

## Recapitalised for growth

**Wisr Limited (WZR.AX) is an online consumer lending platform focused on financial wellness and competing in the rapidly growing marketplace lending sector. The company has now completed an 18-month transformation with a new management team, board and business model focussed on delivering a range of financial products and services designed to enhance consumers' financial success and capture a greater share of the \$100bn consumer credit market. It has been able to do this because it has invested heavily in its enterprise-ready technology platform which uses enhanced credit algorithms to achieve near-automation. Wisr has reported FY18 revenues of \$1.6m, an increase of 37% on FY17 with loan origination volumes up 409%. The net loss of the year was \$6.2m, up from \$5.4m a year ago. The company has also taken the opportunity to raise an additional \$4.2m at \$0.05/share to underpin its expanded product range. Our base case DCF valuation is \$0.131/share and rises to \$0.254/share if these new revenue streams contribute as we envisage.**

## 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 \$50m in loan originations to date and is aiming to enhance growth with a suite of products designed to meet increasing demand for financial wellness. It has recently launched several new initiatives including Wisr Credit, a comparison site for credit scores; the Wisr App which allows consumers to round up change to the nearest dollar from online transactions to put towards their debt repayments; a personal loan insurance offering; Wisr @Work, a product designed to help companies retain employees by offering personal loans as part of their salary package and other ancillary loan products. We have dimensioned the impact of these additional revenue streams and have found that the combined impact on our base case valuation is an additional \$0.138/share. The benefit of these new product lines is expected to be reflected more fully in FY20 and beyond and, therefore, we have not yet included these new streams in our forecasts.

## FY18 result

WZR has reported a net loss of \$6.2m for FY18, compared with a net loss of \$5.4m in FY17 and our forecast for \$4.7m. The chief difference between reported and our forecasts was the increase in employment costs with Wisr engaging more employees in FY18 than forecast. We have factored this into our forward estimates and set this out on page 2.

## Valuation impact

Our base case valuation for WZR is \$0.131/share (previously \$0.126/share based on 455m shares on issue). Our DCF valuation is based on a WACC of 16% and terminal value in Year 10 of \$0.053 of the total value per share and is predicated on the company following a similar growth trajectory to its Australian and international peers. Our base case implies that at 30 June 2025, WZR will have 1.2% share of the \$100bn personal loan 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	(6.14)	(6.21)	(1.40)	13.4	n/a
Jun-19e	6.4	(0.91)	(0.65)	(0.13)	4.3	n/a
Jun-20e	12.2	3.6	2.4	0.45	2.9	11.8
Jun-21e	19.0	9.4	6.5	1.20	2.1	4.4

Source: Company Data, RaaS Advisory

## Online lending

25 September 2018

### Share details

ASX Code	WZR
Share price at 25 Sept	\$0.053
Market Capitalisation	\$28.6M
Shares on issue (post raise)	539.3M
Enterprise value (post raise)	\$22.9M
Net cash at 30 June 18	\$1.55M
Free float	49%

### Share performance (12 months)



### Upside Case

- Board and management team experienced in building financial services businesses
- Has secured the backing of 255 Finance in a wholesale funding agreement (\$50m) and shares/options agreement and additional wholesale funding from Bendigo and Adelaide Bank (BEN)(\$25m)
- Opportunity to be a part of likely industry consolidation

### Downside Case

- Very small player in a segment of less than 1% of the personal lending market
- Competitors have aggressively grabbed market share over the past two years
- Low liquidity, but capital raise should assist in improving liquidity

### Board of Directors

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

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## FY18 result analysis

Wisr reported revenue growth of 37.1% in FY18 to \$1.6m with an additional \$0.2m derived from R&D grants. The net operating loss was \$6.2m, an increase of 15.1% on the net loss reported in FY17 and higher than our forecast for a net loss of \$4.7m. The chief difference was higher employment costs (\$4.3m versus \$3.3m in FY17 and our forecast for \$3.4m); correspondingly other operating costs were lower (\$1.5m versus our forecasts for \$2.3m).

Wisr reported operating cashflows of (\$2.3m) net of lending and repayments of \$14.9m and the net proceeds from the sale of loans of \$18.86m and \$6.3m in payments to employees and suppliers. The company ended FY18 with net cash of \$1.55m. A snapshot of the result is set out in the following exhibit.

<b>Exhibit 1: FY18 reported versus FY17 ad RaaS estimates</b>				
	FY17	FY18	% chg	RaaS FY18e
Revenue from ordinary activities	1.2	1.6	37.1%	1.8
Other income	0.4	0.2	(37.6%)	0.0
EBITDA	(5.3)	(6.1)	14.9%	(5.4)
EBIT	(5.4)	(6.2)	15.1%	(5.4)
NPAT	(5.4)	(6.2)	14.3%	(4.7)
EPS	(1.40)	(1.40)	0.0%	(1.07)

Source: Company data, RaaS estimates

## Capital raise

Wisr has taken the opportunity to raise additional capital to underpin its growth plans with its additional revenue streams. The company announced on August 31 that it had raised \$4.2m at \$0.05/share. The transaction will take place in two tranches with a small proportion of the raise requiring shareholder approval at the AGM in November.

## Earnings adjustments

We have made factored in higher employment costs than previously estimated and have maintained our forecast for operating costs in FY19 and beyond. We have also tempered our revenue forecasts in outer years for the sake of conservatism. We have also factored in the impact of the capital raise which will result in an additional 55m share on issue. This has resulted in a reduction in our EPS forecasts from FY19-21. We have set out our earnings forecast changes in Exhibit 2 below.

<b>Exhibit 2: Earnings adjustments</b>									
	FY19 old	FY19 new	% chg	FY20 old	FY20 new	% chg	FY21 old	FY21 new	% chg
Revenue	6.7	6.4	(5.5%)	14.4	12.2	(15.5%)	24.8	19.0	(23.4%)
EBITDA	(0.4)	(0.9)	106.1%	5.6	3.6	(36.8%)	14.6	9.4	(35.4%)
EBITDA	(0.5)	(0.9)	101.7%	5.6	3.5	(36.8%)	14.5	9.4	(35.5%)
NPAT	(0.5)	(0.6)	38.3%	3.8	2.4	(35.5%)	10.1	6.5	(35.9%)
EPS	(0.1)	(0.1)	24.1%	0.8	0.4	(45.6%)	2.2	1.2	(45.9%)

Source: RaaS estimates

## Impact of new revenue streams

Wisr has developed a range of financial wellness products for consumers which, over time, could convert into new sources of revenue and additional customers for its loan products.

The company has recently launched or commenced trialling the following services and products:

- Wisr Credit, a comparison credit score site;
- Wisr App, which allows consumers to round up change to the nearest dollar from online transactions to put towards their debt repayments;

- Wisr @ Work in which Wisr will offer personal loans to participating company employees to assist staff retention and financial wellness;
- Wisr & Co, white label of the platform available for corporations and institutions with the capacity to develop their own loan book;
- Ancillary loan products with third party suppliers; and
- Optional personal loan insurance through a third-party arranger.

We explored the impact of each of these revenue streams on our earnings forecasts and valuation in our report titled “New Products to Underpin Growth” and published 9 July 2018. This report is available from our website [www.raasgroup.com/our\\_research](http://www.raasgroup.com/our_research).

We have revisited the impact of the various channels to market and products on our updated base case DCF valuation and set it out in the following exhibit. We will incorporate these channels in our financial estimates as Wisr makes more detail available to the market.

<b>Exhibit 3: Breakdown on impact on DCF of different channels to market</b>	
Scenario	DCF valuation
Current base case DCF	\$ 0.131
Add insurance impact	\$ 0.006
Add ancillary products impact	\$ 0.010
Add increase in margin from 2.5% to 5.0%	\$ 0.057
Add 1,000 additional App downloads per day	\$ 0.035
Add increase in credit checks and impact on traffic	\$ 0.015
Potential DCF	\$ 0.254
Source: RaaS estimates	

We have also looked at the impact of these revenue streams on our downside case and upside case valuations and have highlighted these in the exhibit below.

<b>Exhibit 4: Sensitivities on base case, an upside case and a downside case DCF valuation</b>			
	Base case	A downside case	An upside case
Core valuation	\$0.131	(\$0.01)	\$0.85
With insurance	\$0.137	(\$0.01)	\$0.86
With ancillary consumer finance	\$0.141	(\$0.01)	\$0.88
With insurance and ancillary consumer finance	\$0.147	\$0.00	\$0.89
With 1000 additional downloads per day of Wisr App	\$0.165	\$0.02	\$0.97
With additional 0.5% on margin	\$0.188	\$0.01	\$0.99
Source: RaaS estimates			

**Exhibit 5: Financial Summary**

Wisr Limited (WZR)						Share price (25 September 2018)						A\$ 0.053		
Profit and Loss (A\$m)						Interim (A\$m)								
Y/E 30 June	FY17A	FY18A	FY19F	FY20F	FY21F	Revenue	H 118A	H 218A	H 119F	H 219F	H 120F	H 220F		
Revenue	1.2	1.6	6.4	12.2	19.0	Revenue	0.8	1.1	2.5	3.8	5.2	7.0		
Other income	0.4	0.2	0.0	0.0	0.0	EBITDA	(3.1)	(3.1)	(1.0)	0.1	1.0	2.5		
EBITDA	(5.3)	(6.1)	(0.9)	3.6	9.4	EBIT	(3.1)	(3.1)	(1.0)	0.1	1.0	2.5		
Depn	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	NPAT (normalised)	(3.1)	(3.1)	(0.7)	0.1	0.7	1.7		
Amort	0.0	0.0	0.0	0.0	0.0	Minorities	0.0	0.0	0.0	0.0	0.0	0.0		
EBIT	(5.4)	(6.2)	(0.9)	3.5	9.4	NPAT (reported)	(3.1)	(3.1)	(0.7)	0.1	0.7	1.7		
Interest	(0.1)	(0.0)	(0.0)	(0.1)	(0.2)	EPS (normalised)	(0.71)	(0.69)	(0.14)	0.01	0.13	0.32		
Tax	0.0	0.0	0.3	(1.0)	(2.8)	EPS (reported)	(0.71)	(0.69)	(0.14)	0.01	0.13	0.32		
Minorities	0.0	0.0	0.0	0.0	0.0	Dividend (cps)	0.0	0.0	0.0	0.0	0.0	0.0		
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	Imputation	30.0	30.0	30.0	30.0	30.0	30.0		
NPAT pre significant items	(5.4)	(6.2)	(0.6)	2.4	6.5	Operating cash flow	(1.5)	(0.7)	(2.4)	(0.2)	0.7	2.2		
Significant items	0.0	0.0	0.0	0.0	0.0	Free Cash flow	(1.5)	(0.7)	(2.3)	(0.2)	0.8	2.2		
<b>NPAT (reported)</b>	<b>(5.4)</b>	<b>(6.2)</b>	<b>(0.6)</b>	<b>2.4</b>	<b>6.5</b>	<b>Divisions</b>	<b>H 118A</b>	<b>H 218A</b>	<b>H 119F</b>	<b>H 219F</b>	<b>H 120F</b>	<b>H 220F</b>		
<b>Cash flow (A\$m)</b>						Rev - Establishment fees	0.5	0.6	1.4	2.0	2.6	3.1		
Y/E 30 June	FY17A	FY18A	FY19F	FY20F	FY21F	Rev - Margin	0.0	0.0	0.6	1.0	1.6	2.8		
EBITDA	(5.3)	(6.1)	(0.9)	3.6	9.4	Rev - Referral Fees	0.0	0.0	0.3	0.5	0.7	0.8		
Interest	(0.0)	(0.0)	(0.0)	(0.1)	(0.2)	Rev - Other revenue	0.2	0.2	0.3	0.3	0.3	0.3		
Tax	0.0	0.0	0.0	0.0	0.0	Costs - Salaries	(1.8)	(2.5)	(2.4)	(2.4)	(2.6)	(2.7)		
Working capital changes	2.6	4.0	(1.7)	(0.6)	(0.7)	Costs - Marketing	(1.0)	(0.6)	(0.5)	(0.5)	(0.7)	(0.7)		
Operating cash flow	(2.7)	(2.2)	(2.6)	2.8	8.5	Costs - Prov for bad debts	0.0	(0.1)	(0.2)	(0.3)	(0.4)	(0.6)		
Mtce capex	(0.1)	0.0	(0.0)	(0.0)	(0.0)	Costs - Other costs	(1.0)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)		
Free cash flow	(2.8)	(2.2)	(2.6)	2.8	8.5	EBITDA	(3.1)	(2.8)	(1.0)	0.1	1.0	2.5		
Growth capex	0.0	0.0	(0.1)	(0.1)	(0.1)	Margins, Leverage, Returns		FY17A	FY18A	FY19F	FY20F	FY21F		
Acquisitions/Disposals	0.0	(0.0)	0.0	0.0	0.0	EBITDA		-460.9%	-386.1%	-14.3%	29.1%	49.6%		
Other	0.0	0.0	0.0	0.0	0.0	EBIT		-461.9%	-387.6%	-14.4%	29.0%	49.5%		
Cash flow pre financing	(2.8)	(2.2)	(2.7)	2.7	8.4	NPAT pre significant items		-468.2%	-390.3%	-10.2%	19.8%	34.1%		
Equity	5.4	0.6	4.2	0.0	0.0	Net Debt (Cash)		2.8	1.2	- 0.2	- 0.9	3.1		
Debt	(0.4)	(0.3)	0.0	0.0	0.0	Net debt/EBITDA (x)	(x)	n/a	n/a	n/a	- 0.267	0.328		
Dividends paid	0.0	0.0	0.0	0.0	0.0	ND/ND+Equity (%)	(%)	-43.9%	-33.8%	2.2%	8.2%	-22.0%		
Net cash flow for year	2.2	(1.9)	1.5	2.7	8.4	EBIT interest cover (x)	(x)	n/a	n/a	n/a	0.0	0.0		
<b>Balance sheet (A\$m)</b>						ROA		-49.4%	-70.6%	-7.6%	15.4%	25.1%		
Y/E 30 June	FY17A	FY18A	FY19F	FY20F	FY21F	ROE		-59%	-90%	-10%	26%	47%		
Cash	3.5	1.5	1.5	3.6	12.0	ROIC		-168%	-427%	-34%	53%	106%		
Accounts receivable	0.1	0.3	0.7	1.3	2.0	NTA (per share)		0.02	0.01	0.02	0.02	0.03		
Loan receivables	1.7	0.9	8.1	13.6	17.5	Working capital		1.0	- 0.1	8.8	14.9	19.5		
Other current assets	0.3	0.6	0.6	0.6	0.6	WC/Sales (%)		87%	-9%	138%	122%	103%		
Total current assets	5.6	3.3	10.9	19.1	32.1	Revenue growth			37%	300%	92%	55%		
PPE	0.1	0.0	0.1	0.2	0.3	EBIT growth pa		n/a	n/a	n/a	-485%	165%		
Goodwill	0.0	0.0	0.0	0.0	0.0	Pricing		FY17A	FY18A	FY19F	FY20F	FY21F		
Investments	0.5	0.5	0.5	0.5	0.5	No of shares (y/e)	(m)	437	455	539	539	539		
Deferred tax asset	0.0	0.0	0.3	0.3	0.3	Weighted Av Dil Shares	(m)	396	452	539	539	539		
Loan receivables	4.7	2.7	5.5	8.4	12.8	EPS Reported	cps	- 1.40	- 1.36	- 0.12	0.44	1.18		
Total non current assets	5.3	3.3	6.5	9.5	13.9	EPS Normalised/Diluted	cps	- 1.40	- 1.40	- 0.13	0.45	1.20		
<b>Total Assets</b>	<b>10.8</b>	<b>6.6</b>	<b>17.4</b>	<b>28.6</b>	<b>46.1</b>	EPS growth (norm/dil)		n/a	n/a	n/a	n/a	167%		
Accounts payable	0.8	1.3	0.0	0.0	0.0	DPS	cps	-	-	-	-	-		
Debt	0.7	0.4	0.4	0.4	0.4	DPS Growth		n/a	n/a	n/a	n/a	n/a		
Loan funding	0.0	0.0	6.8	11.0	14.9	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%		
Tax payable	0.0	0.0	0.0	0.0	0.0	Dividend imputation		30	30	30	30	30		
Other current liabilities	0.2	0.2	0.2	0.2	0.2	PE (x)		-	-	-	12.0	4.5		
Total current liabilities	1.6	2.0	7.4	11.6	15.5	PE market				15.2	15.2	15.2		
Long term debt	0.0	0.0	1.4	4.2	8.6	Premium/(discount)					-21%	-70%		
Other non current liabs	0.0	0.0	0.0	1.1	3.8	EV/EBITDA		- 4.3	- 3.5	- 30.1	10.0	4.3		
Total long term liabilities	0.0	0.0	1.4	5.3	12.4	FCF/Share	cps	-0.6	-0.5	-0.5	0.5	1.6		
<b>Total Liabilities</b>	<b>1.6</b>	<b>2.0</b>	<b>8.8</b>	<b>16.9</b>	<b>28.0</b>	Price/FCF share		- 9	- 11	- 11	10	3.3		
<b>Net Assets</b>	<b>9.2</b>	<b>4.7</b>	<b>8.6</b>	<b>11.7</b>	<b>18.1</b>	Free Cash flow Yield		-11.5%	-8.9%	-9.1%	10.0%	29.9%		
Share capital	28.6	29.3	33.5	33.5	33.5									
Accumulated profits/losses	(20.8)	(26.6)	(27.2)	(24.8)	(18.3)									
Reserves	1.4	1.9	1.9	1.9	1.9									
Minorities	0.0	0.0	0.0	0.0	0.0									
<b>Total Shareholder fund</b>	<b>9.2</b>	<b>4.7</b>	<b>8.2</b>	<b>10.6</b>	<b>17.1</b>									

Source: RaaS Advisory

# FINANCIAL SERVICES GUIDE

**RaaS Advisory Pty Ltd**

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**Corporate Authorised Representative, number 1248415**

**of**

**BR SECURITIES AUSTRALIA PTY LTD**

**ABN 92 168 734 530**

**AFSL 456663**

**Effective Date: 11<sup>th</sup> May 2017**



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

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