Research as a Service

Wisr Ltd

FY19 Results Commentary

FY19 result ahead of forecast, DCF lifts to $0.40/share

Online lending

4th September 2019

Wisr Limited (ASX:WZR) is an online consumer lending platform focused on financial wellness and competing in the rapidly growing marketplace lending sector. Wisr has reported FY19 operating revenues of $3.0m, an increase of 91% on FY18 and ahead of our forecast for $2.9m. Correspondingly, the normalised operating loss of $5.76m was lower than our expectation for an EBITDA loss of $7.03m. The company reiterated that it had written total loans of $68.9m for FY19, up 281% on FY18 and in line with our forecasts which we adjusted in May. Wisr's cumulative loan book at June 30 was $108.8m, which surpasses the $100m tipping point for loan book acceleration experienced by its Australian peers. We have made no changes to our forecasts for FY20 and FY21. Our base case DCF valuation (WACC 14.0%, terminal value 2.0%) has increased to $0.40/share after rolling over the model for the new financial year. The terminal value in year 10 is $0.23/share. The same discount rate derives an upside case valuation of $2.02/share.

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 has passed $108.8m in loan originations after writing $69m in new loans in FY19, an increase of 281% on FY18. In our view, Wisr is demonstrating similar growth patterns to its unlisted peers, SocietyOne and Ratesetter, albeit at an earlier stage in its development. Wisr has also used its technology platform to launch a range of non-lending initiatives, including Wisr Credit, a comparison site for credit scores, which are driving down the cost of acquisition for the neo-lender. Wisr Credit had 32,000 users at June 30, having launched in October 2018.

Outlook

WZR has highlighted that its key priorities for FY20 include the launch of a Wisr Secured Vehicle Finance product to increase its addressable market, diversification of its debt funding models through new structures and facilities, and expanding its strategic partnerships. The company partnered with Smartgroup, HCF and an industry super fund in FY19. The company's capital-light funding model is evolving to a hybrid model as it finalises advanced discussions with new funding partners.

Base case valuation is $0.40/share fully diluted

We have rolled our model forward a year and adjusted the risk free rate (based on the 10-year Australian government bond rate) for the recent decline to 0.9%. This has resulted in our base case DCF valuation rising to $0.40/share (previously $0.29/share), based on a WACC of 14% and a terminal value in Year 10 of $0.23/share. We have included the dilutionary effect of 52.9m performance shares in our DCF valuation. We continue to expect the company's cumulative loan book will surpass $1bn by June 2022 with our forecasts predicated on the company following a similar growth trajectory to its Australian and international peers. Our base case implies that at 30 June 2029, WZR will have an 8.5% share of the ~$110bn consumer credit market in Australia.

Historical earnings and RaaS Advisory estimates

Year end	Revenue(A$m)	EBITDA* (A$m)	NPAT* (A$m)	EPS* (c)	EV/Rev (x)	P/E (x)
Jun-18a	1.6	(5.0)	(5.1)	(1.14)	35.0	n/a
Jun-19a	3.0	(5.8)	(6.0)	(1.03)	16.5	n/a
Jun-20e	9.3	(1.9)	(2.7)	(0.34)	11.0	n/a
Jun-21e	18.8	5.9	3.1	0.39	6.4	32.3

Source: Company Data, RaaS Advisory Estimates *Adj for non-cash and one-off items

Share details

ASX Code	WZR
Share price at 1 August (intraday)	$0.125
Market Capitalisation	$102.24M
Shares on issue	817.9M
Enterprise value	$90.24M
Net cash at 30 June	$12.0M
Free float	~63%

Share performance (12 months)

Upside Case

- Board and management team experienced in building financial services businesses
- Well capitalised following $15m raising and strong existing and potential tier 1 backers 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 existing shareholders

Board of Directors

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

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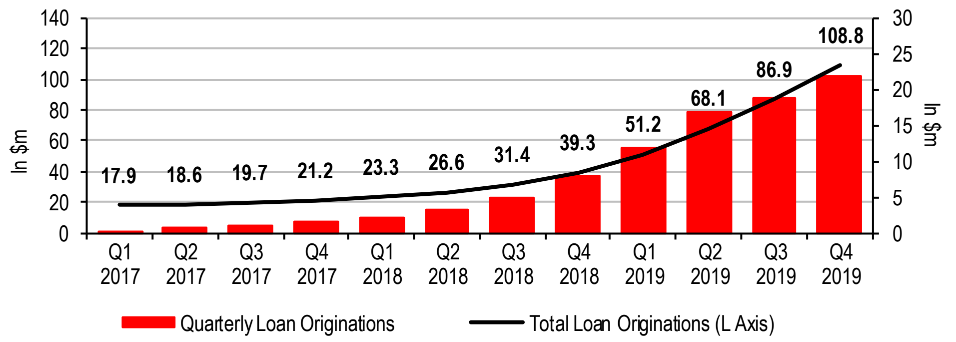
FY19 highlights

Wisr ended FY19 with a cumulative loan book of $108.8m, having added almost $69m new loans through the course of the year. As we highlighted in our report Cumulative loan book surpasses $100m after 281% y-o-y growth of 1 August 2019, Wisr rapidly grew its loan book through the course of FY19 with new record growth each quarter. Cumulative loan originations at the end of FY19 were in line with our forecasts which we upgraded on May 3 in our report entitled Growth trajectory earns a valuation upgrade following an acceleration of loan originations in Q3 FY19. Exhibit 1 below sets out Wisr's growth in total and quarterly loan originations since the beginning of FY17.

Exhibit 1: Wisr growth in total and quarterly loan originations since Q1 FY17



Source: Wisr FY19 announcement

As we highlighted in our last report, the push through $100m is significant for Wisr as we have seen this as a tipping point for competitors' loan book acceleration.

Wisr announced FY19 revenue of $3.04m and a normalised EBITDA loss of $5.76m, both better than we had forecast. The company reported additional income of $0.68m which included the R&D tax incentive ($0.29m) and a $0.43m write of a previously accrued funder fee expense which it no longer payable. Employee costs increased 32% to $5.025m as the headcount rose to 52 from 33, in line with our expectations while customer processing costs increased four-fold to $1.17m, reflecting the growth in the loan book. Marketing costs fell 4% to $1.4m, as the company was able to leverage the traffic to its Wisr Credit and Wisr App products. More than 60,000 users were attracted into the Wisr eco-system in FY19. The FY19 normalised net loss of $5.97m, an increase of 17.8% on pcp, was in line with the expectations set by the company for its investment into its highly differentiated business strategy. This was a result that reflected the company's investment in both human capital and its financial wellness eco-system. We set out the key points from the FY19 result in the exhibit below.

Exhibit 2: FY19 actual versus FY18 actual and RaaS forecast

	FY18	FY19	% chge	RaaS fct	% chg
Revenue	1.59	3.04	91.3%	2.90	5%
EBITDA reported	(6.14)	(7.19)	17.0%	(7.03)	2%
EBITDA underlying*	(5.00)	(5.76)	15.0%	n.a	n.a
EBIT underlying*	(5.03)	(5.82)	15.8%	(7.23)	-19%
NPAT normalised*	(5.07)	(5.97)	17.8%	n.a	n.a
NPAT reported	(6.21)	(7.41)	19.3%	(7.32)	1%
EPS normalised*	(1.14)	(1.03)	-9.6%	(1.29)	-20%

Source: Company data, RaaS estimates *Adjusted for one off and non-cash items including share base payments

DCF Valuation

Our base case DCF valuation is $0.40/share (previously $0.29/share). We have rolled the model for the year end, adjusted the risk-free rate to 1.0% (previously 3%) to reflect the decline in the 10-year Australian government bond rate. Our DCF is derived from a WACC of 14.0% (beta of 2.0) and terminal growth rate of 2.0%. The terminal value represents $0.23/share in our valuation. We anticipate that Wisr will be able to fund its new initiatives and achieve break even in H1FY21 without further recourse to the equity markets. Note that we have included the dilutionary impact of 52.9m in performance rights that will vest with management and employees.

Exhibit 3: Base case DCF valuation

Parameters	
Discount Rate / WACC	14.0%
Terminal growth rate assumption (inflation adjusted)	2.00%
In A$m	
Present value of cashflows	142
Present value of terminal value	191
PV of enterprise	333
Add net cash at June 30	12
Net value ($m)	345
Net value per share	$0.40

Source: RaaS estimates

Valuation sensitive to discount rate

The valuation is highly sensitive to the discount rate. We have set out on the following exhibit the impact of discount rate on our base case valuation and an upside case valuation which assumes Wisr secures a 24% share of the personal loan market by June 2028.

Exhibit 4: Sensitivity on DCF valuation

Discount rate	Base Case	An Upside Case
9%	$0.82	$4.24
10%	$0.69	$3.55
11%	$0.59	$3.03
12%	$0.51	$2.62
13%	$0.45	$2.29
14%	$0.40	$2.02
15%	$0.35	$1.80
16%	$0.32	$1.61

Source: RaaS estimates

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Exhibit 5: Financial Summary

Wisr Limited (WZR)					
Profit and Loss (A$m)					
Y/E 30 June	**FY17A**	**FY18A**	**FY19A**	**FY20F**	**FY21F**
Revenue	1.2	1.6	3.0	9.3	18.8
Other income	0.4	0.2	0.7	0.0	0.0
EBITDA reported	(5.3)	(6.1)	(7.2)	(1.9)	5.9
EBITDA underlying*	(4.3)	(5.0)	(5.8)	(1.9)	5.9
Depn	(0.0)	(0.0)	(0.1)	(0.0)	(0.0)
Amort	0.0	0.0	0.0	(0.7)	(1.3)
EBIT underlying	(4.3)	(5.0)	(5.8)	(2.6)	4.6
Interest	(0.1)	(0.0)	(0.1)	(0.0)	(0.2)
Tax	0.0	0.0	0.0	0.0	(1.3)
Minorities	0.0	0.0	0.0	0.0	0.0
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0
NPAT pre one off/non cash ite	**(4.4)**	**(5.1)**	**(6.0)**	**(2.7)**	**3.1**
One off and non cash items	(1.1)	(1.1)	(1.4)	0.0	0.0
NPAT (reported)	**(5.4)**	**(6.2)**	**(7.4)**	**(2.7)**	**3.1**
Cash flow (A$m)					
Y/E 30 June	**FY17A**	**FY18A**	**FY19A**	**FY20F**	**FY21F**
EBITDA	(5.3)	(6.1)	(7.2)	(1.9)	5.9
Interest	(0.0)	(0.0)	(0.1)	(0.0)	(0.2)
Tax	0.0	0.0	0.0	0.0	(1.3)
Working capital changes	2.6	4.0	(1.9)	0.3	(0.7)
Operating cash flow	(2.7)	(2.2)	(9.2)	(1.6)	3.7
Mtce capex	(0.1)	0.0	0.0	0.0	0.0
Free cash flow	(2.8)	(2.2)	(9.2)	(1.6)	3.7
Growth capex	0.0	0.0	0.0	0.0	0.0
Acquisitions/Disposals	0.0	(0.0)	(0.6)	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Cash flow pre financing	(2.8)	(2.2)	(9.8)	(1.6)	3.7
Equity	5.4	0.6	19.7	0.0	0.0
Debt	(0.4)	(0.3)	1.7	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Net cash flow for year	2.2	(1.9)	11.6	(1.6)	3.7
Balance sheet (A$m)					
Y/E 30 June	**FY17A**	**FY18A**	**FY19A**	**FY20F**	**FY21F**
Cash	3.5	1.5	12.0	10.4	14.1
Accounts receivable	0.1	0.3	0.6	1.0	1.9
Loan receivables	1.7	0.9	4.6	22.1	37.2
Other current assets	0.3	0.6	0.6	0.6	0.6
Total current assets	5.6	3.3	17.8	34.0	53.8
PPE	0.1	0.0	0.0	0.0	0.0
Intangibles	0.0	0.0	0.6	0.6	0.6
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	4.7	2.7	1.7	5.9	13.9
Total non current assets	5.3	3.3	2.8	7.0	15.0
Total Assets	10.8	6.6	20.6	41.0	68.8
Accounts payable	0.8	1.3	1.4	2.1	2.4
Debt	0.7	0.4	2.0	2.0	2.0
Loan funding	0.0	0.0	0.0	18.2	34.6
Tax payable	0.0	0.0	0.0	0.0	0.0
Other current liabilities	0.2	0.2	0.4	0.4	0.4
Total current liabilities	1.6	2.0	3.8	22.7	39.4
Long term debt	0.0	0.0	0.0	4.2	12.3
Other non current liabs	0.0	0.0	0.0	0.0	0.0
Total long term liabilities	0.0	0.0	0.0	4.2	12.3
Total Liabilities	1.6	2.0	3.8	26.9	51.7
Net Assets	**9.2**	**4.7**	**16.8**	**14.1**	**17.1**
Share capital	28.6	29.3	48.4	48.4	48.4
Accumulated profits/losses	(20.8)	(26.6)	(33.5)	(36.2)	(33.2)
Reserves	1.4	1.9	1.9	1.9	1.9
Minorities	0.0	0.0	0.0	0.0	0.0
Total Shareholder funds	**9.2**	**4.7**	**16.8**	**14.1**	**17.1**

Share price (3 September 2019)					A$	0.125
Interim (A$m)	**H119A**	**H219A**	**H120F**	**H220F**	**H121F**	**H221F**
Revenue	1.2	1.8	3.7	5.6	8.2	10.5
EBITDA reported	(3.4)	(3.8)	(1.7)	(0.2)	2.0	3.9
EBITDA underlying	(3.1)	(2.7)	(1.7)	(0.2)	2.0	3.9
EBIT underlying	(3.1)	(2.7)	(2.0)	(0.6)	1.4	3.2
NPAT (normalised)	(3.2)	(2.8)	(2.0)	(0.7)	0.9	2.1
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
NPAT (reported)	(3.5)	(4.0)	(2.0)	(0.7)	0.9	2.1
EPS (normalised)	(0.59)	(0.44)	(0.25)	(0.09)	0.12	0.27
EPS (reported)	(0.64)	(0.64)	(0.25)	(0.09)	0.12	0.27
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)	(0.7)	(0.9)	1.2	2.5
Free Cash flow	(3.1)	(6.2)	(0.7)	(0.9)	1.2	2.5
Divisions	**H119A**	**H219A**	**H120F**	**H220F**	**H121F**	**H221F**
Rev - Establishment fees	0.7	0.7	1.7	2.6	3.9	4.8
Rev - Margin	0.4	0.7	1.0	1.6	2.5	3.6
Rev - Referral Fees	0.1	0.4	0.7	1.1	1.6	1.8
Rev - Other revenue	0.0	0.0	0.3	0.3	0.3	0.3
Costs - Salaries	(2.2)	(2.8)	(2.9)	(2.9)	(2.9)	(3.0)
Costs - Marketing	(0.4)	(1.0)	(0.4)	(0.4)	(0.4)	(0.4)
Costs - Prov for bad debts	(0.3)	0.1	(0.2)	(0.3)	(0.5)	(0.6)
Costs - Other costs	(1.3)	(2.1)	(2.0)	(2.2)	(2.4)	(2.6)
EBITDA	(3.0)	(3.8)	(1.5)	0.1	2.3	4.3

Margins, Leverage, Returns		FY17A	FY18A	FY19A	FY20F	FY21F
EBITDA		(460.9%)	(386.1%)	(236.3%)	(20.6%)	31.3%
EBIT		(370.5%)	(316.1%)	(191.4%)	(28.3%)	24.4%
NPAT pre significant items		(376.8%)	(318.7%)	(196.3%)	(28.5%)	16.3%
Net Debt (Cash)		2.8	1.2	10.0	4.1	- 0.2
Net debt/EBITDA (x)	(x)	n/a	n/a	n/a	n/a	- 0.042
ND/ND+Equity (%)	(%)	(43.9%)	(33.8%)	(147.4%)	(41.7%)	1.4%
EBIT interest cover (x)	(x)	n/a	n/a	n/a	n/a	4.7%
ROA		(39.7%)	(57.6%)	(42.8%)	(8.6%)	8.3%
ROE		(59.0%)	(89.6%)	(69.1%)	(17.2%)	19.6%
ROIC		(134.4%)	(348.0%)	(312.1%)	(45.9%)	79.3%
NTA (per share)		0.02	0.01	0.03	0.02	0.02
Working capital		1.0	- 0.1	3.8	21.0	36.7
WC/Sales (%)		**87%**	**-9%**	**126%**	**225%**	**196%**
Revenue growth			37%	91%	207%	101%
EBIT growth pa	n/a	n/a	n/a	n/a		-273%
Pricing		**FY17A**	**FY18A**	**FY19A**	**FY20F**	**FY21F**
No of shares (y/e)	(m)	437	455	579	790	790
Weighted Av Dil Shares	(m)	396	452	579	790	790
EPS Reported	cps	(1.40)	(1.39)	(1.28)	(0.34)	0.38
EPS Normalised/Diluted	cps	(1.40)	(1.14)	(1.03)	(0.34)	0.39
EPS growth (norm/dil)		n/a	n/a	n/a	n/a	-215%
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)		-	-	-	-	33.0
PE market				15.2	15.2	15.2
Premium/(discount)						117%
EV/EBITDA		(9.7)	(9.1)	(7.0)	(53.1)	20.3
FCF/Share	cps	(0.6)	(0.5)	(1.6)	(0.2)	0.5
Price/FCF share		(20.5)	(26.4)	(7.8)	(61.1)	26.8
Free Cash flow Yield		(4.9%)	(3.8%)	(12.8%)	(1.6%)	3.7%

* Excludes one off and non cash items such as share based payments

Source: RaaS Advisory

FINANCIAL SERVICES GUIDE

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