RaaS
Research as a Service

Wisr Ltd

Valuation upgrade

NAB loan deal triples margin, DCF rises to $0.55/share

Fintech

20 November 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 Q1 FY20 loans of $23.2m, a 95% quarter on quarter increase, bringing cumulative loans to $132m. Wisr is poised for a step-change to its business model following the announcement last month that National Australia Bank (ASX:NAB) has agreed to provide Wisr with an initial $50m warehouse facility with potential to go to $200m. This is tier one bank validation for Wisr with the company estimating that the facility would deliver an approximate tripling of current average loan unit economics. We have incorporated a higher loan margin from the NAB facility which has had the effect of lifting our base case DCF valuation to $0.55/share from $0.40/share previously (WACC 14.0%, terminal value 2.0% unchanged). The terminal value in year 10 is $0.34/share. The same discount rate derives an upside case valuation of $2.25/share while our downside case valuation is $0.11/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 $132m in loan originations after writing $23.2m in new loans in Q1 FY20, an increase of 95% on Q1 FY19. Wisr has also 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 has had 35,000 downloads with app users collectively paying down $250,000 in debt since its launch in Q3FY19. Wisr Credit, launched in October 2018, had 48,000 users at September 30, up 50% on Q4FY19.

Q1 FY20 result and NAB finance facility

WZR has previously 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 has ticked the box on all three priorities in Q1 FY20, having soft-launched its Secured Vehicle Finance product during the quarter and seeing revenue contribution by quarter end; announcing its tier one debt facility with NAB which Wisr expects will triple current average loan unit economics; and successfully integrating the partnership with Smartgroup (ASX:SIQ) which also contributed to Q1 FY20 revenues. The company reported net cash outflow of $1.9m in Q1 FY20 with cash at the end of the quarter at $10m. WZR anticipates cash burn in Q2FY20 to be $2.98m. The NAB financing arrangement went live on November 15.

Base case valuation is $0.55/share fully diluted

We have incorporated the impact of the NAB funding deal into our forecasts resulting in our base case DCF valuation rising to $0.55/share (previously $0.40/share), based on a WACC of 14% and a terminal value in Year 10 of $0.34/share. We have included the dilutionary effect of 52.9m performance shares in our DCF valuation. In our view the NAB deal lends significant gravitas to Wisr's business strategy which in turn should earn a re-rating with earnings delivery.

Historical earnings and RaaS Advisory estimates

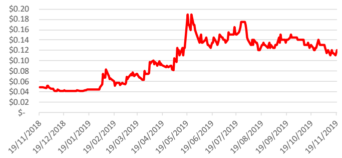
Year end	Revenue (A$m)	EBITDA reported	NPAT reported (A$m)	EPS* (c)	EV/Sales (x)	P/E (x)
06/19e	3.0	(5.8)	(6.0)	(1.03)	15.6	n/a
06/20e	6.5	(5.1)	(6.2)	(0.75)	15.7	n/a
06/21e	14.6	0.0	(1.8)	(0.22)	8.2	n/a
06/22e	25.5	8.2	2.6	0.32	5.1	37.5

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

Share details

ASX Code	WZR
Share price	$0.12
Market Capitalisation	$94.8M
Shares on issue	826.5M
Enterprise value	$84.8M
Net cash at 30 Sept	$10.0M
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 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

Company contacts

Anthony Nantes +61 401 995 037
CEO a.nantes@wisr.com.au

www.wisr.com

RaaS Advisory contacts

Finola Burke +61 414 354 712
finola.burke@raasgroup.com

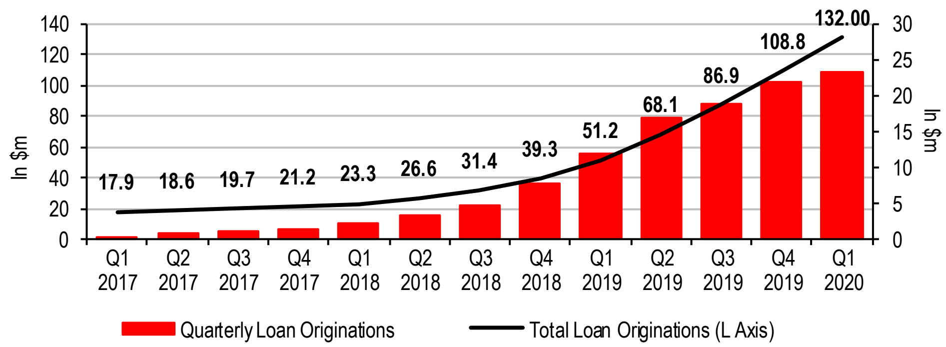
The deal the market has been waiting for

Wisr has delivered on the previously flagged plan to secure the backing of a tier 1 lender. NAB and Wisr have executed an agreement for an initial $50m warehouse facility with NAB as senior funder with the potential to increase the program size up to $200m.The new facility, which went live on November 15, meets the company's objectives to increase debt capacity to fund rapid growth, to improve loan unit economics and to diversify its funding partners, and therefore risk profile. This is a significant step forward for the company and one which has changed Wisr's footing in the personal lending market. The company estimates that loan unit economics will triple as a result of the facility. Wisr has also announced that it will not be taking up the previously announced (May 2018) and negotiated Bendigo and Adelaide Bank (ASX:BEN) funding arrangement.

Q1 FY20 highlights

Wisr ended Q1 FY20 with a cumulative loan book of $132m, having added $23.2m in new loans through the quarter. This was by far the biggest loan book increase recorded by the company and demonstrates the momentum that the company continues to experience. As we highlighted in our May 3 report Growth trajectory earns a valuation upgrade, we anticipate that Wisr will demonstrate a similar growth trajectory to its larger unlisted peers, SocietyOne and Ratesetter, with ongoing acceleration of loan originations underpinned by the new NAB facility. 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 Q1 FY20 announcement

As we highlighted in our August 1 report, Cumulative loan book surpasses $100m after 281% y-o-y growth, the push through $100m is significant for Wisr as we have seen this as a tipping point for competitors' loan book acceleration.

We see the company's strategy to enhance consumer financial wellness as a key driver of its loan book growth. The Wisr App, launched in Q3 FY19, has already been downloaded 35,000 times. The app connects to users' everyday transaction accounts and rounds up purchases to the nearest dollar, using these funds to pay off a nominated debt. Since launch, app users have collectively paid down almost $250,000 worth of debt. Wisr Credit, which was launched in October 2018, now has 48,000 users, having increased from 36,000 or 50% at June 30. This growth is expected to continue following a major platform upgrade in September for the credit score comparison service. We see this initiative as an important driver of pre-qualified new loan customers for Wisr.

Earnings adjustments

We have incorporated the new margin delivered by the NAB finance facility in our forecasts but have also adjusted for a change in the treatment of establishment fees which we now expect to see amortized across the life of the loans. We have also assumed that given the greater surety that the NAB facility brings to Wisr's business, that the company invests in more human capital and marketing. This has resulted in some near-term earnings adjustments. Our forecast changes are set out in the following exhibit.

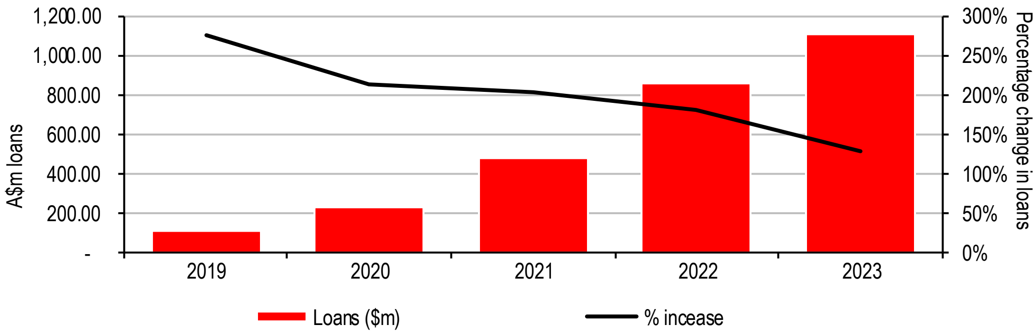
Exhibit 2: Earnings forecast changes

	FY20 old	FY20 new	FY21 old	FY21 new	FY22 old	FY22 new
Revenue	9.3	6.5	18.8	14.6	28.4	25.5
EBITDA	(1.9)	(5.1)	5.9	0.0	13.2	8.2
EBIT	(2.6)	(6.1)	4.6	(2.4)	11.3	4.2
NPAT	(2.7)	(6.2)	3.1	(1.8)	7.5	2.6
EPS	(0.34)	(0.75)	0.39	(0.22)	0.9	0.3

Source: RaaS estimates

We anticipate strong growth in new loans for Wisr on the back of the loan facility with the cumulative loan book forecasted to surpass the $1bn mark in the first quarter of FY23. Our forecasts for growth and the cumulative book are set out in exhibit 3 below.

Exhibit 3: Forecasted growth in cumulative loan book to FY23



Source: Company data, RaaS estimates

DCF Valuation upgraded to $0.55/share

Our base case DCF valuation is $0.55/share (previously $0.40/share). 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 $0.34/share in our valuation. We anticipate that Wisr will be able to fund its new initiatives and achieve break even in H2FY21 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. Our downside case ($0.11/share) is predicated on Wisr surpassing $1bn in cumulative loans by June 2023 while our upside case ($2.25/share) anticipates this milestone by June 2021, one year either side of our base case.

Exhibit 4: Base case DCF valuation

Parameters	
Discount Rate / WACC	14.0%
Terminal growth rate assumption (inflation adjusted)	2.00%
In A$m	
Present value of cashflows	185
Present value of terminal value	302
PV of enterprise	487
Add net cash at June 30	10
Net value ($m)	497
Net value per share	$0.55

Source: RaaS estimates

RAAS
Research as a Service

Exhibit 5: Financial Summary

Wisr Limited (WZR)					
Profit and Loss (A$m)					
Y/E 30 June	**FY18A**	**FY19A**	**FY20F**	**FY21F**	**FY22F**
Cumulative Loan Book at Y/E	**39**	**109**	**240**	**506**	**899**
Revenue	1.6	3.0	6.5	14.6	25.5
Other income	0.2	0.7	0.0	0.0	0.0
EBITDA reported	(6.1)	(7.2)	(5.1)	0.0	8.2
EBITDA underlying*	(5.0)	(5.8)	(5.1)	0.0	8.2
Depn	(0.0)	(0.1)	(0.0)	(0.0)	(0.0)
Amort	0.0	0.0	(1.0)	(2.4)	(4.0)
EBIT underlying	(5.0)	(5.8)	(6.1)	(2.4)	4.2
Interest	(0.0)	(0.1)	(0.0)	(0.2)	(0.5)
Tax	0.0	0.0	0.0	0.8	(1.1)
Minorities	0.0	0.0	0.0	0.0	0.0
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0
NPAT pre one off/non cash iter	**(5.1)**	**(6.0)**	**(6.2)**	**(1.8)**	**2.6**
One off and non cash items	(1.1)	(1.4)	0.0	0.0	0.0
NPAT (reported)	**(6.2)**	**(7.4)**	**(6.2)**	**(1.8)**	**2.6**
Cash flow (A$m)					
Y/E 30 June	**FY18A**	**FY19A**	**FY20F**	**FY21F**	**FY22F**
EBITDA	(6.1)	(7.2)	(5.1)	0.0	8.2
Interest	(0.0)	(0.1)	(0.0)	(0.2)	(0.5)
Tax	0.0	0.0	0.0	0.0	(1.1)
Working capital changes	4.0	(1.9)	0.7	(0.3)	(0.6)
Operating cash flow	(2.2)	(9.2)	(4.5)	(0.5)	6.0
Mtce capex	0.0	0.0	0.0	0.0	0.0
Free cash flow	(2.2)	(9.2)	(4.5)	(0.5)	6.0
Growth capex	0.0	0.0	0.0	0.0	0.0
Acquisitions/Disposals	(0.0)	(0.6)	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Cash flow pre financing	(2.2)	(9.8)	(4.5)	(0.5)	6.0
Equity	0.6	19.7	0.0	0.0	0.0
Debt	(0.3)	1.7	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Net cash flow for year	(1.9)	11.6	(4.5)	(0.5)	6.0
Balance sheet (A$m)					
Y/E 30 June	**FY18A**	**FY19A**	**FY20F**	**FY21F**	**FY22F**
Cash	1.5	12.0	7.5	7.0	13.0
Accounts receivable	0.3	0.6	0.7	1.5	2.6
Loan receivables	0.9	4.6	15.8	25.9	35.2
Other current assets	0.6	0.6	0.6	0.6	0.6
Total current assets	3.3	17.8	24.6	35.0	51.5
PPE	0.0	0.0	0.0	0.0	0.0
Intangibles	0.0	0.6	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	0.8	0.8
Loan receivables	2.7	1.7	5.0	9.4	19.3
Total non current assets	3.3	2.8	6.1	11.3	21.2
Total Assets	6.6	20.6	30.6	46.3	72.7
Accounts payable	1.3	1.4	2.2	2.7	3.2
Debt	0.4	2.0	2.0	2.0	2.0
Loan funding	0.0	0.0	12.2	24.6	37.9
Tax payable	0.0	0.0	0.0	0.0	0.0
Other current liabilities	0.2	0.4	0.4	0.4	0.4
Total current liabilities	2.0	3.8	16.7	29.7	43.6
Long term debt	0.0	0.0	3.3	7.9	17.7
Other non current liabs	0.0	0.0	0.0	0.0	0.0
Total long term liabilities	0.0	0.0	3.3	7.9	17.7
Total Liabilities	2.0	3.8	20.0	37.6	61.3
Net Assets	**4.7**	**16.8**	**10.6**	**8.7**	**11.4**
Share capital	29.3	48.4	48.4	48.4	48.4
Accumulated profits/losses	(26.6)	(33.5)	(39.7)	(41.6)	(39.0)
Reserves	1.9	1.9	1.9	1.9	1.9
Minorities	0.0	0.0	0.0	0.0	0.0
Total Shareholder funds	**4.7**	**16.8**	**10.6**	**8.7**	**11.4**

Share price (19 November 2019)						A$	0.12
Interim (A$m)	**H119A**		**H219A**	**H120F**	**H220F**	**H121F**	**H221F**
Revenue	1.2		1.8	2.2	4.3	6.2	8.4
EBITDA reported	(3.4)		(3.8)	(3.4)	(1.7)	(0.9)	0.9
EBITDA underlying	(3.1)		(2.7)	(3.4)	(1.7)	(0.9)	0.9
EBIT underlying	(3.1)		(2.7)	(3.8)	(2.3)	(1.8)	(0.5)
NPAT (normalised)	(3.2)		(2.8)	(3.8)	(2.4)	(1.3)	(0.5)
Minorities	0.0		0.0	0.0	0.0	0.0	0.0
NPAT (reported)	(3.5)		(4.0)	(3.8)	(2.4)	(1.3)	(0.5)
EPS (normalised)	(0.59)		(0.44)	(0.46)	(0.29)	(0.16)	(0.06)
EPS (reported)	(0.64)		(0.64)	(0.46)	(0.29)	(0.16)	(0.06)
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)	(2.3)	(2.2)	(1.1)	0.6
Free Cash flow	(3.1)		(6.2)	(2.3)	(2.2)	(1.1)	0.6
Divisions	**H119A**		**H219A**	**H120F**	**H220F**	**H121F**	**H221F**
Rev - Establishment fees	0.6		0.8	0.5	0.8	1.2	1.5
Rev - Margin	0.4		0.7	1.3	3.1	4.6	6.4
Rev - Referral Fees	0.1		0.4	0.1	0.1	0.2	0.2
Rev - Other revenue	0.0		(0.1)	0.3	0.3	0.3	0.3
Costs - Salaries	(2.2)		(2.8)	(2.9)	(2.9)	(3.7)	(3.8)
Costs - Marketing	(0.4)		(1.0)	(0.4)	(0.5)	(0.5)	(0.5)
Costs - Prov for bad debts	(0.3)		0.1	(0.2)	(0.3)	(0.4)	(0.6)
Costs - Other costs	(1.3)		(2.1)	(2.2)	(2.3)	(2.5)	(2.6)
EBITDA	(3.0)		(3.8)	(3.0)	(1.2)	(0.3)	1.4
Margins, Leverage, Returns			FY18A	FY19A	FY20F	FY21F	FY22F
EBITDA			(386.1%)	(236.3%)	(79.7%)	0.0%	32.1%
EBIT			(316.1%)	(191.4%)	(95.0%)	(16.4%)	16.6%
NPAT pre significant items			(318.7%)	(196.3%)	(95.4%)	(12.4%)	10.4%
Net Debt (Cash)			1.2	10.0	2.2	- 2.8	- 6.7
Net debt/EBITDA (x)	(x)		n/a	n/a	n/a	- 594.494	- 0.816
ND/ND+Equity (%)	(%)		(33.8%)	(147.4%)	(26.3%)	24.4%	37.1%
EBIT interest cover (x)	(x)		n/a	n/a	n/a	n/a	10.7%
ROA			(57.6%)	(42.8%)	(24.0%)	(6.2%)	7.1%
ROE			(89.6%)	(69.1%)	(45.0%)	(18.7%)	26.4%
ROIC			(64.9%)	(312.1%)	(123.1%)	(98.7%)	41.5%
NTA (per share)			0.01	0.03	0.01	0.01	0.01
Working capital			- 0.1	3.8	14.3	24.6	34.6
WC/Sales (%)			**-9%**	**126%**	**222%**	**169%**	**136%**
Revenue growth			4%	91%	112%	125%	75%
EBIT growth pa			n/a	n/a	n/a	n/a	(277.8%)
Pricing			**FY18A**	**FY19A**	**FY20F**	**FY21F**	**FY22F**
No of shares (y/e)	(m)		455	579	827	827	827
Weighted Av Dil Shares	(m)		452	579	827	827	827
EPS Reported	cps		(1.39)	(1.28)	(0.75)	(0.22)	0.32
EPS Normalised/Diluted	cps		(1.14)	(1.03)	(0.75)	(0.22)	0.32
EPS growth (norm/dil)			n/a	n/a	n/a	n/a	(246.7%)
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)			-	-	-	-	37.5
PE market				16.6	16.6	16.6	16.6
Premium/(discount)						-100%	126%
EV/EBITDA			(8.7)	(6.6)	(19.8)	25,288.7	0.0
FCF/Share	cps		(0.5)	(1.6)	(0.5)	(0.1)	0.7
Price/FCF share			(25.4)	(7.5)	(22.1)	(210.5)	16.5
Free Cash flow Yield			(3.9%)	(13.3%)	(4.5%)	(0.5%)	6.0%

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

Source: RaaS Advisory

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

ABN 99 614 783 363

Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

Effective Date: 26th November 2018

About Us

BR Securities Australia Pty Ltd (BR) is the holder of Australian Financial Services License ("AFSL") number 456663. RaaS Advisory Pty Ltd (RaaS) is an Authorised Representative (number 1248415) of BR.
This Financial Service Guide (FSG) is designed to assist you in deciding whether to use RaaS's services and includes such things as

- who we are
- our services
- how we transact with you
- how we are paid, and
- complaint processes

Contact Details, BR and RaaS
BR Head Office: Level 14, 344 Queen Street, Brisbane, QLD, 4000
RaaS. 20 Halls Road Arcadia, NSW 2159
P: +61 414 354712
E: finola.burke@raasgroup.com

RaaS is the entity providing the authorised AFSL services to you as a retail or wholesale client.

What Financial Services are we authorised to provide? RaaS is authorised to

- provide general advice to retail and wholesale clients in relation to
  - Securities
- deal on behalf of retail and wholesale clients in relation to
  - Securities

The distribution of this FSG by RaaS is authorized by BR.

Our general advice service

Please note that any advice given by RaaS is general advice, as the information or advice given will not take into account your particular objectives, financial situation or needs. You should, before acting on the advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Prospectus, Product Disclosure Statement or like instrument. As we only provide general advice we will not be providing a Statement of Advice. We will provide you with recommendations on securities

Our dealing service

RaaS can arrange for you to invest in securities issued under a prospectus by firstly sending you the offer document and then assisting you fill out the application from if needed.

How are we paid?

RaaS earns fees for producing research reports. Sometimes these fees are from companies for producing research reports and/or a financial model. When the fee is derived from a company, this is clearly highlighted on the front page of the report and in the disclaimers and disclosures section of the report.
We may also receive a fee for our dealing service, from the company issuing the securities.

Associations and Relationships

BR, RaaS, its directors and related parties have no associations or relationships with any product issuers other than when advising retail clients to invest in managed funds when the managers of these funds may also be clients of BR. RaaS's representatives may from time to time deal in or otherwise have a financial interest in financial products recommended to you but any material ownership will be disclosed to you when relevant advice is provided.

Complaints

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.

DISCLAIMERS and DISCLOSURES

This report has been commissioned by Wisr Ltd prepared and issued by RaaS Advisory Pty Ltd. RaaS Advisory has been paid a fee to prepare this report. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however neither Wisr Ltd nor RaaS Advisory guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the principals of RaaS Advisory at the time of publication. This research is issued in Australia by RaaS Advisory and any access to it should be read in conjunction with the Financial Services Guide on the preceding two pages. RaaS Advisory holds Corporate Authorised Representative no 1248415 of AFSL 456663. This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. Past performance is not a guarantee of future performance. To the maximum extent permitted by law, RaaS Advisory, its affiliates, the respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication.