Earlypay Limited (ASX:EPY, "EPY, "Earlypay," or the "Company")

25th February 2021

Earlypay H1'21 Results: Online lending drives recovery in Q2 flowing into Q3

Earlypay Limited (ASX:EPY, "EPY, "Earlypay," or the "Company") today announces its first half results for the six months ended 31 December 2020 and provides full year guidance of $21m+ EBITDA and $8.5m+ NPATA after a strong rebound in performance in Q2'21 following a COVID-affected Q1'21.

Interim Highlights

- New business outcomes accelerated by acquisition of Skippr platform, with online/digital applications representing 56% of new business for Q2'21, following launch in Sept'20
- EBITDA of $9.8m (Q1 $4.2m, Q2 $5.6m) down slightly on H1'20 of $10.2m
- NPATA[1] of $3.5m (Q1 $1.2m, Q2 $2.3m) versus $4.6m in pcp
- EPS[1] (based on NPATA) of 1.6 cps (H1'20 2.3cps)
- Interim dividend of 1.0 cps fully-franked (H1'20: Nil)
- Permanent cost savings of $1.5m pa[2] achieved through restructure of funding lines during Q2'21

Outlook

- The increase in our online/digital application capability has driven an increase in overall volumes (up 19% Q1 to Q2) and contributed to a record month in December with Total Transaction Volume (TTV) of $171m
- Based on current run rate, Earlypay anticipates a record 6 monthly earnings in H2'21
- Full year guidance of EBITDA of $21m+ and NPATA of $8.5m+
- Dividend policy, in the absence of any material acquisitions, increased to 60% of NPATA, indicating a final dividend of approximately 1.3cps fully-franked (2.3cps for FY)

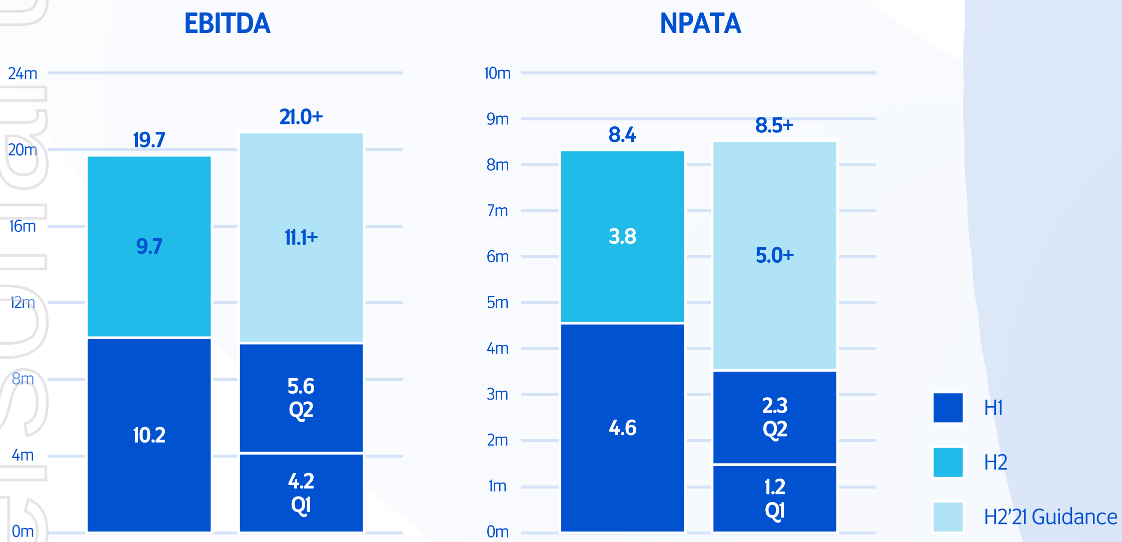
Earlypay CEO Daniel Riley said the result contained a number of positive elements, reflecting strong new business gains. The gains were driven by the encouraging response to rebranding as Earlypay, the implementation and ongoing investment in the online lending platform and a recovery in invoice finance demand in the second quarter.

[1] After adjusting for non-cash amortisation
[2] Annualized basis

“Current volumes indicate that we are now back trading in excess of $2bn TTV on an annualised basis. This is due to an increase in funding requirements from existing clients, as well as new clients coming on board as our organic growth continues to build”.

“Restoring the Earlypay brand signified a return to our company’s roots as a leader and innovator in the small business finance sector. The integration of the Skippr business, acquired in August 2020, is driving our digital transformation by improving client acquisition and client experience through new technology, while making our business more efficient. The firm-wide digital transformation is ongoing and we expect this investment in technology to drive organic revenue growth and operational efficiencies for years to come.” Mr. Riley said.

Earlypay anticipates a continuation of strong growth momentum through H2’21 and expects to report record earnings in H2’21 bringing Full Year guidance of $21m+ EBITDA and NPATA of $8.5m+.



Group Performance

The Company delivered a creditable financial performance in H1’21 given the external factors related to the pandemic affecting the SME market, with indicators clearly pointing to a recovery across most metrics heading into the second half.

The resilience of Earlypay’s business model was again highlighted with the business having no material defaults or losses throughout the peak of the COVID downturn. Earlypay remains well provisioned against elevated SME insolvency risk as Government support reduces in coming months

To demonstrate the momentum, we have tabled below the progression over the last 3 halves, but more importantly, the last two quarters which highlight the recovery from COVID-19 as we progress into H2’21.

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	2020		2021			H1'21		
Group	**H1**	**H2**	**H1**	**Δpcp**	**ΔH2/H1**	**Q1**	**Q2**	**Δ**
Revenue	24.9	22.0	21.7	-13%	-1%	10.6	11.1	5%
EBITDA	10.2	9.7	9.8	-4%	1%	4.2	5.6	33%
Margin	*41%*	*44%*	*45%*	*10%*	*3%*	*43%*	*47%*	*8%*
NPATA	4.6	3.8	3.5	-24%	-8%	1.2	2.3	92%
EPS	2.3	1.7	1.6	-29%	-6%			
DPS	0.0	1.8*[1]	1.0					

*[1] Due to corporate activity no interim was declared in H1'20 but was reflected in final dividend declared in H2'20

Invoice Finance

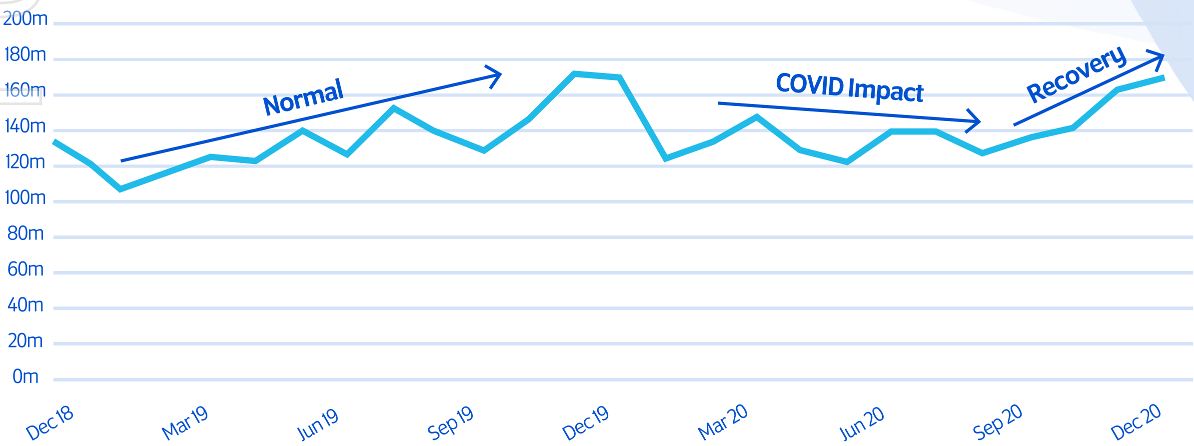
While earnings were down on the pcp there was a turnaround on H2'20. Even more pleasingly, Q2'21 saw a strong recovery in Invoice Finance volumes and revenue from COVID-lows, with a 19% increase in TTV and 12% increase in revenue compared to Q1. Margins have also started to rebound to historic levels.

	2020		2021			H1'21		
Invoice Finance	**H1**	**H2**	**H1**	**Δpcp**	**ΔH2/H1**	**Q1**	**Q2**	**Δ**
Revenue	17.1	13.6	14.2	-17%	4%	6.7	7.5	12%
EBITDA	8.6	5.3	6.5	-24%	23%	2.8	3.7	32%
Margin	*50%*	*39%*	*46%*	*-8%*	*17%*	*42%*	*49%*	*18%*

Growth momentum has continued into H2'21 and is expected to build through the period as government stimulus measures wind back and SMEs' access to working capital is further impacted. In addition, the quicker client on-boarding process and an increased investment in sales and marketing are also starting to show signs of improved volumes.

Current run rate TTV is expected to exceed $2bn annually ($1.8bn+ FY'21 forecast) and EBITDA is expected to exceed historic highs as margins improve.

Total Transaction Volume



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Equipment Finance

Demand for Equipment Finance has been steady with the equipment loan book standing at $89m as at 31 December 2020. Equipment Finance revenue is up 85% on pcp, which was largely driven by the acquisition of Classic Funding in H2'20.

Earlypay made a conscious decision during COVID in H1'21 to focus on collections and limit new business volumes which reduced the loan book and resulted in lower revenue and earnings compared to H2'20.

As market conditions have stabilised, Earlypay has increased new business volumes and expects a continuation of the improvement seen in Q2'21.

	2020		2021			H1'21		
Equipment Finance	**H1**	**H2**	**H1**	**Δpcp**	**ΔH2/H1**	**Q1**	**Q2**	**Δ**
Revenue	3.9	7.6	7.2	85%	-5%	3.7	3.5	-5%
EBITDA	2.0	5.0	4.1	105%	-18%	1.9	2.2	16%
Margin	*51%*	*66%*	*57%*	*12%*	*-14%*	*51%*	*63%*	*22%*

Outlook

Earlypay is expecting to report a record half year earnings in H2'21 and provides guidance for FY'21 EBITDA of $21m+ (H2 $11m+), NPATA of $8.5m+ (H2 $5M+) and a dividend of approximately 1.3cps fully-franked (2.3cps for FY).

Importantly H2'21 is seen by Earlypay as a base from which it can again start to build on its historical growth and capitalise on its recent digital transformation, improved client experience and greater addressable market.

Growth in earnings during the half and into the future will be driven by:

1 — Organic Growth

As voted at the Annual General Meeting in November 2020, the Company successfully rebranded from 'CML Group' to 'Earlypay'. This not only aligns the Company's name with our primary service, it also highlights our renewed focus on using technology and innovation to better serve our clients and referral partners.

Online Lending

The acquisition of Skippr in August 2020 and subsequent integration and platform improvements has facilitated the initiation of Earlypay's digital transformation. The impact of this initial phase has been great, with the acquisition of Skippr improving accessibility for SME's to Earlypay's invoice finance products, shortening on-boarding times and expanding the addressable market by making smaller transactions profitable to service.

Online lending has underpinned a record period of new business for Earlypay in Q2'21, with TTV up 19% on Q1'21. Online lending represented 56% of new business for Q2'21, including 75% for the month of Dec'20, driving TTV to a record monthly volume of $171m.

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Expansion of Distribution

As outlined in the full year results Earlypay has focused on growing its sales team to leverage an expanded distribution network and build on the momentum since rebranding and expanding our online finance platform. Since Jun'20, Earlypay has increased sales and product development staff from 15 to 23 in Dec'20 and is actively recruiting to build the team nationally through the year.

In February 2021, Earlypay launched a Partner Portal, which allows finance brokers to refer clients and track progress online, in real time, from application to successful on-boarding. Earlypay views this as a valuable tool to expand and market to its distribution network.

A referral partnership with Consolidated Operations Group, announced in November 2020, is actively being rolled-out and is anticipated to contribute to origination volumes in H2'21 by facilitating distribution of the Earlypay product to a wider network of Australian brokers.

2 – Costs, Operating Margins and Funding

Earlypay has focused on operational improvements, leveraging automation available through the Earlypay platform to manage and on-board new clients more efficiently, which has facilitated an overall reduction in annualised salary costs of 14% in Dec'20 compared to Dec'19. This reduction has been achieved even with an expansion of the sales and product development team since Jun'20 by 53%.

In addition, during Q2'21 Earlypay retired and replaced $41m of expensive legacy funding arrangements (mezzanine funding on warehouse facilities and bonds) which will result in an annualised interest saving of $1.5m, with the first 6 months benefit to be realised in H2'21.

With permanent cost saving measures implemented through funding and operational efficiencies, Earlypay anticipates continued improvement in operating margins through time.

As at 31 Dec'20, the Company had $290m of facilities in place of which only $180m was drawn leaving substantial headroom to pursue the organic growth opportunities and meet guidance expectations.

Earlypay CEO, Daniel Riley, said...

> "The uplift in earnings in Q2 and strong outlook for FY'21 can be contributed to the exceptional efforts of the Earlypay team. They have executed on the digital transformation and growth strategy within a short space of time and achieved record new business volumes for the core invoice finance product in Q2'21, positioning the Company for strong earnings in H2'21. Earlypay provides guidance for FY'21 EBITDA of $21m+ and NPATA of $8.5m+."

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This announcement has been authorised by the board of Earlypay.

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About Earlypay

Earlypay provides finance to SME businesses in the form of secured invoice financing and equipment financing.

Through the Earlypay online platform, SME's receive an advance payment of up to 80% of a client's invoice to help their business overcome the cash pressure of delivering goods or services in advance of payment from their customers (often 30 to 60 days). This is a flexible line of credit that is utilised in line with sales volume. Earlypay will consider an additional advance to a client (above the usual 80%) on occasion, for an additional fee and when there is adequate security from the client to cover the position.

Other services include trade finance to assist clients finance purchases, as well as equipment finance to assist SME's with capital expenditure on items required to operate their business.