# Prospa releases H1 FY24 results

Prospa

Release date: 27 February 2024



Prospa Group Limited (ASX: PGL) ("Prospa" or the "Company" or the "Group") today announces its results for the half year ending 31 December 2023.

**Key updates[1]:**

- Total Originations[2] of $308.3 million were down 27.4% on pcp (H1 FY23: $424.8 million). New Zealand originations were down 32.3% on pcp to $63.0 million (H1 FY23: $93.1 million). Lower originations reflect the deliberate tightening of credit settings.
- Prospa achieved $4 billion of lifetime originations on 22 February 2024.
- Closing gross loans have reduced to $807.4 million in December 2023, down 5.6% on pcp (H1 FY23: $855.8 million) and down 6.4% on the previous half (H2 FY23: $862.2 million).
- Revenue before transaction costs of $145.4 million, a 7.4% increase on pcp (H1 FY23: $135.3 million), aided by maintaining yield at 34.9% (H1 FY23: 34.8%) in a high funding cost environment, notwithstanding a tightened risk appetite.
- The modelled provision increased by 0.8 percentage points to 9.2%, reflecting the seasoning of past origination cohorts. This was more than offset by a 2.1% reduction in the forward-looking economic overlay to 2.2%. Overall, the expected loss provision (11.4%) is down 1.3% from FY23 (12.7%), resulting in a $17.5 million non-cash benefit in the half.
- Net bad debts remained elevated at $53.7 million (H2 FY23: $54.0 million) and increased to 12.9% (annualised) of average gross loans (H2 FY23: 12.5%).
- Total employee and operating expenses[3] as a percentage of revenue improved to 34.7%, 9.8 percentage points lower than pcp (H1 FY23: 44.5%), with further cost reductions planned.
- Statutory profit before tax for the half increased to $9.0 million, compared to a $6.3 million loss in pcp (H1 FY23). This increase is predominantly driven by the non-cash ECL provision release of $17.5 million in the half.
- EBITDA[4] for the half was a $13.7 million profit, an increase on pcp (H1 FY23: $0.2 million). EBITDA, excluding the non-cash ECL provision release of $17.5 million, was a $3.8 million loss (H1 FY23: $29.8 million profit).
- Operating cash flow[5] of $37.9 million was down 19.5% on pcp (H1 FY23: $47.0 million).

[1] Unaudited management accounts. Numbers are subject to rounding. All references to $ are in AUD, with NZ figures converted at a rate of 0.928145 as at 31 December 2023.
[2] Small retrospective changes in origination figures may occur due to backdated cancellations or modifications to support customer outcomes.
[3] Includes capitalised costs.
[4] Earnings before interest on lease liabilities, corporate interest, tax, depreciation, amortisation, share-based payments, FX gain/loss, impairment of intangibles, and restructuring costs. EBITDA is non-International Financial Reporting Standards information.
[5] Operating cash flow before movement in loans advanced.

- Total cash ended at $117.2 million, of which $30.9 million was unrestricted[6] (FY23: $96.9 million total, $25.8 million unrestricted).
- Acquisition of Zip Business's remaining performing Australian business loans, comprising $18.4 million in commercial loans to 370 small businesses.

**Greg Moshal, Co-Founder and Chief Executive Officer, said:**

"Prospa has continued to uplift its credit risk management to help navigate a challenging economic environment. We are also delivering on our product and technology roadmap, with all new customers now originating on our new platform.

We're pleased to acquire Zip Business's Australian performing loan book, which enables us to execute on opportunities that further unleash the potential of small business."

**H1 FY24 Financials**

Originations were $308.3 million, down 27.4% on pcp (H1 FY23: $424.8 million), reflecting the deliberate tightening of credit settings, which continued into H1 FY24. New Zealand originations were $63.0 million, down 32.3% on pcp (H1 FY23: $93.1 million).

On 22 February 2024, Prospa reached $4 billion in lifetime originations.

Closing gross loans ended at $807.4 million, down 5.6% on pcp (H1 FY23: $855.8 million) and down 6.4% on the previous half (H2 FY23: $862.2 million).

Total revenue increased 7.4% on pcp to $145.4 million (H1 FY23: $135.3 million), and portfolio yield was stable at 34.9% (H1 FY23: 34.8%).

Active customers of 20,900 were 5.4% up compared to pcp (H1 FY23: 19,900) while maintaining a net promoter score (NPS) above 70.

Expected loss provisioning has decreased this half to 11.4% of closing gross loans (FY23: 12.7%), driven by a reduction in the forward-looking economic overlay to 2.2% (FY23: 4.2%) offset by an increase in the modelled provision to 9.2% (FY23: 8.5%). Early loss indicators have improved with this half's origination cohorts compared to previous halves. The August 2023 cohort's 30+ days past due at four months on book at 1.0% is significantly lower than the peak of 6.5% in August 2022. This is the latest available cohort data as of 31 December 2023.

Whilst continuing to invest in product and technology, the Group's cash operating cost base, measured by total employee and operating costs as a percentage of revenue, improved to 34.7% from 44.5% in H1 FY23. Further cost reductions are planned to follow.

Statutory profit before tax for the half was $9.0 million, compared to a $6.3 million loss in pcp (H1 FY23). This increase is predominantly driven by the non-cash ECL provision release of $17.5 million in the half.

EBITDA for the half was a $13.7 million profit, an increase on pcp (H1 FY23: $0.2 million). EBITDA, excluding the non-cash ECL provision release of $17.5 million, was a $3.8 million loss (H1 FY23: $29.8 million profit).

Operating cash flow of $37.9 million was down 19.5% on pcp (H1 FY23: $47.0 million).

[6] Excluding $12 million of corporate debt.

**Portfolio Management & Funding**

Net bad debts have remained elevated at $53.7 million (H2 FY23: $54.0 million). As a % of average gross loans, they have increased to 12.9% (annualised) (H2 FY23: 12.5%), driven mainly by the reduction in the loan book size.

As interest rates continue to rise, Prospa's cost of funds increased to 9.7% for the first half of FY24 (H1 FY23: 6.1%), causing the Net Interest Margin (NIM)[7] to reduce to 26.1% (H1 FY23: 29.3%).

On 15 December 2023, Prospa exercised its option to call the PROSPArous Trust 2021-1 its inaugural term ABS issuance, the first of its kind in Australia. Prospa intends to undertake its third term ABS in H2 FY24 as part of its programmatic approach to this market.

As of 31 December 2023, Prospa had access to $858.9 million of secured funding facilities, of which $114.2 million was undrawn. Total cash was $117.2 million, of which $30.9 million was unrestricted[8] (FY23: $96.9 million total, $25.8 million unrestricted).

**Outlook**

While the economic outlook across Australia and New Zealand remains uncertain, early loss indicators have reduced since their peak from mid-CY22 originations cohorts.

Prospa continues to monitor our customer base for risks and opportunities, as demonstrated by purchasing the Zip Business loans. Our recently improved premium customer offering is receiving encouraging early feedback from the market.

Prospa remains committed to supporting our customers and partners and increasing shareholder value.

**Scheme Implementation Deed**

On 26 February 2024 the Group entered into a Scheme Implementation Deed with a consortium led by Salter Brothers ("Salkbridge" or the "Consortium"), under which 100% of Prospa shares would be acquired under a Scheme of Arrangement. The Scheme is subject to various conditions, including approval by Prospa Shareholders.

Please refer to the announcement and the Scheme Implementation Deed attached to it for further information on the transaction (see https://investor.prospa.com/investor-centre/).

CEO Greg Moshal, CRO Beau Bertoli and CFO Ross Aucutt will host a webinar with live Q&A at 12:30 pm today (AEDT) to discuss the H1 FY24 results.

To register, please click here. You will receive a calendar notification with dial-in details and the webinar link. Investors can submit questions prior to melanie@nwrcommunications.com.au or do so via the Q&A function on Zoom during the webinar.

This announcement has been authorised for release by the Board.

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[7] Net Interest Margin includes bank interest and referral income received. NIM is equal to (total revenue less funding costs) / average gross loans, annualised.
[8] Excluding the $12 million fully drawn corporate debt facility.

**ENDS**

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### About Prospa

Prospa Group Limited (ASX: PGL) is a leading fintech with a commitment to unleash the potential of small business in Australia and New Zealand. We do this through an innovative approach to developing simple, stress free and seamless financial management products and services.

Since 2012, we have provided more than $3.9 billion of funding to support the growth and operations of thousands of small businesses. We also work with more than 16,000 trusted brokers, accountants, and aggregator partners, to deliver flexible funding solutions to their clients.

At Prospa, we're serious about our impact on our people, communities, and the planet. Our core company value of One Team is backed by our recognition as a Great Place To Work in Australia and a WORK180 Endorsed Employer for Women.

For more information about Prospa, visit prospa.com or investor.prospa.com.