

ASX Release | 17 October 2022

QuickFee Limited

Q1 FY23 quarterly business update

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QuickFee Limited (ASX:QFE) ("QuickFee", "Company") today announced a business update for the quarter ended 30 September 2022 (Q1 FY23).

Q1 FY23 highlights

- **Strong momentum continuing into FY23 with solid performance across both Pay Now and Financing transaction volumes**
- **US Pay Now Total Transaction Values (TTV) up 34% to US\$242 million (Q1 FY22: US\$181 million), driven by firm sign-ups and organic growth**
 - **ACH TTV continues impressive performance with 27% growth in firm numbers**
 - **ACH TTV up 37% to US\$200 million (Q1 FY22: US\$146 million)**
- **Strong growth in Financing in both the US and Australia**
 - **US TTV up 26% to US\$4.8 million (Q1 FY22: US\$3.8 million)**
 - **Australia TTV up 10% to A\$8.9 million (Q1 FY22: A\$8.1 million)**
- **BNPL product retired in the US, following a refocused US strategy solely on growing the core professional services business**
- **Key board and senior management changes:**
 - **Global CEO search progressing following Eric Lookhoff's resignation**
 - **Barry Lewin to retire as Chairman of the Company board; Dale Smorgon to take on Executive Chair role**
- **QuickFee remains on track to achieve run-rate profitability by end of FY23 within existing cash and borrowing facilities.**

	Q1 FY23	Q1 FY22	Year-on-year movement
Total transaction values (TTV)			
US ACH (Pay Now)	US\$200m	US\$146m	+37%
US Card (Pay Now)	US\$42m	US\$35m	+20%
Total US Pay Now	US\$242m	US\$181m	+34%
US Financing (Pay Later)	US\$4.8m	US\$3.8m	+26%
AU Financing (Pay Later)	A\$8.9m	A\$8.1m	+10%
Revenue¹			
US ACH (Pay Now)	US\$749k	US\$514k	+46%
US Card (Pay Now)	US\$ 117k	US\$54k	+117%
US Financing (Pay Later)	US\$ 347k	US\$240k	+45%
AU Financing (Pay Later)	A\$1,096k	A\$904k	+21%

Commenting on the quarter, Executive Director Dale Smorgon said:

"It is very pleasing to see the strong momentum from Q4 FY22 continue into Q1 FY23 across our core areas of the business. We saw strong growth in US Pay Now TTV, up 34%, while lending in both the US and Australia continues to improve, up 26% and 10% respectively.

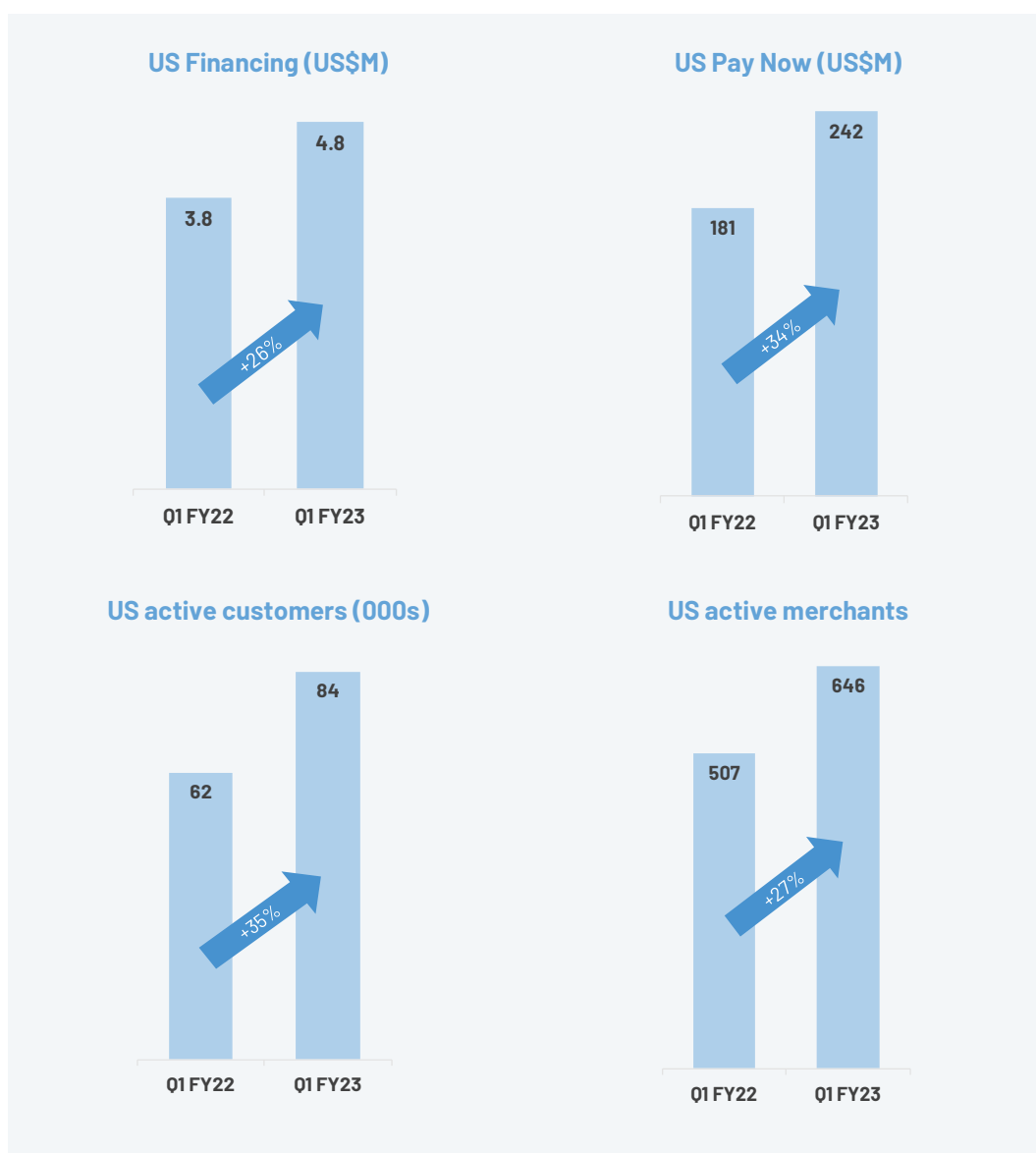
"Our refined strategy on our core professional services business in the US has brought clarity to our US operations and focus on our core strength of helping CPA and law firms get paid faster. We are moving forward with a laser-sharp focus which will see us deliver run-rate profitability by the end of FY23.

"The business is continuing to benefit from industry modernisation and growing demand for lending products in a more challenging economic environment. Combined with our low credit-risk business model, constantly evolving payments gateway and new practice management systems integrations, we are seeing improving yields, contained costs and continued low bad debts.

"With QuickFee's technology build-out largely complete, all of the key building blocks are in place for the Company to continue its growth trajectory and achieve sustainable profitability."

Operational update - United States

US Q1 FY23 TTV and trading metrics



QuickFee has made a strong start to the FY23 financial year in the US, with active merchant numbers continuing to increase from the record numbers in Q4 FY22. Active merchants grew 27% to 646 (Q1 FY22: 507) and active customers increased by 35% to 84,000 (Q1 FY22: 62,000), driving further growth in TTV following sales and marketing efforts being focused solely on this vertical. 29 new professional firms were signed in Q1 FY23 and 93 this calendar year.

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The growth in firm numbers and increased organic usage within existing firms resulted in Financing TTV growth of 26% to US\$4.8 million (Q1 FY22: US\$3.8 million). Pay Now TTV was also up 34% to US\$242 million (Q1 FY22: US\$181 million).

ACH – United States

Following the launch of the Recurring ACH Product in June 2022, there has been strong growth in ACH TTV, further building on the growth seen over the previous two years, with Q1 FY23 up 37% to US\$200 million (Q1 FY22: US\$146 million).

Revenue yields on ACH increased by 2 basis points in Q1 FY23, driven by tailwinds in Q4 FY22 following a shift in the ACH pricing model which switched merchants from legacy fixed fees, to a percentage of volume fee.

The ACH product offers payment in 1-2 days, much faster than industry standards which remain at 3-5 days. In order to maintain this market-leading differentiation and as part of our commitment to service levels for our professional firms, QuickFee has invested with its ACH processor in a more robust operating model, with a variable ACH processing cost model, which will ensure a consistent and reliable service, driving down the risk of merchant attrition.

US ACH revenue yields

TTV in US\$M Revenue ¹ in US\$000s	Q1 FY23	Q1 FY22	% +/-
TTV	200	146	+37%
Payments and other revenue	749	514	+46%
Total revenue	749	514	+46%
<i>Total revenue/volume yield %</i>	<i>0.37%</i>	<i>0.35%</i>	<i>+0.02%pts</i>

Card – United States

Card TTV was up 20% to US\$42 million in Q1 FY23 (Q1 FY22: US\$35 million).

As previously reported, in Q4 FY22 the Company increased its credit card surcharge for professional services fee payments from 3.0% to 3.5%. This increase is expected to apply to approximately 50% of QuickFee's firm base, the remainder currently opting to absorb surcharge costs themselves. This pricing change is reflected in the below revenue yields, which increased 13 basis points to 0.28% (Q1 FY22: 0.15%).

Management believe revenue yields across the card portfolio can reach 0.40% in the next 12 months within its current card processing contracts.

US Card revenue yields*

TTV in US\$M Revenue ¹ in US\$000s	Q1 FY23	Q1 FY22	% +/-
TTV	42	35	+20%
Payments and other revenue	117	54	+117%
Total revenue	117	54	+117%
<i>Total revenue/volume yield %</i>	<i>0.28%</i>	<i>0.15%</i>	<i>+0.13%pts</i>

*US Card revenue is the net revenue share QuickFee receives from its card processors, not the gross amount surcharged to customers.

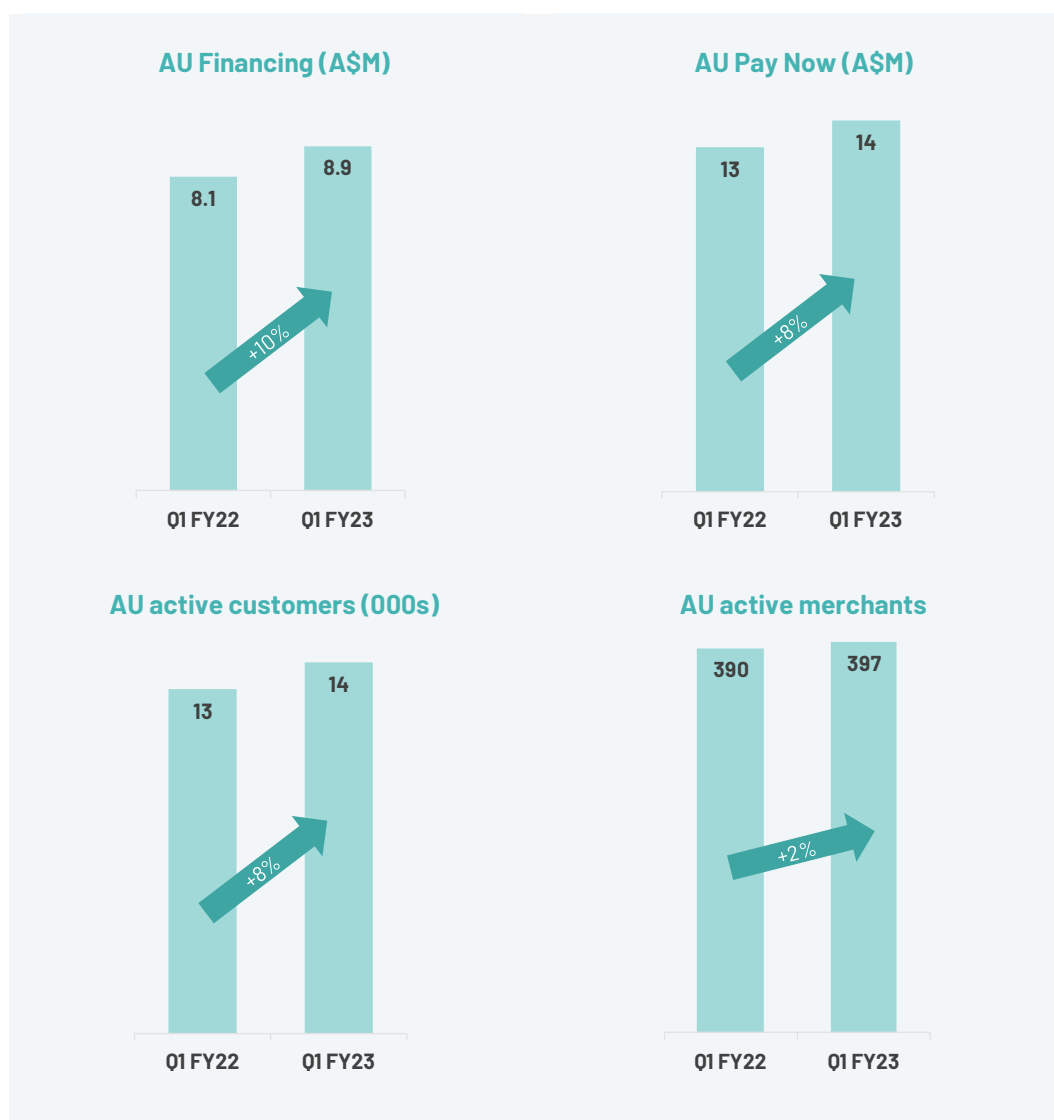
Financing – United States

As inflation and interest rates rise across the economy, Financing saw a strong start to FY23 with TTV growth of 26% in Q1 FY23 to US\$4.8 million (Q1 FY22: US\$3.8 million). QuickFee increased its rates further in early October 2022 to maintain net interest margins, as the Company's cost of borrowings increases with USD LIBOR.

New sales incentives have been implemented from Q1 FY23 to encourage the sales team to sign up firms specifically for the Financing product to take advantage of the current high demand for SME borrowing in the US economy.

US Financing revenue yields

TTV in US\$M Revenue ¹ in US\$000s	Q1 FY23	Q1 FY22	% +/-
TTV	4.8	3.8	+26%
Financing revenue (interest)	327	218	+50%
Payments and other revenue	20	22	-9%
Total revenue	347	240	+45%
<i>Total revenue/volume yield %</i>	<i>7.2%</i>	<i>6.3%</i>	<i>+0.9pts</i>

Operational update - Australia**AU Q1 FY23 TTV and trading metrics****Financing - Australia**

Q1 FY23 Financing TTV was up 10% on Q1 FY22 to A\$8.9 million, in line with the growth observed in previous quarters, as challenging economic conditions continue to drive borrowing demand. Active merchants in Q1 FY23 were 397, up 2% on Q1 FY22 (390), while active customers grew 8% in Q1 FY23 to 14,000 (Q1 FY22: 13,000). The higher growth in customers vs. merchants reflects the fact that the Australian market is mature, with less opportunity to sign up new accounting firms, however, borrowing demand among firms' clients is increasing - 14,000 clients transacting in Q1 FY23 is the highest quarterly number since pre-COVID levels in FY19.

Revenue yields have improved with increases in both interest revenue, and loan application and deferral fee revenue, again reflecting increasing activity.

AU Financing revenue yields

TTV in A\$M Revenue ¹ in A\$000s	Q1 FY23	Q1 FY22	% +/-
TTV	8.9	8.1	+10%
Financing revenue (interest)	989	820	+21%
Payments and other revenue	107	84	+27%
Total revenue	1,096	904	+21%
<i>Total revenue/volume yield %*</i>	<i>12.3%</i>	<i>11.2%</i>	<i>+1.1%pts</i>

* As interest revenue is spread over the life of loans (up to 12 months), in seasonally lower lending quarters such as Q1 each year, the revenue yield is higher than in higher lending quarters, as TTV is a more volatile denominator than the interest revenue numerator in the revenue yield formula.

Buy Now, Pay Later (BNPL) to be discontinued in the US

After a thorough review of its business and product strategies in both the US and Australia, QuickFee has made the decision to cease all BNPL operations in the US. The US BNPL product would have required continued substantial investment in order to deliver any material profit contribution. The Company believes it is in shareholders' best interests to allocate resources and management time to those professional services-focused products that will produce the greatest and most immediate contribution to revenue, operating profit and cash flow.

Consequently, all BNPL product development, sales and marketing activities have ceased. Existing US staff are now redeployed to the professional services ACH, Card and Financing products. There is not expected to be a material change to operating profit in FY23 as a result of this product discontinuation.

BNPL - Australia

The Company's BNPL product, branded as 'Q Pay Plan' in Australia (incorporating the sub-brand 'Jim's Pay Plan' for the Jim's Group franchise network) continues to gain traction in Australia. BNPL TTV in Australia increased by 150% in Q1 FY23 to A\$0.5 million (Q1 FY22: A\$0.2 million). The primary BNPL focus in Australia remains the homeowner services market.

Technology and operations

Technology development remains a cornerstone of QuickFee's success and strategy to maintain its advantage over competitors. Consistent with the Company's single focus on professional services, the current product roadmap contains:

- enhanced Connect functionality and further integrations with other CPA practice management systems;
- improved UX on our payment gateways for both our professional services firms and their clients, giving firms a single place to view all their payments and lending activity; and
- enhancements to our ACH and card tech to improve reliability of settlements for our firms and reduce third party costs.

Cash and liquidity

The Company maintains its borrowings at a minimum in order to reduce interest expense. This also means it minimises the amount of cash it holds. For example, the proceeds of the May 2022 capital raise were used directly to fund growth in the loan books, rather than drawing on borrowings and paying interest unnecessarily.

The table below summarises the movement in Total Liquidity in Q1 FY23 and available cash at the end of the quarter.

At 30 September 2022, total working capital has decreased by A\$2.2 million from 30 June 2022 (representing loan book growth funded out of cash reserves) and Total Liquidity has decreased A\$2.9 million to A\$13.4 million over the same period.

Total Liquidity plus growth capacity was A\$42.4 million, providing the Company sufficient liquidity to achieve run-rate profitability by the end of FY23 within existing cash and borrowing facilities.

A\$M	30 Sept 2022	30 June 2022	\$+/-
Cash and cash equivalents ¹	4.0	8.2	-4.2
Loan receivables and other net current assets ¹	30.5	27.2	+3.3
Borrowings ¹	(21.0)	(19.7)	-1.3
Net working capital (current assets less current liabilities)¹	13.5	15.7	-2.2
Cash and cash equivalents (A) ¹	4.0	8.2	-4.2
Available undrawn borrowings based on loan books (B) ¹	9.4	8.1	+1.3
Total Liquidity (A) + (B)¹	13.4	16.3	-2.9
Growth capacity (further borrowings facility headroom) ¹	29.0	27.7	+1.3
Total Liquidity plus growth capacity¹	42.4	44.0	-1.6

Upcoming Board changes

On 7 October 2022, the Company announced that Barry Lewin will not stand for re-election at the Company's Annual General Meeting ("AGM") to be held on 21 November 2022 and will retire from the Board at the conclusion of the AGM. Barry joined the QuickFee Board and became Chairman in May 2019. He will be succeeded as Executive Chairman by current Executive Director Dale Smorgon.

The Board thanks Barry for successfully leading QuickFee through its IPO in 2019 and during subsequent periods of transformation, including navigating the challenges presented by Covid-19.

Senior management and remuneration changes

On 1 August 2022, the Company announced that CEO Eric Lookhoff had resigned for personal reasons. The search for a US-based CEO is currently underway and progressing well.

While the search continues, Bruce Coombes, Dale Smorgon and Simon Yeandle continue to fulfil CEO responsibilities of the Company. On 5 August 2022, the Company announced that there had been no change to the remuneration of Dale Smorgon, Bruce Coombes or Simon Yeandle as a result of them assuming those responsibilities. The Board has now determined that Dale Smorgon will receive additional remuneration of \$15,000 per month and Bruce Coombes and Simon Yeandle will receive additional remuneration of \$7,500 each per month for the performance of their respective CEO responsibilities, from 1 August 2022 to 31 December 2022.

James Drummond, who transitioned from Chief Operating Officer to a consultant role in early July 2022, re-joined the Company in September 2022 in a full-time capacity. James is a qualified CPA and has extensive knowledge of the US professional services market, upon which QuickFee's US business was built.

Francesco Fabbrocino, former US-based CTO, remains an active technology adviser to the Company.

Equity participation from Directors and executives

On 26 September 2022, Executive Director Bruce Coombes purchased 118,371 QuickFee shares in QuickFee on market.

In addition to this purchase, Bruce Coombes has elected to receive 50% of his cash STI award for the FY23 year in shares under the Company's Performance Rights and Options Plan.

Non-executive Director Michael McConnell has similarly elected to receive his Director's fees for the period from 1 October 2022 to 30 June 2023 in shares.

Chief Financial Officer Simon Yeandle has also elected to receive 50% of his cash STI award for the FY23 year in shares.

Under the scheme, for the year ending 30 June 2023, directors, executives and staff may elect to receive part or all of their director's fees or cash STI awards in shares, issued at the 7-day VWAP as at 1 July 2022, together with a 25% incentive bonus also paid in shares at the same price. Further details of this scheme are set out in the remuneration report in the Company's FY22 Annual Report.

Grants of Performance Rights to Bruce Coombes and Michael McConnell will be subject to shareholder approval, to be sought at the Company's upcoming Annual General Meeting (AGM), which is scheduled to be held at 12pm on Monday 21 November 2022 (the Company expects to release the notice of AGM to the market in the coming days).

Outlook

Commenting on the outlook for FY23, Dale Smorgon said:

"The results achieved this quarter provides us further confidence that QuickFee is on the path to sustained profitability. The growth in our payments business in the US shows no sign of slowing down and with an increased focus on professional services firms, we can focus on scaling the most profitable parts of the business and we are more confident than ever about the opportunity this market presents."

"Our increased commitment to the development, marketing and sales of QuickFee Connect is already driving new professional firm sign-ups and increased usage of QuickFee's product within the existing customer base."

"As we take advantage of the prevailing US economic conditions and rising interest rates, which are driving demand for our Financing product, QuickFee is well placed to extend our status as a market leader in helping professional services firms get paid faster."

This announcement has been authorised for release by the directors.

– END –

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About QuickFee

QuickFee Limited (ASX:QFE) is a fast-growing financial technology company providing an innovative suite of online payment solutions and low risk loan origination offerings to professional and commercial services providers, helping customers access the advice and services they need, with the choice to pay now or over time.

QuickFee's fully integrated online payment platform and financing solutions enable merchants to accept payments by CC, EFT/ACH or a payment plan.

QuickFee currently operates in the United States and Australia. For more information, visit quickfee.com.

¹Figures shown are unaudited, from management accounts.

Glossary of terms

ACH	Automated Clearing House	A type of electronic bank-to-bank payment in the US, equivalent to EFT in Australia
Active customer	Any customer who has transacted with QuickFee in the period referred to	
Active merchant	Any merchant that has had a transaction with QuickFee in the period referred to	
BNPL	Buy Now, Pay Later	QuickFee's instalments product that enables a customer to pay their invoice in four instalments secured against the unused balance of their credit card
Connect	QuickFee's product name for its point-of-payment integration, e-invoicing, automated collections and receivables management product	
CC	Credit card	
Customer	The customer of a merchant, who will use one of QuickFee's payment options to pay their invoice	
EFT	Electronic funds transfer	An Australian domestic payments network that facilitates the transfer of funds electronically
Firm	A merchant. Typically used to describe a professional services firm (e.g. an accounting or law firm)	
Merchant	Term to describe QuickFee's primary customer who is the service provider, who signs up to use QuickFee's platforms and issues invoices	
QuickFee Financing	QuickFee's traditional merchant-guaranteed fee funding product that enable customers to take out a payment plan to pay their invoice, while QuickFee settle to the merchant immediately	
QuickFee Pay Now	QuickFee's payment gateway that enables customers to pay their invoice in full to the merchant with or without taking out a payment plan	
pcp	Previous corresponding period	For example, the pcp for the December 2021 quarter is the December 2020 quarter
Retention rate	$1 - (\text{life-to-date activation rate} \times \text{life-to-date engagement rate})$	
Total Liquidity	Cash and cash equivalents held, plus undrawn borrowings that are available to be drawn from QuickFee's asset-backed credit facility based on the quantum of eligible loan receivables.	
TTV	Total transaction value	The total value of all ACH/EFT and credit card Pay Now transactions (plus payment plans except where stated)