

### Strong recovery in ABV, more to come

Mad Paws Holdings Ltd (ASX:MPA) has released its Q3 FY22 4C cash flow report together with a trading update. The key take-outs from the release centre around the marketplace and integration plans for recently acquired Pet Chemist. From a marketplace perspective, booking numbers increased ~13% on the previous corresponding period (pcp) despite the adverse timing of Easter. Peak Easter bookings in FY22 against FY21 are said to be up 70% (two weeks later in FY22). Just as importantly we estimate the Average Booking Value (ABV) in Q3 FY22 to be 33% higher than the PCP at ~\$142, driven by a combination of longer-duration travel and increased sitter charges. New customer additions continue at a rate of ~15k/quarter or 20% of the existing base. From an integration perspective, management is focused on introducing its ~600k-strong database to the Pet Chemist customers, cross branding where possible and building a single-view data base across the business. The recovery in average marketplace fees is greater than expected, and we have increased our GMV/revenue assumptions accordingly, resulting in a 1% revenue increase and 5%-6% EPS increases over the forecast period. There is no change to the ecommerce/subscription assumptions.

### Business model

MPA began and still operates an on-line marketplace connecting service providers with pet owners, predominantly for dog hosting, dog sitting and dog visits. MPA charges a 9% booking fee to "customers" and a 20% commission on the total service fee (less the booking fee) for service providers. The group has had ~148k unique customers since launch in 2015 and is looking to utilise this growing customer base to offer other pet services which now includes subscription food delivery (Dinnerbowl), treat subscriptions (Waggly), accessories (Sash Beds) and on-line healthcare/prescriptions (Pet Chemist) to capture a greater share of a conservatively estimated \$8.0b addressable market.

### Significant recovery in average booking fee underway

By our calculations the average booking value for the March quarter, even without peak Easter bookings was ~\$142, up 33% on the \$106 12-months prior and equal to our estimate for the seasonally strong December quarter FY22. This is above our estimates, and we have taken the opportunity to increase medium-term assumptions accordingly. A combination of returning/longer-duration travel and higher sitter rates is driving this value higher and there remains significant upside as travel (particularly international) continues to return to more normalised levels. As a reminder the September FY19 ABV was \$161 or 13% higher than today. Our FY25 ABV assumption is now \$156.

### Valuation remains to \$0.43/share despite EPS increase

Our DCF valuation for MPA remains \$0.43/share despite a \$0.02/share positive impact from higher average ABV assumptions over the medium-term. The offset is the impact of increasing our RFR assumptions from 2% to 3%. While there are a number of assumptions driving this valuation, the keys are Pet Chemist achieving the mid-point of earnout revenue targets, a higher gross margin for its OTC/retail business, continued new customer growth for the marketplace (~15% of the existing base each year) and lower long-term customer acquisition costs.

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

Year end	MKT PLC 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	4.9
06/22e	18.1	10.3	(7.7)	(8.1)	(0.03)	nm	4.1
06/23e	25.3	30.8	(4.2)	(4.6)	(0.01)	nm	1.9
06/24e	38.6	49.3	4.5	2.8	0.009	21.8	1.1

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

### Software & Services

27<sup>th</sup> April 2022

#### Share Details

ASX code	MPA
Share price	\$0.19
Market capitalisation	\$61.0M
Shares on issue	321.9M
Net cash at 31-Mar-22*	\$7.0M
Free float	~44.3%

\*Adjusted

#### 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
- Pet Chemist cross-sell opportunities

#### 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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## 2022 March quarter highlights

Key commentary regarding trading in the FY22 March quarter is detailed below:

- The ecommerce/subscription businesses including Waggly, Sash Beds and Dinnerbowl performed in-line with expectations, with Dinnerbowl revenues being impacted by the expansion of manufacturing facilities in Melbourne (set to open in the next 3-weeks).
- Marketplace revenues were in-line with forecast with lower bookings (+9% impacted by Easter timing) offset by a significantly higher average booking fee (we estimate \$142, up from \$106 in the PCP and in-line with the seasonally strong December quarter). Longer travel durations and higher sitter fees both contributed to this increase, with similar trends being seen at US peer Rover (NASDAQ:ROVR).
- Comparing peak bookings for Easter FY22 against FY21 (Early April against late March), management estimate a +70% in GMV.
- Adjusted cash (reported cash at bank less the Pet Chemist first instalment plus SPP funds raised plus an expected R&D tax offset) is estimated at \$7.0m, providing ample runway to fund the groups growth initiatives.
- Customer Acquisition Costs (CAC) are said to be 30% lower than the PCP, and while no number was given we estimate this translates to \$38 against \$55 as “organic” leads increase, and the go to market strategy is fine tuned.

### Exhibit 1: MPA quarterly cash flow summary

Variable (A\$000')	Q1 FY22	Q2 FY22	Q3 FY22	Comments
<b>Cash Receipts</b>	<b>2,259</b>	<b>5,963</b>	<b>5,491</b>	<b>Q3 is seasonally softer than Q2</b>
<b>Out goings</b>	<b>4,978</b>	<b>6,833</b>	<b>7,742</b>	
Cost of services sold/commissions	2,553	3,884	5,039	
Staff & admin	1,512	1,605	1,712	Investing in people
Marketing/ Advertising	516	962	733	Lower reported CAC
Admin/corporate	397	382	258	
<b>Net cash from operating activities</b>	<b>-2,719</b>	<b>-870</b>	<b>-2,251</b>	
Equity Issues	0	0	5,205	Placement but no SPP
Gov't grants	299	61	0	
Intellectual Property	121	248	155	
<b>Net cash from investing activities</b>	<b>178</b>	<b>-187</b>	<b>5,050</b>	
Cash @ beginning	12,486	9,917	8,777	
Cash flow	-2,541	-1,057	2,799	
Financing activities	-28	-83	0	
<b>Cash at end</b>	<b>9,917</b>	<b>8,777</b>	<b>11,576</b>	<b>Closer to \$7m adjusted</b>
GMV	2.9	6.1	6.3	
% growth	93%	79%	85%	Boosted by subscription revenues
Mkt place GMV	1.9	4.9	5.0	Q3 higher despite seasonality
% growth	27%	44%	47%	

Source: Company announcements

## Additional commentary

### Pet Chemist acquisition

Management is “laser focused” on extracting the revenue synergies on offer with a database of 600k to introduce to the 44K Pet Chemist client base, and a “cross brand” project to make becoming a customer of any vertical as easy as possible.

YTD FY22 pro-forma operating revenue of \$10.9m implies operating revenue of \$5.5m for 9-months (annualised \$7.3m) for Pet Chemist compared to FY21 revenue of \$5.4m, implying ~35% growth on an annualised basis.

MPA completed the acquisition of Pet Chemist On-line April 1, 2022. The price of \$20m plus a potential earn-out of \$5m should certain revenue targets be achieved in FY23 and FY24 was funded by a \$14.5m placement to the founders at \$0.23/share, the payment of \$5.5m cash to the founders (post the March quarter), and a capital raise and SPP totalling \$7.1m before costs.

Pet Chemist is a mix of an agency for pet prescription medicine and an on-line retailer of over-the-counter (OTC) animal health products. The marketplace joins a pharmacist with a customer and takes a commission, while the OTC is a typical on-line retailer in the mould of Booktopia (ASX:BKG) and Adore Beauty (ASX:ABY) - that is, it holds inventory in a warehouse, ships by post, is available on-line only and relies on a combination of marketing and return purchases, not foot traffic, to attract customers.

FY21 GMV was \$9.0m, split 47% prescription and 53% OTC, while FY21 revenue was \$5.4m. Our analysis suggests this is split \$4.5m OTC and \$0.9m prescription. Pet Chemist has achieved 65% CAGR growth in GMV between 2018 and 2021, with the mix shifting from 80%/20% prescription/OTC to the 47%/53% in FY21. The group was EBITDA breakeven in FY21 and 1H FY22.

There are 44k active customers with an average order value of \$130 for returning customers. 64% of revenue is said to be from returning customers, predominantly for ongoing pet medication. This number is up from ~28k 12 months ago and highlights the recent growth rate in customer acquisition.

From a FY21 base of \$9.0m GMV and revenue of \$5.4m, the earn-out hurdles for Pet Chemist founders to achieve an additional \$5m in cash and scrip require:

- FY23 revenue of between \$16.8m (partial) and \$22.8m (full); and
- FY24 revenue of between \$22.8m (partial) and \$32.7m (full).

### **Rover (NASDAQ:ROVR) quarterly observations relevant to MPA**

The recent CY21 ROVR result provided a number of comparisons with MPA, including:

- Q4 CY21 Average Booking Value (ABV) was the highest on record at US\$137 and +35% on the pcp. ROVR management estimated 60% of the increase on the pcp was higher asking prices from pet carers, while longer-duration travel accounted for ~30% and a higher take rate by ROVR the balance.

MPA's recent quarter was not quite a record but well up on prior periods for the same reasons.

- Marketing spend declined to 18% of revenue and Customer Acquisition Costs (CAC) were just US\$10, down from US\$39 in Q4 CY19. Most of the reduction in spend was in video and social channels due to COVID-19.

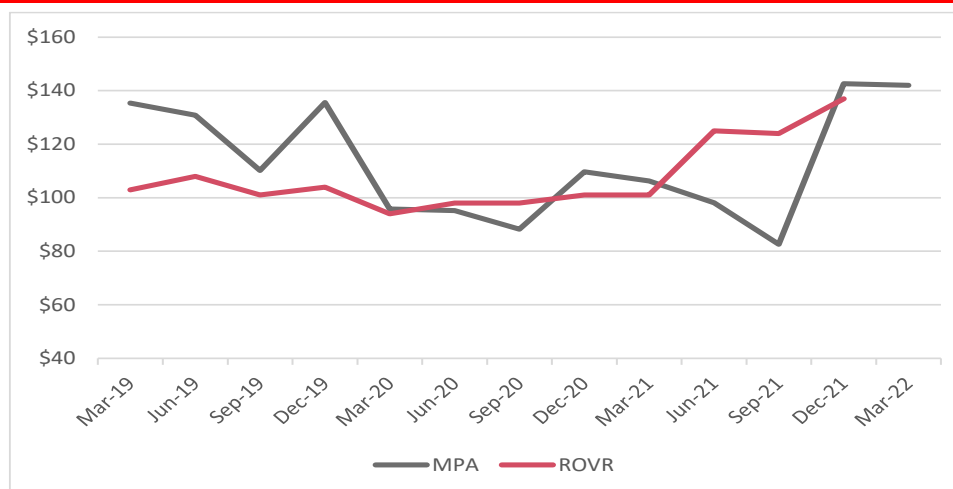
MPA CAC were said to be 30% lower in Q3 FY22, albeit coming from a much higher level than ROVR.

- Pre-pandemic customers are yet to return on mass, with the bulk of repeat customers relatively new customers.

- CY22 revenues guidance of US\$160m-\$180m, +45%+63% on CY21 (\$110m) assumes some continued COVID-19 disruptions. ROVR estimates revenues closer to US\$200m if COVID-19 was "over".

While MPA does not provide revenue guidance there is no doubt COVID is still disrupting GMV/revenues and using the ROVR estimate this could be as high as 25% or \$5m GMV.

## Exhibit 2: Quarterly ABV – MPA & ROVR



Source: Company announcements

## Earnings Changes

As a result of higher medium-term ABV estimates we have made the following changes to earnings:

- **1% increase in revenue** over the forecast period, with ABV now assumed to reach \$156 by FY25.
- **5%-6% increase in EPS**, with the leverage from the resulting revenue dropping straight to the bottom line.

## Valuation Changes

Our DCF valuation for MPA remains at \$0.43/share diluted for all in-the-money options and the issue of shares relating to the Pet Chemist acquisition. Key assumptions and changes include:

- WACC of 11.5% up from 11.2% due to an increase in the RFR from 2.0% to 3%, offset slightly by a reduction in the ERP from 7% to 6.5%. Our beta assumption remains 1.3x;
- Excluding WACC changes our DCF would have been ~\$0.02/share higher due to positive earnings revisions;
- Medium-term (FY27-FY31) growth rate of 12%;
- 321.9m shares on issue plus 17.5m options;
- Cashflow positive in FY24; and
- No further acquisitions.

US peer ROVR has rallied off their lows recently, and now trades at a 30% premium to MPA on an EV/revenue basis, with MPA's revenue consisting of marketplace revenue plus ecommerce/subscription gross profit.

## Exhibit 3: Financial comparison – ROVR CY22, MPA FY23

Company name	Ticker	Share price (cps)	Mkt cap (A\$m)	Net cash @ 31/12/21 (A\$m)	GMV (A\$m)	Revenue* (A\$m)	EBITDA	EV/EBITDA	EV/Revenue (x)	Mkt Place % GMV
Rover	ROVR	6.19	974	252.6	800.0	170.0	19.0	38.0	4.2	100%
Mad Paws	MPA	0.19	61	6.0	50.60	17.11	(4.15)	Nm	3.2	50%

Sources: Company financials, Refinitiv Eikon, Prices at 26 April 2022 \*Gross profit for MPA

#### Exhibit 4: MPA Financial Summary

Mad Paws (MPA.ASX)						Share price (26 April 2022)						A\$ 0.190	
Profit and Loss (A\$m)						Interim (A\$m)							
Y/E 30 June	FY20A	FY21A	FY22F	FY23F	FY24F		H121	H221	H122	H222f	H123f	H223f	
Revenue	2.0	2.9	10.3	30.8	49.3	Revenue	1.0	1.8	3.3	7.0	13.4	17.4	
Gross profit	2.0	2.3	5.7	13.7	22.4	EBITDA	(1.4)	(3.3)	(4.2)	(3.5)	(2.9)	(1.3)	
GP margin %	100.0%	80.8%	55.3%	44.5%	45.5%	EBIT	(1.6)	(3.4)	(4.4)	(3.7)	(3.1)	(1.6)	
Underlying EBITDA	(2.3)	(4.7)	(7.7)	(4.2)	4.5	NPAT (normalised)	(1.6)	(3.5)	(4.4)	(3.7)	(3.1)	(1.5)	
Depn	(0.2)	(0.2)	(0.4)	(0.6)	(0.6)	One-offs	0.0	(1.0)	(0.5)	0.0	0.0	0.0	
Amort	0.0	0.0	0.0	0.0	0.0	NPAT (reported)	(1.6)	(4.5)	(4.9)	(3.7)	(3.1)	(1.5)	
EBIT	(2.5)	(4.9)	(8.1)	(4.7)	4.0	EPS (normalised)	(0.011)	(0.032)	(0.019)	(0.014)	(0.010)	(0.005)	
Interest	(0.0)	(0.1)	0.0	0.1	0.1	EPS (reported)	(0.011)	(0.032)	(0.014)	(0.014)	(0.010)	(0.010)	
Tax	0.0	0.0	0.0	0.0	(1.2)	Dividend (cps)	0.000	0.000	0.000	0.000	0.000	0.000	
NPAT	(2.5)	(5.1)	(8.1)	(4.6)	2.8	Operating cash flow	na	na	na	na	na	na	
Adjustments	0.0	0.0	0.0	0.0	0.0	Divisonals	H121	H221	H122	H222f	H123f	H223f	
Adjusted NPAT	(2.5)	(5.1)	(8.1)	(4.6)	2.8	Marketplace	1.0	1.4	1.3	2.4	2.5	3.0	
Abnormals (net)	0.0	(1.0)	(0.5)	0.0	0.0	Dinner Bowl	-	0.4	0.8	1.0	1.5	2.1	
NPAT (reported)	(2.5)	(6.1)	(8.5)	(4.6)	2.8	Insurance	-	0.0	0.0	0.1	0.1	0.1	
Cash flow (A\$m)						Waggly		0.1	1.1	1.4	1.7	2.1	
Y/E 30 June	FY20A	FY21A	FY22F	FY23F	FY24F	Pet Chemist				2.1	7.6	10.0	
EBITDA (inc cash rent)	(2.4)	(4.8)	(7.8)	(4.3)	4.4	Total Revenue	1.0	1.9	3.3	7.0	13.4	17.4	
Interest	(0.0)	(0.1)	0.0	0.1	0.1	Gross profit	1.0	1.3	1.8	3.9	5.9	7.8	
Tax	0.3	0.3	0.4	0.3	0.0	Underlying GP Margin %	100.0%	70.7%	54.4%	56.3%	44.5%	44.9%	
Working capital changes	(0.1)	0.9	0.2	0.6	1.2	Operating Costs							
Operating cash flow	(2.2)	(3.7)	(7.2)	(3.3)	5.6	Employment	1.0	2.2	2.9	3.1	3.2	3.4	
Mtce capex	(0.4)	(0.3)	(0.7)	(0.8)	(0.9)	Marketing	0.8	1.3	1.6	1.9	2.3	2.4	
Free cash flow	(2.6)	(4.0)	(7.9)	(4.1)	4.7	Other (Inc PC)	0.6	1.0	1.4	2.4	3.3	3.3	
Growth capex	0.0	0.0	0.0	1.0	1.0	Total costs	2.4	4.6	6.0	7.4	8.8	9.1	
Acquisitions/Disposals	0.0	(2.0)	(20.0)	0.0	0.0	EBITDA	(1.4)	(3.3)	(4.2)	(3.5)	(2.9)	(1.3)	
Other	0.0	(1.1)	(0.5)	0.0	0.0	EBITDA margin %	(147.8%)	(173.4%)	(126.6%)	(49.6%)	(21.4%)	(7.4%)	
Cash flow pre financing	(2.6)	(7.0)	(28.4)	(3.1)	5.7	Margins, Leverage, Returns		FY20A	FY21A	FY22F	FY23F	FY24F	
Equity	2.5	17.6	21.6	0.0	0.0	EBITDA margin %		(115.1%)	(164.9%)	-74.5%	-13.5%	9.2%	
Debt	0.0	0.0	0.0	0.0	0.0	EBIT margin %		(125.1%)	(173.5%)	-78.4%	-15.3%	8.0%	
Net Dividends paid	0.0	0.0	0.0	0.0	0.0	NPAT margin (pre significant items)		(127.0%)	(178.1%)	-78.3%	-15.0%	5.7%	
Net cash flow for year	(0.1)	10.6	(6.8)	(3.1)	5.7	Net Debt (Cash)		-1.0	-12.5	-6.0	-2.2	-7.2	
Balance sheet (A\$m)						Net debt/EBITDA (x)	(x)	0.4 x	2.7 x	0.8 x	0.5 x	-1.6 x	
Y/E 30 June	FY20A	FY21A	FY22F	FY23F	FY24F	ND/ND+Equity (%)	(%)	48.0%	47.1%	18.1%	8.8%	22.2%	
Cash	1.0	12.5	6.0	2.2	7.2	EBIT interest cover (x)	(x)	n/a	n/a	n/a	n/a	0.0x	
Accounts receivable	0.0	0.1	0.2	0.3	0.5	ROA		(113.9%)	(52.0%)	(34.3%)	(16.5%)	13.4%	
Inventory	0.0	0.2	0.3	0.5	0.7	ROE		nm	nm	nm	nm	nm	
Other current assets	0.2	0.4	0.2	0.3	0.3	ROIC		nm	nm	nm	nm	nm	
Total current assets	1.2	13.2	6.7	3.2	8.7	NTA (per share)		0.00	0.07	0.01	0.00	0.01	
PPE	0.0	0.0	0.0	0.0	0.0	Working capital		-0.3	-1.0	-1.1	-1.6	-2.5	
Goodwill	0.8	3.6	23.6	23.6	23.6	WC/Sales (%)		(13.0%)	(34.9%)	(10.5%)	(5.0%)	(5.1%)	
Right of use asset	0.2	0.0	0.0	0.0	0.0	Revenue growth		26.7%	42.6%	261.5%	199.1%	60.0%	
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	EBIT growth pa		nm	n/a	n/a	n/a	(183.9%)	
Other	0.0	0.1	0.0	0.0	0.0	Pricing		FY20A	FY21A	FY22F	FY23F	FY24F	
Total non current assets	1.0	3.7	23.6	23.6	23.6	No of shares (y/e)	(m)	114.6	139.0	252.9	321.9	321.9	
Total Assets	2.2	16.8	30.3	26.8	32.3	Weighted Av Dil Shares	(m)	114.6	139.0	252.9	321.9	321.9	
Accounts payable	0.3	1.3	1.6	2.3	3.7	EPS Reported	cps	(0.022)	(0.044)	(0.034)	(0.014)	0.009	
Short term debt	0.0	0.0	0.0	0.0	0.0	EPS Normalised/Diluted	cps	(0.022)	(0.037)	(0.032)	(0.014)	0.009	
Contract liabilities	0.0	0.1	0.1	0.1	0.1	EPS growth (norm/dil)		nm	65%	n/a	n/a	-161%	
Lease liabilities/other	0.6	1.4	1.6	2.0	3.2	DPS	cps	0.000	0.000	0.000	0.000	0.000	
Total current liabilities	1.0	2.8	3.3	4.4	7.0	DPS Growth		n/a	n/a	n/a	n/a	n/a	
Long term debt	0.0	0.0	0.0	0.0	0.0	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%	
Other non current liabs	0.2	0.1	0.1	0.1	0.1	Dividend imputation		30	30	30	30	30	
Total long term liabilities	0.2	0.1	0.1	0.1	0.1	PE (x)		nm	-	5.2	-	13.2	21.8
Total Liabilities	1.1	2.9	3.3	4.5	7.0	PE market		18	18	18	18	18	
Net Assets	1.1	14.0	27.0	22.4	25.3	Premium/(discount)		nm	nm	nm	nm	nm	
Share capital	10.1	36.9	58.5	58.5	58.5	EV/EBITDA		(9.0)	(3.0)	(5.5)	(14.2)	0.0	
Reserves	0.7	(1.3)	(1.3)	(1.3)	(1.3)	FCF/Share	cps	(2.251)	(2.857)	(3.017)	(1.176)	1.567	
Retained Earnings	(9.7)	(21.7)	(30.2)	(34.8)	(32.0)	Price/FCF share		(8.441)	(6.651)	(6.298)	(16.150)	12.122	
Minorities	0.0	0.0	0.0	0.0	0.0	Free Cash flow Yield		(4.2%)	(6.5%)	(12.5%)	(6.2%)	8.2%	
Total Shareholder funds	1.1	14.0	27.0	22.4	25.2								

Source: Company data, RaaS estimates

# FINANCIAL SERVICES GUIDE

**RaaS Advisory Pty Ltd**

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**of**

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

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BR, RaaS, its directors and related parties have no associations or relationships with any product issuers other than when advising retail clients to invest in managed funds when the managers of these funds may also be clients of BR. RaaS's representatives may from time to time deal in or otherwise have a financial interest in financial products recommended to you but any material ownership will be disclosed to you when relevant advice is provided.

### Complaints

If you have a complaint about our service you should contact your representative and tell them about your complaint. The representative will follow BR's internal dispute resolution policy, which includes sending you a copy of the policy when required to. If you aren't satisfied with an outcome, you may contact AFCA, see below. BR is a member of the Australian Financial Complaints Authority (AFCA). AFCA provide fair and independent financial services complaint resolution that is free to consumers.

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.

### Professional Indemnity Insurance

BR has in place Professional Indemnity Insurance which satisfies the requirements for compensation under s912B of the Corporations Act and that covers our authorized representatives.

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The science of climate change is common knowledge and its impacts may damage the global economy. Mitigating climate change may also disrupt the global economy. Investors need to make their own assessments and we disclaim any liability for the impact of either climate change or mitigating strategies on any investment we recommend.

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