Prospa releases FY23 results

Release date: 30 August 2023

Prospa Group Limited (ASX: PGL) ("Prospa" or the "Company" or the "Group") today announces its results for the financial year ended 30 June 2023. The Company has delivered significant growth in assets and revenue in FY23, further supported by disciplined yield expansion. This growth was delivered more efficiently through an improved "employee and operating expense to revenue" ratio, highlighting Company scalability.

In anticipation of a more challenging near-term macroeconomic environment and following adverse developments in book performance in CY22, the Company adopted more conservative risk settings, including a material lift in provisions, tightening credit underwriting settings, and expanding liquidity facilities. Notwithstanding this, the Company continues to invest in its strategic opportunities, across both product and technology, to deliver long-term sustainable and profitable growth.

Key updates:

- Closing gross loans of $862.2 million, up 22.9% on pcp (FY22: $701.3 million).
- Yield increased by 70bps to 34.8% (FY22: 34.1%), despite a 200bps increase in the average cost of funds.
- Full year revenue of $285.6 million, up 60.2% on pcp (FY22: $178.3 million).
- Employee & operating expenses as a percentage of revenue improved to 37.5% (FY22: 47.2%).
- Originations of $753.7 million, up 2.9% on pcp (FY22: $732.5 million), reflecting a deliberate tightening of credit in the second half, given an observed weakening in the macro environment.
- Active customers grew to ~21,000, an increase of ~4,900 in the year.
- Consistent with the macroeconomic environment, expected credit loss ("ECL") provisions have been increased to 12.7% of closing gross loans (FY22: 7.2%), with the majority of the movement relating to a macro overlay.
- The ECL provision increase was $58.5 million for FY23 significantly contributing to an FY23 EBITDA[1] loss of $28.5 million (FY22: $12.1 million profit).
- Despite the EBITDA loss, the Company delivered Operating Cash Flow[2] of $96.8 million, up 64.5% on pcp (FY22: $58.8 million).
- Non-cash impairment of all software intangible assets of $24.9 million.
- The Company continues to execute its core system re-platforming roadmap, which is on track for completion in CY24, and is maintaining its focus on cost discipline and management.

[1] EBITDA is earnings before corporate interest, tax, depreciation, amortisation, and impairment and restructuring expenses.

[2] Operating Cashflow before changes in operating assets

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

"Prospa continues to provide balanced lending support to small businesses in the current economic environment.

FY23 originations were pleasing despite the tighter credit risk settings implemented in response to the rapid changes within the broader economy throughout the second half.

Our portfolio yield expanded; however, losses were higher as certain small businesses experienced heightened cost pressures, changes in consumer demands and weakening revenue. While seeing steady demand through all channels, we proactively manage our credit risk assessment policies.

We are working closely with our partners and existing customers as economic conditions evolve in Australia and New Zealand, offering support where appropriate to target a sustainable and performing portfolio.

Investment in our technology re-platforming is in the final stages. It's pleasing to see the Australian and New Zealand LOC originating from the new platform, with the NZ SBL currently in pilot."

FY23 highlights

Revenue for the year increased to $285.6 million, up 60.2% on pcp, supported by an expanding portfolio yield (34.8%) and significant asset growth. Closing gross loans were $862.2 million, up 22.9% on pcp (FY22: $701.3 million).

Despite a challenging inflationary backdrop and the continued investment in product and technology, the Group's operating cost base, measured as employee and operating costs[3] as a percentage of revenue, improved to 37.5% (FY22: 47.2%), demonstrating the business' scalability.

In anticipation of a more challenging near-term macroeconomic environment and following adverse developments in book performance in CY22, the Company adopted more conservative risk settings during the year, including a tighter credit underwriting approach. Despite this, the Company delivered originations of $753.7 million, up 2.9% on pcp (FY22: $732.5 million).

Further, the Company increased its non-cash credit provision by $58.5 million in FY23. This was the primary contributor to the EBITDA loss of $28.5 million.

Notwithstanding this loss, the Company's operating cash flow was $96.8 million, up 64.5% on pcp (FY22: $58.8 million), reflecting the solid underlying performance of the Company, including the combined revenue expansion and cost discipline delivered during FY23.

The Company continues to execute its core system re-platforming roadmap, which is on track for completion in CY24. The Company remains vigilant as it manages operating expenses across all functions, streamlining the cost base, focusing on operating leverage and driving efficiencies.

[3] Employee and operating expenses exclude restructuring costs.

Non-cash impairment of Software Intangible Assets

As part of the year-end assessment of the carrying value of assets (applied under AASB[4] 136 *Impairment of Assets*), the Company has considered indicators of impairment. For Prospa, these indicators include higher net assets compared to market capitalisation. As a result of performing this impairment assessment, software intangible assets have been fully impaired, as announced to the ASX on 28 July 2023.

The impairment charge of $24.9 million is contained in the accompanying FY23 financial statements and will not impact EBITDA. This non-cash item will not impact the Company's funding lines. 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.

Portfolio Management & Funding

The Company's NIM in FY23 reduced to 28.5% (FY22: 29.6%) due to rising interest rates and tighter risk appetite resulting in lower yielding originations. As of 30 June 2023, Prospa had access to $921.4 million of secured funding facilities, a 31.3% increase on pcp (FY22: $702.0 million), of which $140.1 million was undrawn (FY22: $59.2 million).

Total cash ended the year at $96.9 million (FY22: $105.8 million), of which $25.8 million was unrestricted (FY22: $49.9 million unrestricted). In addition, and not included in the closing cash position, and as announced to the ASX on 7 July 2023, Prospa established a $12 million corporate debt facility to support the growth of the Group and act as a cash buffer to economic headwinds.

Prospa Chief Financial Officer Ross Aucutt said:

"We've ended the year with a sound underlying cash NPAT result during challenging economic conditions. We are focused on our risk settings with regular reviews over the past nine months, and we will continue to monitor and adjust as appropriate. Despite this, we have continued to invest in our product and technology platforms, which we see as essential in differentiating us from our competitors.

We focused on reducing our expense base during the year whilst strengthening our capital management position by entering into a corporate debt facility, enhancing our cash generation and management capabilities and maintaining our strong funding capacity."

Outlook

The Company remains focused on maintaining its position as the premier online lender to small business while delivering profitable growth.

The Company anticipates a period of continued economic uncertainty impacting the small business sectors in Australia and New Zealand. Prospa continues to work on providing profitable and sustainable

[4] Australian Accounting Standards Board

lending to small business. The Company continues to actively leverage its dynamic credit decisioning capability to make quick and decisive setting changes to optimise commercial and customer outcomes.

In parallel, the Company will drive ongoing operational efficiencies as its re-platforming program continues to be rolled out, benefiting partners and customers and increasing overall shareholder value.

CEO Greg Moshal, Chief Revenue Officer Beau Bertoli and Chief Financial Officer Ross Aucutt will host a webinar with live Q&A at 2.00pm today to discuss the FY23 results.

To register, please click here. You will receive a calendar notification with dial-in details and the webinar link. Investors can submit questions prior to the webinar to melanie@nwrcommunnications.com.au or do so via the Q&A function on Zoom during the webinar.

This announcement has been authorised for release by the Board.

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 $3.6 billion of funding to support the growth and operations of thousands of small businesses. We also work with more than 15,000 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.