

Spenda Limited

Increased revenue and goodwill adjustment

Spenda Limited (ASX:SPX) has a long history in business financial services software development. The Spenda platform, launched in February 2020, has developed to become an integrated applications, payments and lending platform. SPX is reporting a large pipeline of customer leads for the software and services delivered through Spenda as the world opens post-COVID lockdowns. Businesses are looking to simplify processes and payments systems, with Spenda offering a competitive platform integrated with major accounting and payments providers. SPX launched the full payment applications suite in June 2021. The company is now adding a range of funding options into the Spenda software. These were funded via the company's own cash reserves, prior to the announcement of a debt warehouse which will now be used to fund expansion in business lending products. SPX provides a platform that simplifies end-to-end transactions for businesses and provides transparency to allow secure lending offers to expand. The company earned \$1.7m in loan interest in FY22 before use of the \$50m debt warehouse, as announced by the company on 1 August 2022. FY23 should see a further increase in revenue from the company's blended revenue model, incorporating SaaS, payments and lending. Spenda acquired three synergistic businesses during the year to build the expertise and scale needed to develop and deliver a fully integrated payments and lending platform and ended the year with total headcount of 69 people. The group finished FY22 with a net cash position (including client loans) of \$12.5m.

Business model

Spenda Limited operates a Software-as-a-Service (SaaS) model for licensing of the components of the Spenda platform. Businesses have several ways to take up the service with the ability to choose which modules will be turned on – point of sale, inventory management, e-commerce, procurement and service management. Payments services are then available for wholesale and retail B2B and B2C use. Utilising the ledger-to-ledger dataset provided by these transactions, SPX can securely offer on-demand lending, pay later, early settlement discounts and trade finance to its business customers to enable further revenue growth. The combination of payment and lending services allows Spenda to generate three streams of income from one customer: payments, lending and software fees.

Lending growth and debt warehouse expansion in FY23

SPX announced the establishment of a \$50m debt warehouse after the end of FY22. The facility should enable SPX to accelerate take-up of the company's debtor financing and other lending products. Operating costs increased with the growth in employees. The acquired companies - Appstablishment Software (ASG), Invigo and Greenshoots - were integrated into Spenda and now provide the payments and lending platform with additional expertise and scale. A consequence of the acquisitions and application of Accounting Standards is a \$41.5m write-down of goodwill, which is discussed in detail below.

Valuation upside from results as debt warehouse utilised

The fintech sector is a diverse group with different niche focuses and stages of corporate development. Similar listed early-stage companies include Douough (ASX:DOU), Earlypay (ASX:EPY) and Ioupay (ASX:IOU). Quarterly results continue to show the company's progress towards the goal of delivering a robust payments and lending platform.

Historical statutory earnings (in A\$m unless otherwise stated)

Year end	Revenue	Gross profit	EBITDA	NPAT	EPS (c)	EV/Sales (x)	Price/Book (x)
06/19a	0.67	0.17	(3.2)	(6.0)	(0.01)	14.9	3.20
06/20a	0.34	0.02	(2.5)	(7.4)	(1.01)	51.3	(6.91)
06/21a	0.88	0.49	(7.1)	(11.4)	(0.65)	64.7	0.44
06/22a	2.25	1.27	(9.8)	(50.2)	(1.62)	13.6	0.88

Source: Company reported data.

FY22 Annual Report Analysis

Financial Software & Services

13th September 2022

Share Details

ASX code	SPX
Share price (12-Sep)	\$0.012
Market capitalisation	\$37.7M
Shares on issue	3,140M
Net cash 30-Jun-2022	\$7.6M
Free float	~69%

Share Performance (12 months)



Upside Case

- Launching the debt warehouse expands lending ability
- Customer conversion pipeline grows
- Sell-through of lending products on plan

Downside Case

- Delays due to customer transition issues
- Slower take-up due to economic / COVID issues
- Labour shortages slow economies and sales

Catalysts

- Debt warehouse drawdown announcements
- Increasing transactions on platform
- Customer signings
- Customer implementation milestones

Board of Directors

Peter Richards	Non-Executive Chairman
Howard Digby	Non-Executive Director
Stephen Dale	Non-Executive Director
Adrian Floate	Managing Director/CEO

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FY22 Annual Report Analysis – \$41.5m Goodwill Adjustment

Management's explanation

Creating goodwill

Spenda agreed to acquire ASG on 5th December 2019.

- An Independent Expert Report (IER) valued ASG at \$24.7m;
- Shareholders voted (97.5% in favour) to acquire ASG on 20th May 2021 and the transaction was completed on 2nd June 2021, with a deemed acquisition date of 28th May 2021; and
- The share price on the 28th May 2021 rose 2.3x from the fair value per the IER of \$24.7m at \$0.0298 per share to \$0.067.

Australian Accounting Standards (AAS) require the consideration paid to be valued on the day of completion (rather than the agreed value per the IER). Consideration paid was recorded on Spenda's balance sheet as \$55.4m and booked to goodwill, as detailed in Exhibit 1.

Exhibit 1: ASG acquisition valuation		
	Per Independent Expert's Report \$	Per Accounting Standards \$
Shares issued to acquire ASG	825,000,000	825,000,000
Share price	\$0.0298	\$0.0670
Consideration paid for ASG	\$24,700,000	\$55,400,000
Less: ASG's net assets on date of acquisition	(\$4,491,235)	(\$4,491,235)
Goodwill on acquisition	\$20,208,765	\$50,908,765
Source: Company data		

Annual accounting valuation of goodwill

The recoverable value of goodwill on acquisition must be assessed for impairment at balance date. The value of the cash generating unit (CGU) relating to the goodwill i.e., the assets and liabilities as at 30 June that contribute towards generating Software-as-a-Service and Payments revenue, was determined to be \$65m, as detailed in Exhibit 2.

Exhibit 2: Post-acquisition balance sheet value of CGU	
	Cash Generating Unit \$
Trade and other receivables	2,056,183
Goodwill – per above	50,908,765
Software assets	12,992,771
Trade and other payables	(552,960)
Balance sheet carrying values pre-impairment	65,404,759
Source: Company data	

The \$65m carrying value is then tested for impairment using a five-year forecast of cashflows discounted to present value on 30 June 2022. The result was a valuation of \$23.9m, (close to the IER valuation of \$24.7m).

Impact of the adjustment

This generates an adjustment to goodwill of \$41.5m – the difference between the balance sheet carrying value and the five-year DCF valuation.

In summary the adjustment to the carrying value of goodwill is a result of applying the principles of the technical accounting standards rather than a change in business circumstances and is therefore not a significant issue to consider for future valuation estimates. The write-down does not change the company's financial position.

Exhibit 3: Financial Summary

Spenda Limited (ASX:SPX)					Share price (Date)		9/09/2022		SPX		A\$		0.013			
Profit and Loss (A\$m)					Interim (A\$m)		1H20 A	2H20 A	1H21 A	2H21 A	1H22 A	2H22 A				
Y/E 30 June	FY19A	FY20A	FY21A	FY22A												
Total Revenue	0.7	0.5	1.0	4.1	Total Revenue		0.3	0.3	0.7	0.3	1.0	3.1				
Gross Profit	0.2	0.2	0.6	3.1	EBITDA		(1.1)	(1.4)	(0.9)	(6.2)	(5.9)	(3.9)				
EBITDA	(3.2)	(2.5)	(7.1)	(9.8)	EBIT		(1.2)	(5.8)	(0.9)	(6.2)	(6.0)	(48.9)				
Depn	(0.3)	(0.8)	(0.0)	(3.6)	NPAT (normalised)		(1.3)	(6.1)	(0.9)	(10.5)	(6.0)	(44.3)				
Amort	0.0	0.0	0.0	0.0	Minorities		-	-	-	-	-	-				
EBIT	(6.0)	(7.1)	(7.1)	(55.0)	NPAT (reported)		(1.3)	(6.1)	(0.9)	(10.5)	(6.0)	(44.3)				
Interest	(0.0)	(0.3)	(0.2)	0.0	EPS (normalised)		(0.20)	(0.74)	(0.06)	(0.36)	(0.20)	(1.50)				
Tax	0.0	0.0	0.0	4.7	EPS (reported)		(0.16)	(0.74)	(0.06)	(0.36)	(0.20)	(1.39)				
Minorities	0.0	0.0	0.0	0.0	Dividend (cps)		-	-	-	-	-	-				
Equity accounted assoc	0.0	0.0	0.0	0.0	Imputation		30.0	30.0	30.0	30.0	30.0	30.0				
NPAT pre significant it	(6.0)	(7.4)	(11.4)	(50.2)	Operating cash flow		(0.9)	(0.6)	(1.4)	(1.7)	(5.8)	0.0				
Significant items	0.0	0.0	0.0	see note	Free Cash flow		(0.9)	(0.6)	(1.3)	(1.2)	(5.7)	0.0				
NPAT (reported)	(6.0)	(7.44)	(11.4)	(50.2)	Divisions		1H20 A	2H20 A	1H21 A	2H21 A	1H22 A	2H22 A				
Cash flow (A\$m)					SaaS		0.0	0.0	0.4	0.6	0.0	0.7				
Y/E 30 June	FY19A	FY20A	FY21A	FY22A	Finance - Transaction fees		0.0	0.0	0.0	0.0	0.0	0.6				
EBITDA	(3.2)	(2.5)	(7.1)	(9.8)	Finance - Lending		0.0	0.0	0.0	0.0	0.4	2.0				
Interest	(0.0)	(0.1)	(0.0)	0.0	COGS		(0.2)	(0.1)	(0.2)	(0.2)	(0.5)	(1.7)				
Tax	0.0	0.0	0.0	(0.9)	Employment		(0.9)	(0.5)	(0.8)	(1.1)	(4.3)	(3.6)				
Working capital changes	1.0	1.1	4.1	4.9	Technology, licence fees		0.0	0.0	0.0	0.0	0.0	0.0				
Operating cash flow	(2.2)	(1.5)	(3.1)	(5.8)	Other costs		(0.3)	(0.4)	(0.5)	(0.1)	(1.1)	(0.2)				
Mtce capex	0.0	0.0	0.0	(0.1)	EBITDA		(1.1)	(1.4)	(0.9)	(6.2)	(5.9)	(3.9)				
Free cash flow	(2.2)	(1.5)	(3.1)	(5.9)	Margins, Leverage, Returns					FY19A	FY20A	FY21A	FY22A			
Growth capex	(0.0)	(0.0)	(0.5)	0.0	EBITDA		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.				
Acquisitions/Disposals	(1.8)	(1.4)	0.0	0.9	EBIT		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.				
Other	0.0	0.0	(2.5)	(2.5)	NPAT pre significant items		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.				
Cash flow pre financing	(4.0)	(2.9)	(6.0)	(7.5)	Net Debt (Cash)				0.1	(1.6)	21.4	7.6				
Equity	3.7	0.6	27.7	0.2	Net debt/EBITDA (x)	(x)		n/a	n/a	n/a	n/a	n/a				
Debt	0.0	2.6	(0.6)	(1.0)	ND/ND+Equity (%)	(%)		(3%)	(169%)	(36%)	(21.3%)					
Dividends paid	0.0	0.0	0.0	0.0	EBIT interest cover (x)	(x)		n/a	n/a	n/a	n/a	n/a				
Net cash flow for year	(0.2)	0.3	21.1	(8.4)	ROA		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.				
Balance sheet (A\$m)					ROE		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.				
Y/E 30 June	FY19A	FY20A	FY21A	FY22A	ROIC		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.				
Cash	0.1	0.3	21.4	7.6	NTA (per share)		n/a	n/a	0.01	0.00						
Accounts receivable	0.3	0.3	0.8	3.0	Working capital		(0.2)	(1.3)	(4.3)	1.0						
Inventory	0.0	0.0	0.0	0.1	WC/Sales (%)		(33%)	(244%)	(431%)	24%						
Other current assets	0.1	0.4	0.3	12.9	Revenue growth		119%	(23%)	91%	308%						
Total current assets	0.6	1.0	22.5	23.6	EBIT growth pa		n/a	n/a	n/a	n/a						
PPE	0.0	0.0	0.1	0.1	Pricing		FY19A	FY20A	FY21A	FY22A						
Intangibles and Goodwill	3.1	0.0	63.5	30.6	No of shares (y/e)	(m)	823	1,437	2,951	3,182						
Investments	0.0	0.0	0.0	0.0	Weighted Av Dil Shares	(m)	464	736	1,756	3,101						
Deferred tax asset	0.0	0.0	0.0	0.0	EPS Reported	cps		(1.3)	(1.0)	(0.7)	(1.6)					
Other non current assets	0.0	0.0	1.2	0.0	EPS Normalised/Diluted	cps		(1.2)	(0.9)	(0.4)	(1.7)					
Total non current assets	3.1	0.0	64.7	30.7	EPS growth (norm/dil)		n.a.	n.a.	n.a.	n.a.	n.a.					
Total Assets	3.7	1.0	87.2	54.3	DPS	cps		-	-	-	-					
Accounts payable	0.6	1.6	5.1	2.1	DPS Growth		n.a.	n.a.	n.a.	n.a.	n.a.					
Short term debt	0.0	1.8	0.0	0.0	Dividend yield		0.0%	0.0%	0.0%	0.0%						
Tax payable	0.0	0.0	0.0	0.0	Dividend imputation		30	30	30	30						
Other current liabilities	0.0	0.1	0.8	8.7	PE (x)		-1.0	-1.3	-2.0	-0.8						
Total current liabilities	0.6	3.5	5.9	10.9	PE market		14.4	14.4	14.4	14.4						
Long term debt	0.0	0.0	0.0	0.0	Premium/(discount)		(107%)	(109%)	(114%)	(106%)						
Other non current liabs	0.0	0.0	0.0	0.1	EV/EBITDA		-3.4	-7.5	-8.4	-3.4						
Total long term liabilities	0.0	0.0	0.0	0.1	FCF/Share	cps		-0.3	-0.1	-0.1	-0.2					
Total Liabilities	0.6	3.5	5.9	10.9	Price/FCF share		-4.9	-12.3	-12.6	-7.2						
Net Assets	3.1	(2.5)	81.3	43.4	Free Cash flow Yield		(20.6%)	(8.1%)	(8.0%)	(13.9%)						
Share capital	60.2	61.1	149.7	160.9												
Accumulated profits/losse	(59.3)	(66.5)	(77.2)	(126.4)												
Reserves	2.2	2.9	8.7	8.9												
Minorities	0.0	0.0	0.0	0.0												
Total Shareholder func	3.1	(2.5)	81.3	43.4												

Sources: Company data for actuals; RaaS analysis. Note: FY22 Goodwill adjustment of \$41.5m included above the line as per statutory.



FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

Effective Date: 6th May 2021



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

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 - Securities
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 - Securities

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