

## Continued growth despite disruptions

Mad Paws Holdings Ltd (ASX:MPA) has provided a December quarter/half-year trading update with the release of its 4C quarterly cashflow report. The key take out from our perspective is that despite continued COVID-related disruptions over the half, new customers continued to grow (+21% on June 2021 to 133k), as did marketplace GMV and revenue at +39%. Waggly was a first-time contributor for a full half, helping to boost total revenue growth to ~240%. The cash position remains strong at \$8.9m and marketing costs well managed despite a significant push for Waggly and Dinner Bowl subscription customers. While disruption remains a possibility into CY22, the group will cycle disruption for most of the year with an ever-growing customer base. We make modest downgrades to revenue (-5%-8%) on lower subscription assumptions but reduce marketing costs but a similar amount, resulting in little change to EBITDA/EPS. Despite a significant sell-off in loss-making “tech” stocks since our initiation (November 2021), the MPA share price is unchanged against an average domestic peer decline of 25% and US peer Rover (-43%). Early market penetration, valuation and growth despite disruption are all reasons for this strong performance.

### 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 ~133k 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.

### Key take outs from the December quarter update

Despite ongoing COVID-related disruptions to both booking and average revenue/booking, MPA continues to grow both customer numbers (+21% from June 2021) and underlying GMV (+39% for the half and +45% for the December quarter). Costs are slightly below forecast as we had forecast aggressive marketing costs for subscription businesses, and as a result subscription revenue growth was slightly below forecast. The cash balance remains healthy at \$8.9m providing a runway for growth and acquisition. We have reduced both revenue and marketing cost assumptions over the forecast period resulting in little change to EBITDA/EPS. In a “normal” operating environment MPA has significant leverage to additional customer numbers, higher average booking spend and lower cancellation rates.

### Valuation remains \$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, cross-selling new products/services into this pool, and lower longer-term customer acquisition costs drives this valuation, with upside from both penetration rates and new products/services. Since our Initiation Report, [Has the currency to be the top dog](#), on 4-Nov, nearest domestic peers (ASX:ART) and (ASX:Z2U) have declined 32% while US peer Rover has declined 47% (NASDAQ:ROVR). MPA over the same period is unchanged and in-line with the ASX-200. Near-term EV/revenue multiple discounts have narrowed as a result, with MPA now trading in-line with our assessed peers.

#### 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   | 12.1 | 2.9     | (4.7)           | (5.1)         | (0.04)         | nm      | 6.1          |
| 06/22e   | 15.7 | 7.7     | (7.1)           | (7.3)         | (0.03)         | nm      | 5.5          |
| 06/23e   | 25.2 | 13.1    | (3.7)           | (4.0)         | (0.02)         | nm      | 3.5          |
| 06/24e   | 36.2 | 20.8    | 0.4             | 0.1           | 0.001          | 384.6   | 2.1          |

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

## Software & Services

20<sup>th</sup> January 2022

### Share Details

|                       |         |
|-----------------------|---------|
| ASX code              | MPA     |
| Share price           | \$0.215 |
| Market capitalisation | \$47.0M |
| Shares on issue       | 220.0M  |
| Net cash at 30-Dec-21 | \$8.9M  |
| 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 Aristidopoulos | Non-Executive Director |

### Company Contacts

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## Key 4C Take Outs

Key observations from the December quarter/half-year update and implications for our current estimates are summarised below:

- Marketplace GMV and revenue growth for the half in-line with forecast at ~39% (to \$6.8m and \$1.35m respectively). Lockdowns in Q1 and Omicron in Q2 were clearly disruptive to travel plans and therefore pet minding services, so in this context it was a solid result.
- Subscription/e-commerce revenues were below estimates but still solid, ironically impacted by a better-than-expected campaign which saw Dinner Bowl production capacity tested. H1 FY22 was the first-time contribution for Waggly for a full 12 months.
- Marketing costs were slightly lower than expected, but we had expected a significant increase in spend as management accelerated its focus on gaining subscription customers for Waggly and Dinner Bowl. Customer acquisition costs are expected to fall materially over time.
- Other operating costs look to be in-line with forecasts and higher than the PCP due to the ASX listing and investment in growth.

### Exhibit 1: MPA quarterly/half-year cashflow summary – FY22

| Variable (A\$000')                     | Q1 FY22       | Q2 FY22      | H1 FY22       | Comments                                      |
|----------------------------------------|---------------|--------------|---------------|-----------------------------------------------|
| <b>Cash receipts</b>                   | <b>2,259</b>  | <b>5,963</b> | <b>8,222</b>  | <b>Q2 is seasonally the strongest quarter</b> |
| <b>Out goings</b>                      | <b>4,978</b>  | <b>6,833</b> | <b>11,811</b> |                                               |
| Cost of services sold/commissions      | 2,553         | 3,884        | 6,437         |                                               |
| Staff and administration               | 1,512         | 1,605        | 3,117         |                                               |
| Marketing/advertising                  | 516           | 962          | 1,478         |                                               |
| Admin/corporate                        | 397           | 382          | 779           |                                               |
| <b>Net cash - operating activities</b> | <b>-2,719</b> | <b>-870</b>  | <b>-3,589</b> | <b>Revenue leverage seen Q2</b>               |
| Equity issues                          | 0             | 0            | 0             |                                               |
| Gov't grants                           | 299           | 61           | 360           |                                               |
| Intellectual property                  | 121           | 248          | 369           |                                               |
| Net cash from investing activities     | 178           | -187         | -9            |                                               |
| Cash @ beginning                       | 12,486        | 9,917        | 12,486        |                                               |
| Cashflow                               | -2,541        | -1,057       | -3,598        |                                               |
| Financing activities                   | -28           | 0            | -28           |                                               |
| <b>Cash at end</b>                     | <b>9,917</b>  | <b>8,860</b> | <b>8,860</b>  | <b>Strong cash balance at December 2021</b>   |

Source: Company announcements

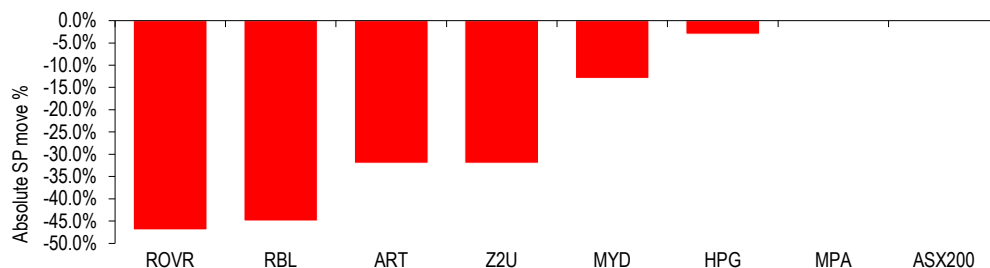
## Peer Performance Since RaaS Initiation

Our initiation in early November 2021 almost coincided with the beginning of the sell-off in non-profitable “tech” stocks. The average domestic peer has declined 25% and US peer Rover (NASDAQ:ROVR) 47% during this period, while closest domestic peers Airtasker (ASX:ART) and Zoom2u (ASX:Z2U) have both declined 32%.

MPA is unchanged and as a result a significant outperformer over this period, we think for the following reasons:

- As highlighted at initiation MPA was trading at a significant EV/revenue discount to key peers, cushioning the decline. This discount has now narrowed to almost parity, which may limit near-term share price performance.
- COVID has been a big negative for MPA in terms of cancellations and average revenue per transaction, with near-term multiples arguably not reflective of “normal” conditions.
- In relative terms we feel MPA is in the very early stages of market penetration with a customer pool representing just an estimated 2.1% of the total dog population in Australia.

**Exhibit 2: Absolute share price performance – 4/11/21 – 19/1/22**



Source: ASX

## 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 (~133k 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 (~2.1%) 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. 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 ~\$8.9m net cash as at December 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.

### Exhibit 3: MPA Financial Summary

| Mad Paws (MPA.AX)           |        |        |        |        |        | Share price (19 January 2022)       |          |          |          |         |          | A\$      | 0.215 |
|-----------------------------|--------|--------|--------|--------|--------|-------------------------------------|----------|----------|----------|---------|----------|----------|-------|
| 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      | 3.3      | 4.3     | 6.0      | 7.1      |       |
| Revenue                     | 2.0    | 2.9    | 7.7    | 13.1   | 20.8   | EBITDA                              | (1.4)    | (3.3)    | (3.8)    | (3.3)   | (2.0)    | (1.7)    |       |
| Gross profit                | 2.0    | 2.3    | 4.8    | 8.2    | 13.0   | EBIT                                | (1.6)    | (3.4)    | (3.9)    | (3.5)   | (2.1)    | (1.9)    |       |
| GP margin %                 | 100.0% | 80.8%  | 62.0%  | 62.2%  | 62.4%  | NPAT (normalised)                   | (1.6)    | (3.5)    | (3.9)    | (3.4)   | (2.1)    | (1.9)    |       |
| Underlying EBITDA           | (2.3)  | (4.7)  | (7.1)  | (3.7)  | 0.4    | 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)    | (3.9)    | (3.4)   | (2.1)    | (1.9)    |       |
| Amort                       | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | EPS (normalised)                    | (0.011)  | (0.025)  | (0.018)  | (0.016) | (0.010)  | (0.009)  |       |
| EBIT                        | (2.5)  | (4.9)  | (7.4)  | (4.0)  | 0.1    | EPS (reported)                      | (0.011)  | (0.025)  | (0.016)  | (0.016) | (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)  | (7.3)  | (4.0)  | 0.1    | 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)  | (7.3)  | (4.0)  | 0.1    | Divisionals                         | H121     | H221     | H122     | H222    | H123     | H223     |       |
| Abnormals (net)             | 0.0    | (1.0)  | 0.0    | 0.0    | 0.0    | Marketplace                         | 1.0      | 1.4      | 1.4      | 1.9     | 2.7      | 2.8      |       |
| NPAT (reported)             | (2.5)  | (6.1)  | (7.3)  | (4.0)  | 0.1    | Dinner Bowl                         | -        | 0.4      | 0.8      | 1.0     | 1.5      | 2.1      |       |
| Cash flow (A\$m)            |        |        |        |        |        | Insurance                           | -        | 0.0      | 0.0      | 0.1     | 0.1      | 0.1      |       |
| Y/E 30 June                 | FY20A  | FY21A  | FY22F  | FY23F  | FY24F  | Waggy                               |          | 0.1      | 1.1      | 1.4     | 1.7      | 2.1      |       |
| EBITDA (inc cash rent)      | (2.4)  | (4.8)  | (7.2)  | (3.9)  | 0.3    | Total Revenue                       | 1.0      | 1.9      | 3.3      | 4.3     | 6.0      | 7.1      |       |
| Interest                    | (0.0)  | (0.1)  | 0.1    | 0.1    | 0.1    | Gross profit                        | 1.0      | 1.3      | 2.0      | 2.8     | 3.9      | 4.3      |       |
| Tax                         | 0.3    | 0.3    | 0.1    | 0.3    | 0.0    | Underlying GP Margin %              | 100.0%   | 70.7%    | 60.1%    | 64.6%   | 65.2%    | 61.1%    |       |
| Working capital changes     | (0.1)  | 0.9    | (0.0)  | 0.8    | 0.9    | Operating Costs                     |          |          |          |         |          |          |       |
| Operating cash flow         | (2.2)  | (3.7)  | (7.1)  | (2.8)  | 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      | 1.6      | 1.8     | 1.3      | 1.4      |       |
| Free cash flow              | (2.6)  | (4.0)  | (7.8)  | (3.5)  | 0.4    | Other                               | 0.6      | 1.0      | 1.2      | 1.3     | 1.3      | 1.4      |       |
| Growth capex                | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | Total costs                         | 2.4      | 4.6      | 5.8      | 6.1     | 5.8      | 6.1      |       |
| 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)    | (3.8)    | (3.3)   | (2.0)    | (1.7)    |       |
| Cash flow pre financing     | (2.6)  | (5.0)  | (7.8)  | (3.5)  | 0.4    | EBITDA margin %                     | (147.8%) | (173.4%) | (112.8%) | (75.9%) | (33.1%)  | (24.5%)  |       |
| 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%) | -92.0%  | -28.4%   | 2.1%     |       |
| Net Dividends paid          | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | EBIT margin %                       |          | (125.1%) | (173.5%) | -95.8%  | -30.9%   | 0.6%     |       |
| Net cash flow for year      | (2.6)  | (5.0)  | (7.8)  | (3.5)  | 0.4    | NPAT margin (pre significant items) |          | (127.0%) | (178.1%) | -95.0%  | -30.3%   | 0.6%     |       |
| Balance sheet (A\$m)        |        |        |        |        |        | Net Debt (Cash)                     |          | -1.0     | -12.5    | -5.0    | -1.7     | -2.5     |       |
| Y/E 30 June                 | FY20A  | FY21A  | FY22F  | FY23F  | FY24F  | Net debt/EBITDA (x)                 | (x)      | 0.4 x    | 2.7 x    | 0.7 x   | 0.5 x    | -5.6 x   |       |
| Cash                        | 1.0    | 12.5   | 5.0    | 1.7    | 2.5    | ND/ND+Equity (%)                    | (%)      | 48.0%    | 47.1%    | 42.6%   | 38.9%    | 46.3%    |       |
| Accounts receivable         | 0.0    | 0.1    | 0.2    | 0.3    | 0.5    | EBIT interest cover (x)             | (x)      | n/a      | n/a      | n/a     | n/a      | -0.5x    |       |
| Inventory                   | 0.0    | 0.2    | 0.3    | 0.5    | 0.7    | ROA                                 |          | (113.9%) | (52.0%)  | (56.2%) | (51.5%)  | 1.7%     |       |
| 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   | 5.7    | 2.8    | 3.9    | ROIC                                |          | nm       | nm       | nm      | nm       | nm       |       |
| PPE                         | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | NTA (per share)                     |          | 0.00     | 0.07     | 0.01    | 0.00     | 0.00     |       |
| Goodwill                    | 0.8    | 3.6    | 3.6    | 3.6    | 3.6    | Working capital                     |          | -0.3     | -1.0     | -0.8    | -1.4     | -2.2     |       |
| Right of use asset          | 0.2    | 0.0    | 0.0    | 0.0    | 0.0    | WC/Sales (%)                        |          | (13.0%)  | (34.9%)  | (10.8%) | (11.0%)  | (10.4%)  |       |
| Deferred tax asset          | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | Revenue growth                      |          | 26.7%    | 42.6%    | 169.3%  | 70.8%    | 58.8%    |       |
| Other                       | 0.0    | 0.1    | 0.0    | 0.0    | 0.0    | EBIT growth pa                      |          | nm       | n/a      | n/a     | n/a      | (102.8%) |       |
| 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   | 9.3    | 6.4    | 7.5    | No of shares (y/e)                  | (m)      | 114.6    | 139.0    | 219.4   | 219.4    | 219.4    |       |
| Accounts payable            | 0.3    | 1.3    | 1.3    | 2.2    | 3.3    | 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)  | (0.033) | (0.018)  | 0.001    |       |
| Lease liabilities/other     | 0.6    | 1.4    | 1.2    | 1.3    | 1.2    | EPS Normalised/Diluted              | cps      | (0.022)  | (0.037)  | (0.033) | (0.018)  | 0.001    |       |
| Total current liabilities   | 1.0    | 2.8    | 2.6    | 3.6    | 4.6    | EPS growth (norm/dil)               |          | nm       | 65%      | n/a     | n/a      | -103%    |       |
| 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    | 2.6    | 3.6    | 4.6    | Dividend imputation                 |          | 30       | 30       | 30      | 30       | 30       |       |
| Net Assets                  | 1.1    | 14.0   | 6.7    | 2.8    | 2.9    | PE (x)                              |          | nm -     | 5.9 -    | 6.5 -   | 11.9     | 384.6    |       |
|                             |        |        |        |        |        | 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                           |          | (10.3)   | (3.7)    | (6.0)   | (12.2)   | 0.0      |       |
| Retained Earnings           | (9.7)  | (21.7) | (29.0) | (32.9) | (32.8) | FCF/Share                           | cps      | (2.251)  | (2.857)  | (3.431) | (1.470)  | 0.329    |       |
| Minorities                  | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | Price/FCF share                     |          | (9.552)  | (7.526)  | (6.266) | (14.626) | 65.355   |       |
| Total Shareholder funds     | 1.1    | 14.0   | 6.7    | 2.7    | 2.8    | Free Cash flow Yield                |          | (5.5%)   | (8.4%)   | (16.0%) | (6.8%)   | 1.5%     |       |

Source: Company data, RaaS estimates

# FINANCIAL SERVICES GUIDE

**RaaS Advisory Pty Ltd**

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**Corporate Authorised Representative, number 1248415**

**of**

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**Effective Date: 6<sup>th</sup> May 2021**



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- our services
- how we transact with you
- how we are paid, and
- complaint processes

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  - Securities
- deal on behalf of retail and wholesale clients in relation to
  - Securities

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Website: [www.afca.org.au](http://www.afca.org.au); Email: [info@afca.org.au](mailto:info@afca.org.au); Telephone: 1800931678 (free call)

In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

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