

Return on subscription rises again

Carly Holdings Limited (ASX:CL8) operates a vehicle subscription business, which it launched in March 2019, leveraging the existing DriveMyCar operations and technology. Car subscription allows business and retail customers to pay a single monthly fee to access a car for 30 days or more and is an alternative to purchasing or financing a vehicle. Carly has attracted larger automotive industry businesses as shareholders, with a model that facilitates sales volumes of new vehicles and delivers a new recurring revenue stream for automotive manufacturers and dealers. The company has developed the model on similar lines to business launches in Europe and proved over the past three years that the model works in Australia. Carly is now ramping up fleet size through vehicle purchases and leases. The H1 FY23 result shows continued cost discipline, strong operational results with fleet size increasing as forecast and utilisation rate maintained. Revenue increased 69% year-on-year, Gross Profit increased 261% and \$700k in additional vehicle finance was secured. The interim accounts presentation highlights continued improvement in returns per subscriber and per vehicle. Fleet expansion is delivering enhanced returns via high utilisation and stringent cost and process control.

Business model

Carly provides vehicles to business and retail customers for periods exceeding 30 days under a subscription model. The subscriber pays a flat monthly subscription fee which includes exclusive use of the vehicle, insurance, registration, and servicing, otherwise they are responsible for fuel and tolls. Vehicles are sourced by Carly via two models: an external owner provides a vehicle in return for a share of receipts (asset light); or the vehicle is secured through a vehicle finance lease or purchase of the vehicle by Carly (asset heavy).

Revenue up, cost of acquisition down

Carly issued a trading update on 15-Dec confirming delivery of new vehicles ordered under the June 2022 \$1.5m finance facility and highlighting a rise in subscription vehicle utilisation from 87% in the September 2022 quarter to 89% in November. The interim result reveals further improvements in the business model with returns per vehicle and subscriber improving, with Revenue up by 69%. This process improvement, business model change and cost discipline has leveraged growth in the vehicle fleet to deliver 261% growth in gross profit versus the previous corresponding half.

Valuation base case at \$27.1m (\$0.132/share)

We leave our valuation unchanged and await further news on financing in the coming two quarters. Our valuation is based on the discounted cashflow methodology using a discount rate of 16.5% (beta 2.0, risk-free rate 3.5%). We have modelled three cases differentiated by available finance for vehicles, subscription levels and vehicle-related costs. Our base case values Carly at \$27.1m or \$0.132/share, the downside case values CL8 at \$5.6m (\$0.027/share), while we can estimate upside to \$90.3m (\$0.442/share) using a range of factors. Financing to enable an increase in vehicle purchases is the crucial factor in these valuations, together with ongoing growth in fleet size and stable vehicle utilisation rates.

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

Year end	Revenue	Gross profit	EBITDA	NPAT	EPS (c)	EV/Sales (x)	Price / Book (x)
06/21a	1.0	0.5	(3.3)	(3.4)	(3.1)	n.a.	n.a.
06/22a	1.3	0.6	(2.8)	(3.0)	(2.1)	2.4	1.1
06/23f	5.0	3.3	(1.3)	(2.8)	(1.7)	3.1	3.6
06/24f	16.5	11.3	5.9	(1.1)	(0.5)	1.9	7.4

Source: Company data; RaaS estimates for FY23f and FY24f

Vehicle Subscription Services

1 March 2023

Share Details

ASX code	CL8
Share price (28-Feb)	\$0.021
Market capitalisation	\$4.3M
Shares on issue	204.4M
Net cash 31-Dec-2022	\$1.6M
Free float	~57%

Share Performance (12 months)



Upside Case

- CL8 is successful in raising additional vehicle finance
- Competitors remain less committed to growth due to business-related distractions
- Subscription rates remain attractive relative to car purchase values

Downside Case

- Limited finance is available for car purchases; CL8 relies on corporate owners of vehicles for supply
- Competitors strengthen their focus on subscription business
- Cost pressures reduce retained share of subscription transaction value

Latest Company Interview

[Carly Holdings \(ASX:CL8\) RaaS 2023 Outlook Interview 18 January 2023](#)

Board of Directors

Adrian Bunter	Non-Executive Chairman
Stephen Abolakian	Non-Executive Director
Robbie Blau	Non-Executive Director
Todd Hunter	Non-Executive Director
Michelle Vanzella	Non-Executive Director
Chris Noone	CEO / Executive Director

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H1 FY23 Results Analysis

The December quarter announcement on 18-Jan covered the events of the half and recent initiatives. The interim accounts have not highlighted any significant additional issues or news. Revenue grew 69% relative to the previous corresponding half to \$880,715 with a net loss of (\$1,618,522), a reduction of 5%. Despite the Revenue growth, corporate and administrative expenses (excluding the impact of depreciation) have only increased by 8.2% over the period, illustrating the effective control of costs.

The company presentation released with the result did add some insights. Carly continues to improve returns per transaction, subscriber and vehicle as fleet size grows. Exhibit 1 shows growth in monthly returns over the past year. Transaction revenue has risen, Carly revenue has grown substantially more - partly because of strong cost control and scale benefits. Perhaps most significant has been the move to a higher level of vehicle ownership which allows the company to capture more of the margin. Accordingly, average gross profit per subscription in December 2022 was 22% higher than in December 2021.

Exhibit 1: Average monthly per subscription			
Month	Dec-21	Dec-22	% Change
Transaction value \$	1,030	1,107	7.5
Carly revenue \$	491	683	39.1
Gross profit \$	192	234	21.9
Source: Company data			

When extrapolated over the average subscription life (which has reduced marginally) Carly revenue increases 32%, customer acquisition costs have fallen with scale and changes in approach by **84%**, with gross profit per subscriber rising 15%. If Carly can maintain this leverage to scale then returns are certainly promising.

Exhibit 2: "Lifetime" return over average subscription life			
Month	Dec-21	Dec-22	% Change
Subscription life	5.7 mths	5.39 mths	(5.4)
Transaction value \$	5,871	5,968	1.7
Carly revenue \$	2,798	3,681	31.6
Gross profit \$	1,094	1,263	15.4
Customer acquisition cost \$	758	123	(83.8)
Source: Company data			

Fleet size reached 267 vehicles, slightly ahead of our expectations with a further \$700,000 now available for fleet expansion. Hyundai has also contributed via "asset light" deliveries of Ioniq 5 electric vehicles. We expect EV's to be a crucial growth area once supply bottlenecks have diminished.

Exhibit 3: Financial Summary

Carly Holdings Ltd						Share price (Date)		28/02/2023		A\$		0.021	
Profit and Loss (A\$m)						Interim (A\$m)		1H22 A	2H22 A	1H23 A	2H23 F	1H24 F	2H24 F
Y/E 30 June	FY20A	FY21A	FY22A	FY23F	FY24F	Revenue		0.5	0.7	0.9	4.1	6.8	9.7
						EBITDA		(1.5)	(1.2)	(1.6)	0.3	2.0	4.0
						EBIT		(1.7)	(1.4)	(1.6)	(0.9)	(0.1)	0.9
						NPAT (normalised)		(1.7)	(1.3)	(1.6)	(1.2)	(0.9)	(0.2)
						Minorities		-	-	-	-	-	-
						NPAT (reported)		(1.7)	(1.3)	(1.6)	(1.2)	(0.9)	(0.2)
						EPS (normalised)		(1.34)	(1.15)	(0.80)	(0.74)	(0.43)	(0.11)
						EPS (reported)		(1.27)	(0.97)	(0.79)	(0.61)	(0.43)	(0.11)
						Dividend (cps)		0.00	-	-	-	-	-
						Imputation		30	30	30	30	30	30
						Operating cash flow		(1.65)	(1.1)	(0.9)	(1.7)	0.6	2.0
						Free Cash flow		(1.92)	(1.1)	(0.9)	(1.7)	0.6	2.0
						Divisions		1H22 A	2H22 A	1H23 A	2H23 F	1H24 F	2H24 F
						Car Subs		0.52	0.73	1.71	4.06	6.82	9.66
						Licence Revenue		0.00	0.00	0.01	0.02	0.02	0.02
						Other Revenue		0.03	0.01	0.00	0.00	0.00	0.00
						COGS		(0.39)	(0.22)	(0.39)	(1.28)	(2.16)	(3.07)
						Employment		(0.82)	(0.71)	(1.90)	(0.73)	(0.87)	(0.75)
						Technology, licence fees		(0.55)	(0.50)	(0.53)	(1.10)	(1.13)	(1.16)
						Other costs		(0.29)	(0.53)	0.34	(0.70)	(0.72)	(0.75)
						EBITDA		(1.53)	(1.23)	(1.60)	0.27	1.96	3.95
						Margins, Leverage, Returns		FY20A	FY21A	FY22A	FY23F	FY24F	
						EBITDA		n.a.	n.a.	n.a.	n.a.	n.a.	35.8%
						EBIT		n.a.	n.a.	n.a.	n.a.	n.a.	4.9%
						NPAT pre significant items		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
						Net Debt (Cash)		0.5	3.4	(0.2)	(11.3)	(27.3)	
						Net debt/EBITDA (x)		(x)	n/a	n/a	n/a	n/a	(4.6)
						ND/ND+Equity (%)		(%)	80%	609%	23%	103%	105.6%
						EBIT interest cover (x)		(x)	n/a	n/a	n/a	n/a	3.4
						ROA		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
						ROE		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
						ROIC		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
						NTA (per share)		n.a.	0.02	0.00	n.a.	n.a.	n.a.
						Working capital		(0.6)	(0.9)	(0.6)	0.5	1.2	
						WC/Sales (%)		(53%)	(85%)	(48%)	11%	7%	
						Revenue growth		n.a.	(17%)	25%	297%	233%	
						EBIT growth pa		n.a.	n/a	n/a	n/a	-132%	
						Pricing		FY20A	FY21A	FY22A	FY23F	FY24F	
						No of shares (y/e)		(m)	70	135	135	204	204
						Weighted Av Dil Shares		(m)	62	59	113	170	204
						EPS Reported		cps	(7.6)	(2.5)	(2.2)	(1.4)	(0.5)
						EPS Normalised/Diluted		cps	(8.7)	(5.7)	(2.7)	(1.7)	(0.5)
						EPS growth (norm/dil)			n.a.	n.a.	n.a.	n.a.	n.a.
						DPS		cps	-	-	-	-	-
						DPS Growth			n.a.	n.a.	n.a.	n.a.	n.a.
						Dividend yield			0.0%	0.0%	0.0%	0.0%	0.0%
						Dividend imputation			30	30	30	30	30
						PE (x)			n.a.	n.a.	n.a.	n.a.	n.a.
						PE market			15.3	15.3	15.3	15.3	15.3
						Premium/(discount)			n.a.	n.a.	n.a.	n.a.	n.a.
						EV/EBITDA			n.a.	0.2	n.a.	n.a.	5.3
						FCF/Share		cps	-4.3	-2.0	-1.9	-1.3	1.2
						Price/FCF share			n.a.	n.a.	n.a.	n.a.	1.7
						Free Cash flow Yield			n.a.	n.a.	n.a.	n.a.	59.2%
Cash flow (A\$m)						Y/E 30 June		FY20A	FY21A	FY22A	FY23F	FY24F	
						EBITDA		(3.2)	(3.1)	(2.7)	(1.3)	5.9	
						Interest		0.0	(0.0)	(0.1)	(0.5)	(2.7)	
						Tax		0.0	0.0	0.0	0.0	0.0	
						Working capital changes		0.1	0.4	0.0	(0.7)	(0.6)	
						Operating cash flow		(3.1)	(2.8)	(2.8)	(2.6)	2.5	
						Mtce capex		0.0	(0.1)	(0.3)	0.0	0.0	
						Free cash flow		(3.1)	(2.8)	(3.0)	(2.6)	2.5	
						Growth capex		0.0	0.0	0.0	(9.0)	(18.5)	
						Acquisitions/Disposals		0.0	0.0	0.0	0.0	0.0	
						Other		0.0	0.0	(0.2)	0.0	0.0	
						Cash flow pre financing		(3.1)	(2.8)	(3.2)	(11.6)	(16.0)	
						Equity		3.7	5.6	0.7	2.1	0.0	
						Debt		(0.2)	(0.2)	(0.3)	8.7	17.5	
						Dividends paid		n.a.	n.a.	n.a.	0.0	0.0	
						Net cash flow for year		0.5	2.6	(2.9)	(0.7)	1.6	
Balance sheet (A\$m)						Y/E 30 June		FY20A	FY21A	FY22A	FY23F	FY24F	
						Cash		1.4	3.7	0.8	(0.0)	1.5	
						Accounts receivable		0.1	0.0	0.3	0.7	1.6	
						Inventory		0.0	0.0	0.0	0.0	0.0	
						Other current assets		0.1	0.1	0.1	0.2	0.2	
						Total current assets		1.6	3.8	1.1	0.8	3.3	
						PPE		0.1	0.4	1.2	10.3	23.7	
						Intangibles and Goodwill		0.0	0.0	0.0	0.0	0.0	
						Investments		0.0	0.0	0.0	0.0	0.0	
						Deferred tax asset		0.0	0.0	0.0	0.0	0.0	
						Other non current assets		0.0	0.0	0.2	0.1	1.0	
						Total non current assets		0.1	0.5	1.4	10.4	24.7	
						Total Assets		1.6	4.3	2.6	11.2	28.0	
						Accounts payable		0.7	0.9	0.9	0.1	0.4	
						Short term debt		0.9	0.2	0.4	0.7	0.7	
						Tax payable		0.0	0.0	0.0	0.0	0.0	
						Other current liabilities		0.1	0.2	0.2	0.2	0.2	
						Total current liabilities		1.7	1.3	1.4	1.0	1.3	
						Long term debt		0.0	0.2	0.6	10.6	28.1	
						Other non current liabs		0.0	0.0	0.0	0.0	0.0	
						Total long term liabilities		0.0	0.3	0.6	10.6	28.1	
						Total Liabilities		1.8	1.5	2.0	11.6	29.4	
						Net Assets		(0.1)	2.8	0.5	(0.4)	(1.4)	
						Share capital		16.8	22.9	23.5	25.5	25.5	
						Accumulated profits/losse		(16.9)	(20.1)	(23.0)	(26.8)	(27.9)	
						Reserves		n.a.	n.a.	n.a.	1.0	1.0	
						Minorities		n.a.	n.a.	n.a.	0.0	0.0	
						Total Shareholder func		(0.1)	2.8	0.5	(0.4)	(1.4)	

Source: Company data for actuals; RaaS analysis

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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Corporate Authorised Representative, number 1248415

of

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Effective Date: 6th May 2021

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