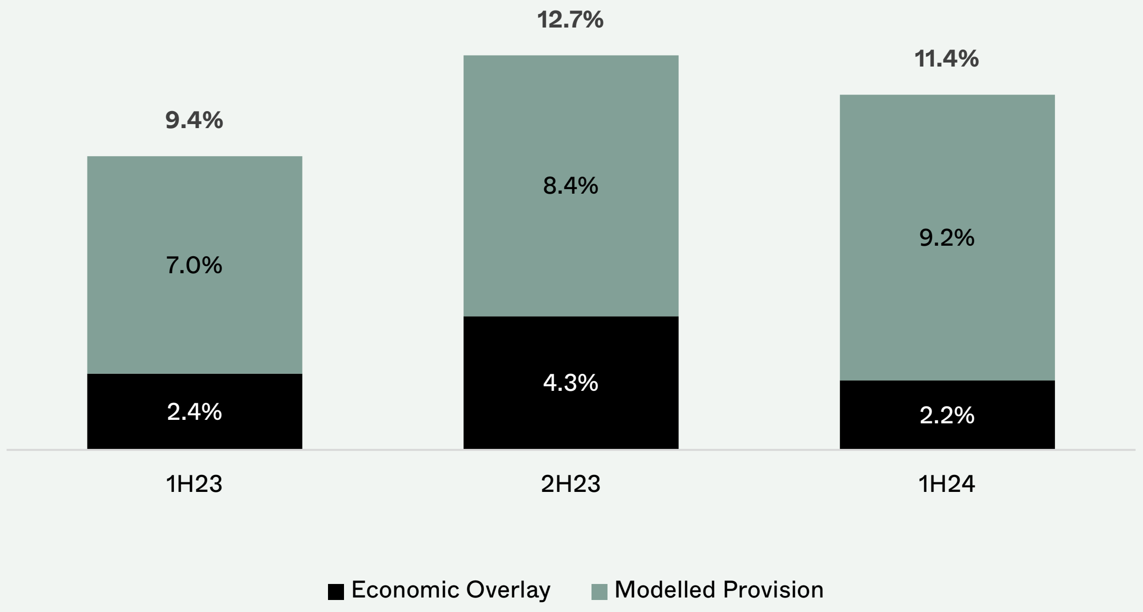
Credit risk performance

Early-stage arrears are improving following the tighter risk settings on new originations, while the seasoning of older cohorts is leading to late-stage arrears remaining flat. This has caused the modelled provision to increase 0.8% on 2H23, while the forward-looking economic overlay is 2.1% lower. Overall, the provision is 1.3% lower.

Coincidental delinquency[1]



Provision composition



1. Refers to delinquency data across all products as a % of closing gross loans and references point-in-time information at 6-month intervals. From FY21, Prospa changed its write-off policy from 180+ DPD and 30+ consecutive days of non-payment to writing off all contracts at 180+ DPD. 180+ DPD has thus been excluded from the chart to give a like-for-like view of DPD levels based on the current policy. Historical values may change due to refinements in Days Past Due calculation methodology.

We are well-placed to support small businesses through the economic cycle

Prospa's industry-leading trust and reputation puts us in a prime position to help SMEs with their funding needs.

2 in 3 Australian SMEs say if they had the funds and resources, they would make change(s) in their business now.

The top three changes SMEs would make include adopting new technologies to improve efficiencies (52%) and customer service (43%), and adapting operations to support growth (39%).

2 in 3 say their business is likely to consider using a non-bank or alternative lender to source these extra funds.

1. Prospa commissioned YouGov SME Sentiment Survey, October 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 7400+ reviews and a TrustScore of 4.9 in Australia, and over 1000+ reviews and a TrustScore of 4.7 in New Zealand as of 22 February 2024.

Sustainability

In 1H24 Prospa was re-certified as a Great Place to Work[1], recognising the importance of investing in both our people and the impact we have on the community we operate in.

Our sustainability strategy and investments are aligned with our purpose, values and long-term goals.

Environment

- Achieved Carbon Neutral status in 2023 and 2024 in partnership with Trace Pty Ltd by purchasing carbon credits from high integrity and verified climate projects
- Switched to Green Energy for Prospa Head Office in FY24,
- One full day of paid volunteer leave for all employees (including at Foodbank NSW, August 18th 2023)

Social

- We strive for greater gender parity and inclusion, and continued to make strong progress in FY24
- 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
- Recognised as one of the Top 20 Best Workplaces, Great Place to Work, 2023

Governance

- Each year, Prospa reviews its corporate governance policies and practices against the ASX Corporate Governance Council's Principles and Recommendations
- 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

1. https://greatplacetowork.com.au/companies/prospa/

Euro Garage, NZ

02

1H24 Financials

Summary 1H24 Financials[1]

Proactive credit and operational management to ensure sustainable profitability.

	$m	1H24	1H23	1H22	Var. $ on pcp	Var. % on pcp
1	**Originations**	**308.3**	**424.8**	**314.6**	**(116.5)**	**(27.4%)**
2	**Total revenue**	**145.4**	**135.3**	**78.5**	**10.1**	**7.4%**
3	Transaction costs	(8.0)	(7.5)	(5.2)	(0.5)	6.2%
4	Funding costs	(36.9)	(21.4)	(11.2)	(15.5)	72.2%
	Gross profit[2]	**100.5**	**106.3**	**62.1**	**(5.9)**	**(5.5%)**
5	Loan impairment	(36.3)	(56.6)	(14.7)	20.3	(35.9%)
6	Employee expenses[3]	(31.6)	(27.6)	(21.3)	(4.0)	14.4%
6	Operating expenses	(18.9)	(21.9)	(16.4)	3.0	(13.7%)
	Total expenses	**(86.8)**	**(106.1)**	**(52.4)**	**19.4**	**(18.2%)**
	EBITDA	**13.7**	**0.2**	**9.6**	**13.5**	**6615.5%**
7	**Operating cash flow[4]**	**37.9**	**47.0**	**23.7**	**(9.1)**	**(19.5%)**
	Unrestricted cash	**42.9**	**40.7**	**62.4**	**2.2**	**5.4%**

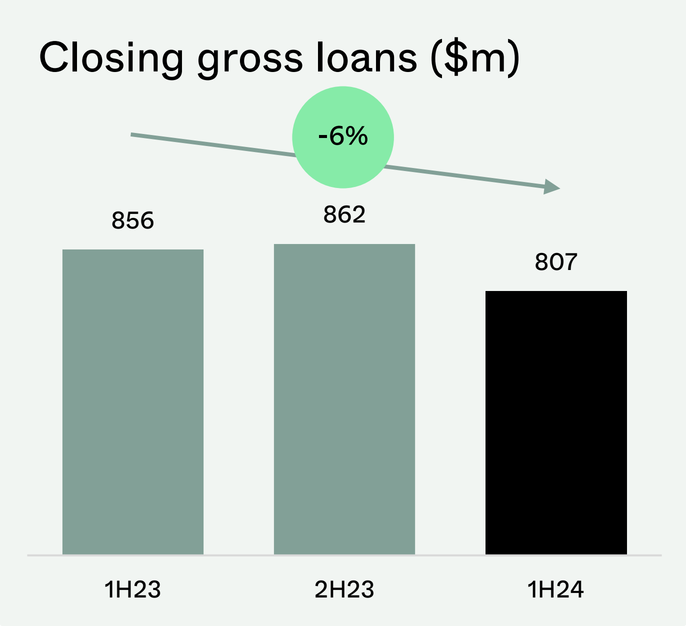
1. Originations were 27.4% lower on pcp due to risk setting changes, however with strong uptake of revamped premium customer offerings.
2. Revenue before transaction costs up 7.4% on pcp supported by yield maintained at 34.9%
3. Increase in transaction costs due to amortisation of past periods with higher originations.
4. Please refer to slide 16 for further detail on funding costs.
5. Please refer to slide 17 for further detail on loan impairment costs.
6. Change in employee and operating expenses is mainly attributable to investment in the replatforming program under product and technology, and in customer collections which are unlocking cash savings. Operating leverage is evident with employee and operating expenses jointly increasing by 1.9% on pcp vs revenue growth of 7.4%.
7. Operating cashflow is down 19.5% on pcp driven by higher funding costs offsetting revenue growth and management of the operating cost base.

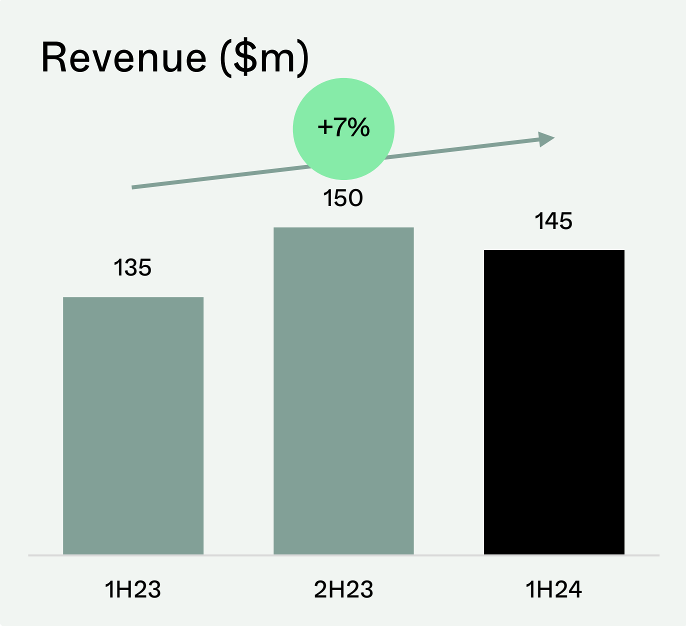
1. Totals may not add up precisely due to rounding.
2. All references to Gross Profit in this document is calculated as total revenue less transaction costs and funding costs.
3. 1H24 excludes $0.3m restructuring costs.
4. Operating cash flow before movement in loans advanced.

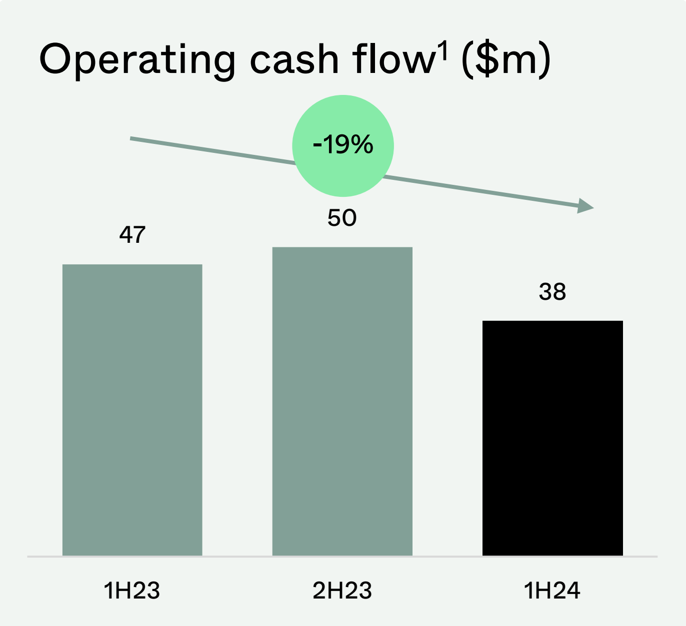
Focus on credit quality driving subdued outcomes

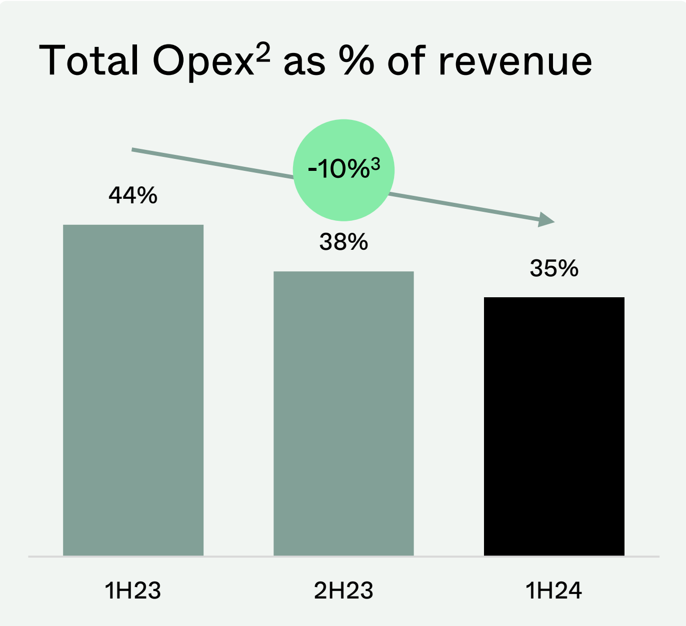
Yield maintenance has enabled sustained revenue despite a smaller portfolio.

Operating leverage continues to improve as the business scales up while managing its cost base.







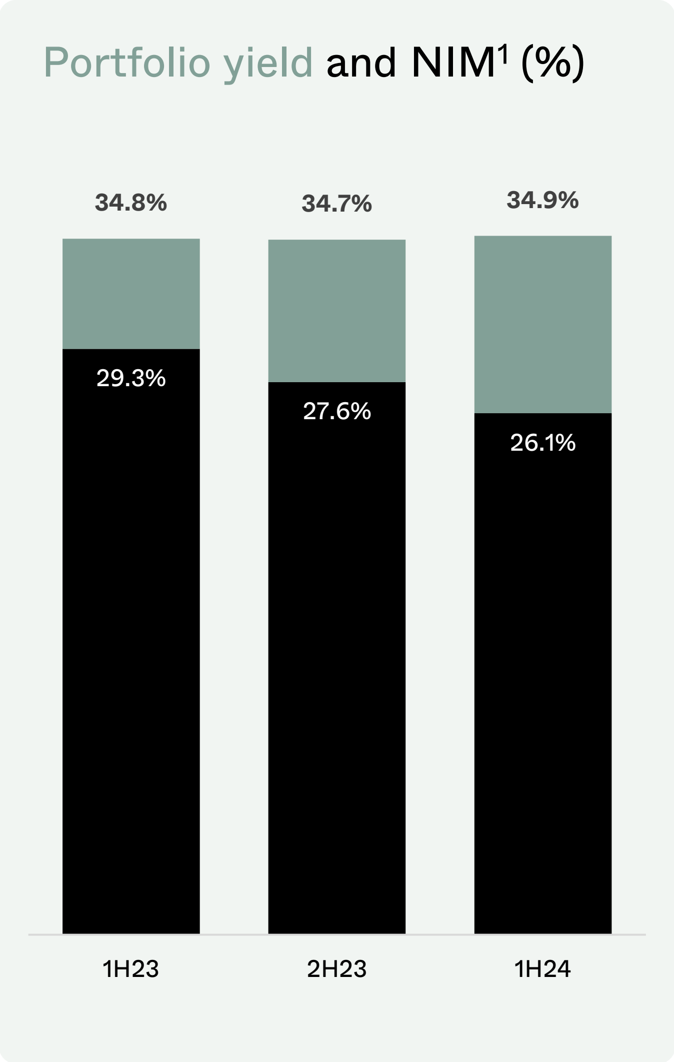


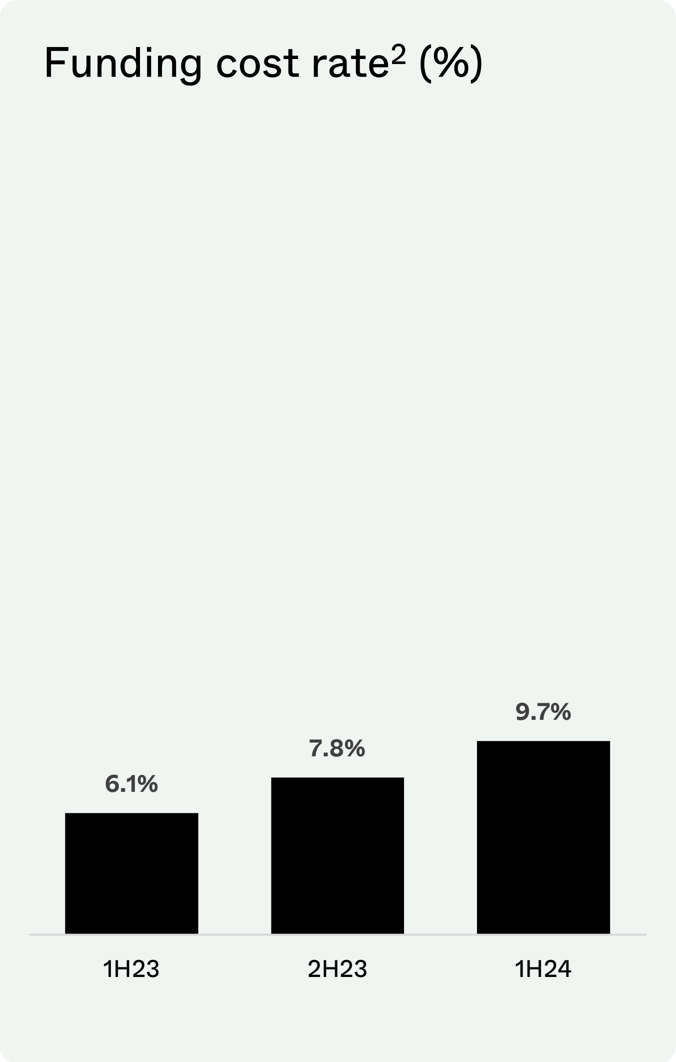
1. Operating cash flow before movement in loans advanced.
2. Total employee and operating costs represent all operating (profit and loss) and capital (intangible asset) expense in the period.
3. Totals do not add precisely due to rounding.

Margins are maintained despite rising cost of funds

Yield has remained stable despite the rise of more premium customers.

NIM lower by 3.2% on pcp driven by rising funding costs.



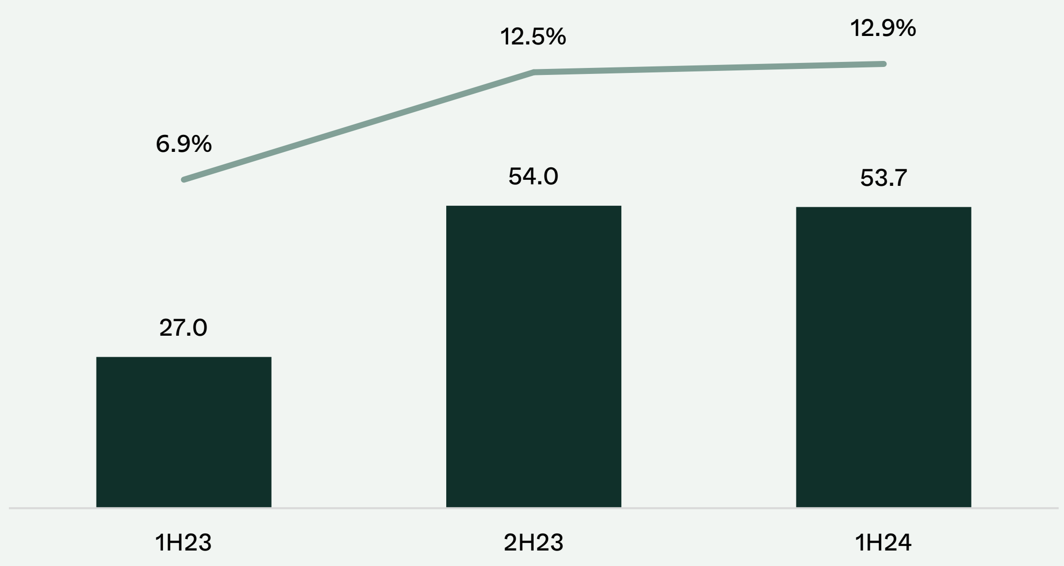


1. NIM is equal to (revenue less funding cost) divided by average gross loans, annualised. NIM includes bank interest and referral income received.
2. Funding cost rate is equal to funding cost divided by average funding debt, annualised.

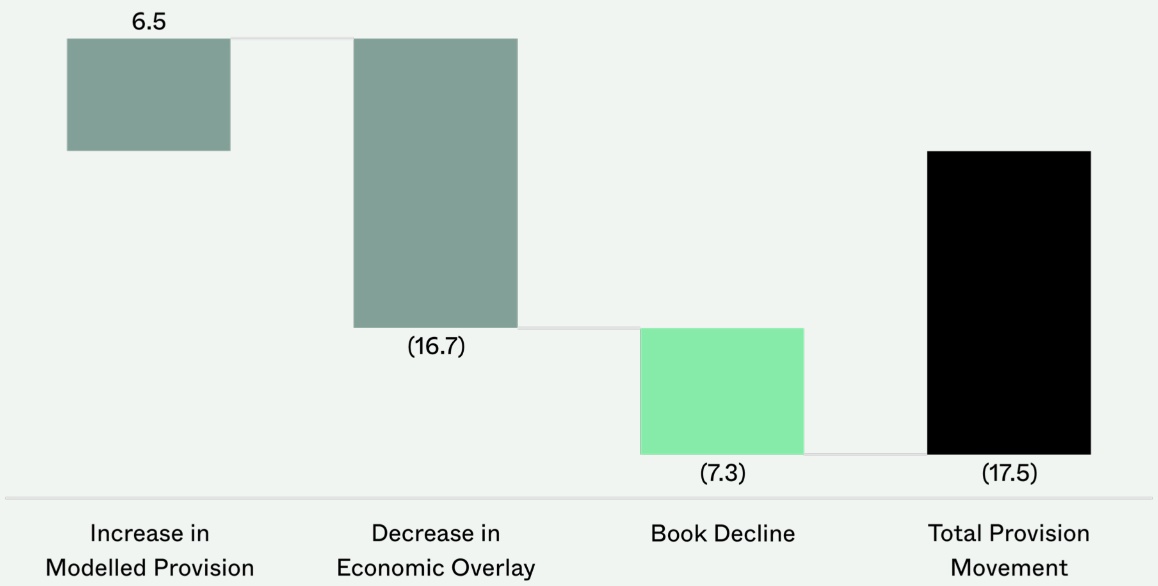
Provision & bad debts

Net bad debts increased on pcp but are flat over the prior half as old cohorts originated on looser credit settings are rolling off the book. As a % of AGL, net bad debts have increased due to the reduction in gross loans from $862 million in 2H23 to $807 million in 1H24.

Net bad debt[1] ($m) and as a % of AGL[2]



Provision release breakdown ($m)

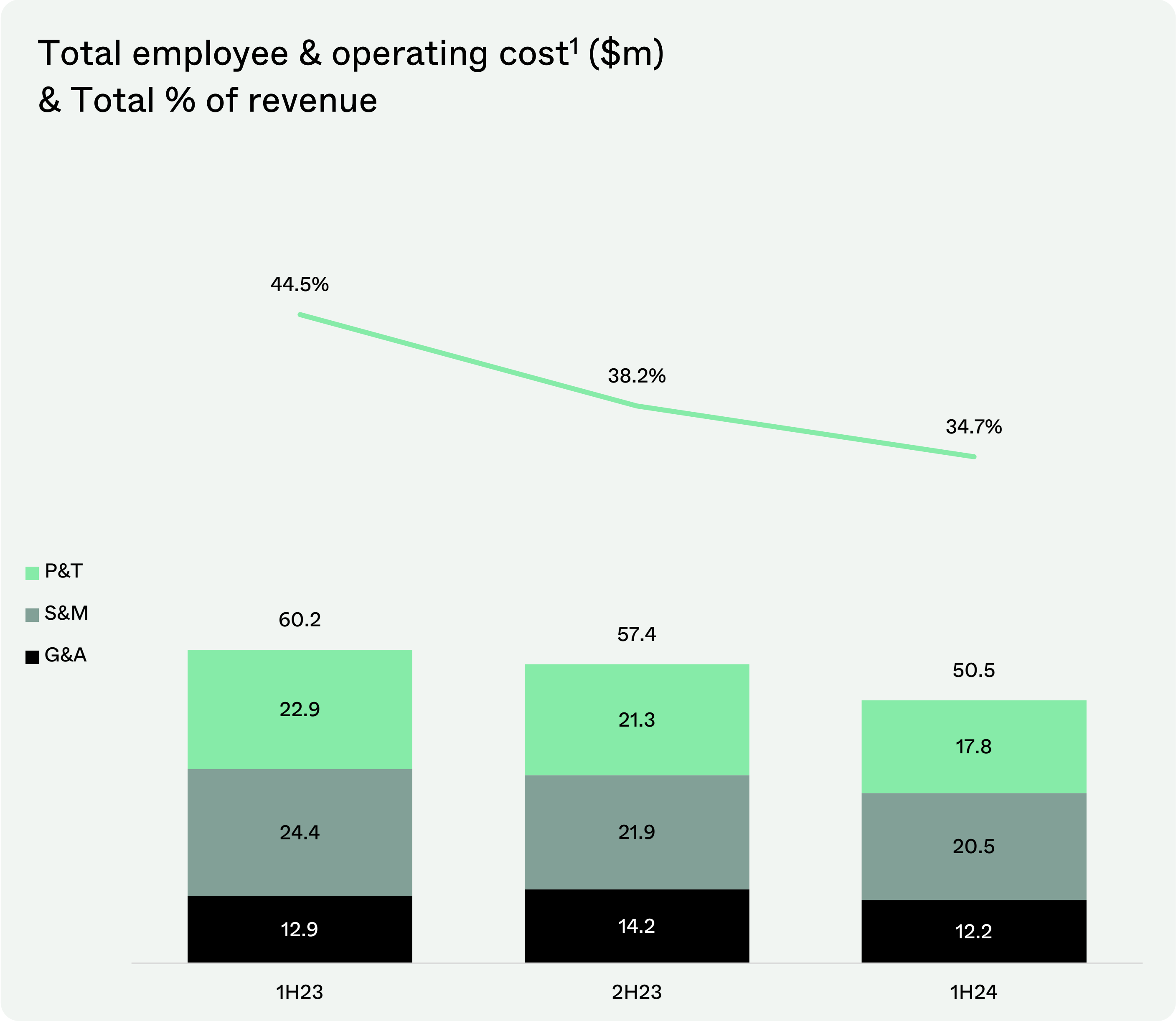


1. Bad debt expense offset by loss recoveries received in the period.
2. AGL is average gross loans. Percentage represents the net bad debt expense as % of AGL, annualised.

Cost discipline to deliver sustainable growth

Prospa has successfully balanced growth with operational efficiency, evidenced by total employee and operating expenses[1] reducing to 34.7% of revenue, 3.5 percentage points lower than 2H23 and 9.8 percentage points lower than 1H23.

Product and Technology costs are down 22.2% on pcp as Prospa approaches the later stages of the replatforming program.



1. Total employee and operating costs represent all operating (profit and loss) and capital (intangible asset) expense in the period.

Continued improvement in underlying cost base

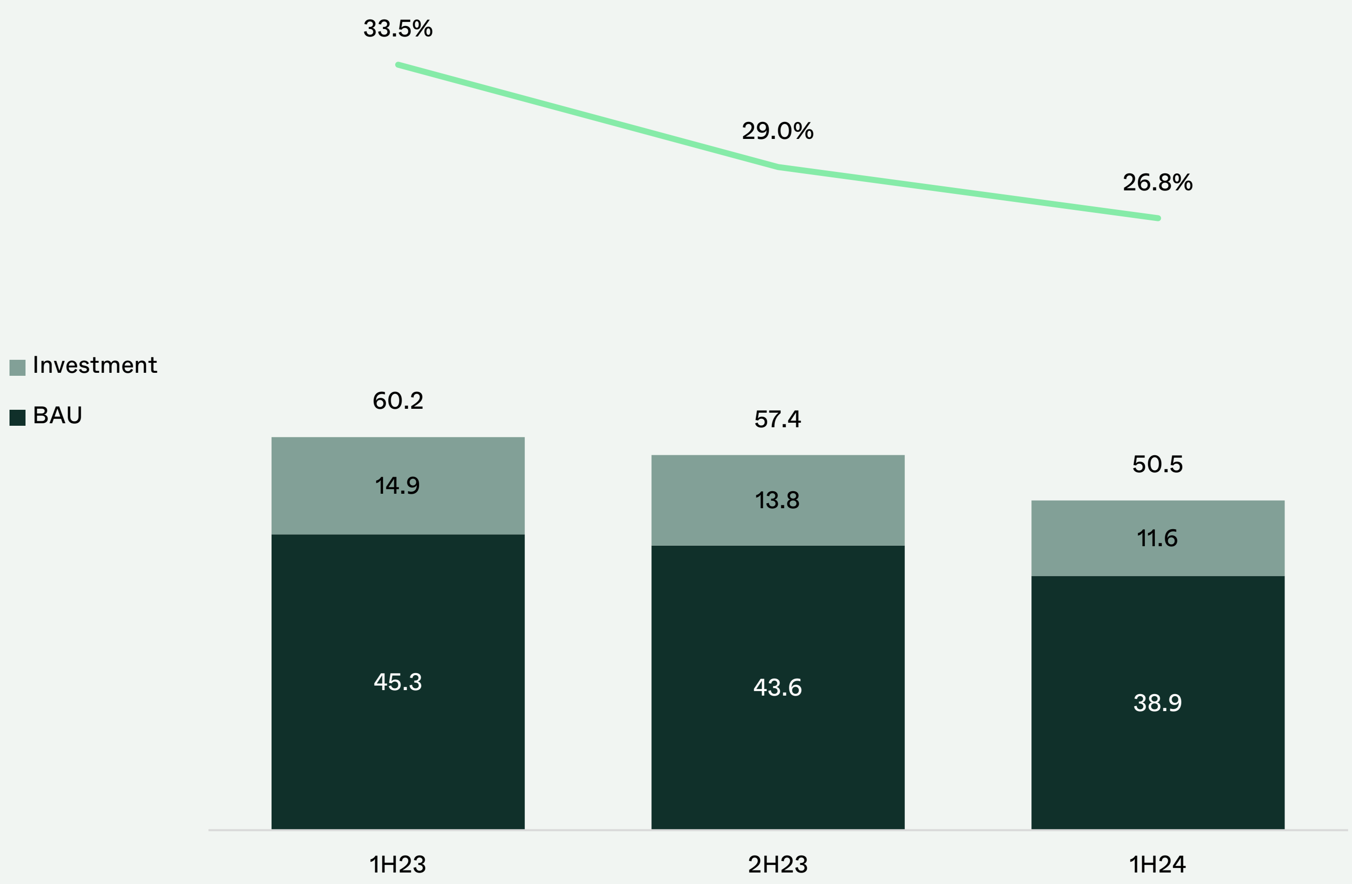
While Prospa's book has undergone significant growth, the cost base has been tightly managed. BAU-related total employee and operating costs have reduced to 26.8% of revenue, 2.2 percentage points lower than 2H23 and 6.7 percentage points lower than 1H23.

This has been aided by a cost restructure undertaken in 1H23 resulting in a $1 million run rate saving per month.

Prospa has successfully launched its new technology platform with all new customers originating on it, and the focus being shifted to migrating existing customers. Further cost reductions are planned to follow as the program progresses.

Investment costs in the new platform and product strategy have not been capitalised from 2H23.

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



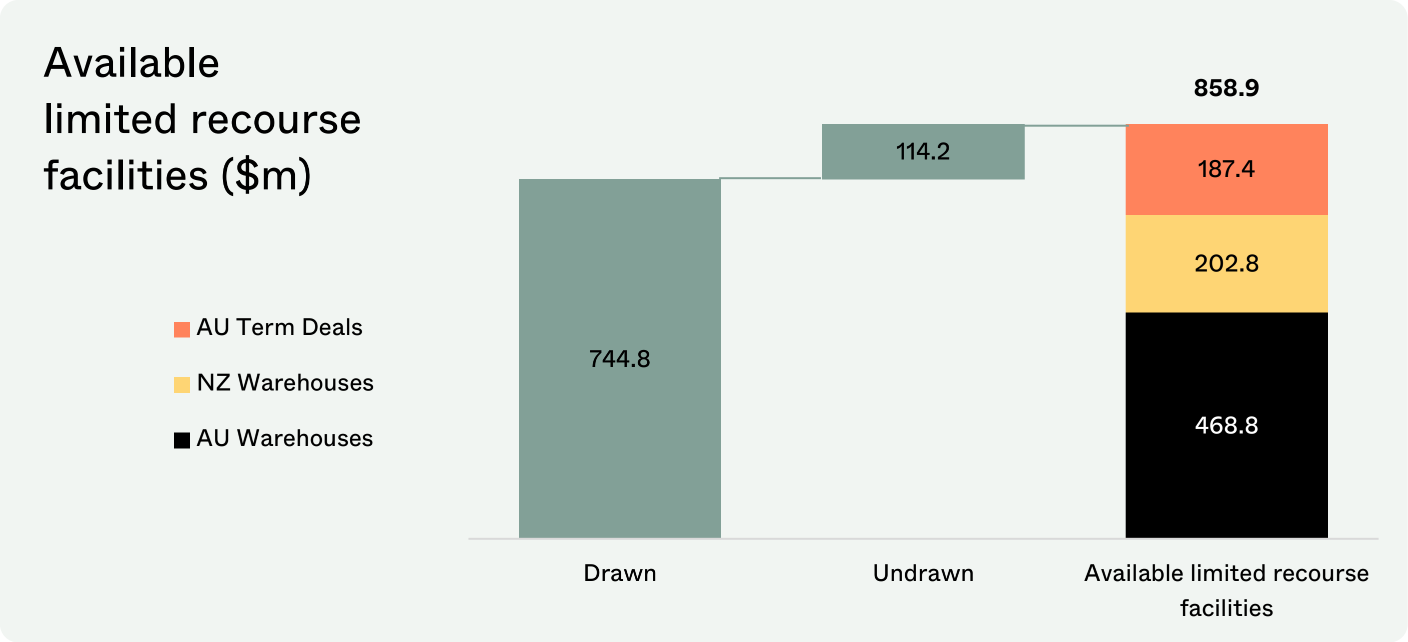
1. Total employee and operating costs split into Investment and Business as Usual-related costs. Expenses represent all operating (profit and loss) and capital (intangible asset) expense in the period.

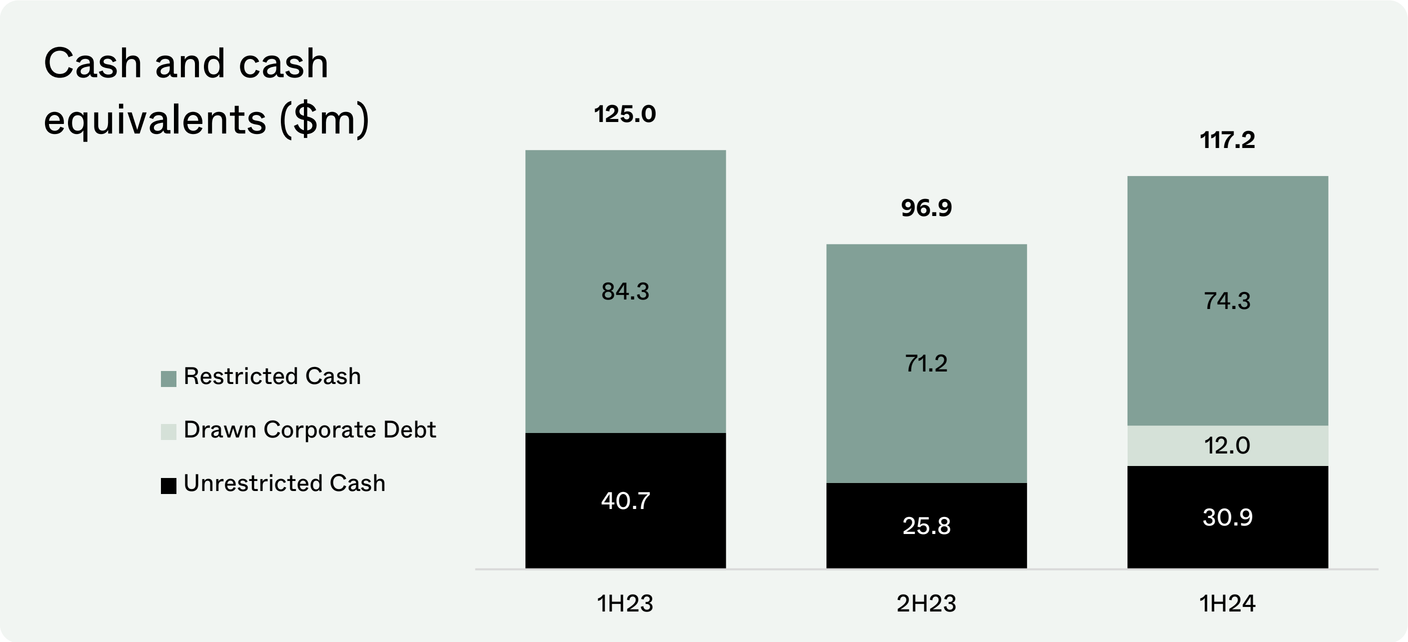
Enhanced funding platform positions for continued growth

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

On 15 December 2023, Prospa called PROSPArous Trust 2021-1, our inaugural term ABS issuance which was the first of its kind in Australia.

On 24 January 2024, Prospa acquired $18.4 million of performing AU commercial loans from Zip Business.





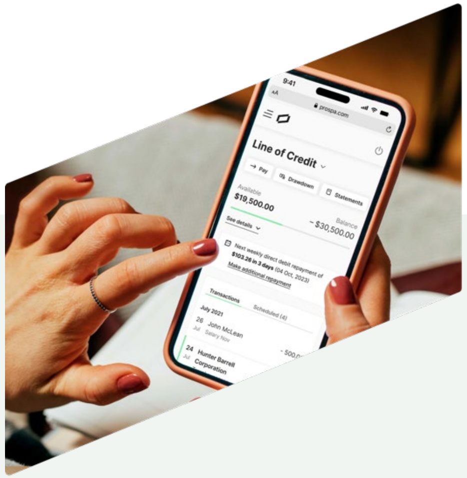
Urban Jungle, AU

03

Outlook

FY24 Focus

Investment to complete replatform, expand partner value proposition and build affinity with repeat customers



Complete roll out of new platform

- **H1 achieved:** 100% of new customer originations on the new platform
- **H1 achieved:** over 30% of repeat applications flowing through the new mobile app and customer portal by the end of the half
- **H2:** Progress migration of existing customers and ramp down of legacy systems
- The new platform will continue to drive efficiencies from FY25

Attract and engage high value customers

- Optimising growth with a continued move into established customer segments
- 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 platform to expand utility and connection with Prospa
- Cross-sell credit products within the All-In-One platform
- Integrate LoC customers into Prospa's ecosystem to drive lifetime value

Scheme Implementation Deed[1] with Salter Brothers

Prospa has entered into a Scheme Implementation Deed with a consortium led by Salter Brothers Tech Fund Pty Ltd ("Salkbridge" or the "Consortium"), has agreed to acquire 100% of the shares in Prospa by way of a Scheme of Arrangement. Shareholders will have a choice between either;

- $0.45 per Prospa share held at the Scheme Record Date in cash ("Cash Consideration"), a 32% premium to Prospa's VWAP since the last trading update; or
- 1 fully paid ordinary share in PGL HoldCo Pty Limited per Prospa share held at the Scheme Record ("Script Consideration")

Cash Consideration will be the default consideration delivered to Prospa Shareholders under the Scheme. The Scheme is subject to a condition precedent that Prospa Shareholders elect to receive the Scrip Consideration in respect of at least 76% of the Prospa shares on issue at the Scheme Record Date.

Prospa's Independent Board Committee ("IBC") unanimously recommends that Prospa Shareholders vote in favour of the Scheme, in the absence of a Superior Proposal and subject to the Independent Expert concluding (and continuing to conclude) that the Scheme is in the best interests of Prospa Shareholders.

Indicative timeline:

- By June 2024 – Scheme Booklet to be shared with Prospa Shareholders, containing information relating to the Scheme and the Independent Expert's Report on whether the Scheme is in the best interests of Prospa Shareholders.
- By July 2024 – Prospa Shareholders to vote on the Scheme and on the iPartners Funding.
- By August 2024 – Scheme expected to be implemented if approved and conditions precedent are satisfied or waived.

Please refer to the announcement dated 27 February 2024 and the attached Scheme Implementation Deed for further information (see https://investor.prospa.com/investor-centre/).

1. Unless otherwise defined in this announcement, all capitalised terms used in this announcement have the meaning given to them in the Scheme Implementation Deed.

Questions

04

Additional information

The Laundry Lady, AU

Half Year Profit and Loss

6 Months to 31 December 2023 ($m)	1H24	1H23
Interest income	129.7	122.2
Other Income	15.6	13.2
Revenue	**145.4**	**135.3**
Transaction costs	(8.0)	(7.5)
Funding costs	(36.9)	(21.4)
Gross Profit	**100.5**	**106.3**
Loan impairment	(36.3)	(56.6)
Employee expenses	(31.6)	(27.6)
Operating expenses	(18.9)	(21.9)
Total Expenses	**(86.8)**	**(106.1)**
EBITDA	**13.7**	**0.2**
Depreciation	(1.2)	(1.2)
Amortisation	0.0	(3.7)
Corporate and lease interest expense	(1.3)	(0.1)
Share based payments	(1.8)	(2.1)
Forex gain/(loss)	(0.0)	0.7
Restructuring costs	(0.3)	-
PBT	**9.0**	**(6.3)**
Tax	(2.7)	1.1
NPAT	**6.3**	**(5.2)**

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

Statutory Balance Sheet

Statutory Balance Sheet ($m)[1]	Dec-23	Jun-23
Cash and cash equivalents	117.2	96.9
Bank deposits	1.4	0.0
Loan receivables	715.1	752.7
Other financial assets	1.0	1.3
Derivative financial assets	-	0.7
Prepayments and other assets	3.3	3.1
Property, plant and equipment	-	0.1
Right-of-use assets	4.7	5.9
Deferred tax assets	36.0	38.3
Total assets	**878.7**	**899.0**
Trade and other payables	5.5	10.0
Employee benefits	8.1	9.6
Lease liabilities	6.0	7.3
Borrowings	757.8	779.1
Derivative	0.5	-
Total liabilities	**778.0**	**806.0**
Net assets	**100.8**	**93.0**
Issued Capital	610.9	610.9
Reserves	(414.5)	(415.9)
Retained earnings	(95.7)	(102.1)
Total equity	**100.8**	**93.0**

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

Statutory Cash Flows

6 months to 31 December 2023 ($m)[1]	1H24	1H23
Interest income received	129.2	118.4
Other income received	8.5	10.2
Interest paid	(34.9)	(21.3)
Payments to suppliers and employees	(65.0)	(60.3)
Operating cash flow before movement in loans advanced	**37.9**	**47.0**
Net decrease/(increase) in loans advanced to customers	8.8	(175.4)
Operating cash flow	**46.6**	**(128.4)**
Payment for other financial assets	0.5	-
Payments for intangibles	-	(10.7)
(Increase)/decrease in bank deposits	(1.3)	(0.0)
Investing cash flow	**(0.8)**	**(10.7)**
Proceeds from corporate debt	12.0	-
Proceeds from borrowings	31.6	208.1
Repayment of borrowings	(68.1)	(48.8)
Principal repayment of lease liabilities	(1.3)	(1.2)
Payments for share repurchase	-	(0.7)
Financing cash flow	**(25.9)**	**157.4**
Net cash flow	**19.9**	**18.3**

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

Key Metrics

6 months to 31 December 2023 ($m)	1H24	1H23
Loan book		
Originations	308.3	424.8
Gross originations[1]	406.9	554.2
Gross loans (period end)	807.4	855.8
Average gross loans	828.2	771.8
Realised portfolio yield, annualised (%)	34.9%	34.8%
Premium risk grades as a % of closing gross loans	54.5%	45.4%
NIM as a % of average gross loans	26.1%	29.3%
Funding		
Funding cost rate, annualised (%)	9.7%	6.1%
Average funding debt	758.3	699.3
Productivity metrics		
Total employee and operating expenses[2] as a % of revenue	34.7%	44.5%
Customer metrics		
Active customers	20,900	19,900
Net promoter score	70+	80+
Composition of loan impairment		
Impairment expense: net bad debt expense	53.7	27.0
Impairment expense: provision movement	(17.5)	29.6
Provision rate (%)	11.4%	9.4%
Net bad debt expense as a % of average gross loans, annualised	12.9%	6.9%

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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