

Spenda Limited

Strong lending and revenue growth in Q1

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 Australia 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 on Spenda in May 2021. The company has launched a range of non-bank lending offers funded via the \$50m debt warehouse established August 2022. SPX provides a platform that simplifies end-to-end transactions for businesses and provides transparency to allow secure lending offers to expand. In Q1 FY23 Spenda recorded income from lending of \$0.36m while transitioning from equity funding to the debt warehouse. The company's focus in FY23 is on commercialising the Spenda product suite and accelerating the uptake of the lending offer via customer acquisition and expansion of activity in target industry segments.

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. Visa's BPSP (Business Payments Solutions Provider) and Mastercard's BPA (Business Payment Aggregator) agreements enable a secure payments process.

Q1 FY22 progress as targeted

Spenda's Q1 showed continued growth in lending and revenue. The debt warehouse was established, and the company is transitioning customers from equity funded loans to securitised funding. Average lending yield was 21.23% – a 16% rise on the previous quarter. The lending portfolio was drawn to \$10.4m on 30 September vs \$12.1m on 30 June with customer limits at \$18.4m. SPX has drawn \$7.5m from the warehouse at 30 September. The company emphasised a new focus on maximising cash and returns by increasing portfolio yield and focusing on larger, integrated, channels for invoice financing offers. Payment platform transaction flows rose 120% with a 55% increase in payment volumes as new customer rollouts started to impact. Both B2B and B2C products saw increased transaction volumes. Spenda's revenue is now 95% annually recurring vs one-off sales. A R&D rebate of \$1.6m was also received post-quarter end.

Valuation is at an early stage with upside from results

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). Share price volatility remains high. Quarterly results are demonstrating progress towards the goal of delivering a robust payments and lending platform at scale.

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

Year end	Sales 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)	12.3	2.67
06/20a	0.34	0.02	(2.5)	(7.4)	(1.01)	50.5	(6.80)
06/21a	0.88	0.49	(7.1)	(11.4)	(0.65)	60.1	0.39
06/22a	2.25	1.27	(9.8)	(50.2)	(1.62)	13.1	0.85

Source: Company data FY22; Goodwill write-down of \$41.5m included above the line

Financial Software & Services

10 November 2022

Share Details

ASX code	SPX
Share price (9-Nov)	\$0.010
Market capitalisation	\$32.3M
Shares on issue	3,180M
Net cash 30-Sep-2022	\$9.2M
Free float	~72%

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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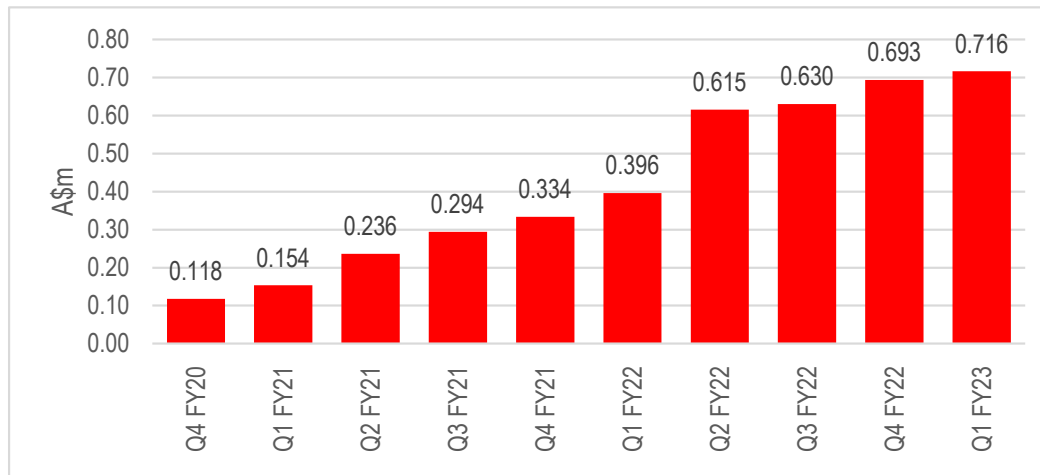
Q1 FY23 Results Analysis

Spenda’s business model is based on recurring revenue with three main sources of income:

- Software-as-a-Service fees;
- Payments processing fees; and
- Lending facility fees.

As utilisation of the debt warehouse increases, the company anticipates that lending and payments revenue will become the dominant source of earnings, with SaaS being the enabler. Cash receipts from customers in Q1 grew to \$716k, continuing a positive trend and the 10th consecutive quarters growth. We anticipate a step-up in Q2 as SPX draws down the capacity of the debt warehouse.

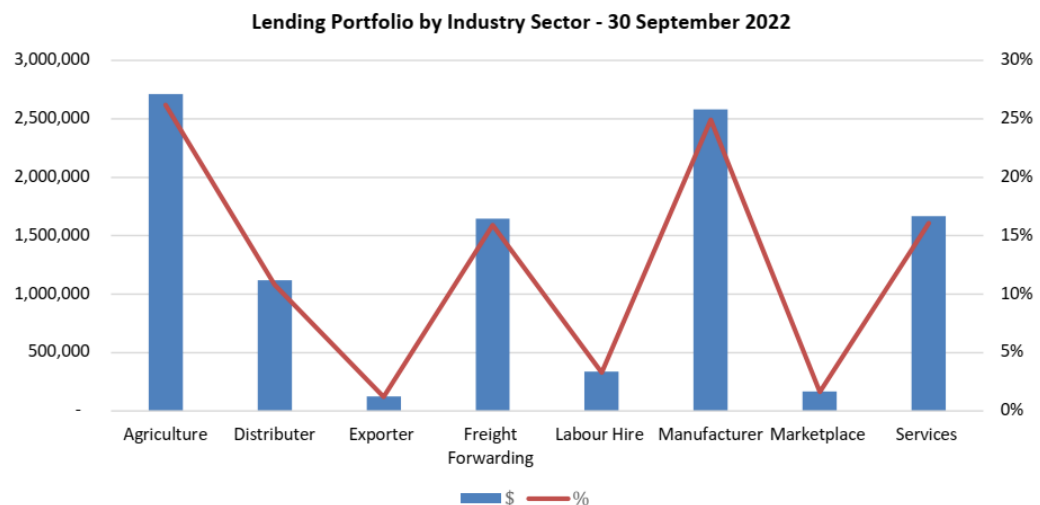
Exhibit 1: Quarterly receipts



Source: Company reports

Sector exposure changed slightly versus the June quarter, but all categories were smaller reflecting the lower drawdown at quarter-end relative to June.

Exhibit 2: Lending portfolio exposure



Source: Company reports

Spending on R&D of \$802k was recorded and is offset by the rebate of \$1.6m received after quarter-end. Staff and administration costs were down relative to the June quarter with total payments to suppliers lower than Q1 FY22.

Exhibit 4: Q1 FY23 versus previous quarters (in A\$m unless otherwise stated)

	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23
Cash receipts	0.396	0.615	0.630	0.693	0.716
Payments to suppliers	(2.413)	(2.305)	(1.548)	(1.630)	(2.174)
R&D	0.000	0.000	0.000	0.000	(0.802)
Other	0.018	0.000	(1.124)	0.000	0.000
Operating cashflow	(2.705)	(3.126)	(2.313)	(2.345)	(2.397)
Free cashflow	(2.759)	(3.164)	(2.315)	(2.346)	(2.401)
Net cash at the end of the period	18.972	13.033	9.689	7.603	6.306
Monthly cash burn	(0.920)	(1.055)	(0.772)	(0.782)	(0.800)
Quarters of cash and finance on hand	7	6	4	4	6

Source: Company data

Key Events In The Quarter

- Cash receipts of \$716k for the quarter were 3% higher than the previous quarter and 81% higher relative to Q1 FY22.
- 95% of cash receipts from customers represented recurring revenue as per the preceding period.
- Net cash position of \$9.2m as at 30 September 2022 (including loan book).
- The December 2022 quarter is expected to see further funds deployed from the debt warehouse to customers, further rationalisation of the existing lending portfolio, platform rollouts, development of the agri-solutions plan and Singapore growth plans.

Debt Warehouse Details

- Facility size up to \$50m, fixed rate.
- Spenda had drawn \$7.5m at 30 September.
- The company is negotiating an additional agri-finance facility aimed at capitalising on existing customer relationships.
- Spenda's lending gross return currently averages 21.2%, up from 19% in June.

Exhibit 5: Financial Summary

Spenda Limited (ASX:SPX)					Share price (Date)		28/10/2022		SPX		A\$		0.012					
Profit and Loss (A\$m)					Interim (A\$m)													
Y/E 30 June	FY19A	FY20A	FY21A	FY22A	1H20 A	2H20 A	1H21 A	2H21 A	1H22 A	2H22 A								
Total Revenue	0.7	0.5	1.0	4.1	0.3	0.3	0.7	0.3	1.0	3.1								
Gross Profit	0.2	0.2	0.6	3.1	(1.1)	(1.4)	(0.9)	(6.2)	(5.9)	(3.9)								
EBITDA	(3.2)	(2.5)	(7.1)	(9.8)	(1.2)	(5.8)	(0.9)	(6.2)	(6.0)	(48.9)								
Depn	(0.3)	(0.8)	(0.0)	(3.6)	(1.3)	(6.1)	(0.9)	(10.5)	(6.0)	(44.3)								
Amort	0.0	0.0	0.0	0.0	-	-	-	-	-	-								
EBIT	(6.0)	(7.1)	(7.1)	(55.0)	(1.3)	(6.1)	(0.9)	(10.5)	(6.0)	(44.3)								
Interest	(0.0)	(0.3)	(0.2)	0.0	-	-	-	-	-	-								
Tax	0.0	0.0	0.0	4.7	30.0	30.0	30.0	30.0	30.0	30.0								
Minorities	0.0	0.0	0.0	0.0	(0.9)	(0.6)	(1.4)	(1.7)	(5.8)	0.0								
Equity accounted assoc	0.0	0.0	0.0	0.0	(0.9)	(0.6)	(1.3)	(1.2)	(5.7)	0.0								
NPAT pre significant it	(6.0)	(7.4)	(11.4)	(50.2)	Divisions							1H20 A	2H20 A	1H21 A	2H21 A	1H22 A	2H22 A	
Significant items	0.0	0.0	0.0	see note	SaaS	0.0	0.0	0.4	0.6	0.0	0.7							
NPAT (reported)	(6.0)	(7.44)	(11.4)	(50.2)	Finance - Transaction fees	0.0	0.0	0.0	0.0	0.0	0.6							
Cash flow (A\$m)					Finance - Lending	0.0	0.0	0.0	0.0	0.4	2.0							
Y/E 30 June	FY19A	FY20A	FY21A	FY22A	COGS	(0.2)	(0.1)	(0.2)	(0.2)	(0.5)	(1.7)							
EBITDA	(3.2)	(2.5)	(7.1)	(9.8)	Employment	(0.9)	(0.5)	(0.8)	(1.1)	(4.3)	(3.6)							
Interest	(0.0)	(0.1)	(0.0)	0.0	Technology, licence fees	0.0	0.0	0.0	0.0	0.0	0.0							
Tax	0.0	0.0	0.0	(0.9)	Other costs	(0.3)	(0.4)	(0.5)	(0.1)	(1.1)	(0.2)							
Working capital changes	1.0	1.1	4.1	4.9	EBITDA	(1.1)	(1.4)	(0.9)	(6.2)	(5.9)	(3.9)							
Operating cash flow	(2.2)	(1.5)	(3.1)	(5.8)	Margins, Leverage, Returns					FY19A	FY20A	FY21A	FY22A					
Mtce capex	0.0	0.0	0.0	(0.1)	EBITDA				n.a.	n.a.	n.a.	n.a.						
Free cash flow	(2.2)	(1.5)	(3.1)	(5.9)	EBIT				n.a.	n.a.	n.a.	n.a.						
Growth capex	(0.0)	(0.0)	(0.5)	0.0	NPAT pre significant items				n.a.	n.a.	n.a.	n.a.						
Acquisitions/Disposals	(1.8)	(1.4)	0.0	0.9	Net Debt (Cash)				0.1	(1.6)	21.4	7.6						
Other	0.0	0.0	(2.5)	(2.5)	Net debt/EBITDA (x)	(x)			n/a	n/a	n/a	n/a						
Cash flow pre financing	(4.0)	(2.9)	(6.0)	(7.5)	ND/ND+Equity (%)	(%)			(3%)	(169%)	(36%)	(21.3%)						
Equity	3.7	0.6	27.7	0.2	EBIT interest cover (x)	(x)			n/a	n/a	n/a	n/a						
Debt	0.0	2.6	(0.6)	(1.0)	ROA				n.a.	n.a.	n.a.	n.a.						
Dividends paid	0.0	0.0	0.0	0.0	ROE				n.a.	n.a.	n.a.	n.a.						
Net cash flow for year	(0.2)	0.3	21.1	(8.4)	ROIC				n.a.	n.a.	n.a.	n.a.						
Balance sheet (A\$m)					NTA (per share)					n/a	n/a	0.01	0.00					
Y/E 30 June	FY19A	FY20A	FY21A	FY22A	Working capital					(0.2)	(1.3)	(4.3)	1.0					
Cash	0.1	0.3	21.4	7.6	WC/Sales (%)					(33%)	(244%)	(431%)	24%					
Accounts receivable	0.3	0.3	0.8	3.0	Revenue growth					119%	(23%)	91%	308%					
Inventory	0.0	0.0	0.0	0.1	EBIT growth pa					n/a	n/a	n/a	n/a					
Other current assets	0.1	0.4	0.3	12.9	Pricing					FY19A	FY20A	FY21A	FY22A					
Total current assets	0.6	1.0	22.5	23.6	No of shares (y/e)	(m)				823	1,696	3,135	3,699					
PPE	0.0	0.0	0.1	0.1	Weighted Av Dil Shares	(m)				464	736	1,756	3,101					
Intangibles and Goodwill	3.1	0.0	63.5	30.6	EPS Reported	cps				(1.3)	(1.0)	(0.7)	(1.6)					
Investments	0.0	0.0	0.0	0.0	EPS Normalised/Diluted	cps				(1.2)	(0.8)	(0.5)	(1.4)					
Deferred tax asset	0.0	0.0	0.0	0.0	EPS growth (norm/dil)					n.a.	n.a.	n.a.	n.a.					
Other non current assets	0.0	0.0	1.2	0.0	DPS	cps				-	-	-	-					
Total non current assets	3.1	0.0	64.7	30.7	DPS Growth					n.a.	n.a.	n.a.	n.a.					
Total Assets	3.7	1.0	87.2	54.3	Dividend yield					0.0%	0.0%	0.0%	0.0%					
Accounts payable	0.6	1.6	5.1	2.1	Dividend imputation					30	30	30	30					
Short term debt	0.0	1.8	0.0	0.0	PE (x)					-0.9	-1.2	-1.8	-0.7					
Tax payable	0.0	0.0	0.0	0.0	PE market					14.4	14.4	14.4	14.4					
Other current liabilities	0.0	0.1	0.8	8.7	Premium/(discount)					(106%)	(108%)	(113%)	(105%)					
Total current liabilities	0.6	3.5	5.9	10.9	EV/EBITDA					-3.1	-8.2	-8.3	-3.7					
Long term debt	0.0	0.0	0.0	0.0	FCF/Share	cps				-0.3	-0.1	-0.1	-0.2					
Other non current liabs	0.0	0.0	0.0	0.1	Price/FCF share					-4.5	-13.4	-12.3	-7.7					
Total long term liabilities	0.0	0.0	0.0	0.1	Free Cash flow Yield					(22.3%)	(7.5%)	(8.1%)	(12.9%)					
Total Liabilities	0.6	3.5	5.9	10.9	Share price (Date)					28/10/2022		SPX		A\$		0.012		
Net Assets	3.1	(2.5)	81.3	43.4	Profit and Loss (A\$m)					Interim (A\$m)								
Share capital	60.2	61.1	149.7	160.9	Y/E 30 June	FY19A	FY20A	FY21A	FY22A	Total Revenue	0.3	0.3	0.7	0.3	1.0	3.1		
Accumulated profits/losse	(59.3)	(66.5)	(77.2)	(126.4)	EBITDA	(3.2)	(2.5)	(7.1)	(9.8)	EBITDA	(1.1)	(1.4)	(0.9)	(6.2)	(5.9)	(3.9)		
Reserves	2.2	2.9	8.7	8.9	Interest	(0.0)	(0.1)	(0.0)	0.0	EBIT	(1.2)	(5.8)	(0.9)	(6.2)	(6.0)	(48.9)		
Minorities	0.0	0.0	0.0	0.0	Tax	0.0	0.0	0.0	(0.9)	NPAT (normalised)	(1.3)	(6.1)	(0.9)	(10.5)	(6.0)	(44.3)		
Total Shareholder func	3.1	(2.5)	81.3	43.4	Working capital changes	1.0	1.1	4.1	4.9	Minorities	-	-	-	-	-	-		

Source: Company data for actuals, RaaS analysis; Note: FY22 goodwill write-down 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

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AFSL 456663

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