

NAB loan deal triples margin, DCF rises to \$0.55/share

Wizr Limited (ASX:WZR) is an online consumer lending platform focused on financial wellness and competing in the rapidly growing marketplace lending sector. Wizr has Q1 FY20 loans of \$23.2m, a 95% quarter on quarter increase, bringing cumulative loans to \$132m. Wizr is poised for a step-change to its business model following the announcement last week that National Australia Bank (ASX:NAB) has agreed to provide Wizr with an initial \$50m warehouse facility with potential to go to \$200m. This is tier one bank validation for Wizr with the company estimating that the facility would deliver an approximate tripling of current average loan unit economics. We have incorporated a higher loan margin from the NAB facility which has had the effect of lifting our base case DCF valuation to \$0.55/share from \$0.40/share previously (WACC 14.0%, terminal value 2.0% unchanged). The terminal value in year 10 is \$0.34/share. The same discount rate derives an upside case valuation of \$2.25/share while our downside case valuation is \$0.11/share.

Business model

Wizr writes personal loans to Australian consumers for 3- and 5-year maturities and on-sells these loans either through internal mechanisms or to institutional, retail and wholesale investors. The company has passed \$132m in loan originations after writing \$23.2m in new loans in Q1 FY20, an increase of 95% on Q1 FY19. Wizr has also used its technology platform to launch a range of non-lending initiatives, including Wizr Credit, a comparison site for credit scores, and the Wizr App which has had 35,000 downloads with app users collectively paying down \$250,000 in debt since its launch in Q3FY19. Wizr Credit, launched in October 2018, had 48,000 users at September 30, up 50% on Q4FY19.

Q1 FY20 result and NAB finance facility

WZR has previously highlighted that its key priorities for FY20 include the launch of a Wizr Secured Vehicle Finance product to increase its addressable market, diversification of its debt funding models through new structures and facilities and expanding its strategic partnerships. The company has ticked the box on all three priorities in Q1 FY20, having soft-launched its Secured Vehicle Finance product during the quarter and seeing revenue contribution by quarter end; announcing its tier one debt facility with NAB which Wizr expects will triple current average loan unit economics; and successfully integrating the partnership with Smartgroup (ASX:SIQ) which also contributed to Q1 FY20 revenues. The company reported net cash outflow of \$1.9m in Q1 FY20 with cash at the end of the quarter at \$10m. WZR anticipates cash burn in Q2FY20 to be \$2.98m. The NAB financing arrangement went live on November 15.

Base case valuation is \$0.55/share fully diluted

We have incorporated the impact of the NAB funding deal into our forecasts resulting in our base case DCF valuation rising to \$0.55/share (previously \$0.40/share), based on a WACC of 14% and a terminal value in Year 10 of \$0.34/share. We have included the dilutionary effect of 52.9m performance shares in our DCF valuation. In our view the NAB deal lends significant gravitas to Wizr's business strategy which in turn should earn a re-rating with earnings delivery.

Historical earnings and RaaS Advisory estimates

Year end	Revenue (A\$m)	EBITDA reported	NPAT reported (A\$m)	EPS* (c)	EV/Sales (x)	P/E (x)
06/19e	3.0	(5.8)	(6.0)	(1.03)	15.6	n/a
06/20e	6.5	(5.1)	(6.2)	(0.75)	15.7	n/a
06/21e	14.6	0.0	(1.8)	(0.22)	8.2	n/a
06/22e	25.5	8.2	2.6	0.32	5.1	37.5

Source: Company data, RaaS Advisory Estimates for FY20e, FY21e and FY22e

Fintech

20 November 2019

Share details

ASX Code	WZR
Share price	\$0.12
Market Capitalisation	\$94.8M
Shares on issue	826.5M
Enterprise value	\$84.8M
Net cash at 30 Sept	\$10.0M
Free float	~63%

Share performance (12 months)



Upside Case

- Board and management team experienced in building financial services businesses
- Well capitalised following \$15m raising and secured tier 1 backer for its loan book
- Loan book is growing faster than its larger peers

Downside Case

- Small player in a segment that commands ~1% of the personal lending market
- Competitors have aggressively grabbed market share over the past two years
- Takeover potential could diminish the upside for shareholders

Board of Directors

John Nantes	Executive Chairman
Craig Swanger	Non-Executive Director
Chris Whitehead	Non-Executive Director

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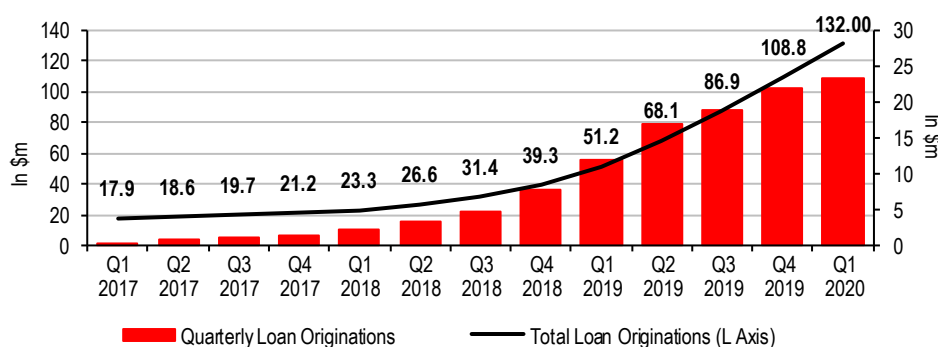
The deal the market has been waiting for

Wizr has delivered on the previously flagged plan to secure the backing of a tier 1 lender. NAB and Wizr have executed an agreement for an initial \$50m warehouse facility with NAB as senior funder with the potential to increase the program size up to \$200m. The new facility, which went live on November 15, meets the company's objectives to increase debt capacity to fund rapid growth, to improve loan unit economics and to diversify its funding partners, and therefore risk profile. This is a significant step forward for the company and one which has changed Wizr's footing in the personal lending market. The company estimates that loan unit economics will triple as a result of the facility. Wizr has also announced that it will not be taking up the previously announced (May 2018) and negotiated Bendigo and Adelaide Bank (ASX:BEN) funding arrangement.

Q1 FY20 highlights

Wizr ended Q1 FY20 with a cumulative loan book of \$132m, having added \$23.2m in new loans through the quarter. This was by far the biggest loan book increase recorded by the company and demonstrates the momentum that the company continues to experience. As we highlighted in our May 3 report [Growth trajectory earns a valuation upgrade](#), we anticipate that Wizr will demonstrate a similar growth trajectory to its larger unlisted peers, SocietyOne and Ratesetter, with ongoing acceleration of loan originations underpinned by the new NAB facility. Exhibit 1 below sets out Wizr's growth in total and quarterly loan originations since the beginning of FY17.

Exhibit 1: Wizr growth in total and quarterly loan originations since Q1 FY17



Source: Wizr Q1 FY20 announcement

As we highlighted in our August 1 report, [Cumulative loan book surpasses \\$100m after 281% y-o-y growth](#), the push through \$100m is significant for Wizr as we have seen this as a tipping point for competitors' loan book acceleration.

We see the company's strategy to enhance consumer financial wellness as a key driver of its loan book growth. The Wizr App, launched in Q3 FY19, has already been downloaded 35,000 times. The app connects to users' everyday transaction accounts and rounds up purchases to the nearest dollar, using these funds to pay off a nominated debt. Since launch, app users have collectively paid down almost \$250,000 worth of debt. Wizr Credit, which was launched in October 2018, now has 48,000 users, having increased from 36,000 or 50% at June 30. This growth is expected to continue following a major platform upgrade in September for the credit score comparison service. We see this initiative as an important driver of pre-qualified new loan customers for Wizr.

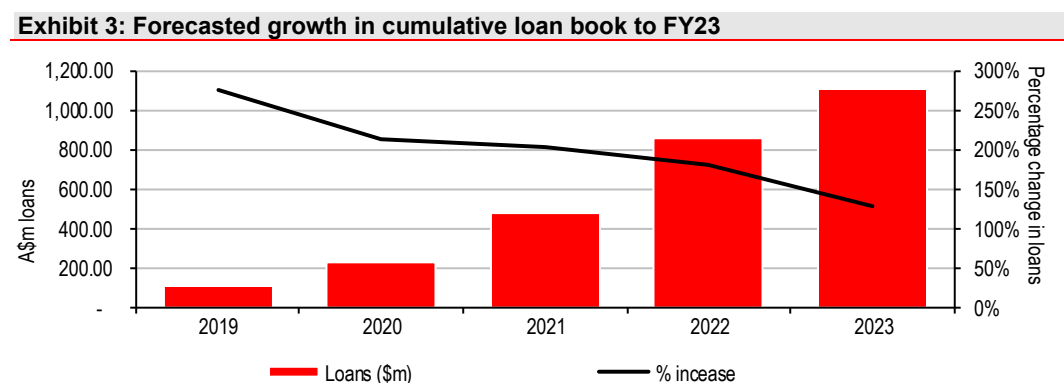
Earnings adjustments

We have incorporated the new margin delivered by the NAB finance facility in our forecasts but have also adjusted for a change in the treatment of establishment fees which we now expect to see amortized across the life of the loans. We have also assumed that given the greater surety that the NAB facility brings to Wisr's business, that the company invests in more human capital and marketing. This has resulted in some near-term earnings adjustments. Our forecast changes are set out in the following exhibit.

Exhibit 2: Earnings forecast changes						
	FY20 old	FY20 new	FY21 old	FY21 new	FY22 old	FY22 new
Revenue	9.3	6.5	18.8	14.6	28.4	25.5
EBITDA	(1.9)	(5.1)	5.9	0.0	13.2	8.2
EBIT	(2.6)	(6.1)	4.6	(2.4)	11.3	4.2
NPAT	(2.7)	(6.2)	3.1	(1.8)	7.5	2.6
EPS	(0.34)	(0.75)	0.39	(0.22)	0.9	0.3

Source: RaaS estimates

We anticipate strong growth in new loans for Wisr on the back of the loan facility with the cumulative loan book forecasted to surpass the \$1bn mark in the first quarter of FY23. Our forecasts for growth and the cumulative book are set out in exhibit 3 below.



Source: Company data, RaaS estimates

DCF Valuation upgraded to \$0.55/share

Our base case DCF valuation is \$0.55/share (previously \$0.40/share). Our DCF is derived from a WACC of 14.0% (beta of 2.0) and terminal growth rate of 2.0%. The terminal value represents \$0.34/share in our valuation. We anticipate that Wisr will be able to fund its new initiatives and achieve break even in H2FY21 without further recourse to the equity markets. Note that we have included the dilutionary impact of 52.9m in performance rights that will vest with management and employees. Our downside case (\$0.11/share) is predicated on Wisr surpassing \$1bn in cumulative loans by June 2023 while our upside case (\$2.25/share) anticipates this milestone by June 2021, one year either side of our base case.

Exhibit 4: Base case DCF valuation	
Parameters	
Discount Rate / WACC	14.0%
Terminal growth rate assumption (inflation adjusted)	2.00%
In A\$m	
Present value of cashflows	185
Present value of terminal value	302
PV of enterprise	487
Add net cash at June 30	10
Net value (\$m)	497
Net value per share	\$0.55

Source: RaaS estimates

Exhibit 5: Financial Summary

Wisr Limited (WZR)						Share price (19 November 2019)						A\$	0.12
Profit and Loss (A\$m)						Interim (A\$m)							
Y/E 30 June	FY18A	FY19A	FY20F	FY21F	FY22F	Revenue	H119A	H219A	H120F	H220F	H121F	H221F	
Cumulative Loan Book at Y/E	39	109	240	506	899	EBITDA reported	(3.4)	(3.8)	(3.4)	(1.7)	(0.9)	0.9	
Revenue	1.6	3.0	6.5	14.6	25.5	EBITDA underlying	(3.1)	(2.7)	(3.4)	(1.7)	(0.9)	0.9	
Other income	0.2	0.7	0.0	0.0	0.0	EBIT underlying	(3.1)	(2.7)	(3.8)	(2.3)	(1.8)	(0.5)	
EBITDA reported	(6.1)	(7.2)	(5.1)	0.0	8.2	NPAT (normalised)	(3.2)	(2.8)	(3.8)	(2.4)	(1.3)	(0.5)	
EBITDA underlying*	(5.0)	(5.8)	(5.1)	0.0	8.2	Minorities	0.0	0.0	0.0	0.0	0.0	0.0	
Depn	(0.0)	(0.1)	(0.0)	(0.0)	(0.0)	NPAT (reported)	(3.5)	(4.0)	(3.8)	(2.4)	(1.3)	(0.5)	
Amort	0.0	0.0	(1.0)	(2.4)	(4.0)	EPS (normalised)	(0.59)	(0.44)	(0.46)	(0.29)	(0.16)	(0.06)	
EBIT underlying	(5.0)	(5.8)	(6.1)	(2.4)	4.2	EPS (reported)	(0.64)	(0.64)	(0.46)	(0.29)	(0.16)	(0.06)	
Interest	(0.0)	(0.1)	(0.0)	(0.2)	(0.5)	Dividend (cps)	0.0	0.0	0.0	0.0	0.0	0.0	
Tax	0.0	0.0	0.0	0.8	(1.1)	Imputation	30.0	30.0	30.0	30.0	30.0	30.0	
Minorities	0.0	0.0	0.0	0.0	0.0	Operating cash flow	(3.1)	(6.2)	(2.3)	(2.2)	(1.1)	0.6	
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	Free Cash flow	(3.1)	(6.2)	(2.3)	(2.2)	(1.1)	0.6	
NPAT pre one off/non cash item	(5.1)	(6.0)	(6.2)	(1.8)	2.6	Divisions	H119A	H219A	H120F	H220F	H121F	H221F	
One off and non cash items	(1.1)	(1.4)	0.0	0.0	0.0	Rev - Establishment fees	0.6	0.8	0.5	0.8	1.2	1.5	
NPAT (reported)	(6.2)	(7.4)	(6.2)	(1.8)	2.6	Rev - Margin	0.4	0.7	1.3	3.1	4.6	6.4	
Cash flow (A\$m)						Rev - Referral Fees	0.1	0.4	0.1	0.1	0.2	0.2	
Y/E 30 June	FY18A	FY19A	FY20F	FY21F	FY22F	Rev - Other revenue	0.0	(0.1)	0.3	0.3	0.3	0.3	
EBITDA	(6.1)	(7.2)	(5.1)	0.0	8.2	Costs - Salaries	(2.2)	(2.8)	(2.9)	(2.9)	(3.7)	(3.8)	
Interest	(0.0)	(0.1)	(0.0)	(0.2)	(0.5)	Costs - Marketing	(0.4)	(1.0)	(0.4)	(0.5)	(0.5)	(0.5)	
Tax	0.0	0.0	0.0	0.0	(1.1)	Costs - Prov for bad debts	(0.3)	0.1	(0.2)	(0.3)	(0.4)	(0.6)	
Working capital changes	4.0	(1.9)	0.7	(0.3)	(0.6)	Costs - Other costs	(1.3)	(2.1)	(2.2)	(2.3)	(2.5)	(2.6)	
Operating cash flow	(2.2)	(9.2)	(4.5)	(0.5)	6.0	EBITDA	(3.0)	(3.8)	(3.0)	(1.2)	(0.3)	1.4	
Mtce capex	0.0	0.0	0.0	0.0	0.0	Margins, Leverage, Returns		FY18A	FY19A	FY20F	FY21F	FY22F	
Free cash flow	(2.2)	(9.2)	(4.5)	(0.5)	6.0	EBITDA		(386.1%)	(236.3%)	(79.7%)	0.0%	32.1%	
Growth capex	0.0	0.0	0.0	0.0	0.0	EBIT		(316.1%)	(191.4%)	(95.0%)	(16.4%)	16.6%	
Acquisitions/Disposals	(0.0)	(0.6)	0.0	0.0	0.0	NPAT pre significant items		(318.7%)	(196.3%)	(95.4%)	(12.4%)	10.4%	
Other	0.0	0.0	0.0	0.0	0.0	Net Debt (Cash)		1.2	10.0	2.2	- 2.8	- 6.7	
Cash flow pre financing	(2.2)	(9.8)	(4.5)	(0.5)	6.0	Net debt/EBITDA (x)	(x)	n/a	n/a	n/a	- 594.494	- 0.816	
Equity	0.6	19.7	0.0	0.0	0.0	ND/ND+Equity (%)	(%)	(33.8%)	(147.4%)	(26.3%)	24.4%	37.1%	
Debt	(0.3)	1.7	0.0	0.0	0.0	EBIT interest cover (x)	(x)	n/a	n/a	n/a	n/a	10.7%	
Dividends paid	0.0	0.0	0.0	0.0	0.0	ROA		(57.6%)	(42.8%)	(24.0%)	(6.2%)	7.1%	
Net cash flow for year	(1.9)	11.6	(4.5)	(0.5)	6.0	ROE		(89.6%)	(69.1%)	(45.0%)	(18.7%)	26.4%	
Balance sheet (A\$m)						ROIC		(64.9%)	(312.1%)	(123.1%)	(98.7%)	41.5%	
Y/E 30 June	FY18A	FY19A	FY20F	FY21F	FY22F	NTA (per share)		0.01	0.03	0.01	0.01	0.01	
Cash	1.5	12.0	7.5	7.0	13.0	Working capital	-	0.1	3.8	14.3	24.6	34.6	
Accounts receivable	0.3	0.6	0.7	1.5	2.6	WC/Sales (%)		-9%	126%	222%	169%	136%	
Loan receivables	0.9	4.6	15.8	25.9	35.2	Revenue growth		4%	91%	112%	125%	75%	
Other current assets	0.6	0.6	0.6	0.6	0.6	EBIT growth pa		n/a	n/a	n/a	n/a	(277.8%)	
Total current assets	3.3	17.8	24.6	35.0	51.5	Pricing		FY18A	FY19A	FY20F	FY21F	FY22F	
PPE	0.0	0.0	0.0	0.0	0.0	No of shares (y/e)	(m)	455	579	827	827	827	
Intangibles	0.0	0.6	0.6	0.6	0.6	Weighted Av Dil Shares	(m)	452	579	827	827	827	
Investments	0.5	0.5	0.5	0.5	0.5	EPS Reported	cps	(1.39)	(1.28)	(0.75)	(0.22)	0.32	
Deferred tax asset	0.0	0.0	0.0	0.8	0.8	EPS Normalised/Diluted	cps	(1.14)	(1.03)	(0.75)	(0.22)	0.32	
Loan receivables	2.7	1.7	5.0	9.4	19.3	EPS growth (norm/dil)		n/a	n/a	n/a	n/a	(246.7%)	
Total non current assets	3.3	2.8	6.1	11.3	21.2	DPS	cps	-	-	-	-	-	
Total Assets	6.6	20.6	30.6	46.3	72.7	DPS Growth		n/a	n/a	n/a	n/a	n/a	
Accounts payable	1.3	1.4	2.2	2.7	3.2	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%	
Debt	0.4	2.0	2.0	2.0	2.0	Dividend imputation		30	30	30	30	30	
Loan funding	0.0	0.0	12.2	24.6	37.9	PE (x)		-	-	-	-	37.5	
Tax payable	0.0	0.0	0.0	0.0	0.0	PE market			16.6	16.6	16.6	16.6	
Other current liabilities	0.2	0.4	0.4	0.4	0.4	Premium/(discount)					-100%	126%	
Total current liabilities	2.0	3.8	16.7	29.7	43.6	EV/EBITDA		(8.7)	(6.6)	(19.8)	25,288.7	0.0	
Long term debt	0.0	0.0	3.3	7.9	17.7	FCF/Share	cps	(0.5)	(1.6)	(0.5)	(0.1)	0.7	
Other non current liabs	0.0	0.0	0.0	0.0	0.0	Price/FCF share		(25.4)	(7.5)	(22.1)	(210.5)	16.5	
Total long term liabilities	0.0	0.0	3.3	7.9	17.7	Free Cash flow Yield		(3.9%)	(13.3%)	(4.5%)	(0.5%)	6.0%	
Total Liabilities	2.0	3.8	20.0	37.6	61.3								
Net Assets	4.7	16.8	10.6	8.7	11.4								
Share capital	29.3	48.4	48.4	48.4	48.4								
Accumulated profits/losses	(26.6)	(33.5)	(39.7)	(41.6)	(39.0)								
Reserves	1.9	1.9	1.9	1.9	1.9								
Minorities	0.0	0.0	0.0	0.0	0.0								
Total Shareholder funds	4.7	16.8	10.6	8.7	11.4	* Excludes one off and non cash items such as share based payments							

Source: RaaS Advisory

FINANCIAL SERVICES GUIDE

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of

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Effective Date: 26th November 2018

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