Research as a Service

Wisr Ltd

Company update

Money banked, primed to grow

Fintech

17 March 2020

Wisr Limited (ASX:WZR) is an online consumer lending platform focused on financial wellness and competing in the rapidly growing non-bank consumer lending sector. On March 17, the company provided a business update, noting that this quarter to March 13, it had written $31.6m loans with an average credit score of 706. The update follows approval by its shareholders last Friday of tranche 2 of a $36.5m funding package, to accelerate its growth plans. Wisr also recently announced its H1 FY20 results which reflected significant increases in investment in staff and branding. We have incorporated these results into our forecasts, using the first half cost base as our base going forward, notwithstanding the company's ability to vary marketing spend. We have also changed the way we model Wisr's loan margin, previously incorporating a net margin at the revenue line. Our base case DCF valuation for WZR is $0.30/share (WACC 14.0%, terminal value 2.0%), with the terminal value in year 10 is $0.19/share. Our valuation and forecasts are predicated on NAB extending the warehouse facility beyond the initial $200m. In our view, Wisr is well capitalised and funded to accelerate its high-quality loan book, and demonstration of this should lead to share price appreciation.

Business model

Wisr writes personal loans to Australian consumers for 3- and 5-year maturities and on-sells these loans either through internal mechanisms or to institutional, retail and wholesale investors. The company passed $164m in cumulative loan originations by the end of December 2019, with quarterly loan originations increasing by more than $30m for the first time, fuelled by the new $200m warehouse trust facility funded by NAB. The facility triples Wisr's average loan unit metrics, delivering a margin of 12.5% pa at a cost of 3.5% pa. Wisr has used its technology platform to launch a range of non-lending initiatives, including Wisr Credit, a comparison site for credit scores, and the Wisr App, which rounds up change for consumers to apply against their loans. These initiatives attract customers in the Wisr eco-system, providing the company with cost efficient customer acquisition.

Interim results and earnings adjustment

Wisr reported H1FY20 revenues of $2.27m, up 87% on the previous corresponding period and ahead of our forecast for $2.17m. Employment costs increased 100% to $4.26m, ahead of our forecast for $2.86m; marketing costs lifted three-fold to $1.65m, while other expenses grew 141% to $3.98m, above our forecasts respectively for $0.44m and $2.32m. The increased cost base reflects Wisr's decision, with surety from the NAB warehouse facility, to rapidly scale the platform. Our revised forecasts reflect this higher cost base.

Base case valuation is $0.30/share

Our base case DCF valuation is $0.30/share after incorporating the 197m shares issued in the share placement and recently completed share purchase plan (SPP) offered to existing shareholders, and after taking into account our earnings adjustments. Our DCF is based on a WACC of 14% and a terminal value in Year 10 of $0.19/share. We assume in our forecasts and valuation that NAB extends the facility beyond the initial $200m. In our view, Wisr is well capitalised and funded to accelerate growth of its high-quality loan book.

Historical earnings and RaaS Advisory estimates

Year end	Revenue (A$m)	EBITDA Adj (A$m)	NPAT Adj (A$m)	NPAT reported (A$m)	EPS* (c)	EV/Sales (x)	EV/EBITDA (x)
06/19e	3.0	(5.8)	(6.0)	(7.4)	(1.03)	14.5	n/a
06/20e	8.0	(15.4)	(16.5)	(21.5)	(1.84)	8.3	n/a
06/21e	25.9	(5.2)	(8.9)	(8.9)	(0.87)	2.9	n/a
06/22e	43.1	6.5	(0.1)	(0.1)	(0.01)	1.8	11.7

Source: Company data, RaaS Advisory Estimates for FY20e, FY21e and FY22e

Share details

ASX Code	WZR
Share price	$0.10
Market Capitalisation	$102M
Shares on issue	1024.3M
Enterprise value	~$141M
Net cash post placement/SPP	~$39M
Free float	~63%

Share performance (12 months)

Upside Case

- Board and management team experienced in building financial services businesses
- Well capitalised following $36.5m placement and SPP and secured tier 1 backer for its loan book
- Loan book is growing faster than its larger peers

Downside Case

- Small player in a segment that commands ~1% of the personal lending market
- Competitors have aggressively grabbed market share over the past two years
- Takeover potential could diminish the upside for shareholders

Board of Directors

John Nantes	Executive Chairman
Craig Swanger	Non-Executive Director
Chris Whitehead	Non-Executive Director

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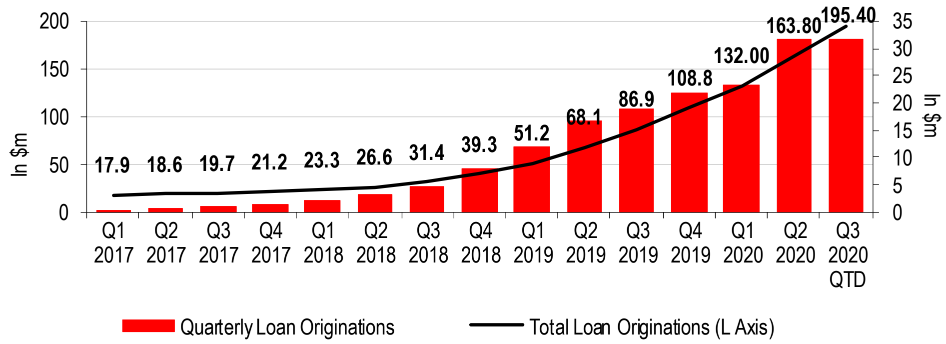
Research as a Service

Business update

On March 17, Wisr provided a business update to the market noting that its loan volumes this quarter to date are still accelerating with $31.6m in loans written in Q3 FY20 to March 13. This matches the volume of loans written in Q2 FY20 and puts the company on track to surpass $200m in cumulative loans this quarter. Exhibit 1 sets out the growth that the company has generated over the past 10 quarters in quarterly loan originations and cumulative loans.

We are forecasting that Wisr finishes FY20 with a cumulative loan book of $249m and total loans of $166m and this business update confirms the company is on track to meet our forecasts.

Exhibit 1: Cumulative loan book and quarterly loan originations



Source: Company data

Wisr also announced that the loan warehouse facility was now drawn to $80m giving the company significant lending runway. The facility is expandable to $200m and our forecasts assume that successful deployment of the initial facility will result in NAB extending the facility.

Wisr noted that it had yet to see any tangible impact of COVID-19 on its business but that it had conducted an all of company work from home day on 12 March with no disruption to normal business operations.

The company is also undertaking a review of credit policy and proprietary decision engine rules to limit risk to any changing economic conditions being presented by the virus.

Interim results analysis

Wisr reported a net loss of $12.85m for H1 FY20, which included a non-cash charge of $5m for share-based payments to the company's directors and senior management payable over the next three years. The company also took a credit loss provision of $1.1m in recognition of future expected credit losses; we include these in our normalised calculation. The normalised net loss was $7.9m, up from $3.05m the year before and ahead of our forecast for a $3.77m net loss. A snapshot of the result is set out in Exhibit 1.

Exhibit 2: 1H FY20 versus 1HFY19 and RaaS estimate (in millions unless otherwise stated)

For the period ending 31 December	1HFY19	1HFY20	% chg	RaaS Est.
Cumulative Loan originations at year end	68.1	163.8	141%	160.5
Revenue	1.21	2.27	87%	2.17
EBITDA (normalised)	(2.96)	(7.62)	158%	(3.45)
EBIT (normalised)	(2.99)	(7.68)	157%	(3.80)
Net Loss normalised	(3.05)	(7.90)	159%	(3.77)
Net loss reported	(3.45)	(12.85)	272%	(3.77)
EPS normalised (A$)	(0.57)	(0.96)	69%	(0.46)

Source: Company data, RaaS estimates

As we noted on the front page, costs increases significantly on H1 FY19 and ahead of our forecasts, reflecting a faster scaling of the business than we had anticipated. It should be noted that marketing costs are a variable cost which the company had turn on or off as needed.

Exhibit 3: Revenue and costs breakdown (in millions unless otherwise stated)

For the period ending 31 December	1HFY19	1HFY20	% chg	RaaS Est.
Revenue	1.21	2.27	87%	2.17
Employment costs	(2.13)	(4.26)	100%	(2.86)
Marketing costs	(0.40)	(1.65)	315%	(0.44)
Other expenses	(1.65)	(3.98)	141%	(2.32)
EBITDA (normalised)	(2.96)	(7.62)	158%	(3.45)

Source: Company data, RaaS estimates

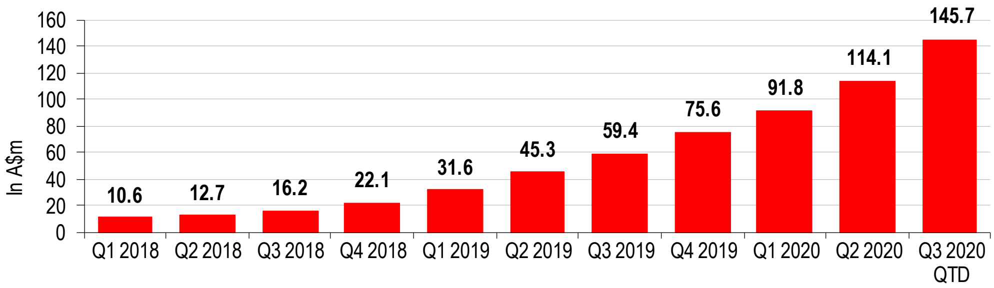
Revenue was ahead of our forecast in H1 FY20 as a result of slightly better than expected growth in Q2 loans, which delivered a cumulative loan book of $163.8m at 31 December versus our forecast for $160.5m. This included six weeks of the NAB warehouse facility which funded $22.6m of the $31.6m in loans written in the quarter and helped drive up the margin to an annualised net of 7.0%.

The NAB warehouse facility delivers improved loan metrics to Wisr, generating a gross yield of 12.5% pa and costs the company 3.5% pa. Wisr applies a 1.75% pa impairment charge for potential credit losses, although its actual credit loss in the December quarter was 1.51%.

The $200m NAB warehouse trust facility is available to Wisr in notes of which the company has drawn down $80m. We expect the facility to be expanded as Wisr increases its loan book. The facility also sees Wisr bring all loan receivables and the drawdown of the facility onto its balance sheet.

Pleasingly, the company for the first time posted its loan book at period end and provided back data for the past 10 quarters. The data, set out in Exhibit 4, demonstrates the acceleration provided by the NAB facility in Q2 FY20 with $22.2m in net new loans added and in Q3 FY20 to date gross new loans of $31.6m (the company has yet to update on loan repayments this quarter).

Exhibit 1: Loan book at period end



Source: Company data

Earnings adjustment

We have made significant changes to our forecasts following the interim result. In part, this is to reflect the improved loan metrics provided by the NAB facility. We have now included the gross yield in our revenue forecasts, whereas previously we had reflected a net yield. We have also applied the first half costs increase to our ongoing forecasts and this has resulted in increased forecast losses in FY20 and FY21. We now anticipate that the company will break even operationally in H2 FY22, rather than H2 FY21. The recent share placement and SPP which raised $36.5m together with the $10.2m cash in bank at the end of December

2019, position the company well to fund its growth initiatives without need to return to the equity markets for some time.

Exhibit 5: Earnings forecasts adjusted

	FY20 old	FY20 new	FY21 old	FY21 new	FY22 old	FY22 new
Revenue	6.5	8.0	14.6	25.9	25.5	43.1
EBITDA adj	(5.1)	(15.4)	(2.4)	(5.2)	8.2	6.5
EBIT adj	(6.1)	(16.2)	(1.8)	(7.7)	4.2	3.0
NPAT adj	(6.2)	(16.5)	(1.8)	(8.9)	2.6	(0.1)
NPAT reported	(6.2)	(21.5)	(1.8)	(8.9)	2.6	(0.1)
EPS	(0.75)	(1.84)	(0.22)	(0.87)	0.32	(0.01)

Source: RaaS estimates

Base case DCF Valuation is $0.30/share

Our base case DCF valuation is $0.30/share and derived from a WACC of 14.0% (beta of 2.0) and terminal growth rate of 2.0%. The terminal value represents $0.19/share in our valuation. Assuming the same share count as our previous DCF valuation of $0.52/share, the revised valuation would be $0.37/share. We anticipate that Wisr will be able to fund its new initiatives and achieve operational (EBITDA) breakeven in 1H FY22 without need of further recourse to the equity markets. Our base case contemplates that Wisr will surpass $1bn in cumulative loans by Q1 FY23. Our downside case ($0.06/share) is predicated on Wisr surpassing $1bn in cumulative loans by Q1 FY27 while an upside case ($0.72/share) anticipates this milestone by Q1 FY22.

Exhibit 6: Base case DCF valuation

Parameters	
Discount Rate / WACC	14.0%
Terminal growth rate assumption (inflation adjusted)	2.00%
In A$m	
Present value of cashflows	97
Present value of terminal value	171
PV of enterprise	268
Add net cash post placement/SPP	39
Net value ($m)	307
Net value per share	$0.30

Source: RaaS estimates

Exhibit 3: Financial Summary

Wisr Limited (WZR)					
Profit and Loss (A$m)					
Y/E 30 June	**FY18A**	**FY19A**	**FY20F**	**FY21F**	**FY22F**
Cumulative Loan Book at Y/E	**39**	**109**	**242**	**441**	**680**
Closing loan book at Y/E	**22**	**76**	**160**	**264**	**366**
Revenue	1.6	3.0	8.0	25.9	43.1
Other income	0.2	0.7	0.1	0.0	0.0
EBITDA reported	(6.1)	(7.2)	(20.3)	(5.2)	6.5
EBITDA underlying*	(5.0)	(5.8)	(15.4)	(5.2)	6.5
Depn	(0.0)	(0.1)	(0.1)	(0.0)	(0.0)
Amort	0.0	0.0	(0.8)	(2.5)	(3.5)
EBIT underlying	(5.0)	(5.8)	(16.2)	(7.7)	3.0
Interest	(0.0)	(0.1)	(0.4)	(1.2)	(3.1)
Tax	0.0	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0
NPAT pre one off/non cash items	**(5.1)**	**(6.0)**	**(16.5)**	**(8.9)**	**(0.1)**
One off and non cash items	(1.1)	(1.4)	(5.0)	0.0	0.0
NPAT (reported)	**(6.2)**	**(7.4)**	**(21.5)**	**(8.9)**	**(0.1)**
Cash flow (A$m)					
Y/E 30 June	**FY18A**	**FY19A**	**FY20F**	**FY21F**	**FY22F**
EBITDA	(6.1)	(7.2)	(20.3)	(5.2)	6.5
Interest	(0.0)	(0.1)	(0.3)	(1.2)	(3.1)
Tax	0.0	0.0	0.0	0.0	0.0
Working capital changes	4.0	(1.9)	12.2	0.4	(0.7)
Operating cash flow	(2.2)	(9.2)	(8.4)	(6.0)	2.6
Mtce capex	0.0	0.0	0.0	0.0	0.0
Free cash flow	(2.2)	(9.2)	(8.4)	(6.0)	2.6
Growth capex	0.0	0.0	0.0	0.0	0.0
Acquisitions/Disposals	(0.0)	(0.6)	0.0	0.0	0.0
Net movement in customer loans	0.0	0.0	(68.3)	(103.6)	(102.0)
Cash flow pre financing	(2.2)	(9.8)	(76.6)	(109.6)	(99.4)
Equity	0.6	19.7	36.7	0.0	0.0
Debt inc warehouse facility drawdown	(0.3)	1.7	71.0	110.5	110.4
Dividends paid	0.0	0.0	0.0	0.0	0.0
Net cash flow for year	(1.9)	11.6	31.1	0.9	11.0
Balance sheet (A$m)					
Y/E 30 June	**FY18A**	**FY19A**	**FY20F**	**FY21F**	**FY22F**
Cash	1.5	12.0	43.0	43.9	54.9
Accounts receivable	0.3	0.4	1.3	2.7	4.4
Loan receivables	1.6	4.9	68.3	169.3	267.9
Other current assets	0.6	0.6	0.5	0.5	0.5
Total current assets	4.0	17.9	113.0	216.4	327.7
PPE	0.0	0.0	0.0	0.0	0.0
Intangibles	0.0	0.6	0.5	0.5	0.5
Investments	0.5	0.5	0.5	0.5	0.5
Deferred tax asset	0.0	0.0	0.0	0.0	0.0
Loan receivables	2.1	1.6	0.2	0.2	0.2
Total non current assets	2.6	2.7	1.2	1.2	1.2
Total Assets	6.7	20.6	114.2	217.6	328.9
Accounts payable	1.3	1.4	4.2	6.0	7.0
Debt including drawndown NAB facility	0.4	0.0	71.0	181.5	291.9
Tax payable	0.0	0.0	0.0	0.0	0.0
Other current liabilities	0.2	0.6	0.4	0.4	0.4
Total current liabilities	2.0	2.0	75.5	187.9	299.3
Long term debt	0.0	1.8	1.7	1.8	1.8
Other non current liabs	0.0	0.0	0.0	0.0	0.0
Total long term liabilities	0.0	1.8	1.7	1.8	1.8
Total Liabilities	2.0	3.8	77.2	189.6	301.1
Net Assets	**4.7**	**16.8**	**37.0**	**27.9**	**27.8**
Share capital	29.3	48.4	87.6	87.6	87.6
Accumulated profits/losses	(26.6)	(33.5)	(55.0)	(64.0)	(64.2)
Reserves	1.9	1.9	4.4	4.4	4.4
Minorities	0.0	0.0	0.0	0.0	0.0
Total Shareholder funds	**4.7**	**16.8**	**37.0**	**27.9**	**27.8**

Share price (17 March 2020)					A$	0.10
Interim (A$m)	**H119A**	**H219A**	**H120F**	**H220F**	**H121F**	**H221F**
Revenue	1.2	1.8	2.3	5.8	10.4	15.5
EBITDA reported	(3.4)	(3.8)	(12.6)	(7.7)	(4.5)	(0.7)
EBITDA underlying	(3.0)	(2.8)	(7.6)	(7.7)	(4.5)	(0.7)
EBIT underlying	(3.0)	(2.8)	(7.7)	(8.5)	(5.6)	(2.1)
NPAT (normalised)	(3.1)	(2.9)	(7.9)	(8.6)	(6.0)	(3.0)
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
NPAT (reported)	(3.5)	(4.0)	(12.9)	(8.6)	(6.0)	(3.0)
EPS (normalised)	(0.57)	(0.47)	(0.96)	(0.88)	(0.58)	(0.29)
EPS (reported)	(0.64)	(0.64)	(1.56)	(0.84)	(0.58)	(0.29)
Dividend (cps)	0.0	0.0	0.0	0.0	0.0	0.0
Imputation	30.0	30.0	30.0	30.0	30.0	30.0
Operating cash flow	(3.1)	(6.2)	(1.8)	(6.6)	(4.0)	(2.0)
Free Cash flow	(3.1)	(6.2)	(1.8)	(6.6)	(4.0)	(2.0)
Divisions	**H119A**	**H219A**	**H120F**	**H220F**	**H121F**	**H221F**
Rev - Establishment fees	0.6	0.8	0.5	0.8	0.9	1.0
Rev - Margin	0.4	0.7	1.2	4.5	8.9	13.9
Rev - Referral Fees	0.1	0.4	0.2	0.3	0.3	0.3
Rev - Other revenue	0.0	(0.1)	0.2	0.3	0.3	0.3
Costs - Salaries	(2.1)	(2.9)	(4.3)	(4.4)	(4.5)	(4.7)
Costs - Marketing	(0.4)	(1.1)	(1.7)	(1.7)	(1.8)	(1.8)
Costs - Prov for bad debts	(0.3)	0.0	(1.1)	(2.4)	(3.2)	(4.0)
Costs - Other costs in loan margin	(1.4)	(2.0)	(2.9)	(5.0)	(5.4)	(5.8)
EBITDA	(3.0)	(4.1)	(7.7)	(7.7)	(4.5)	(0.7)
Margins, Leverage, Returns		**FY18A**	**FY19A**	**FY20F**	**FY21F**	**FY22F**
EBITDA		(386.1%)	(236.3%)	(254.5%)	(20.0%)	15.0%
EBIT		(316.1%)	(191.4%)	(202.6%)	(29.7%)	6.9%
NPAT pre significant items		(318.7%)	(196.3%)	(207.1%)	(34.5%)	(0.3%)
Net Debt (Cash)		1.2	10.2	- 29.7	- 139.4	- 238.8
Net debt/EBITDA (x)	(x)	n/a	n/a	n/a	n/a	n/a
ND/ND+Equity (%)	(%)	(33.8%)	(155.9%)	44.5%	83.3%	89.6%
EBIT interest cover (x)	(x)	n/a	n/a	n/a	n/a	104.8%
ROA		(57.4%)	(42.7%)	(24.0%)	(4.6%)	1.1%
ROE		(89.6%)	(69.1%)	(80.0%)	(27.5%)	(0.5%)
ROIC		(64.9%)	(332.2%)	(47.6%)	(6.8%)	1.5%
NTA (per share)		0.01	0.03	0.04	0.03	0.03
Working capital		0.6	3.9	65.3	166.0	265.3
WC/Sales (%)		**37%**	**128%**	**818%**	**641%**	**616%**
Revenue growth		4%	91%	162%	225%	66%
EBIT growth pa		n/a	n/a	n/a	n/a	(138.7%)
Pricing		**FY18A**	**FY19A**	**FY20F**	**FY21F**	**FY22F**
No of shares (y/e)	(m)	455	579	1,024	1,024	1,024
Weighted Av Dil Shares	(m)	452	579	979	1,024	1,024
EPS Reported	cps	(1.39)	(1.28)	(2.44)	(0.87)	(0.01)
EPS Normalised/Diluted	cps	(1.14)	(1.03)	(1.84)	(0.87)	(0.01)
EPS growth (norm/dil)		n/a	n/a	n/a	n/a	n/a
DPS	cps	-	-	-	-	-
DPS Growth		n/a	n/a	n/a	n/a	n/a
Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%
Dividend imputation		30	30	30	30	30
PE (x)		-	-	-	-	-
PE market			13.2	13.2	13.2	13.2
Premium/(discount)					-100%	-100%
EV/EBITDA		(7.0)	(5.9)	(3.1)	(14.0)	0.0
FCF/Share	cps	(0.5)	(1.6)	(0.8)	(0.6)	0.3
Price/FCF share		(21.1)	(6.3)	(12.2)	(17.0)	38.8
Free Cash flow Yield		(4.7%)	(15.9%)	(8.2%)	(5.9%)	2.6%
* Excludes one off and non cash items such as share based payments						

Source: RaaS Advisory

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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Corporate Authorised Representative, number 1248415

of

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If you have a complaint about our service you should contact your representative and tell them about your complaint. The representative will follow BR's internal dispute resolution policy, which includes sending you a copy of the policy when required to. If you aren't satisfied with an outcome, you may contact AFCA, see below. BR is a member of the Australian Financial Complaints Authority (AFCA). AFCA provide fair and independent financial services complaint resolution that is free to consumers.
Website: www.afca.org.au; Email: info@afca.org.au; Telephone: 1800931678 (free call)
In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

Professional Indemnity Insurance

BR has in place Professional Indemnity Insurance which satisfies the requirements for compensation under s912B of the Corporations Act and that covers our authorized representatives.

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