

Positioned for strong revenue growth

Cirralto Ltd (ASX:CRO) has a long history in business financial software services development. Since 2018 CRO has focused on developing systems to enable business payments which culminated in the launch of the Spenda platform in February 2020 (following Cirralto's acquisition of technology partner Appstablishment). Spenda has developed to become an integrated applications, payments and lending platform; and is reporting a large pipeline of customer leads as Australia opens post-COVID lockdowns. Businesses are looking to simplify processes and payments systems, with Spenda offering a competitive platform integrated with major accounting and payments providers. CRO launched the full payment applications suite on Spenda in May 2021. This was a key event in a transformative period when CRO signed key agreements with Mastercard and Visa, completed the acquisition of three complementary software and lending service providers, and saw customer numbers more than double to 494 Spenda licences. The company is now launching a range of non-bank lending offers currently funded via equity prior to the imminent announcement of a debt warehouse to fund expansion in business lending products aimed at transaction facilitation. CRO's Spenda provides a platform that simplifies end-to-end transactions for businesses and provides transparency to allow secure lending offers to expand.

Business model

Cirralto operates a SaaS model for licensing of the components of the Spenda platform. Businesses have several ways to take up the service with the ability to choose which modules will be turned on – point of sale, inventory management, e-commerce, procurement and service management. Payments services are then available for wholesale and retail B2B and B2C use. Utilising the ledger-to-ledger dataset provided by these transactions, CRO can securely offer on-demand lending, pay later, early settlement discounts and trade finance to its business customers to enable further revenue growth. Visa's BPSP and Mastercard's BPA agreements upgrade the company's ability to acquire customers and improve margins.

Pipeline and funding to drive growth

Cirralto's Spenda platform is now enabled to deliver business services and add customers efficiently and quickly. The company intends to ramp up customer acquisition into 2022 and, with the intended launch of a debt warehouse, expand the lending offer as payment services customer numbers rise. CRO is currently focusing on agribusiness transactions (both domestic and international), trade and cashflow financing, and technology-related businesses where platform standardisation offers an entry.

Valuation is at an early stage with upside from results

The fintech sector is currently a diverse group with different niche focuses and stages of corporate development as new entrants attempt to disintermediate the large banks and/or offer services larger operators no longer deem core due to changes in regulation – chiefly due to capital requirements within a banking structure. The ability to use non-bank funding to facilitate services and lending is allowing this group to aim at relatively large markets despite a current lack of business scale. Similar early-stage companies include Dough (ASX:DOU), Earlypay (ASX:EPY), Ioupay (ASX:IOU) and Humm (ASX:HUM). Reviewing this group including business services / SaaS companies gives a median price/book of 3.23x and price/sales at 4.3x. Limiting the comparison to companies with negative cashflow gives a price/book of 4.5x and price/sales of 10x. We feel Cirralto is likely to see Price/Book multiple expansion from the current 2.0x as revenues grow in the next 12 months.

Historical earnings and ratios (in A\$m unless otherwise stated)

Year end	Revenue	EBITDA	NPAT Adj.	EPS Adj.
06/18a	0.31	(4.69)	(6.44)	(0.02)
06/19a	0.68	(3.51)	(6.04)	(0.01)
06/20a	0.52	(3.58)	(7.44)	(0.01)
06//21a	1.00	(7.13)	(11.41)	(0.01)

Source: Company data *EBITDA and NPAT adj for one-time, non-cash items

Financial Services & Software

18 November 2021

Share details

ASX code	CRO
Share price (17-Nov)	\$0.054
Market capitalisation	\$163M
Shares on issue	2,951M
Free float	69%

Share Performance (12 months)



Upside Case

- Launch of debt warehouse expands lending capacity
- Conversion of services pipeline
- Sell through of lending products

Downside Case

- Debt warehouse delayed
- Slower take-up due to economic / COVID issues
- Labour shortages slow economies and sales

Catalysts/Upcoming Events

- Announcement of warehouse agreement expected by December 2021
- December quarterly shows continued revenue growth
- February interim result

Comparable Companies (Aust/NZ)

Dough (ASX:DOU), Earlypay (ASX:EPY), Ioupay (ASX:IOU), Humm (ASX:HUM), Payright (ASX:PYR), Incentipay (ASX:INP)

Board of Directors

Peter Richards	Non-Executive Chairman
Howard Digby	Non-Executive Director
Stephen Dale	Non-Executive Director
Adrian Floate	Managing Director/CEO

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FINANCIAL SERVICES GUIDE

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