

Release date: 26 October 2021

**1Q22 Trading Update:** Strong originations of \$128.5 million in 1Q22 (62% increase on 1Q21), with revenue of \$37.8m (up 13% on the prior quarter); well positioned to continue to execute on growth.

Prospa Group Limited (ASX: PGL) ("Prospa" or "Company" or "Group") is pleased to provide a trading update for the quarter ended 30 September 2021 ("1Q22"), with this quarter's results driven by strong sales efforts capitalising on continued economic recovery, prudent expense management and ongoing investment into technology.

## Group highlights<sup>1</sup>

- Strong originations of \$128.5 million, up a significant 61.8% on the prior corresponding period ("pcp") (1Q21: \$79.4 million).
- Despite ongoing COVID-19-related lockdowns in key regions throughout Australia and New Zealand, Prospa achieved \$41.8 million of originations in July, \$44.9 million in August and \$41.8 million in September.
- Of the total originations for the quarter, 71.5% were derived from Prospa's Small Business Loan, and 28.5% from the Company's Line of Credit product.
- The New Zealand business performed strongly with originations of \$22.1 million in the quarter, a significant 275% increase on 1Q21 (\$5.9 million).
- Average Gross Loans increased to \$436.7 million during the quarter, up 11.0% on the prior quarter (4Q21: \$393.5 million), with an annualised portfolio yield of 34.3%. Closing Gross Loans accordingly increased to \$442.2 million, up 3.5% on the prior quarter (4Q21: \$427.1 million).
- Total revenue before transaction costs increased to \$37.8 million, up 13.2% on the prior quarter (4Q21: \$33.4 million).
- Continued to demonstrate a loyal customer base with repeat and returning customers accounting for 49% (\$63.3 million) of total originations. Importantly, these customers represent a lower cost of acquisition than new customers to Prospa. Total active customers increased to a 2021 high of 12,200.
- Long term relationship development continued to be essential for growth with the Company's customer-centric approach resulting in a Net Promoter Score above 80<sup>2</sup>. Note positive customer sentiment remains an important driver of originations.
- Reflecting continued economic recovery and resilient portfolio performance, credit provisioning for future bad debts remained at 7.9% of total loans.
- Overall growth was underpinned by Prospa's strong balance sheet and funding platform, with \$581.8 million<sup>3</sup> in available third-party facilities (\$194.4 million in available undrawn facilities) and \$93.0 million of cash (of which \$53.3 million is unrestricted).
- During the quarter, Prospa also issued and priced its first public term Asset Backed Securitisation of \$200 million to wholesale investors, supported by a pool of Australian Small Business Loans and Line of Credit facilities.

<sup>1</sup> Note all figures in AUD unless otherwise specified.

<sup>2</sup> Average for the period 1 July 2021 to 30 September 2021.

<sup>3</sup> NZD converted at RBA exchange rate 0.954 as at 30 September 2021.

## Greg Moshal, Chief Executive Officer, said:

*"I am proud to report that Prospa has achieved strong results this quarter with SMEs displaying their resilience and ability to navigate through the ongoing effects of COVID-19. Despite two of Australia's major cities remaining in lockdown during the quarter, pleasingly, we have seen positive sentiment sweeping the SME market as we enter a phase of strong economic recovery that is translating to very strong origination and revenue performance. With this momentum in quarterly revenue growth, underpinned by our investment into technology and our continually evolving award-winning suite of products, we are excited to continue to deliver on our promise to help small businesses grow, run and pay.*

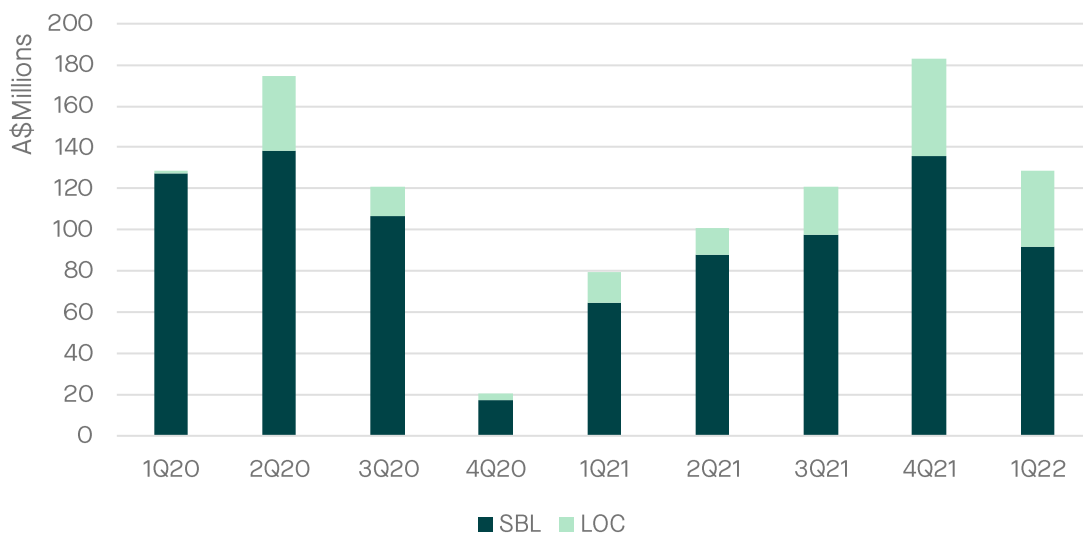
*Prospa's 1Q FY22 results were a direct result of our products providing an enhanced and market leading experience for our customers throughout Australia and New Zealand, with our smarter and faster credit decision engine now leveraging the broad range of learnings and insights obtained throughout FY21. Importantly, active customers reached a record high for 2021 of 12,200, noting c.50% of originations were derived from repeat business. Customer satisfaction was further evident in our NPS score of over 80.*

*Looking ahead, the business is well placed to continue to execute on growth. I am encouraged by the initial response received following our recent Investor Day and planned release of our new lending solutions and innovative cash flow management and payment products."*

## 1Q22 financial performance

Loan originations of \$128.5 million were up 61.8% on pcp (1Q21: \$79.4 million), noting demand for Prospa's Line of Credit comprised a record 28.5% (\$36.6 million) of the total, with the Small Business Loan driving the remaining 71.5% (\$91.9 million). Importantly, 49.3% of originations (\$63.3 million) were derived from repeat or returning customers during the quarter, reflecting a materially lower cost of acquisition than new customers.

Quarterly originations by product<sup>4</sup>:



The New Zealand business continued to perform strongly, contributing originations of \$22.1 million to the total, representing a significant increase of 275% on pcp (1Q21: \$5.9 million). Strong performance in the region further validates Prospa's decision to expand its product offering in this market.

<sup>4</sup> Fresh originations from all products and geographies as at 30 September 2021. Small Business Loans ("SBL") includes Back to Business Loans originated under the Australian Government Guarantee Scheme and the New Zealand Business Finance Guarantee Scheme. Line of Credit ("LOC") includes Back to Business Lines originated under the Australian Government Guarantee Scheme.

Average Gross Loans of \$436.7 million increased by 11.0% on the prior quarter (4Q21: \$393.5 million), underpinned by strong originations. Closing gross loans for the quarter reached \$442.2 million, up 3.5% on prior quarter and only 7% lower than the highest gross loans balance on record for Prospa (refer February 2020: \$475.4 million). The quarter's annualised portfolio yield remained strong at 34.3%, driving strong corresponding revenue performance for the period.

Total revenue before transaction costs trended in line with growth in average gross loans, reaching \$37.8 million for the quarter, up 12.9% on the prior period (4Q21: \$33.4 million) and increased 34.5% on pcp (1Q21: \$28.1 million). The business expects revenue to continue to trend in line with portfolio growth and the introduction of various new products and capabilities.

Following a period of prudent expense management, operating expenses declined 9.1% on the prior quarter to \$19.0 million. Moving forward, Prospa will continue to invest in enhancing its technology, diversifying its product suite, and driving sales and marketing initiatives across the Group.

## Quarterly key metrics

Financial and operational performance (\$m) <sup>1</sup>	4Q20 Results	1Q21 Results	2Q21 Results	3Q21 Results	4Q21 Results	1Q22 Results	% Change from prior quarter	% Change on 1Q21
Total originations (Aus & NZ) <sup>2</sup>	20.3	79.4	100.7	120.9	182.7	128.5	(29.7%)	61.8%
Originations excluding AU Government Guarantee Scheme (GGS) and NZ Business Finance Guarantee Scheme (BFGS)	9.5	22.4	98.6	120.9	167.0	128.5	(23.1%)	473.7%
Active Customers (000s) <sup>3</sup>	13.3	11.8	11.3	11.0	11.9	12.2	2.5%	3.4%
Average Gross Loans	422.7	353.2	332.8	354.0	393.5	436.7	11.0%	23.6%
Revenue <sup>4</sup>	29.1	28.1	27.7	28.5	33.4	37.8	13.2%	34.5%
Transaction Costs	2.0	1.8	1.9	1.6	2.0	2.8	40.0%	55.6%
Loan Impairment Expense	30.0	3.8	7.1	6.7	9.7	9.6	(1.0%)	152.6%
Funding Costs	5.2	4.2	4.0	4.0	4.6	5.2	13.0%	23.8%
Other Operating Expenses <sup>5</sup>	15.2	14.8	17.2	17.8	20.9	19.0	(9.1%)	28.4%

1. Unaudited management accounts. Quarterly totals may not add up precisely due to rounding.

2. Originations from 29 April to 6 October 2020 include lending under the GGS, which ended in September 2020. Originations from 1 April 2021 include lending under the BFGS, which ended on 30 June 2021. Small retrospective changes in origination figures may occur due to backdated cancellations or modifications to support customer outcomes.

3. Total active customers at the end of each reported period.

4. Revenue is total revenue before transaction costs.

5. Other operating expenses includes share-based payment expenses.

## Technology enhancements driving portfolio expansion

Continued investment into Prospa's technology roadmap resulted in a range of new and exciting products (recently announced) to be introduced in the near-term, focussed on (1) scaling existing lending solutions, and (2) further diversifying the Group's product suite via the introduction of Australia's first all-in-one business account, which includes a range of integrated cash flow management, smart invoicing, overdraft and other payment features.

Prospa also recently introduced its new Digital Qualification Journey that has automated thousands of customer interactions, resulting in a significant reduction in call volumes and an overall streamlining of the customer experience. Additionally, a revised discretionary approach has been adopted to rationalise the credit escalation process by systemising various controls. This has further enhanced and accelerated Prospa's credit approval process, delivering benefits of scale when dealing with a greater number of customers.

## Credit risk assessment and management

As at 30 September 2021, the total coverage required for expected credit losses as a percentage of receivables remained at 7.9% (4Q21: 7.9%), a total provision of \$34.9 million. Stable provision rates were underpinned by the Group's proactive management of credit risk on new lending using the purpose-built credit decision engine ("CDE") and leveraging its extensive data and industry insights, now with the benefit of learnings obtained throughout FY21.

While management remains confident in the economic recovery nationally, potential future losses remain adequately covered within Prospa's provisions for expected credit losses. Static loss rates remain within the Board mandated 4% – 6% tolerance range supported by the CDE.

Loan impairment expense for the quarter was \$9.6 million, in line with the previous quarter (4Q21: \$9.7 million). The loan impairment expense consists of a \$1.1 million net provision in line with the growth in the portfolio and \$8.5 million net bad debt expense. Loan write-offs related to the impact of COVID-19 remain lower than initially expected.

In response to the recent lockdowns, Prospa offered its standard hardship program of up to 4 weeks of 50% payment or no repayments to customers. As of 22 October 2021, 1.3% of active Australian and New Zealand customer accounts remain in assistance, with only 0.4% of those on full payment deferrals. Prospa will continue to monitor the situation and assist customers on a case-by-case basis as the economy reopens.

## Funding platform remains solid to support business growth

During the quarter Prospa significantly expanded and further diversified its funding platform both in Australia and New Zealand.

On 9 September 2021, Prospa launched the PROSPARous Trust 2021-1, its inaugural public asset-backed securitisation ("ABS") of \$200 million issued to wholesale investors. The ABS transaction attracted strong demand from large local and international investors and competitive pricing with over subscription. This ABS transaction is the first of its kind for Australia and is an example of Prospa's desire to be an innovator in Australia's securitisation market. The transaction was priced competitively and resulted in a weighted average margin of 2.34% p.a.

During the quarter, Prospa also established the Kea 2021-2 warehouse facility in New Zealand with the ability to fund Small Business Loans and Line of Credit Facilities. The three-year committed facility has a capacity of NZ\$63.0m and is designed to seamlessly scale up to NZ\$126.0 million over time as Prospa continues to expand its New Zealand operations. This new warehouse facility replaced the existing Kea Trust 2019-1 which had a capacity of NZ\$35.0m and as such represents a net increase of NZ\$28.0 million in funding capacity in New Zealand.

As a result, as at 30 September 2021, the Group had \$581.8 million in available third-party facilities, including available undrawn facilities of \$194.4 million with a weighted average funding rate of 5.4% (4Q21: 5.7%). The reduced funding margin of the ABS transaction had minimal impact on this quarter's funding costs and is expected to have full effect from 2Q22 onward. Total cash and cash equivalents increased 15.7% over the quarter to \$93.0 million at 30 September 2021 (4Q21: \$80.4 million), of which \$53.3 million is unrestricted.

Prospa remains well positioned to support the increasing demand for capital from its small business customers.

## Outlook and strategic opportunities

Prospa recently provided additional detail regarding the Group's investment into technology and product development at its Investor Day held 21 October 2021. A recording of the presentation can be accessed here <https://investor.prospa.com/>. Prospa is well positioned to leverage its status as Australia and New Zealand's #1 online lender to SMEs to scale its existing lending solutions and introduce its exciting new suite of products.

In terms of scaling lending, Prospa plans to roll-out its new premium Prospa Plus Business Loan product, a solution that provides funding of up to \$500,000 for higher credit quality SMEs. The Prospa Plus Business Loan almost doubles the original facility limits available for SMEs on its current platform and also offers a range of complementary premium features (e.g. pre-approval without credit check, dynamic interest rates, dedicated account managers and more). Prospa also intends to offer its Line of Credit product to its customers in New Zealand next year, leveraging existing distribution channels and building on its successful lending platform in the region.

Prospa's long-term strategy is focussed on becoming an all-in-one financial technology platform for SMEs, encompassing a broad range of capital solutions and integrated cashflow management and payment products. This enables Prospa to play an even more critical role in the day-to-day operations of SMEs.

This announcement has been authorised for release by the Board.

## For further information contact:

### Company Secretary

**Nicole Johnschwager**  
General Counsel and Company Secretary  
e: nicole.j@prospa.com

### Media & Investor Relations

**Sharon Chang**  
Corporate Communications Manager  
e: sharon.chang@prospa.com

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## About Prospa

Prospa Group Limited (ASX: PGL) is a financial technology company and a leading provider of cash flow products and services that help small businesses to grow and prosper. Headquartered in Sydney, the Company operates across Australia and New Zealand and employs over 230 people. The Company has been recognised as the MFAA National Fintech Lender of the Year three years in a row and received the Excellence in Business Lending Award at the FinTech Australia Finnie Awards two years in a row. Prospa was also certified as one of Australia's Great Place's to Work in 2021.

## Appendix

### Cash & Cash Equivalents:

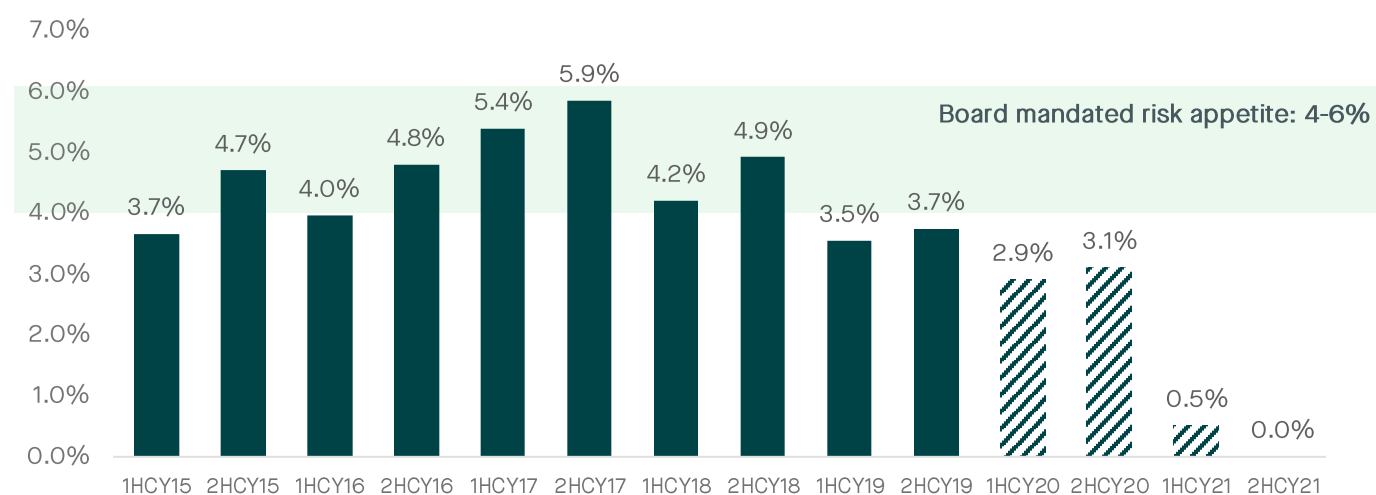
Cash & Cash Equivalents (\$m)	Current Quarter	Prior Quarter	Movement
Unrestricted Cash	53.3	39.8	33.9%
Restricted Cash	39.7	40.6	(2.2%)
<b>Total Cash &amp; Cash Equivalents</b>	<b>93.0</b>	<b>80.4</b>	<b>15.7%</b>

### Trust facilities (as at 30 September 2021):

Facility (\$m)	Facility Limit	Drawn	Maturity
Propela Trust (AU Warehouse)	27.0	7.3	Mar-22
PROSPArity Trust (Warehouse Facility)	135.0	21.9	May-24
Pioneer Trust (Warehouse Facility)	138.8	106.4	Feb-23
PROSPArous 2021-1 (Rated ABS Term)	190.0	190.0	Feb-24 <sup>1</sup>
Kea Trust 2021-1 (NZ)	30.2	30.2	Sep-24
Kea Trust 2021-2 (NZ)	60.1	30.9	Aug-24

1. Call option date. Final maturity is December 2026.

### Stable static loss rates by cohort at 30 September 2021:



Represents static loss rates net of recoveries at 30 September 2021 for the Australian Small Business Loan and Government Guarantee Scheme loan products (previously excluded). Banded columns reflect cohorts that are still seasoning.

