

## Selling hope to low doc consumers

Zebit Inc (ASX:ZBT) is an ecommerce company offering US credit-challenged consumers a one-stop shopping experience coupled with the ability to repay over six months. Zebit was founded in late 2015 to address major structural problems in the US that confront around 120m financially underserved consumers who have low credit scores and often live pay check to pay check. The company is seeking to radically disrupt legacy credit options such as rent-to-own, lease-to-own or taking out an instalment or payday loan to buy a product. Unlike BNPL companies, Zebit is both merchant of record and the credit provider in every transaction. It uses its fraud and credit risk management systems to validate the customer's identity and creditworthiness. Approved customers make a down payment at checkout, depending on their credit risk, and then pay the remainder in instalments over six months. Zebit listed on the ASX in October 2020 after raising A\$35m at A\$1.58 per Chess Depository Interest (CDI) to give a market capitalisation at listing of \$171m.

### Business model

Zebit generates revenue by selling physical products and e-certificates on the Zebit Marketplace. The Zebit Marketplace is a closed e-commerce website that is only available to consumers who are underwritten and accepted by the company. Once a consumer applies, the company's proprietary fraud, creditworthiness and ID management models validate the consumer's identity, income, and creditworthiness. If approved, the platform automatically allocates a store credit line and assigns a down payment percentage at checkout. Down payment percentages range from 14.5% to 35.0%. The remaining portion is financed in equal instalments over six months based on pay frequency. The company earns a margin from the difference between the wholesale price of the product and the price at which it sells it. Because Zebit is a merchant of record, its net transaction margins are typically 5-10x greater than pure play BNPL. Zebit has more than 90,000 SKUs across more than 25 product categories including electronics, appliances, home décor, furniture and beauty. Zebit has more than 791,000 registered users and operates in all 50 US states.

### FY20 exceeds prospectus forecasts, H1 FY21 guidance affirmed

Zebit has beaten its FY20 prospectus forecasts across almost every metric. FY20 revenue was US\$87.7m, compared with the prospectus forecast for US\$82.2m; the EBITDA loss was US\$3.7m versus prospectus of US\$7.6m and US\$10.8m in FY19; bad debt reserve as a percentage of revenue declined to 10.5% from 17.4% in FY19 and beat the prospectus forecast of 14.9%; the average monthly spend of active customers increased to US\$410 from US\$370 in FY19 and beat the prospectus forecast of US\$375 and the contribution margin increased to 15.8% from 8.4% in FY19 and the forecast of 12.3%. The company's cumulative registered users in FY20 was 791k, in line with the forecast for 807k but up from the 637k at 30 June. Repeat customers accounted for 80.2% of revenue in FY20, up from 71.7% in FY19. Zebit affirmed its expectation to achieve the H1 FY21 prospectus forecast for US\$55.1m revenue.

### Look to hybrid eCommerce and BNPL as peers

There is no company quite like Zebit in Australia, however we look at both eCommerce players such as Kogan and Temple & Webster as well as BNPL operators such as OpenPay and Sezzle.

#### Pro Forma Historical earnings and ratios

Year end	Revenue (US\$m)	Gross profit (US\$m)	EBITDA (US\$m)	NPAT (US\$m)	EPS (c)	Bad debt (%)	EV/Sales (x)
12/17a	20.8	3.89	(9.74)	(10.27)	na	18.2%	na
12/18a	45.3	10.49	(9.66)	(10.21)	na	15.9%	na
12/19a	85.5	22.00	(10.80)	(12.40)	(0.77)	17.4%	na
12/20a	87.7	23.00	(3.70)	(7.41)	(0.24)	10.5%	1.46

Source: Company data

## Online retailing

12<sup>th</sup> March 2021

### Share details

ASX Code	ZBT
CDI price	\$1.29
Market Capitalisation	\$139.2M
Shares on issue	108.3M
Net cash at 31/12/2020	~\$10.7M
Free float	68.38%

### Share performance (since listing)



### Upside Case

- Purpose-led company with a large TAM seeking to change an exploitive system
- Very high repeat revenue which reduces bad debt levels
- Key financier, Bastion, has increased its credit facility to US\$35m from US\$15m

### Downside Case

- Working capital risk if customers fail to pay
- Competing against BNPL and eCommerce companies
- Ability to reach scale and generate cashflow

### Catalysts/upcoming events

Delivering on its H1 FY21 guidance for revenue of US\$55.1m; Delivering its FY21 revenue guidance of US\$109.1m & 1.071m customers

### Comparable companies (Aust/NZ)

Kogan (ASX:KGN), Temple & Webster (ASX:TPW)  
OpenPay (ASX:OPY), Sezzle (ASX:SZL)

### Top 5 shareholders

Crosslink Capital Inc	23.48%
Wildcat Venture Partners	9.86%
Leapfrog Investments	6.92%
Miriam Rivera	6.45%
Mark Strome	5.45%

### Company contacts

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# FINANCIAL SERVICES GUIDE

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**AFSL 456663**

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