RaaS Research as a Service

Wisr Ltd

Q4 FY19 Results Commentary

Cumulative loans surpass $100m after 281% y-o-y growth

Online lending

1st August 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 announced total loan originations of $68.9m for FY19, up 281% on FY18 and in line with our forecasts which we adjusted in May. Q4 loan originations were $21.9m, up from $18.8m in Q3 and a near two-fold increase on Q4 FY18. 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. The company also reported unaudited FY19 revenue of $2.9m, an increase of 82% on the previous corresponding period and a pre-tax operating loss of $7.3m an increase of 18% on FY18, reflecting the company's investment in its financial wellness ecosystem. The benefit of this investment has been demonstrated by the company's accelerated rollout of financial wellness tools and recent partnership agreements. Our base case DCF valuation (WACC 14.0%, terminal value 2.2%) remains at $0.29/share. The same discount rate derives an upside case valuation of $1.51/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 $86.9m in loan originations after writing $47m in new loans in the nine months to Q319, an increase of 367% on the same period in 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 25,000 users at March 31, having launched in October 2018.

Loan originations up 281% in FY19

WZR has reported $21.9m in new loan originations in Q4 FY19, bringing total YTD loans to $68.9m, versus $18.1m in FY18. Cash burn for Q4 was $4.29m, with total cash burn for FY19 at $9.36m, reflecting the investment the company has made in its new products: Wisr Credit (which now has 35,000 active users of its credit comparison product); Wisr App (which allows consumers to round up their spending to pay down debt and which had 25,000 downloads in its first quarter); Wisr@Work, (which has secured two significant partnerships with OC Tanner and Smartgroup Corporation (ASX:SIQ) to deliver its financial wellness ecosystem to their corporate customers and their employees, and Wisr & Co (a white label service for companies). Marketing costs declined more than 15% to $1.29m, while loan specific marketing spend was flat, showcasing the increasing benefit of Wisr's ecosystem on customer acquisition costs (CAC).

Base case valuation is $0.29/share fully diluted

Our base case DCF valuation for WZR is $0.29/share and is predicated on our expectation that its cumulative loan book will surpass $1bn by June 2022. Our valuation is derived using the discounted cashflow methodology and based on a WACC of 14.0% and terminal value in Year 10 of $0.17/share. Our forecasts are predicated on the company following a similar growth trajectory to its Australian and international peers. Our base case implies that at 30 June 2028, WZR will have 7.5% 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	(6.1)	(6.2)	(1.4)	40.8	n/a
Jun-19a	2.9	(7.0)	(7.3)	(1.3)	35.3	n/a
Jun-21e	9.3	(1.9)	(2.7)	(0.3)	12.9	n/a
Jun-22e	18.8	5.9	3.1	0.39	7.3	37.1

Source: Company Data, RaaS Advisory Estimates

Share details

ASX Code	WZR
Share price at 1 August (intraday)	$0.145
Market Capitalisation	$114.6M
Shares on issue	790.2M
Enterprise value	$102.4M
Net cash at 30 June	$12.1M
Free float	~63%

Share performance (12 months)

Upside Case

- Board and management team experienced in buiilding 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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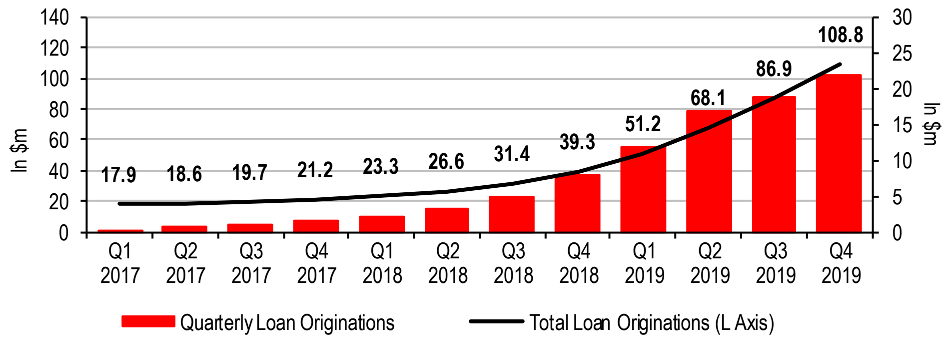
Q4 Loan Originations grow 176% Q-o-Q

Wisr announced with its Q4 FY19 quarterly statement that it had written $21.9m in new loans in Q419, an increase of 176% over Q418 and up 17% on Q319. FY19 loan originations stand at $68.9m, an increase of 281% on FY18. Cumulative loan originations at the end of FY19 were $108.8m, 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. Our upgrade, in our view, has been justified in the Q4 result which demonstrated that loan originations growth was continuing to gather momentum with Q4 originations surpassing the total number of loans ($18.1m) written in FY18. 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 Q3 FY19 announcement

The rapid growth being experienced by Wisr after a year's pause in 2017 to restructure the business is significant, in our view. We highlighted the potential of the company's new strategy in our initiation report of 5 February 2018, Restructured and poised for growth. In this report we examined the growth trajectory experienced by more mature fintechs including Australia's unlisted consumer lenders, SocietyOne and Ratesetter.

$100m is the tipping point for loan book acceleration

SocietyOne, one of Australia's largest non-bank consumer lenders, surpassed $600m in cumulative loans in February 2019 and forecasting it will reach $1bn in cumulative loans by early CY2020. We've set out the growth of its loan book by time in the exhibit below.

Exhibit 2: Timeline of SocietyOne's cumulative loan book – 3.5 years for the first $100m, 8 months for the second $100m

	A$m
Jan-13	1
Jul-13	2
Mar-14	4
Jul-14	10
Jun-15	20
Sep-15	50
Apr-16	100
Sep-16	150
Dec-16	200
Mar-17	250
Jun-17	310
Oct-17	350
Jan-18	400
Jun-18	465
Sep-18	500
Feb-19	600

Source: SocietyOne website and press reports

Significantly, as we highlight in the Exhibit, it took SocietyOne 3.5 years to get to $100m in cumulative loans from August 2012 to April 2016, then just 8 months to add another $100m to its loan book to reach $200m in cumulative loans in January 2018. Thereafter it took 13 months to double the loan book again to $400m in cumulative loans and another 13 months to bring the loan book to the $600m mark. Ratesetter also took three years to build its cumulative loan book to $100m then doubled it again in 12 months. Similarly, another unlisted consumer lender, MoneyMe, took three years to build its cumulative loan book to $100m and 5 years to get to $250m. We anticipate a similar trajectory for Wisr cumulative loan book which has now surpassed the $100m mark. We are forecasting that it will double to $200m by Q3FY20 and reach $1b before June 2022.

Q4 highlights

Wisr reported a cash operating loss of ~$2.8m in Q4 FY19 and an ending cash position of just under $12m, following the successful completion of its oversubscribed $15m capital raise in the quarter. The company reported a 17% q-o-q increase in loan originations (an acceleration on the 11% q-o-q increase reported in Q3) and a 176% increase on FY18. Other key highlights include:

- WisrCredit’s user base is now more than 35,000 (up from 25,000 in Q3)
- Wisr App has more than 25,000 downloads in its first quarter
- Multi year mutually exclusive agreement with Smartgroup (ASX:SIG) to partner on Wisr’s financial wellness ecosystem (this is the second significant partnership for Wisr@Work)
- Industry recognition with the Most Innovative Challenger award from the Australian Banking Innovation Awards and the 2019 Finnies “Excellence in Consumer Lending” award
- Wisr also noted that it had maintained its strong credit controls with 90+ days arrears of 1.55% across the entire loan book at June 30
- The company is in advanced discussions with three new funding partners with strong interest from Tier 1 funders to provide debt capital to Wisr’s loan book.

FY19 unaudited results

Wisr announced unaudited revenue of $2.9m and a pre-tax operating loss of $7.3m. The company will release its audited FY19 results later in August but noted that revenue increased 82% to $2.9m in FY19 and that the FY19 pre-tax operating loss of $7.3m, an increase of 18% on pcp, was in line with investment into its highly differentiated business strategy. The increase in revenue is non-linear with loan growth which increased 281% in FY18 to $68.9m, due to higher interest revenue from loan assets held on balance sheet in FY18 prior to the introduction of wholesale funding in October 2017. Employment costs and investment in the Wisr ecosystem of financial products resulted in the increase in operating loss to $7.3m, versus $6.2m in FY18 and our forecast for $6.3m on a slightly higher revenue base.

Exhibit 3: FY19 unaudited results

Y/E June 30	FY18	FY19	% chg	RaaS Est.
Cumulative Loan originations at year end	39.4	108.8	176%	108.8
Revenue	1.6	2.9	82%	3.3
Pre tax operating loss *	(6.2)	(7.3)	18%	(6.3)

Source: Company data, RaaS Estimates *unadjusted for one-off and non-cash items

Competitive advantage

Wisr’s competitive advantage is its Intelligent Credit Engine (ICE), which interacts with customers through a range of channels (Wisr Credit, Wisr App, broker channels and direct applications), and has at its heart a decision engine which automates the decision-making process for consumer loans. More than 80% of Wisr’s loan approvals are automated in this way.

The company has demonstrated the demand for its Wisr Credit product which has attracted more than 35,000 users from launch in October 2018 to June 30. Wisr Credit is the only site in Australia that allows consumers to compare their credit scores from multiple bureaus. It delivers to Wisr potential customers with an intention to borrow.

We see this as significant due to the overseas experience. Part of the momentum in the shift to non-bank, non-traditional lenders in the UK and US markets was driven by the introduction of independent credit score businesses, Credit Karma in the US and ClearScore in the UK which both derive income from referrals to the non-traditional online lenders. Credit Karma has achieved a valuation of US$4bn after private equity firm Silver Lake invested US$500m in 2018. This equates to US$50 per subscriber. ClearScore has achieved a similar valuation, ~£45 per subscriber, based on the recent, but now withdrawn, takeover offer from Experian.

Wisr also has the potential to deepen its relationship with customers with its recently launched Wisr App, which was launched in March 2019 and garnered more than 25,000 downloads in that first quarter. The app aims to add to consumer financial wellness by providing a rounding up to the nearest dollar opportunity on small purchases such as coffee which can then be applied to credit card debt or mortgage debt. WZR estimates that consumers will on average add $100 a month to their debt repayments this way.

Wisr has also announced it has signed a three-year mutually exclusive agreement with Smartgroup Corporation Ltd (ASX:SIQ) to partner on the distribution of Wisr's ecosystem of financial wellness products. This agreement is the second significant partnership for the Wisr@Work program that the company launched in July 2018 and positions Wisr to deliver its consumer loans and financial wellness products, WisrApp and WisrCredit.com.au to Smartgroup's 4,000 employer clients which in aggregate have more than 1m employees. Wisr has previously announced that it had forged an agreement with with global leader in engaging workplace cultures, OC Tanner, to provide employees with access to Wisr@Work to provide affordable personal loans and financial education and apps to employees. OC Tanner, which is based in the US, creates employee benefit programs for global companies such as AstraZeneca, Dow Chemical and Norton Healthcare. Wisr@Work will be made available to the benefit programs offered to OC Tanner's clients' Australian employees.

DCF Valuation

Our base case DCF valuation is $0.29/share and predicated Wisr continuing to benefit from the initiatives it has rolled out over FY19. Our DCF is derived from a WACC of 14.0% and terminal growth rate of 2.2%. The terminal value represents $0.17/share in our valuation. We anticipate that Wisr will be able to fund its new initiatives and achieve break even at H1FY21 without further recourse to the equity markets.

Exhibit 4: Base case DCF valuation

Parameters	
Discount Rate / WACC	14.0%
Terminal growth rate assumption (inflation adjusted)	2.20%
In A$m	
Present value of cashflows	88
Present value of terminal value	126
PV of enterprise	214
Add Estimated cash post raise	12
Net value ($m)	226
Net value per share	$0.29

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.

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Exhibit 5: Sensitivity on DCF valuation

Discount rate	Base Case	An Upside Case
9%	$0.64	$ 3.33
10%	$0.53	$ 2.76
11%	$0.45	$ 2.33
12%	$0.39	$ 2.00
13%	$0.34	$ 1.73
14%	$0.29	$ 1.51
15%	$0.26	$ 1.33
16%	$0.23	$ 1.18

Source: RaaS estimates

Exhibit 6: Financial Summary

Wisr Limited (WZR)					
Profit and Loss (A$m)					
Y/E 30 June	**FY17A**	**FY18A**	**FY19F**	**FY20F**	**FY21F**
Revenue	1.2	1.6	2.9	9.3	18.8
Other income	0.4	0.2	0.0	0.0	0.0
EBITDA	(5.3)	(6.1)	(7.0)	(1.9)	5.9
Depn	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Amort	0.0	0.0	(0.2)	(0.7)	(1.3)
EBIT	(5.4)	(6.2)	(7.2)	(2.6)	4.6
Interest	(0.1)	(0.0)	(0.1)	(0.0)	(0.2)
Tax	0.0	0.0	0.0	0.0	(1.3)
Minorities	0.0	0.0	0.0	0.0	0.0
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0
NPAT pre significant items	(5.4)	(6.2)	(7.3)	(2.7)	3.1
Significant items	0.0	0.0	0.0	0.0	0.0
NPAT (reported)	**(5.4)**	**(6.2)**	**(7.3)**	**(2.7)**	**3.1**
Cash flow (A$m)					
Y/E 30 June	**FY17A**	**FY18A**	**FY19F**	**FY20F**	**FY21F**
EBITDA	(5.3)	(6.1)	(7.0)	(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	(2.2)	(0.6)	(0.7)
Operating cash flow	(2.7)	(2.2)	(9.4)	(2.6)	3.7
Mtce capex	(0.1)	0.0	0.0	0.0	0.0
Free cash flow	(2.8)	(2.2)	(9.4)	(2.6)	3.7
Growth capex	0.0	0.0	0.0	0.0	0.0
Acquisitions/Disposals	0.0	(0.0)	(0.4)	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)	(2.6)	3.7
Equity	5.4	0.6	18.7	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)	10.6	(2.6)	3.7
Balance sheet (A$m)					
Y/E 30 June	**FY17A**	**FY18A**	**FY19F**	**FY20F**	**FY21F**
Cash	3.5	1.5	12.0	9.4	13.2
Accounts receivable	0.1	0.3	(0.0)	1.0	1.9
Loan receivables	1.7	0.9	7.7	18.4	33.5
Other current assets	0.3	0.6	0.5	0.5	0.5
Total current assets	5.6	3.3	20.2	29.4	49.2
PPE	0.1	0.0	0.0	0.0	0.0
Intangibles	0.0	0.0	0.3	0.3	0.3
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	9.3	10.7	18.7
Total non current assets	5.3	3.3	10.1	11.5	19.5
Total Assets	10.8	6.6	30.3	40.9	68.7
Accounts payable	0.8	1.3	1.7	2.1	2.4
Debt	0.7	0.4	2.3	2.3	2.3
Loan funding	0.0	0.0	6.8	18.2	34.6
Tax payable	0.0	0.0	0.0	0.0	0.0
Other current liabilities	0.2	0.2	0.3	0.3	0.3
Total current liabilities	1.6	2.0	11.0	22.9	39.6
Long term debt	0.0	0.0	2.8	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	2.8	4.2	12.3
Total Liabilities	1.6	2.0	13.8	27.1	51.9
Net Assets	**9.2**	**4.7**	**16.5**	**13.8**	**16.8**
Share capital	28.6	29.3	48.1	48.1	48.1
Accumulated profits/losses	(20.8)	(26.6)	(33.4)	(36.1)	(33.1)
Reserves	1.4	1.9	1.8	1.8	1.8
Minorities	0.0	0.0	0.0	0.0	0.0
Total Shareholder funds	**9.2**	**4.7**	**16.4**	**13.8**	**16.8**

Share price intraday (1 August 2019)					A$	0.145
Interim (A$m)	**H119A**	**H219F**	**H120F**	**H220F**	**H121F**	**H221F**
Revenue	1.2	1.7	3.7	5.6	8.2	10.5
EBITDA	(3.4)	(3.7)	(1.7)	(0.2)	2.0	3.9
EBIT	(3.4)	(3.8)	(2.0)	(0.6)	1.4	3.2
NPAT (normalised)	(3.5)	(3.9)	(2.0)	(0.7)	1.0	2.1
Minorities	0.0	0.0	0.0	0.0	0.0	0.0
NPAT (reported)	(3.5)	(3.9)	(2.0)	(0.7)	1.0	2.1
EPS (normalised)	(0.68)	(0.61)	(0.25)	(0.08)	0.12	0.27
EPS (reported)	(0.68)	(0.61)	(0.25)	(0.08)	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)	(6.3)	(1.7)	(0.8)	1.2	2.5
Free Cash flow	(3.1)	(6.3)	(1.7)	(0.8)	1.2	2.5
Divisions	**H119A**	**H219F**	**H120F**	**H220F**	**H121F**	**H221F**
Rev - Establishment fees	0.7	1.0	1.7	2.6	3.9	4.8
Rev - Margin	0.4	0.6	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)	(2.3)	(2.9)	(2.9)	(2.9)	(3.0)
Costs - Marketing	(0.4)	(0.4)	(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)	(1.8)	(2.0)	(2.2)	(2.4)	(2.6)
EBITDA	(3.0)	(2.4)	(1.5)	0.1	2.3	4.3
Margins, Leverage, Returns		FY17A	FY18A	FY19F	FY20F	FY21F
EBITDA		(460.9%)	(386.1%)	(242.3%)	(20.6%)	31.3%
EBIT		(461.9%)	(387.6%)	(249.2%)	(28.3%)	24.4%
NPAT pre significant items		(468.2%)	(390.3%)	(252.3%)	(28.5%)	16.5%
Net Debt (Cash)		2.8	1.2	6.9	3.0	- 1.4
Net debt/EBITDA (x)	(x)	n/a	n/a	n/a	n/a	- 0.240
ND/ND+Equity (%)	(%)	(43.9%)	(33.8%)	(72.9%)	(27.3%)	7.8%
EBIT interest cover (x)	(x)	n/a	n/a	n/a	n/a	3.6%
ROA		(49.4%)	(70.6%)	(39.1%)	(7.4%)	8.4%
ROE		(59.0%)	(89.6%)	(69.4%)	(17.6%)	20.2%
ROIC		(167.6%)	(426.7%)	(223.8%)	(36.6%)	72.3%
NTA (per share)		0.02	0.01	0.02	0.02	0.02
Working capital		1.0	- 0.1	5.9	17.3	33.0
WC/Sales (%)		**87%**	**-9%**	**205%**	**185%**	**176%**
Revenue growth			37%	82%	222%	101%
EBIT growth pa		n/a	n/a	n/a	n/a	-273%
Pricing		**FY17A**	**FY18A**	**FY19F**	**FY20F**	**FY21F**
No of shares (y/e)	(m)	437	455	790	790	790
Weighted Av Dil Shares	(m)	396	452	634	790	790
EPS Reported	cps	(1.4)	(1.4)	(1.1)	(0.3)	0.4
EPS Normalised/Diluted	cps	(1.4)	(1.4)	(1.3)	(0.3)	0.4
EPS growth (norm/dil)		n/a	n/a	n/a	n/a	-216%
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)		-	-	-	-	39.0
PE market				15.2	15.2	15.2
Premium/(discount)						156%
EV/EBITDA		(11.3)	(10.6)	(14.6)	(62.4)	23.4
FCF/Share	cps	(0.6)	(0.5)	(1.2)	(0.3)	0.5
Price/FCF share		(23.8)	(30.6)	(12.2)	(44.8)	30.8
Free Cash flow Yield		(4.2%)	(3.3%)	(8.2%)	(2.2%)	3.2%

Source: RaaS Advisory Note that we have incorporated the unaudited revenue and pre tax operating loss for FY19

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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of

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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.