



H1 FY23 Results

24 February 2023



CEO James Beeson



CFO Steve Shin



COO Paul Murray

H1 FY23 Summary - Reported

Strong growth in funds in use offset by tightening net revenue margin and higher provisioning

Profit and Loss (\$m)	H1'22 Reported	H1'23 Reported	Δ pcp
<i>Average Funds in Use</i>	244.8	342.8 ¹	40%
Interest Income	12.8	18.7	46%
Interest Expense	(4.1)	(9.5)	133%
Net interest revenue	8.7	9.2	5%
Mgmt / Admin Fees	13.5	13.2	-2%
Net revenue	23.0	22.3 ²	-3%
Opex	(14.4)	(15.8)	10%
Expected Credit Loss (ECL)	(0.7)	(14.1) ³	na
PBT	8.0	(7.5) ⁴	na
NPAT	7.0	(5.4) ⁵	na
One-offs (tax affected)	-	0.7	na
Amortisation	0.8	0.5	
Underlying NPAT	7.7	(4.3) ⁶	na
EPS (cents per share)	2.8	(1.5)	na
DPS (cents per share)	1.4	-	na
Net interest margin	7.1%	5.3%	-25%
Net revenue margin	18.7%	12.9%	-31%

- ¹ Average funds in use up 40% on previous corresponding period (“pcp”) to \$343m
- ² Net revenue down 3% on pcp due to material increase in interest expense
- ³ Significant increase in Expected Credit Loss (ECL) of \$14.1m reflects:
 - \$9.6m RevRoof¹ provision across IF/Trade
 - \$3.1m increase in other specific provisions for IF/Trade
 - \$1.4m increase in general provisions (\$1m IF/Trade & \$0.4m EF)
- ⁴ PBT loss of \$7.5m
- ⁵ NPAT loss of \$5.4m, resulting from tax benefit due to 1H'23 loss
- ⁶ Underlying NPAT loss of \$4.3m
 - One-offs include restructuring costs and adjustment for previously recognised EF income
 - 1H'23 dividend suspended; Board will review at full year
 - Refreshed Board and Management: Geoff Sam moved to Chair (from NED), James Beeson moved to CEO (from COO), Paul Murray joined as COO, Daniel Riley resigned as CEO and NED

1. RevRoof P/L, and its related entity, Painted Steel Technologies P/L, (collectively, “RevRoof”)

Robust balance sheet with Net Tangible Asset (NTA) position of \$45m / 15.6 cps at 31 December 2022

Balance Sheet (\$m)	H1'22	H1'23	<i>Δ pc</i>
Cash and cash equivalents	25.0	68.4	174%
Receivables - Invoice Finance ¹	162.9	187.8	15%
Allowance for exp. credit losses - IF	(4.3)	(16.4)	282%
Receivables - Equipment Finance ²	109.9	132.4	21%
Allowance for exp. Credit losses - EF	(1.7)	(1.7)	-2%
Intangible Assets	30.4	30.7	1%
Other	7.4	13.4	81%
Assets	329.6	414.7	26%
Borrowings ³	238.1	329.0	38%
Other	10.7	9.9	-7%
Liabilities	248.8	338.9	36%
Net Assets	80.8	75.7	-6%
Total Equity	80.8	75.7	-6%

Key Metrics			
NTA	50.3	45.0	-11%
NTA per share	18.1	15.6	-13.6%
Net Borrowings to Receivables	61.2%	76.5%	25%
Average Funds in Use	244.8	342.8	40%
TTV (Invoice Finance)	1,198.2	1,478.2	23%

- ① Cash position of \$68.4m; \$6.9m restricted cash held in trust for warehouse facilities
 - Cash position reflects a specific point in time and intra-month cash movement is significant
- ② Material increase in IF/Trade ECL provisioning
- ③ NTA of \$45.0m equating to NTA per share of 15.6cps

1. Receivables – Invoice Finance figure combines both the gross Receivables and Payables balances

2. Receivables - Finance Leases figure combines both the Current and Non-Current balances

3. Borrowings combines both the Current and Non-Current balances

Earlypay could benefit significantly from a simpler and more efficient funding structure

	Drawn Amount	Facility Size	Cost of Funds	Interest rate hedged ¹
Invoice Finance				
Warehouse Facility 1	\$165m	\$200m	Sub-3% + BBSY	✓
Trade Finance				
Warehouse Facility 2	\$25m	\$30m	Sub-7% + BBSY	✓
Equipment Finance				
Warehouse Facility 3 - Senior	\$86m	\$120m	Sub-3% + BBSY	✓
Warehouse Facility 3 - Mezzanine	\$20m	\$20m	Sub-6%	✓
Warehouse Facility 4	\$13m	\$25m	Sub-7% + BBSY	✗
Corporate				
Bond (Floating Rate Notes)	\$19m	\$20m	Sub-7% + BBSW	✗
Total Facilities	\$328m	~\$415m	Avg. Sub 4% + BBSY	

1. 'Interest rate hedged' refers to Earlypay's ability to preserve Net Interest Margin by either directly passing on higher funding costs to clients or by having an interest rate swap in place.

- \$328m funds were drawn as at December 2022 out of available \$415m facility limits
- Earlypay is unable to pass on increased interest rates for (a) the Equipment Finance Warehouse 4 and (b) the Corporate Bond
- The Corporate Bond is allocated almost entirely to Equipment Finance
- Earlypay is in the process of reviewing all funding arrangements with a view to refinancing in early Q1'FY24, with objectives to:
 - rationalise the existing warehouses into a single facility (or maximum of two facilities);
 - achieve a more capital efficient structure (first loss contribution) as well as reduce the operational capital required to support existing funding arrangements;
 - enhance the scalability of the warehouse funding;
 - utilise surplus cash to reduce or repay the Corporate Bond; and
 - achieve a lower overall cost of funding.

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RevRoof Impact

RevRoof was Earlypay's largest client and the ECL provision materially impacted 1H'23 financials

Administration Process

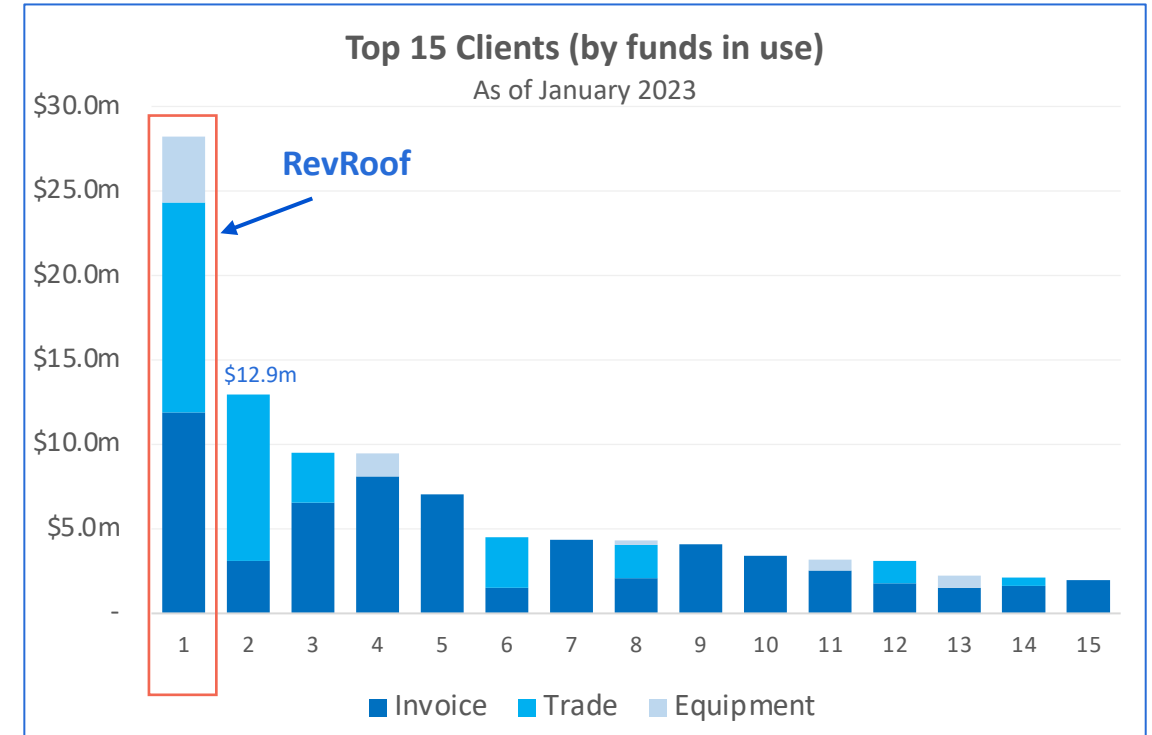
- **7 December 2022:** Announced RevRoof P/L, and its related entity, Painted Steel Technologies P/L, (collectively, "**RevRoof**") appointed PKF Melbourne ("PKF") as Voluntary Administrator
- Earlypay is RevRoof's major secured creditor, with outstanding exposure of c. \$30m, secured by Invoice, Equipment and Trade Finance assets
- **23 December 2022:** Withdrew earnings and dividend guidance for FY23 and appointed Grant Thornton as the Group's Receiver and Manager (R&M) over the assets of RevRoof
- Appointment of a R&M provided greater control over the recovery process. Grant Thornton commenced a sale process for the RevRoof business
- **20 February 2023** the R&M entered into an agreement to sell the assets and the business of RevRoof P/L to the Design Group (subject to landlord consents). The sale did not include Painted Steel Technologies P/L and the R&M have taken steps to shut down the operations of this business.
- Earlypay continues to collect the receivables ledger and the R&M continues the recovery process for secured creditors

Provisioning

- Given the sale of RevRoof P/L, and uncertainty around recovering the total exposure from residual assets, Earlypay has recognised a specific provision against the exposure of \$9.6m in 1H'23
- After the reporting date, Earlypay has also incurred (or expects to incur) costs associated with the receivership of approximately \$2m
- As there is an on-going recovery exercise we are unable to disclose the source or nature of the expected loss at this time

RevRoof was an outlier in terms of client size and Earlypay is updating policies and procedures to ensure future asset performance remains robust

- Following RevRoof entering administration, Earlypay undertook a detailed review of its risk governance; underwriting and operational policies & procedures; and loan book exposures
- Based on this review Earlypay has introduced the following changes:
 - updated risk management framework, risk appetite statement and risk register processes;
 - a maximum single client exposure limit of \$10m. This limit is subject to ongoing review (taking into account the loan book size, corporate liquidity, profitability and market conditions) and approved by the Board on a periodic basis;
 - a substantial reduction and increased selectivity in offering trade finance. Trade finance facilities to be conservatively sized relative to the client's invoice finance funding limit;
 - expediting the development and roll-out of Earlypay's in-house invoice management system across all invoice-financing clients;
 - enhancements to Earlypay's invoice verification processes; and
 - organisational structure changes across its operations teams to ensure greater specialisation, effectiveness and consistency.



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Proforma Financials

H1 FY23 Summary - Proforma (excluding RevRoof impact)

NOTE: The remaining presentation is presented based on proforma unaudited financials that exclude the impact of RevRoof, providing investors with an 'underlying' profile of the Earlypay business on a continuing basis

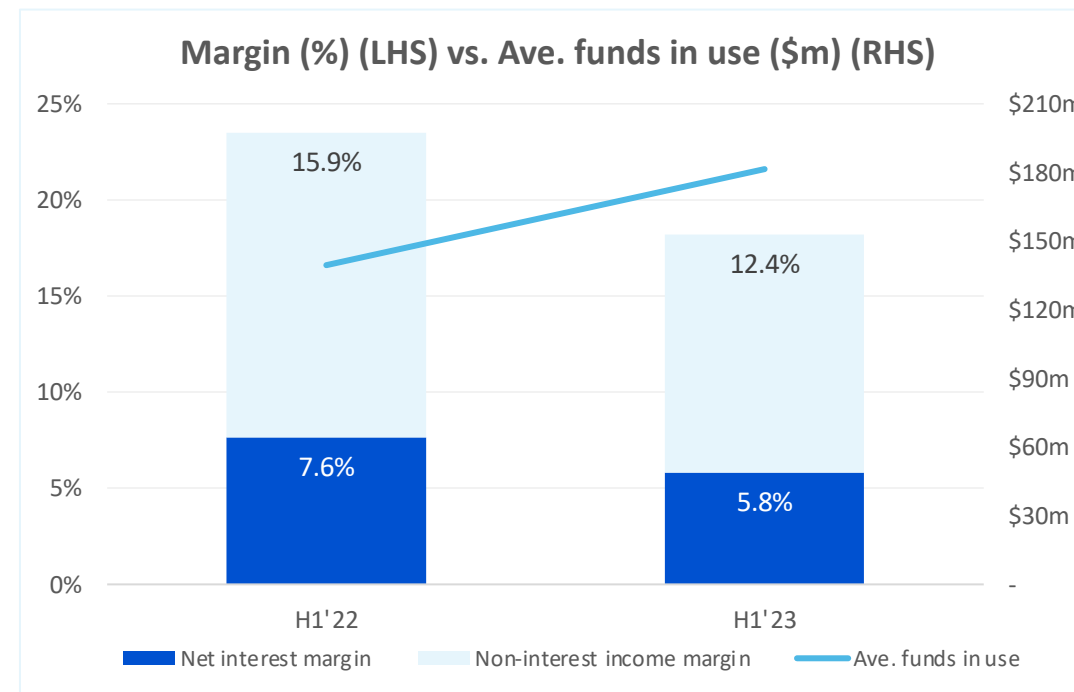
Profit and Loss (\$m)	1H'22 Proforma	1H'23 Proforma	Δ pcp
<i>Average Funds in Use</i>	236.9	316.2	1 33%
Interest income	12.4	17.1	37%
Interest expense	(4.0)	(8.8)	121%
Net Interest Revenue	8.5	8.3	2 -2%
Mgmt / Admin Fees	14.1	13.0	-8%
Net revenue	22.5	21.2	-6%
Opex	(14.4)	(15.8)	10%
Expected Credit Loss (ECL)	(0.7)	(4.5)	3 526%
PBT	7.5	0.9	-88%
One-offs	-	0.9	na
Amortisation	0.8	0.5	-33%
Underlying PBT	8.2	2.3	4 -71%
Underlying NPAT	6.6	1.6	-75%
EPS (cents per share)	2.4	0.6	-79%
DPS (cents per share)	1.4	-	na
Net interest margin	10.4%	10.7%	3%
Net revenue margin	18.9%	13.3%	-29%
Cost to Income	63.7%	74.6%	17%
ROE	16.2%	1.2%	-92%

- 1 Strong growth in average funds in use (up 33% pcp), reflective of strong deal flow and some larger clients
- 2 Flat net interest revenue as a result of:
 - Interest costs associated with the \$30m Trade warehouse facility
 - Portion of EF fixed loans against variable funding costs
 - Delayed pricing increases in Q1
 - Onboarding of larger IF/TF clients at tighter margins
- 3 ECL provision increases include:
 - Specific provision increased by \$3.1m
 - General provision increased by \$1.4m
- 4 Proforma Underlying PBT of \$2.3m

Strong growth in funds in use offset by margin compression – working on funding structures to improve

- 1 Interest income growth higher than ave. funds in use (30% growth in ave. FUI vs 41% growth in interest income)
- 2 H1'22 NIM higher due to prior 'equity' funding of Trade receivables (i.e. no interest cost relative to the current trade warehouse)
 - Opportunity to rationalise funding costs in short term
- 3 Net revenue margin decline as mgmt. fees for larger clients are smaller percent of total funds in use

IF & Trade Reporting (\$m)	Proforma		
	H1'22	H1'23	Δ pc
Key Metrics			
Ave. funds in use ¹	139.5	181.5	30%
Invoices purchased (TTV)	1,171.4	1,433.8	22%
Interest income	6.9	9.8	41%
Interest expense	(1.5)	(4.5)	190%
Net Interest Revenue	5.4	5.3	-1%
Mgmt / Admin Fees	11.2	11.3	2%
Net Revenue	16.5	16.7	1%
Opex	(9.4)	(10.4)	10%
Expected Credit Loss (ECL)	(0.5)	(4.2)	807%
PBT	6.6	2.1	-69%
Net interest margin	7.6%	5.8%	-24%
Net revenue margin	23.5%	18.2%	-22%
Cost to income	57.1%	62.3%	9%

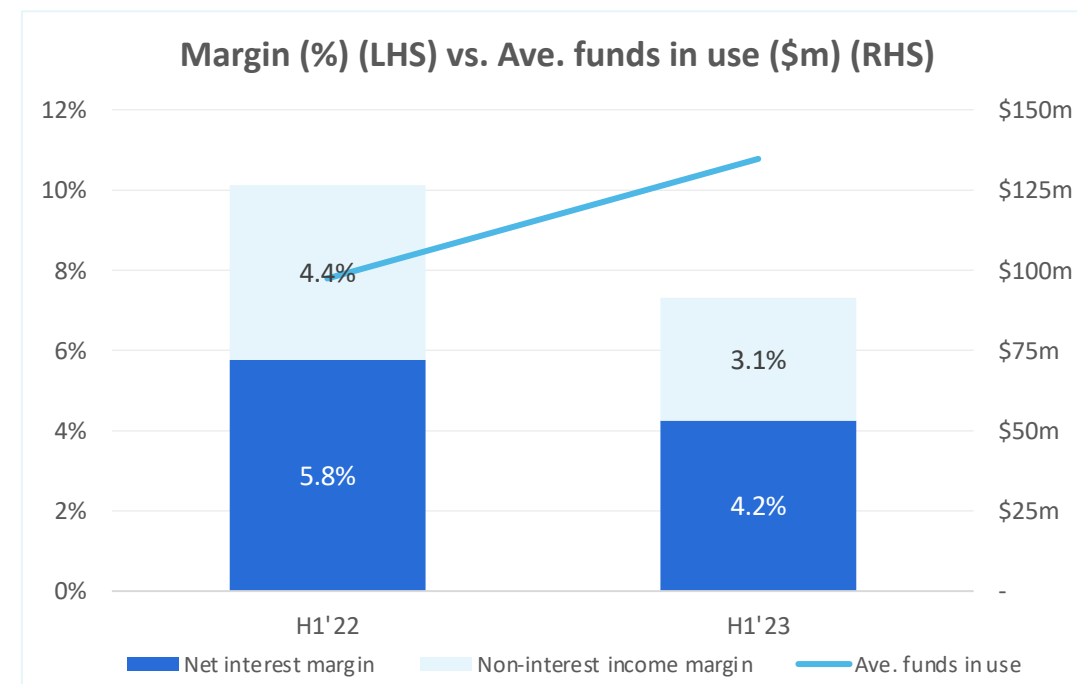


1. EPY calculations of Average Funds In Use

Targeted EF proposition that is also used to support IF clients with additional financing

- 1 Slower new loan origination in H1'23 reflecting more targeted EF focus. Ave. funds in use is expected to fall in the short-term
- 2 Admin fees remained flat as loan originations slowed
- 3 NIM reduction reflects impact of interest rate exposure mostly from allocation of corporate bond interest expense. NIM is expected to improve following funding restructure

EF Reporting (\$m)	Proforma		
	H1'22	H1'23	Δ pcp
Key Metrics			
Ave. funds in use ¹	97.4	134.7	39%
Loan Originations	40.6	31.9	1 -28%
Interest income	5.5	7.1	30%
Interest expense	(2.7)	(4.2)	57%
Net Interest Revenue	2.8	2.9	3%
Admin Fees	2.1	2.1	2 -3%
Net Revenue	5.0	5.0	1%
Opex	(3.2)	(3.0)	-6%
Expected Credit Loss (ECL)	(0.3)	(0.3)	13%
PBT	1.5	1.7	na
Net interest margin	5.8%	4.2%	3 -26%
Net revenue margin	10.1%	7.3%	-28%
Cost to income	64.7%	60.7%	-7%



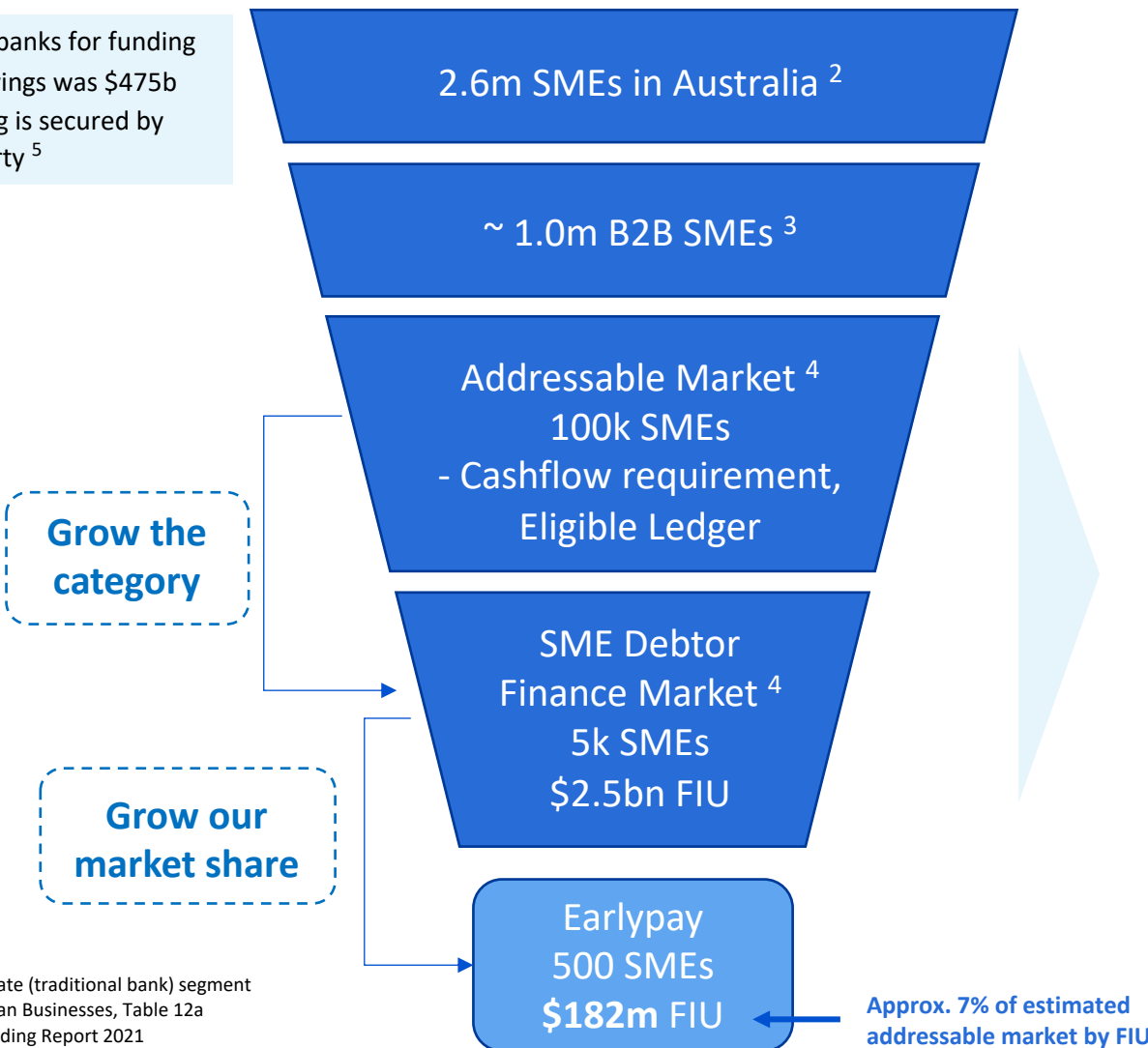
1. EPY calculations of Average Funds in Use

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Outlook

The SME market is still nascent in its awareness of invoice financing as a funding alternative

- SMEs mainly use banks for funding
- At Dec-22 borrowings was \$475b
- ~50% SME lending is secured by residential property⁵



Our Opportunity

- Substantial proportion of lending to SMEs is backed by residential property;
- SMEs without substantial assets find it difficult to borrow;
- SME debtor ledger is substantial asset that can be lent against;
- Invoice Finance has low penetration in Aust. (compared to offshore); thus awareness is a major impediment to growth;
- Given high reliance on commercial brokers, critical to increase awareness to help grow category (scholarship program etc).
 - Productivity Commission called this out too;
- Renewed focus by the banks (e.g. CBA) likely to be net positive in increasing awareness and growing the category
- We believe banks will struggle to play at small/mid end of market

1. Excludes larger corporate (traditional bank) segment
2. ABS Counts of Australian Businesses, Table 12a
3. B2B estimate, ABA Lending Report 2021
4. Earlypay estimate
5. RBA, D14 – Lending to Business

Approx. 7% of estimated
addressable market by FIU

Our strategic priorities for FY23 remain largely unchanged

→ **Warehouse funding enhancements**

- Significant cost savings to improve Net Interest Margin across all products
- More efficient use of Balance Sheet for growth

→ **Focused, marketing led distribution for Invoice Finance**

- Large addressable SME market & largely untapped distribution through Finance Brokers
- Education of SMEs and Brokers – Earlypay Scholarship Program

→ **Cost control**

- On-going financial discipline

→ **Leverage technology to ensure operational excellence and operating efficiencies**

- Invest in Earlypay platform for Invoice & Trade Finance
- Retire legacy platforms for IF and EF and improve processes

→ **Prudent approach to lending in uncertain economic environment**

- Leading with our well-secured Invoice Finance product
- Enhanced risk and operational framework

Earnings to recover in H2'23 and accelerate in FY'24 with strong organic growth and margin recovery

FY23

→ H2'23 Underlying earnings to materially improve on H1'23 driven by

- continued organic growth at improved margins
- lower general and specific ECL provisions (compared to 1H'23)

FY24

→ Earnings growth to accelerate in FY'24

- Improvements in NIM driven by warehouse funding enhancements
- Focused growth in invoice and equipment finance with attractive risk adjusted returns
- Building a more diversified client base supported by enhanced policies and procedures
- Continued focus on cost control as earnings recover

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Appendix

Generated positive net operating cash flow of \$6.8m for 1H23

Cash Flow (\$m)	H1'22	H1'23
Receipts	15.6	14.5
Interest received from customer	12.8	18.5
Payments	(13.8)	(15.8)
Interest received	0.0	0.2
Finance Costs	(3.6)	(9.5)
Income taxes paid	(1.8)	(1.1)
Net cash flows from Operating activities	9.2	6.8
Payments for acquisition / PPE / intangibles	(0.9)	(0.4)
(Payments)/Proceeds from client receivables	(41.0)	(22.9)
Payments to equipment lease receivables	(15.0)	0.5
Net cash flows (used in) Investing Activities	(56.9)	(22.8)
Net proceeds from borrowings	31.8	35.9
Repayment of lease liabilities	(0.3)	(0.3)
Dividends paid, net of reinvestment	(3.6)	(3.9)
Net cash flows (used in) Financing Activities	27.9	31.7
Net Change in cash	(19.8)	15.7
Cash at beginning of year	44.8	52.7
Cash at end of Year	25.0	68.4

→ Generated positive cash flow from operating activities despite significant increase in finance costs

Reconciliation: Consolidated Profit & Loss

	Reported			RevRoof Adjustment		Proforma		
Profit and Loss (\$m)	H1'22	H1'23	Δ pcp	H1'22	H1'23	H1'22	1H'23	Δ pcp
Average Funds in Use	244.8	342.8	40%	(7.9)	(26.7)	236.9	316.2	33%
Interest Income	12.8	18.7	46%	(0.4)	(1.6)	12.4	17.1	37%
Interest Expense	(4.1)	(9.5)	133%	0.1	0.7	(4.0)	(8.8)	121%
Net Interest Revenue	8.7	9.2	5%	(0.3)	(0.9)	8.5	8.3	-2%
Mgmt / Admin Fees	13.5	13.2	-2%	(0.2)	(0.2)	13.3	13.0	-3%
Other Revenue	0.8	-	na	-	-	0.8	-	na
Net Revenue	23.0	22.3	-3%	(0.5)	(1.1)	22.5	21.2	-6%
OpEx	(14.4)	(15.8)	10%	-	-	(14.4)	(15.8)	10%
Expected Credit Loss (ECL)	(0.7)	(14.1)	1865%	-	9.6	(0.7)	(4.5)	526%
PBT	8.0	(7.5)	na	(0.5)	8.4	7.5	0.9	-88%
One-offs		0.9	na			-	0.9	na
Amortisation	0.8	0.5	-33%			0.8	0.5	na
Underlying PBT	8.7	(6.1)	na	(0.5)	8.4	8.2	2.3	-71%
Tax	(1.0)	2.1	na	0.2	(2.5)	(0.9)	(0.4)	na
NPAT	7.0	(5.4)	na	(0.4)	5.9	6.6	0.5	-93%
Undelrying NPAT	7.0	(4.3)	na	(0.4)	5.9	6.6	1.6	-75%
EPS (cents)	2.8	(1.5)	na			2.4	0.6	-76%
DPS (cents)	1.4	-	na			1.4	-	na

→ Tax rate on adjusted profit assumed at 30%

Reconciliation: IF and Trade Segment

IF & Trade Reporting (\$m)	Reported			RevRoof Adjustment		Proforma		
	H1'22	H1'23	Δ pcp	H1'22	H1'23	H1'22	H1'23	Δ pcp
Key Metrics								
Ave. funds in use ¹	145.6	204.9	41%	(6.1)	(23.4)	139.5	181.5	30%
Invoices purchased (TTV)	1,198.2	1,478.2	23%	(26.9)	(44.4)	1,171.4	1,433.8	22%
Interest income	7.2	11.2	55%	(0.3)	(1.4)	6.9	9.8	41%
Interest expense	(1.6)	(5.0)	218%	0.0	0.6	(1.5)	(4.5)	190%
Net Interest Revenue	5.6	6.2	9%	(0.3)	(0.8)	5.4	5.3	-1%
Mgmt / Admin Fees	11.4	11.6	2%	(0.2)	(0.2)	11.2	11.3	2%
Net Revenue	17.0	17.7	4%	(0.5)	(1.1)	16.5	16.7	1%
Opex	(9.4)	(10.4)	10%	-	-	(9.4)	(10.4)	10%
Expected Credit Loss (ECL)	(0.5)	(13.8)	2877%	-	9.6	(0.5)	(4.2)	807%
PBT	7.1	(6.4)	na	(0.5)	8.5	6.6	2.1	-69%
Net interest margin	7.7%	6.0%	-22%			7.6%	5.8%	-24%
Net revenue margin	23.2%	17.2%	-26%			23.5%	18.2%	-22%
Cost to income	55.5%	58.6%	6%			57.1%	62.3%	9%

1. EPY calculations of Average Funds in Use

Reconciliation: EF Segment

EF Reporting (\$m)	Reported			RevRoof Adjustment		Proforma		
	H1'22	H1'23	Δ pcp	H1'22	H1'23	H1'22	H1'23	Δ pcp
Key Metrics								
Ave. funds in use ¹	99.2	137.9	39%	(1.8)	(3.2)	97.4	134.7	39%
Loan Originations	44.3	31.9	-28%	(3.7)	-	40.6	31.9	-28%
Interest income	5.6	7.3	30%	(0.1)	(0.2)	5.5	7.1	30%
Interest expense	(2.8)	(4.3)	57%	0.1	0.1	(2.705)	(4.2)	57%
Net Interest Revenue	2.9	3.0	3%	(0.0)	(0.1)	2.829	2.9	3%
Admin Fees	2.1	2.1	-3%	(0.0)	-	2.1	2.1	-3%
Net Revenue	5.0	5.0	1%	(0.0)	(0.1)	5.0	5.0	1%
Opex	(3.2)	(3.0)	-6%	-	-	(3.2)	(3.0)	-6%
Expected Credit Loss (ECL)	(0.3)	(0.3)	13%	-	-	(0.3)	(0.3)	13%
PBT	1.5	1.7	14%	(0.0)	(0.1)	1.5	1.7	14%
Net interest margin	5.7%	4.2%	-26%			5.8%	4.2%	-26%
Net revenue margin	10.0%	7.2%	-28%			10.1%	7.3%	-28%
Cost to income	64.4%	59.8%	-7%			64.7%	60.7%	-7%

1. EPY calculations of Average Funds in Use

Employing ~85 people in Brisbane, Sydney and Melbourne, Earlypay provides secured finance to SME businesses

- Since 2012, Earlypay ('EPY' or the '**Company**') has become a leading provider of business funding solutions to Australian SME businesses
- Invoice Finance is Earlypay's 'core product', with Equipment and Trade Finance rounding out the offering to provide a compelling value proposition to its target SME market
- Product suite comprises:
 - Invoice Finance (60% of H1'23 revenue): business line of credit supported by unpaid invoices;
 - Equipment Finance (30% of H1'23 revenue): vehicle, business equipment and machinery financing; and
 - Trade Finance (10% of H1'23 revenue, but forecast to be <5% going forward) : offered in conjunction with invoice finance facilities to allow businesses to purchase goods from suppliers
- Earlypay targets the estimated 35% of SMEs in Australia that operate in the B2B marketplace and services a diverse portfolio of over 3,000 clients, with loan sizes typically ranging from \$50k up to \$10m
- All invoice and trade finance clients are on variable rate arrangements with Earlypay having the ability to dynamically amend customer rates in response to market conditions and competition
- Earlypay's current loan portfolio totals to c.\$343m as at December 2022

Key Target Industries



Manufacturing



Infrastructure



Professional, Scientific
& Technical Services



Consumer / Retail
Trade



Transport / Postal /
Warehousing



Labour Hire



Mining



Wholesale
Trade



Geoffrey Sam OAM, Non-Executive Chairperson

Qualifications: BCom (UNSW), MHA (UNSW), MA (Econ & Soc Studies) (Manchester UK), FAICD

Responsibilities: Member of the Audit Committee and Member of the Nomination and Remuneration Committee

Shares: 2,077,064 Ordinary Shares



James Beeson, Managing Director & CEO

Qualifications: Global Executive MBA, Master of Applied Finance, BCom, CPA, GAICD

Shares: 15,952,453 Ordinary Shares and 709,614 Perf Rights



Ilkka Tales, Non-Executive Director

Qualifications: BBus

Responsibilities: Chairperson of the Risk Committee and Member of the Audit Committee.

Shares: 300,000 Ordinary Shares



Sue Healy, Non-Executive Director

Qualifications: Fellow RCSA, MAICD

Responsibilities: Chairperson of the Nomination and Remuneration Committee, Acting Chairperson of the Audit Committee and Member of the Risk Committee.

Shares: 770,980 Ordinary Shares



Stephen White, Non-Executive Director

Qualifications: M.Mngt, GAICD

Responsibilities: Member of the Risk Committee

Shares: Nil



Steve Shin, CFO & Company Secretary

Qualifications: B Com, Chartered Accountant ANZ

Shares: 382,236 Rights Options



Paul Murray, Chief Operating Officer

Qualifications: Global Executive MBA, MCom (Hons), Chartered Accountant ANZ

Shares: Nil

This presentation ("this Presentation") has been prepared by Earlypay Limited [ACN 098 952 277] ("EPY" or the "Company") and is dated 24th February 2023.

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