prospa

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Prospa Group Limited 2020 AGM

Chairman's Address

Gail Pemberton, Prospa Chair

When I look back to the beginning of the last financial year, which was our first year as a listed company, we could never have envisaged the disruption that has occurred in the global economy in the second half of FY20.

The COVID-19 pandemic has had a sweeping impact on the way we live our lives and work and it hit many of our small business clients hard, particularly coming as it did on the heels of the drought and the summer bushfires in Australia.

While today we are encouraged by a stronger than anticipated small business recovery, the impact of the lockdowns and uncertainty during the height of the pandemic had a significant effect on our performance in the last quarter of FY20, principally in the volume of originations, revenue and loan impairment provisions.

During that last quarter of FY20, we moved rapidly to provide personalised relief packages and to restructure customer commitments. We worked closely with our funding partners, to revise some of the terms and conditions of our warehouses to better enable us to support our customers and using their daily operational business data and sophisticated analytics, we determined appropriate additional provisions for potential credit losses due to the impact of COVID-19.

I'm proud of the way management and the Board navigated through the challenges thrown up by the pandemic. We took swift and decisive action to preserve cash, pull back our risk appetite and the level of originations and our expense base, in order to be able to support our customers and reposition the business for the expected return to growth.

For the first nine months of the FY20 financial year we were pleased to achieve a 31.6% growth in originations compared to the same nine-month period in FY19, and we were at that time, confident we were on track to meet all our performance targets.

The final quarter of the year saw us proactively manage the impact of COVID on our business. As a result, total loan originations for FY20 were $450.9 million, down 10.1% on the prior year, as the strong growth seen in the first three quarters was offset by a deliberately restrained risk appetite in Q4.

Group revenue of $142.1 million for FY20, was an increase of 4.2% on the prior year, restrained by lower Q4 revenue, resulting from lower originations and extended repayment terms for COVID affected customers. EBITDA was -$19.5 million as we took a prudent approach to financial management and set aside an additional $18 million as a forward-looking provision. At the year end, Prospa had over 13,300 active customers and surpassed $1.6 billion in originations to date.

The continued growth of our New Zealand business, at an average originations growth rate of 4.1% per month, made a strong contribution to the overall results. We have a highly motivated team on the ground in New Zealand who've helped Prospa achieve the #1 position in the non bank financial services category on independent review site Trustpilot, in just over a year from a standing start.

In line with the commitments made at last year's AGM, we uplifted overall team depth and capability, particularly in the areas of product design, analytics, risk and yield management. This meant we were able to deliver two credit products to market in a short space of time under the Federal Government's SME Loan Guarantee Scheme. We also implemented tighter expense management particularly as we exited FY20, reducing the run rate of expenses in Q4 by 32% compared to the prior quarter. These lower operating costs have been maintained during the first quarter of FY20.

We believe Prospa is now in a stronger position, ready to support the small business recovery. As we head into the second quarter of FY21, we are steadily increasing our risk appetite and seeing customer demand for credit driving originations flow. Confidence is also on the rise. We provided over 5,500 relief packages to Australian and New Zealand customers at the peak of the pandemic and as at 30 September, the number of those receiving this support was just 1,681. In New Zealand, this number was just 165.

We are also taking the time to refine and extend our strategic vision and offerings for the small business sector which we continue to believe is critical to the economies of Australia and New Zealand.

In closing I'd like to thank to the terrific management and staff at Prospa for their ongoing energy and enthusiasm for the business and our customers. My fellow Board members have also been unflagging in their efforts. I'd also like to thank our shareholders and funding partners for their ongoing support.

Prospa Group Limited 2020 AGM

Chief Executive Officer Presentation

Greg Moshal, Prospa CEO

Good morning everyone. I would like to start today by recognising the challenges faced in FY20 and the actions taken to navigate through a year of great uncertainty and retain a strong financial foundation. I would then like to focus on FY21 – the green shoots and faster than expected recovery we are seeing among our SME customers, and our strategic priorities in the year ahead.

Prospa: a cohesive small business focused platform

Prospa began eight years ago because we believed there had to be a better way. A better way for small businesses to access finance, and to grow and prosper.

Our customers are your tradies, grocers, dentists, cafes and florists, and we provide them with ways to manage their cash flow, facilitate payments and take advantage of opportunities to grow. We make it a fast and seamless experience, the way it should be.

And we've succeeded by putting this mission and our customers at the heart of everything we do, in the good times and the bad.

FY20: Prospa's response to COVID-19 challenges

As Gail outlined, Prospa has experienced the toughest market conditions we are ever likely to come up against in FY20.

While our performance was impacted by the COVID-19 pandemic and restrictions, we took proactive steps throughout the year to solidify the resilience of our business model. We adapted quickly to the environment, securing ourselves the best position possible to support the economic recovery and leverage opportunities as confidence returns.

With the health and safety of our team and the community in mind, we activated our Business Continuity Plan in March. Our people worked remotely with no operational interruptions to the business and in line with Government guidance, we have now commenced our measured return to the office.

We used our strengths in technology, data, and customer service to engage with our customers and provide the support they needed to navigate this period of economic uncertainty.

We implemented a flexible customer relief policy, typically providing full deferrals of 6 weeks' duration or partial deferrals of 50% of the typical repayment.

We were able to do this by working with our funders to secure amendments to warehouse facilities, allowing us to provide customers with appropriate support during COVID.

Prospa continues to benefit from a diverse range of local and international senior and junior funders and we acknowledge their support of our business over the last eight months.

Finally, our balance sheet is now much stronger than it was at the start of the financial year, which I shall touch on shortly.

Volume metrics grew strongly in the first three quarters pre-COVID-19

I'd like to speak briefly on FY20 financial performance before talking to the first quarter of FY21. At financial year end, we had over 13,300 active customers. Total customers since inception reached nearly 29,000.

We experienced solid growth in originations in the first three quarters of FY20, offset by a restrained Q4 at the height of COVID-19 restrictions. This resulted in total originations for the year of $450.9 million, a 10% decline on FY19.

Average Gross Loans grew to $433.3 million, an increase of 35.7% on the prior corresponding period. The increase was driven by the strong origination growth at the end of FY19 and the first three quarters of FY20, including the successful launch of our Line of Credit product and full launch in New Zealand.

Total revenue grew to $142.1 million up 4.2% on FY19. As Gail outlined, this was restrained by lower revenue in Q4, resulting from lower originations and extended repayment terms provided to customers impacted by COVID.

Proactively managing credit risk

In response to COVID-19, the company continued our proactive approach to credit risk and prudently applied a forward-looking provision of an additional $18 million. Since 30 June 2020, no additional loss provisioning overlay has been provided.

The amount set aside reflects the impact of premium risk grades which increased by 7.1% and now make up over 46% of our book as at 30 June 2020. This focus on increasing the quality of our book has also had a positive flow through to our deferrals and credit risk.

We have continued to provide support for those customers experiencing hardship but are heartened by the pace at which small businesses are recovering. At 30 September 2020, the number of Prospa customers on deferrals had reduced by almost 70% since the peak in May, as more small businesses get back on track.

We continue to proactively manage credit risk on new lending, leveraging data, industry insights, and our purpose-built credit decision engine, ensuring we continue to lend within the Board's mandated 4-6% stable static loss rate tolerance.

Faster than expected recovery and the emergence of strategic opportunities

While challenging COVID-19 operating conditions continued in the first quarter of FY21, we saw an increase in confidence among our small business customers.

First quarter originations of $80 million were up 265% on the prior quarter, with more loans originated per month in August and September than the entire Q4. September in particular benefited from the end of the first phase of the Government Guarantee Scheme (which was in place from May to September 2020).

Prospa originated $23 million of non-Government Guaranteed loans in Q1, an increase of 107.1% on the prior quarter.

Following the Scheme's conclusion on 30 September 2020, this momentum has continued into the second quarter. I'll highlight that the first quarter result also had a significantly lower contribution from Victoria due to the now lifted lockdown and is typically a quieter lending period. November and December are traditionally a seasonal peak for Prospa, and we are now seeing more small businesses looking for growth capital as they prepare for the busy holiday period.

One of the benefits of the strong growth we've experienced over the last three years is that we now have a well-diversified portfolio spread broadly over differing industries and geographies.

Industry sectors showing demand for funding to support recovery are building and trade, professional services, and retail. Geographies showing demand are New South Wales, Queensland, and New Zealand.

Well-funded for the future

During FY20, we focused on preserving our capital, improving our products and processes, and ensuring we have strong financial foundations in place. The Board and management made decisions early on to ensure we have a sustainable business model.

As a result, we entered FY21 with a strong balance sheet and committed funding lines, ready to continue supporting small business customers across Australia and New Zealand. As at 30 September 2020, Prospa had $422 million in available third-party facilities, including unused facilities of $174.8 million and $54.4 million of unrestricted cash.

Prospa is in a strong position

We are pleased with how we have managed the business over the past year and believe Prospa remains in a strong position to leverage the opportunities ahead of us.

- We remain in a strong financial position, with a healthy balance sheet;
- The business model has been tested and proven during these unprecedented, challenging economic conditions;
- The funding platform has been enhanced, where we have increased available funding and further diversified the funding sources and;
- Our customer relationships have only been strengthened during this challenging time, reinforcing our brand and position as an industry leader.

We are proud to have been recognised as National Fintech Lender of the Year by the Mortgage and Finance Association of Australia for the third year running, and for Excellence in Business Lending at this year's Fintech Australia Awards.

Executing our strategy has three broad phases

Whilst COVID-19 has posed its challenges; it has also given rise to opportunities within the SME lending market.

Our industry leading knowledge and insights into the small business economy are a distinct advantage and we will leverage this to support customers as they recover, rebuild, and invest for the future.

SMEs remain amongst the most dissatisfied customer segment with traditional bank offerings, yet a majority still use their bank accounts for business banking. The data we have gathered over the last 8 years – particularly during COVID-19 – places Prospa in a unique position to expand the role we play in helping SMEs manage cash flow.

As we look ahead, executing our strategy has three broad phases. This means we will:

- Strengthen the core business and create on-going capacity to invest in the technology and capabilities we need for the future;
- Accelerate product innovation and customer engagement in Australia and New Zealand and;
- Leverage our data and strong engagement to meet more of our customer's needs, extend our ability to scale new products, and expand our market.

We will provide a more detailed update to the market on this strategy in the third quarter of FY21.

Conclusion

We are increasingly optimistic and encouraged by the speed of recovery and improved confidence we are seeing within the SME sector. Nevertheless, we continue to be prudent in our lending practices and remain ready to adapt to the changing environment. No guidance is provided, and we will continue to update the market on a quarterly basis.

Before I wrap up, I would like to take the opportunity to acknowledge the dedication of the entire Prospa team, and their commitment to providing the highest level of support to our customers and partners this year while also dealing with the impacts on their own lives.

I also express my appreciation to the Board for their strategic direction, continued support, and valuable counsel. I thank our shareholders as they continue to believe in our mission.

I will now hand back to Gail for the formal business of the meeting.

This announcement has been authorised for release by the Board.

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About Prospa

Prospa is a financial technology company that provides cash flow products and services to help small businesses to grow and prosper. At 30 September 2020, Prospa had originated over $1.65 billion in loans and served more than 29.4 thousand small business customers across Australia and New Zealand since inception. Prospa has a history of industry leadership and innovation and is a founding member of the AFIA Online Small Business Lender Code of Lending Practice. Prospa has a Net Promoter Score over 77, is ranked #1 in the Non-bank Financial Services category in Australia and New Zealand on TrustPilot and is recognised as a 2019 Great Place to Work.