

Trading on track as sector interest grows

Mad Paws Holdings Ltd (ASX:MPA) has announced a trading update to November 2021 with rolling 12-months GMV (including both marketplace and subscription revenue) +92% on the PCP. Looking at our numbers and allowing for the seasonally strong December month this guidance is in-line with our current estimates. While COVID-related lockdowns impacted marketplace bookings for the first four months of FY22, a strong recovery is evident from November with GMV in the last week of November +~50% on both FY21 and FY20. Travel from the origin is a key driver of marketplace bookings/GMV and should only improve going into CY22 cycling a weak base with a larger customer pool. Interest and appreciation of the sector's growth potential continues to increase, evidenced by recent capital raisings from Lyka Pet (\$6.5m in July) and Pet Circle (\$125m in December). Increased pet ownership and the humanisation of pets are cited by both companies as a driver of growth opportunities, and MPA is no different. While MPA continues to consolidate (Waggy Club and Sash Beds), it is also a potential acquisition target given its growing customer base.

Business model

MPA operates an online marketplace which connects service providers with pet owners, predominantly for dog hosting, dog sitting and dog visits. MPA charges a 7% booking fee to "customers" and a 20% commission on the total service fee (less the booking fee) for service providers. The group operates a negative working capital model, with payment received pre-service provision and released post-service provision. The group has had ~117k unique customers since launch in 2015 and is looking to utilise this growing database to offer other pet services such as food delivery and insurance to capture a greater share of a conservatively estimated \$4.0b addressable market.

Interest in the pet care sector continues to grow

The thematics of increased pet ownership, the humanisation of pets and vertical extension opportunities to a loyal customer base has seen continued activity in the sector over recent months. Lyka Pet successfully raised \$6.5m in a Series A raise in July to build more manufacturing capacity for its fresh dog food offering, while Pet Circle completed a \$125m Series C raise in December valuing the group at over A\$1bn. MPA is well positioned in this space to participate in consolidation while also being a potential target, with customer numbers as at September 2021 ~117k. On the consolidation front MPA has added "Sash Beds" to its offering with a \$275k purchase finalised this month.

Valuation of \$0.35/share or \$76m market cap

Our DCF valuation for MPA remains \$0.35/share diluted for all in-the-money options. The combination of a growing customer pool, growing penetration of this pool for new products/services, and lower longer-term customer acquisition costs drives this valuation and offers significant upside for both penetration rates and new products/services. Since our initiation, **Has the currency to be the top dog**, on 4-Nov, the domestic peer group has declined an average 8% and US peer Rover 5%. MPA continues to trade at a 30% discount to closest peer Airtasker (ASX:ART) and a 40% discount to US peer Rover (NASDAQ:ROVR).

Historical earnings and RaaS estimates (in A\$m unless otherwise stated)

Year end	GMV	Revenue	EBITDA reported	NPAT adjusted	EPS (adj) (c)	P/E (x)	EV/Sales (x)
06/21a	13.1	2.9	(4.7)	(5.1)	(0.04)	nm	6.6
06/22e	14.7	8.7	(6.8)	(7.1)	(0.03)	nm	5.1
06/23e	23.0	14.4	(3.5)	(3.7)	(0.02)	nm	3.3
06/24e	33.0	22.4	0.6	0.2	0.001	201.1	2.1

Source: Company data, RaaS estimates FY22e, FY23e and FY24e

Software & Services

9th November 2021

Share Details

ASX code	MPA
Share price	\$0.225
Market capitalisation	\$49.0M
Shares on issue	220.0M
Net cash at 30-Sep-21	\$9.9M
Free float	~44.3%

Share Performance (since listing)



Upside Case

- International travel returns to a larger client base
- New product offerings exceed expectations as a % of the existing client base
- Industry consolidation

Downside Case

- Industry competition accelerates and/or offshore player enters
- New product offerings fail to gain scale
- Peer multiples contract, impacting valuation

Board of Directors

Jan Pacas	Non-Executive Chairman
Justus Hammer	CEO/Executive Director
Mike Hill	Non-Executive Director
Josh May	Non-Executive Director
Vicki Aristodopoulos	Non-Executive Director

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Investment Case Revisited

The investment case for MPA has both near-term and long-term drivers, and is summarised below:

- Unlike most “on-line” e-commerce sites, lockdowns are a net negative for MPA as less travel and more working from home reduces the need for the core services of pet hosting, sitting and visits. Ex-lockdown bookings have been strong offering revenue leverage opportunities for much of CY22 with an expanded customer base;
- The return of international travel offers further upside for MPA given the higher average days per booking relative to domestic travel. We have not assumed a return for international travel (in the form of higher average transaction values) until FY23;
- MPA has built a database of both pet owners (~117k using this site since 2015) and pet service providers (~30k vetted suppliers on the platform) who are regularly sent pet content to continue engagement and provide a ready audience for additional pet products and services. The current customer base represents a fraction (~1.7%) of the estimated 6.3m dogs in Australia as at 2021;
- New products/services marketed to existing customers are in their infancy but already showing promise with 32% ARR and 42% subscriber growth in Q1 FY22 alone. The Waggly Club (treats and toys subscription business) in particular has accelerated subscriber numbers since being acquired in June 2021;
- The group is well funded to deliver on its expansion plans with ~\$9.9m net cash as at September 2021. Being listed on the ASX also provides both currency and transparency for industry consolidation, be it as an acquirer or target, as the Waggly Club and Sash Bed acquisitions have proven;
- Our medium-term earnings forecasts assume a “cumulative customer pool” equivalent to just 4.8% of the estimated number of dogs in Australia by FY25 or 300k. Our implied penetration of this customer pool across new product/services in general is 5% or below, providing plenty of upside in our estimates.

DCF Valuation \$0.35/share (market cap of A\$76m)

Our DCF remain \$0.35cps which implies:

- ~10% premium to closest listed peer Airtasker (ASX:ART) in terms of business model on the EV/GP basis, which is reasonable considering the relative COVID-related impacts and operating history of the two;
- Small EV/GP discount to US-listed peer Rover (NASDAQ:ROVR), which is currently trading at 14.5x EV/Revenue. In our view MPA trails ROVR in market penetration by at least three years.

Since our initiation the share price of (ASX:ART) is down 18% and (NASDAQ:ROVR) down 5% while MPA is unchanged.

Exhibit 19: MPA Financial Summary

Mad Paws (MPA.AX)						Share price (8 December 2021)						A\$	0.225
Profit and Loss (A\$m)						Interim (A\$m)		H121	H221	H122	H222	H123	H223
Y/E 30 June	FY20A	FY21A	FY22F	FY23F	FY24F	Revenue	1.0	1.8	3.8	5.0	6.4	8.0	
Revenue	2.0	2.9	8.7	14.4	22.4	EBITDA	(1.4)	(3.3)	(3.7)	(3.2)	(2.1)	(1.4)	
Gross profit	2.0	2.3	5.1	8.5	13.2	EBIT	(1.6)	(3.4)	(3.8)	(3.3)	(2.3)	(1.5)	
GP margin %	100.0%	80.8%	57.9%	58.8%	59.2%	NPAT (normalised)	(1.6)	(3.5)	(3.8)	(3.3)	(2.2)	(1.5)	
Underlying EBITDA	(2.3)	(4.7)	(6.8)	(3.5)	0.6	Minorities	0.0	0.0	0.0	0.0	0.0	0.0	
Depn	(0.2)	(0.2)	(0.3)	(0.3)	(0.3)	NPAT (reported)	(1.6)	(3.5)	(3.8)	(3.3)	(2.2)	(1.5)	
Amort	0.0	0.0	0.0	0.0	0.0	EPS (normalised)	(0.011)	(0.025)	(0.017)	(0.015)	(0.010)	(0.007)	
EBIT	(2.5)	(4.9)	(7.1)	(3.8)	0.3	EPS (reported)	(0.011)	(0.025)	(0.015)	(0.015)	(0.010)	(0.010)	
Interest	(0.0)	(0.1)	0.1	0.1	0.1	Dividend (cps)	0.000	0.000	0.000	0.000	0.000	0.000	
Tax	0.0	0.0	0.0	0.0	(0.1)								
NPAT	(2.5)	(5.1)	(7.1)	(3.7)	0.2	Operating cash flow	na	na	na	na	na	na	
Adjustments	0.0	0.0	0.0	0.0	0.0	Free Cash flow	na	na	na	na	na	na	
Adjusted NPAT	(2.5)	(5.1)	(7.1)	(3.7)	0.2	Divisionals	H121	H221	H122	H222	H123	H223	
Abnormals (net)	0.0	(1.0)	0.0	0.0	0.0	Marketplace	1.0	1.4	1.3	1.9	2.4	2.8	
NPAT (reported)	(2.5)	(6.1)	(7.1)	(3.7)	0.2	Dinner Bowl	-	0.4	1.0	1.2	1.6	2.3	
Cash flow (A\$m)						Insurance	-	0.0	0.0	0.0	0.1	0.1	
Y/E 30 June	FY20A	FY21A	FY22F	FY23F	FY24F	Waggly		0.1	1.3	1.8	2.3	2.8	
EBITDA (inc cash rent)	(2.4)	(4.8)	(7.0)	(3.6)	0.5	Total Revenue	1.0	1.9	3.8	5.0	6.4	8.0	
Interest	(0.0)	(0.1)	0.1	0.1	0.1	Gross profit	1.0	1.3	2.1	2.9	3.8	4.7	
Tax	0.3	0.3	0.1	0.3	0.0	Underlying GP Margin %	100.0%	70.7%	56.8%	59.8%	60.2%	58.8%	
Working capital changes	(0.1)	0.9	(0.1)	0.7	0.8	Operating Costs							
Operating cash flow	(2.2)	(3.7)	(6.9)	(2.6)	1.3	Employment	1.0	2.2	3.0	3.0	3.3	3.3	
Mtce capex	(0.4)	(0.3)	(0.7)	(0.8)	(0.9)	Marketing	0.8	1.3	1.5	1.8	1.2	1.3	
Free cash flow	(2.6)	(4.0)	(7.6)	(3.4)	0.4	Other	0.6	1.0	1.3	1.3	1.4	1.4	
Growth capex	0.0	0.0	0.0	0.0	0.0	Total costs	2.4	4.6	5.8	6.1	5.9	6.0	
Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0								
Other	0.0	(1.1)	0.0	0.0	0.0	EBITDA	(1.4)	(3.3)	(3.7)	(3.2)	(2.1)	(1.4)	
Cash flow pre financing	(2.6)	(5.0)	(7.6)	(3.4)	0.4	EBITDA margin %	(147.8%)	(173.4%)	(97.2%)	(63.8%)	(33.4%)	(16.9%)	
Equity	0.0	0.0	0.0	0.0	0.0	Margins, Leverage, Returns		FY20A	FY21A	FY22F	FY23F	FY24F	
Debt	0.0	0.0	0.0	0.0	0.0	EBITDA margin %		(115.1%)	(164.9%)	-78.2%	-24.2%	2.7%	
Net Dividends paid	0.0	0.0	0.0	0.0	0.0	EBIT margin %		(125.1%)	(173.5%)	-81.5%	-26.4%	1.3%	
Net cash flow for year	(2.6)	(5.0)	(7.6)	(3.4)	0.4	NPAT margin (pre significant items)		(127.0%)	(178.1%)	-80.8%	-25.9%	1.1%	
Balance sheet (A\$m)						Net Debt (Cash)	-1.0	-12.5	-5.1	-2.1	-2.8		
Y/E 30 June	FY20A	FY21A	FY22F	FY23F	FY24F	Net debt/EBITDA (x)	(x)	0.4 x	2.7 x	0.8 x	0.6 x	-4.6 x	
Cash	1.0	12.5	5.1	2.1	2.8	ND/ND+Equity (%)	(%)	48.0%	47.1%	42.7%	39.4%	45.1%	
Accounts receivable	0.0	0.1	0.2	0.3	0.4	EBIT interest cover (x)	(x)	n/a	n/a	n/a	n/a	-0.2x	
Inventory	0.0	0.2	0.4	0.6	0.9	ROA		(113.9%)	(52.0%)	(54.0%)	(46.2%)	3.9%	
Other current assets	0.2	0.4	0.2	0.3	0.3	ROE		nm	nm	nm	nm	nm	
Total current assets	1.2	13.2	6.0	3.3	4.5	ROIC		nm	nm	nm	nm	nm	
PPE	0.0	0.0	0.0	0.0	0.0	NTA (per share)		0.00	0.07	0.02	0.00	0.00	
Goodwill	0.8	3.6	3.6	3.6	3.6	Working capital		-0.3	-1.0	-0.7	-1.2	-1.6	
Right of use asset	0.2	0.0	0.0	0.0	0.0	WC/Sales (%)		(13.0%)	(34.9%)	(8.1%)	(8.1%)	(7.4%)	
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	Revenue growth		26.7%	42.6%	207.0%	64.2%	55.6%	
Other	0.0	0.1	0.0	0.0	0.0	EBIT growth pa		nm	n/a	n/a	n/a	(107.7%)	
Total non current assets	1.0	3.7	3.6	3.6	3.6	Pricing		FY20A	FY21A	FY22F	FY23F	FY24F	
Total Assets	2.2	16.8	9.6	6.9	8.1	No of shares (y/e)	(m)	114.6	139.0	219.4	219.4	219.4	
Accounts payable	0.3	1.3	1.3	2.1	3.0	Weighted Av Dil Shares	(m)	114.6	139.0	219.4	219.4	219.4	
Short term debt	0.0	0.0	0.0	0.0	0.0								
Contract liabilities	0.0	0.1	0.1	0.1	0.1	EPS Reported	cps	(0.022)	(0.044)	(0.032)	(0.017)	0.001	
Lease liabilities/other	0.6	1.4	1.3	1.5	1.5	EPS Normalised/Diluted	cps	(0.022)	(0.037)	(0.032)	(0.017)	0.001	
Total current liabilities	1.0	2.8	2.6	3.6	4.5	EPS growth (norm/dil)		nm	65%	n/a	n/a	-107%	
Long term debt	0.0	0.0	0.0	0.0	0.0	DPS	cps	0.000	0.000	0.000	0.000	0.000	
Other non current liabs	0.2	0.1	0.1	0.1	0.1	DPS Growth		n/a	n/a	n/a	n/a	n/a	
Total long term liabilities	0.2	0.1	0.1	0.1	0.1	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%	
Total Liabilities	1.1	2.9	2.7	3.7	4.6	Dividend imputation		30	30	30	30	30	
Net Assets	1.1	14.0	6.9	3.2	3.5	PE (x)		nm	-	6.2	-	13.3	
						PE market		18	18	18	18	18	
Share capital	10.1	36.9	36.9	36.9	36.9	Premium/(discount)		nm	nm	nm	nm	nm	
Reserves	0.7	(1.3)	(1.3)	(1.3)	(1.3)	EV/EBITDA		(10.8)	(4.0)	(6.5)	(13.6)	0.0	
Retained Earnings	(9.7)	(21.7)	(28.7)	(32.5)	(32.2)	FCF/Share	cps	(2.251)	(2.857)	(3.347)	(1.398)	0.340	
Minorities	0.0	0.0	0.0	0.0	0.0	Price/FCF share		(9.996)	(7.876)	(6.722)	(16.090)	66.248	
Total Shareholder funds	1.1	14.0	6.9	3.2	3.4	Free Cash flow Yield		(5.2%)	(8.0%)	(14.9%)	(6.2%)	1.5%	

Source: Company data, RaaS estimates

FINANCIAL SERVICES GUIDE

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Corporate Authorised Representative, number 1248415

of

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