LAYBUY

Investor Newsletter

SEPTEMBER 2022

Q1 FY23 Highlights

GMV ↑

GMV of NZ$215million, up 17% year-on-year.

Income ↑

Revenue up 9% year-on-year, reaching NZ$11.3million.

NTM ↑

Net Transaction Margin of 1.4%, an increase of 190bps from the previous quarter.

Gross Losses ↓

Gross losses reduced significantly to 2.8% of GMV, down from 4.9% in the prior quarter.

Quarterly results show significant reduction in fraud losses

In late July we released our business update for the first quarter of FY23.

We were pleased to report a strong improvement in performance across the business as we continued to implement our strategy of achieving profitability.

Most notable was the marked reduction in fraudulent activity that we achieved – with quarter-on-quarter gross losses falling from 4.9% to 2.8% of GMV.

Reducing fraud is a key part of our strategy to achieve profitability, alongside reducing costs, improving efficiencies and lifting the quality of our customer base.

Led by our Chief Risk Officer, the implementation of our fraud prevention strategy has resulted in a reduction in losses and defaults of 210 bps in quarter one. This supported a recovery in our NTM (a measurement of gross profit) to 1.4% of GMV.

Given our success to date, we expect to see a continued reduction in gross losses, as well as an ongoing improvement in our NTM, throughout the year as we accelerate the implementation of our fraud prevention strategy.

A key component of this strategy is lifting the quality of our customer base by actively exiting suspected bad actors off our platform, while also tightening our credit processes so that we are onboarding customers with stronger credit histories.

While we anticipate this may result in a short-term reduction in customer numbers and more subdued customer growth in the medium term, our new customers will reflect our enhanced credit tools and processes.

This means that they are less likely to be involved in fraudulent activity and will have a much lower likelihood of defaulting on payments. This will support continued reductions in gross losses and support continued improvements in our NTM.

Achieving this is key to supporting sustainable growth and ongoing profitability, which will rebuild investor confidence in the business and deliver returns to shareholders.

Strategic review confirms sale not in the best interest of shareholders

Alongside our quarterly results, we also recently completed a strategic review, with the support of European financial advisory firm NOR Capital, that looked at a number of options available to the business – including a sale or partial sale, restructuring or exiting the UK business

While the review found that there was strong interest from potential partners in Laybuy, the success of reducing fraud and our clearer pathway to profitability means that a sale of the business is not in the best interests of shareholders.

The review confirmed that Laybuy has a sound business model and can be profitable. As a result, we have been able to reaffirm our commitment to the UK market, where our focus will be on achieving slower but profitable growth that supports our already profitable ANZ operations.

The UK market continues to present us with growth opportunities because BNPL is still in its relative infancy but is growing strongly.

As an early mover into that market, we have successfully captured market share and have high brand recognition. This positions us well to take advantage of the continued growth expected in this market.

No capital raise and profitability by end of this financial year

The success of our fraud prevention programme, alongside our ongoing work to reduce costs and improve efficiencies, means that we are in a position to achieve profitability in the short-term. This also means we will be able to self-fund our future activities and will not need to undertake a capital raise in the medium-term.

As a result, the Board has now committed to profitability by the end of this financial year (March 2023). This will make Laybuy one of the first pure-play BNPL providers listed on the ASX to achieve profitability.

To support this, we have undertaken a major restructure of the business, which reduced our permanent headcount by approximately one-third.

The restructure, which impacted all parts of the business, successfully streamlined and simplified our business operations and appropriately resized the company for a more sustainable growth pathway.

We continue to implement our Save to Invest programme, which is proactively identifying areas to reduce costs and improve efficiencies. This includes reviewing our vendor spend, travel, office space and IT requirements to ensure they are delivering value for money.

We have also postponed or cancelled a number of discretionary projects, with funding being redirected into those areas that will deliver a higher return on investment.

This work is already delivering significant savings that will help underpin our cash flow in the medium term.

Annual Report released; AGM scheduled for 30 September

Finally, we released our Annual Report for FY22 last month. In our Annual Report you can find our full and audited consolidated financial statements, the Director's Report, a review of the financial year and an update on our strategy to achieving profitability.

Alongside the release of our Annual Report, we have also confirmed that our Annual General Meeting (AGM) will be held at 9:00am (AEST) on Friday 30 September.

Like last year, this year's AGM will be a virtual meeting and will include presentations from the Chair and Managing Director, as well as the opportunity to vote on a number of resolutions.

There will also be an opportunity to ask questions to the Board, Managing Director and Auditor.

Further details on the AGM, including information on how to attend and vote, are available here.