Friday, 12 November 2021

# RESEARCH REPORT

CORPORATE CONNECT

## Laybuy Group (LBY)

Fast growing BNPL provider trading at discount to peer group

| | |
|---|---|
| Price Target (A$) | $0.960 |
| Price (A$) | $0.425 |
| Implied Return | 125.9% |

## Investment Summary

- LBY has a market leading position in NZ BNPL, and a growing presence in Australia and the UK. The large UK retail market of £403b and ~28% online penetration represents a significant opportunity for LBY, with only ~1.7% BNPL adoption (~6% of online) leaving significant runway for growth.
- LBY has a capital efficient business model due to its differentiated weekly payment cycle, which allows it to turn over its capital base approximately 21x pa compared to 18x for fortnightly payment options.
- LBY has developed a number of strategic partnerships with key merchants as well as professional sporting clubs, which strengthen the business in high growth sectors, raise brand awareness and drive customer acquisition. Growth in customers drives more merchants onto the platform, which in turn drives more customer acquisition, creating a virtuous cycle of growth.
- Recent initiatives such as the Tap to Pay digital card and Affiliate Marketing Network should broaden LBY's revenue streams, improve customer engagement, encourage repeat purchases and loyalty, expand merchants on the platform, and drive transaction uplift.
- LBY is targeting NZ$1b+ GMV in FY22 and >90% revenue growth. Based on our current forecasts, we expect that LBY will move into profit from FY25 and positive operating cash flow from FY26. Given this profile, LBY is trading on very undemanding FY22 multiples compared with its BNPL peer group.

### Earnings Estimates (NZ$)

| | | FY20 | FY21 | FY22e | FY23e | FY24e |
|---|---|---|---|---|---|---|
| **Sales** | NZ$m | 13.7 | 32.7 | 53.2 | 84.7 | 126.1 |
| **growth** | % | | 137.7% | 62.7% | 59.4% | 48.8% |
| **EBITDA** | NZ$m | -15.1 | -28.9 | -27.6 | -21.5 | -2.2 |
| **EBIT** | NZ$m | -15.7 | -29.9 | -29.1 | -23.5 | -4.4 |
| **margin** | % | | -91.6% | -54.7% | -27.7% | -3.5% |
| **PBT** | NZ$m | -16.1 | -39.4 | -29.6 | -24.3 | -7.1 |
| **Adj NPAT** | NZ$m | -16.1 | -39.2 | -29.6 | -24.3 | -7.1 |
| **growth** | % | | 142.9% | -24.5% | -18.0% | -70.8% |
| **Rep NPAT** | NZ$m | -16.1 | -41.3 | -29.6 | -24.3 | -7.1 |
| | | | | | | |
| **Adj EPS** | cps | -54.6 | -22.5 | -11.6 | -8.4 | -2.5 |
| **EPS grwth** | % | | -58.9% | -48.2% | -27.6% | -70.8% |
| **PE** | x | -0.8 | -2.0 | -3.8 | -5.3 | -18.2 |
| | | | | | | |
| **DPS** | cps | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Payout** | % | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| **Div yield** | % | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |

Source: Company data and CCR estimates A$/NZ$ = 0.95

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### Company Data

| | |
|---|---|
| ASX code | LBY |
| ASX price (A$) | $0.425 |
| Shares on issue | 254.5m |
| Market capitalisation | $108.2m |
| Cash on hand | ~$23.8[1] |
| 12-month price range | $0.41 – $1.54 |
| ASX turnover (3m avg. daily vol.) | 0.4m |

[1] Cash = Latest 4C balance

### Key Personnel

| | |
|---|---|
| Gary Rohloff | Managing Director |
| Katrina Kirkcaldie | Chief Financial Officer |
| Steven Fisher | Chairperson |
| Mark Haberlin | Director |
| Craig Styris | Director |

### Major Shareholders

| | |
|---|---|
| Pioneer Capital III Limited | 17.5% |
| National Nominees Limited | 15.1% |
| Robyn Anne Rohloff | 10.1% |
| Gary Raymond Rohloff | 10.1% |

### Price Chart (ASX: LBY)


Source: Factset

# RESEARCH REPORT

CORPORATE CONNECT

## Laybuy Group (LBY)

Fast growing BNPL provider trading at discount to peer group

## Investment Summary

### Investment Thesis

Laybuy Group Holdings (LBY) is a fast growing provider of buy-now-pay-later (BNPL) services, with a market leading position in NZ, and a growing presence in Australia and the UK. The key elements of the investment thesis for LBY are as follows:

- High growth business – LBY has delivered very rapid growth since establishment in 2017, now having 11,700 active merchants (+86% on pcp) and ~889,000 active customers (+57%) as at 30 Sep 2020 (2Q FY22). This has driven annualised Gross Merchandise Value (GMV) of NZ$825m (+62%) as at Q2 FY22.
- UK market opportunity – The large UK retail market of £403b and ~28% online penetration represents a significant opportunity for LBY, with only ~1.7% BNPL adoption leaving significant runway for growth. The company is experiencing strong growth across all key operating metrics, with 2Q FY22 active merchants of 2,900 (+332%) and active customers of ~566,100 (+90%).
- Differentiated offer – LBY differentiates itself from other BNPL and traditional credit offerings through the combination of the following features; weekly payments, no interest charged, Laybuy Boost, seamless currency conversion, in-store and online availability, credit checks via independent third parties, and use of fraud mitigation technologies.
- Scalable technology platform – The LBY platform technology is simple to implement, allowing integrations with smaller merchants without LBY support, and larger merchants often in less than a week. The platform was built with a view to facilitating use in international markets beyond NZ and is therefore currency agnostic and new geography enablement is relatively easy.
- Capital efficient model – LBY has a capital efficient business model due to the weekly payment cycle of its platform. As LBY receives weekly payments, it is then able to redeploy this capital to fund other customers' purchases. One of the benefits of the weekly payment cycle compared to fortnightly or monthly payments is that LBY can more efficiently use capital, turning over its capital base approximately 21x pa compared to 18x for fortnightly payment options.
- Strategic partnerships and network effect – LBY has developed a number of strategic partnerships with key merchants as well as professional sporting clubs (e.g. Arsenal FC), which are aimed at strengthening the business across high growth sectors, raising brand awareness and driving customer acquisition. Growth in the number of customers using Laybuy drives more merchants onto the platform, which in turn drives more customer acquisition, creating a virtuous cycle of growth.
- Tap to Pay digital card – LBY has entered into a partnership with MasterCard which enables it to issue digital cards to customers in each of its markets. This allows LBY to provide a fully functional tap and go BNPL offering anywhere that accepts contactless payments and Laybuy. The product broadens LBY's revenue streams and makes the instore payment process quicker and easier for customers and merchants, which should improve customer engagement and encourage repeat purchases and loyalty.
- Affiliate marketing network – LBY has announced a strategic partnership with Rakuten, Awin and Sovrn, which will give customers access to over 5,000 new merchants in the UK, including household brands ASOS, Marks & Spencer, Amazon, Nike, Adidas and others. These partnerships will enable customers to use the Tap to Pay digital card with these merchants instore and online, without further merchant integration being required. LBY has indicated that early consumer uptake since launch at end of August is exceeding expectations, with orders processed and GMV being >5x the internal first month forecast.
- Experienced management team – LBY has built a strong management team bringing together retail, finance and technology expertise. The team continues to be led by founder Gary Rohloff, who maintains a significant ownership interest in the company of approximately 27% (fully diluted, including interests held by family members).
- Path to profit – LBY is targeting GMV of NZ$1b in FY22 and revenue growth of >90%, driven by ongoing strong growth in new merchants and active customers across all regions, led by the UK. NTM is also expected to continue to improve, driven by increased repeat customers and lower defaults. We expect LBY to reach profitability from FY25 and positive cash flow FY26.

### Milestones

Key events and data points to track the company's progress over coming periods include the following;

- Upcoming 1H FY22 result due late Nov (note March financial year-end).
- Demonstrated uplift in UK momentum from Affiliate marketing network.
- Delivery of targeted NZ$1bn GMV and 90%+ revenue growth in FY22.
- Further reduction in cost of sales as % of GMV, driven by scale and lower processing costs in the faster growing UK.
- Improving Net Transaction Margin (NTM), driven by reducing credit losses as key markets mature and repeat purchases grow.
- Earnings positive from FY25 and cash flow positive from FY26.

## Laybuy Group (LBY)

Fast growing BNPL provider trading at discount to peer group

# Company Profile

Laybuy Group Holdings (LBY) is a provider of buy-now-pay-later (BNPL) services, with a market leading position in New Zealand, and a growing presence in Australia and the United Kingdom.

The Laybuy payment platform enables customers to split the payment of purchases, both online and instore, across 6x weekly interest free instalments, the first being at the point of sale.

The business was started in NZ in 2017 by current CEO, Gary Rohloff, and his family, after recognising a market opportunity to modernise traditional 'layby' payment methods by improving customer friendliness and ease of administration for merchants. The business features two key attributes considered fundamental to the platform, being seamless execution between the customer and the merchant, and the ability for the customer to receive the goods/service upfront.

**Note LBY is a New Zealand company and reports in NZ$, notwithstanding its listing on the ASX. Consequently, all dollar value references in this report are to NZ$ unless stated otherwise.**

## Business Model

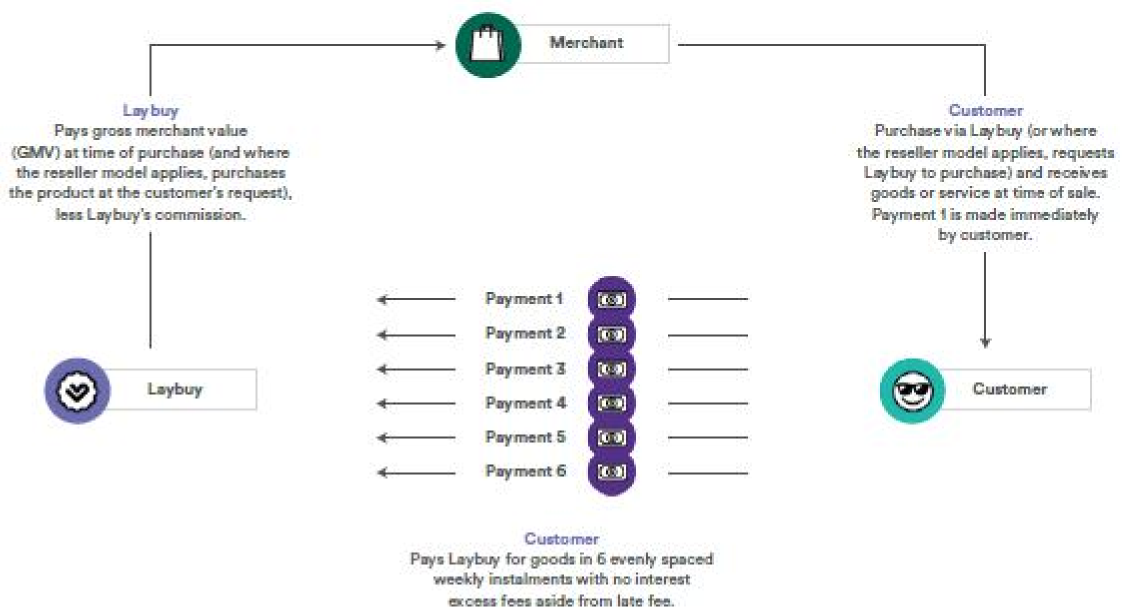
BNPL is a form of Point-of-Sale (PoS) financing. At the time of sale of a good or service (whether online or in-store), LBY pays the merchant (on behalf of the customer) the purchase price for the good / service (less the relevant fee payable to LBY by the merchant). The customer receives the good / service up front and agrees to then pay LBY for the good / service in 6x weekly instalments, with no interest and no fees except for potential late fees if a payment is not made on time.

The merchant pays this fee in consideration for LBY's services, which include:

- introducing customers via the Laybuy platform,
- upfront settlement of the purchase price,
- removing payment fraud, chargeback risks and bank charges.

In the UK, LBY provides BNPL services using a slightly different 'reseller' model. The reseller model operates in much the same way, except that LBY actually purchases the product from the merchant at the request of the customer, before on-selling the product to the customer in exchange for entering the standard deferred payment schedule.

**Fig. 1 – Laybuy's business model / BNPL process**




Source: LBY

LBY generates income by charging:

- Merchant fees – merchants pay a percentage of the value of each transaction a customer makes using Laybuy. On average, this was 3.0% of Gross Merchandise Value (GMV) (including GST) in FY21.
- Late fees – customers are automatically charged NZ$10, A$10 or £6 (depending on region) for late scheduled payments. On average, this amounted to 2.5% of GMV in FY21.

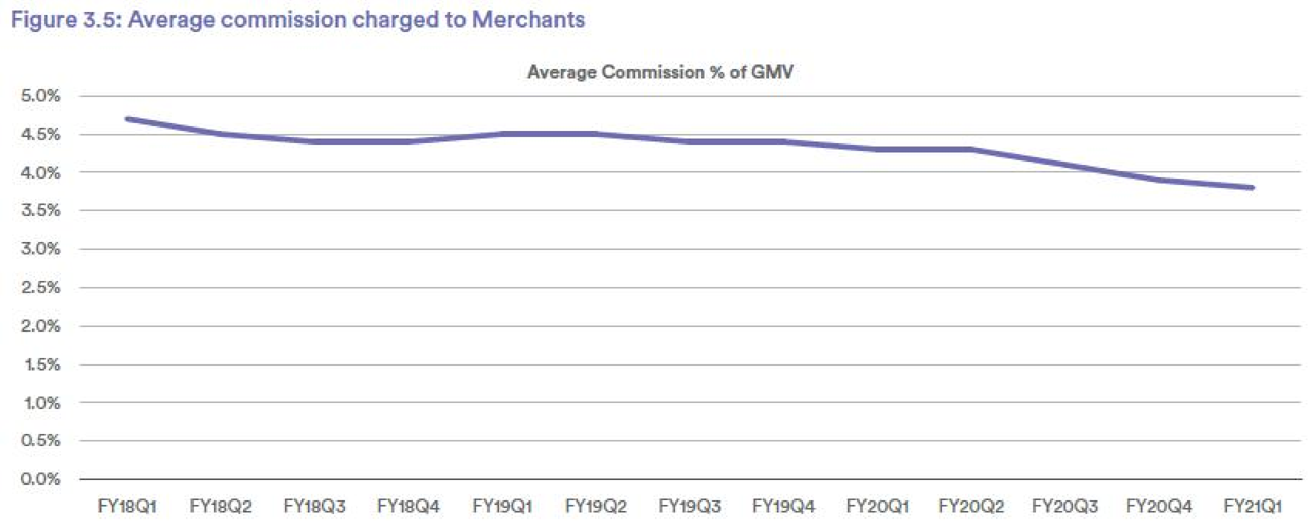
Late fees are incurred after a 24-hour grace period from the scheduled repayment date. Additional late fees of the same amount are then incurred if the payment is still not made within another 7 days. Late fees are capped at NZ$40, A$40 and £24 for each transaction.

LBY expects late fees to reduce as a percentage of its income in each market as that market matures. The company prevents customers who have any overdue payments from using Laybuy to make any further transactions. Consequently, as a market grows over time, the customer base remaining on the platform is increasingly those 'good' customers who are up to date on their payments.

Merchants are paid upfront and do not take any responsibility for credit risks associated with the end customer. This is assumed by LBY, which makes its own assessment of a customer's credit worthiness on application and also uses fraud detection tools. The company's stringent credit approval process takes into account a third-party credit bureau score. Customers are typically subject to transaction limits of approximately NZ$120 to NZ$1,500, depending on their credit report score. Provisions for bad debts are recognised in line with an expected credit loss model which uses historical loss rates to determine estimated future losses.

Average merchant fees received by LBY fluctuate due to the mix of merchants on the platform at any point. The entry into the UK market caused the average rate to decline in the short term as LBY's initial strategy was to target large, well-known brands at preferential rates to bring volume and validity to the platform. However, as the platform matures and SME sized merchants contribute more volume, LBY anticipates that average merchant fees should move more in line with previous levels.

**Fig. 2 – Average commission rates charged to merchants[1]**




Source: LBY

1. GMV ex GST

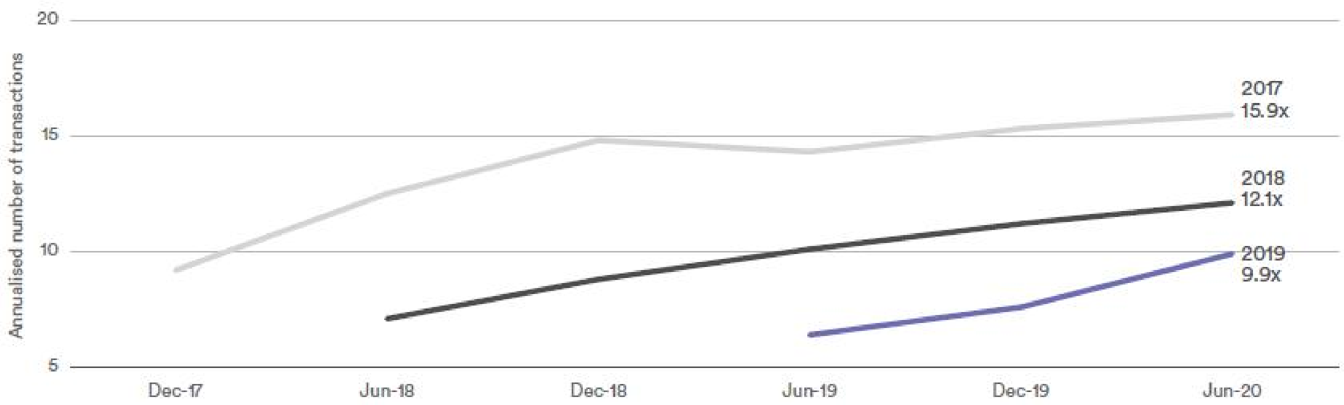
**Customer purchasing frequency**

Customers' repeat purchasing and purchasing frequency tends to increase over time as they become more familiar with the product and as the number of Laybuy activated merchants increase. The graph below demonstrates this purchasing frequency trend for NZ, where the earliest joining customers are the most frequent Laybuy users.

Repeat customers have increased over time in each jurisdiction and NZ, being LBY's most mature market, has the highest levels of repeat customers. The level of repeat customers is important as it not only drives transaction numbers and GMV, but also customer quality, resulting in lower credit losses.

Purchasing frequency in the UK is ahead of where NZ was at a similar maturity, indicating the UK market's growing responsiveness to and adoption of BNPL and the attractiveness of merchants on the platform.

**Fig. 3 – Annualised purchasing frequency over time (by NZ customer cohort) [1]**




Source: LBY

1. Calculated as the number of purchases made per customer in the trailing six month period, annualised by multiplying by two.

### A capital efficient business model

LBY funds customers' purchases upfront (less the merchant fee), which is then paid back to LBY by customers in 6x weekly payment instalments. Customers can pay the purchase price of the transaction over 35 days, with the first payment made at PoS. Customers can also elect to pay their outstanding balances earlier than scheduled under their payment plan.

As LBY receives weekly payments, it is then able to redeploy this capital to fund other customers' purchases. One of the benefits of the weekly payment cycle compared to fortnightly or monthly payments is that LBY can more efficiently use its capital base. Weekly payments mean that LBY turns over its capital base approximately 21x per year compared to 18x for fortnightly payment options.

### Value proposition to merchants and customers

LBY offers an attractive proposition for merchants and customers. The merchant and customer propositions combined, supports continued growth by helping to create an ongoing virtuous cycle of increasing merchants and increasing customers seeking to take advantage of the benefits provided by Laybuy.

LBY actively promotes its merchants to its customers through various channels, including email, social media posts, and the search function (in the Laybuy mobile app and website). In this respect, the Laybuy platform works as an advertising and online channel for the merchant, directing customers to its products.

This is further enhanced with exclusive Laybuy events and promotions, including Laybuy Mania and other co-branded digital marketing campaigns. Laybuy Mania is a bi-annual online sales event where LBY aggregates exclusive deals and discounts, which are available to its customer base for 24 hours.

The company believes that active promotion of merchants, together with BNPL services enabling consumers to make purchases that they otherwise might not be willing or able to finance, can facilitate for merchants an uplift in sales and/or transaction margin.

Specific potential benefits for merchants using the Laybuy platform include:

- Access to LBYs network of customers – Customers use the store directory (visible within Laybuy's mobile app and website) and social media to discover new brands, promotions and merchants.
- Access to new geographies – merchants can access foreign customers through Laybuy Global currency processing, (assuming the merchant is willing to ship to other geographies which offer Laybuy).
- Increased average order values – by allowing customers to pay for purchases in instalments, they may be more likely to increase their average order value.
- Higher conversion rates – encouraging a greater proportion of visitors to a store to actually make a purchase, including decreasing their rate of cart/checkout abandonment as the initial upfront cost for purchases is lower.

- Reduced product returns – by only requiring 1/6th of the payment upfront, customers may be less likely to have buyer's remorse and consider returning goods. LBY has identified that the return rates on goods purchased through its platform are lower compared to retail industry averages.
- Reduced merchant exposure to fraud and chargeback risk – LBY undertakes independent credit checks and takes on the payment fraud risk.
- 24-hour support – merchants have access to a 24-hour helpdesk with LBY's support teams based in the UK and NZ.

From a consumer's perspective, LBY's BNPL platform could be described as combining the benefits of the traditional in-store layby concept (the ability to pay over a set period of time via interest-free instalments) and payment via a credit card (a third party is covering the upfront payment to the merchant such that the consumer can take possession of the products or services as soon as payment has been processed).

Potential benefits for customers using the Laybuy platform include:

- Flexible payment options – LBY provides customers with a flexible and budget friendly weekly payment option to purchase goods and services. For each purchase, customers can select which day of the week they want to make payments on. Customers can also make early payments of upcoming instalments without any additional fee or cost.
- Automatic processing – LBY calculates and automatically processes the instalments payable by customers on the due dates.
- Widely accepted – once an account has been approved and opened, customers can use Laybuy across a wide range of retail sub-sectors (fashion, travel, sports and entertainment, homewares, electronics, automotive, health and beauty and more).
- Ease of use – customers are able to view and manage their payment plans online or via the Laybuy app at any time (e.g. view their remaining balances and see when each instalment is due).
- Increased shopping choice – as the number of merchants on LBY's platform increases, customers may benefit from more choice across multiple sectors, geographies and products.
- 24-hr support – customers have access to a 24-hour help desk which assists with account creation, account issues or general questions about Laybuy.

## Products / Services

LBY provides a BNPL payment platform that enables customers to split the payment of purchases, both online and instore, across 6x weekly, interest free instalments. No interest or fees are charged to the customer except for potential late fees if a payment is not made on time.

### Key product features

The Laybuy platform has a number of notable features:

Six weekly payments – LBY offers a weekly payment option for customers. Prior to entering the UK market, LBY commissioned a survey of over 1,000 UK residents across different age brackets and geographic regions querying how they preferred to manage their finances (daily, weekly, fortnightly, monthly, annually or never). The most preferred option was weekly budgeting, which aligns to LBY's payment schedule and strategy to become known as the leading weekly BNPL provider.

Laybuy Boost – Enables customers to make a purchase larger than their Laybuy transaction limit in one transaction, yet still have the ability to use Laybuy. To use Laybuy Boost, the customer pays the amount exceeding their transaction limit as their first payment at the point of sale, with the remaining amount split over the next five payments. LBY benefits by receiving the merchant fee on the full transaction, and the benefit to the customer and merchant is the sale proceeding in a single transaction.

Laybuy Global – Allows customers to purchase products online in their local currency with a Laybuy merchant in a different country, as long as that merchant ships to the customer's home country. LBY facilitates the FX conversion for these transactions by fixing the merchant sale price in the customer's local currency at the rate prevailing at the point of sale, and issuing the customer with a local currency payment schedule.

LBY does not have a material exposure to FX gains and losses on its transactions. In all regions it operates in, LBY holds bank accounts which are used for collections from customers in the same currency used to settle merchant payments and therefore has a natural hedge on its revenue and expenditure in each region.

Tap and go Instore Payments – LBY has entered into a partnership with MasterCard to enable it to issue tap and go digital cards to customers in NZ. LBY also signed a formal agreement with major payments technology specialist, EML Payments, to bring a digital card to market in Australia and the UK. The digital card was successfully launched in Australia and NZ in Q3 FY21, and subsequently went live in UK stores in May 2021 following the easing of COVID19 restrictions.

Issuing digital cards to customers will allow LBY to provide a fully functional tap and go BNPL offering anywhere that offers both contactless payment and Laybuy. The product aims to transform the instore payment process into a quicker and easier customer and merchant experience.

Using the digital card, customers will be able to bypass a number of the steps currently required for in-store transactions. Their purchase experience will be near instantaneous, improving customer engagement and encouraging repeat purchasing behaviour and loyalty. Reducing friction (e.g. additional steps, waiting time or complexity) from the payment process benefits merchants in a similar way, reducing the time staff spend processing transactions enabling them to focus their resources elsewhere.

The product significantly opens up LBY's in-store distribution channels and broadens revenue streams, as any merchant that currently accepts contactless payments will be able to agree with LBY to accept Laybuy transactions by customers. This removes the need to integrate merchants via their PoS system before LBY can capture any transactions. The company expects Tap to Pay to substantially drive growth of the in-store sales contribution to GMV, with the ANZ region already reporting in-store sales now contributing around 22% of GMV in 1Q FY22 (+4ppt).

## App / website features

The Laybuy mobile app and website is used by customers for the purposes and/or features listed below. The app will be the main focus of product development in the future so that LBY can continue to drive engagement with consumers through the platform.

- Managing their account details and changing/managing the default payment method,
- Viewing the status of their payment plan and dates of upcoming repayments,
- Viewing available transaction credit (subject to LBY's approval for each transaction) and amounts outstanding,
- Making early repayments,
- Browsing merchants who offer Laybuy and shopping online,
- Generating a barcode (app only) which can be scanned at the merchant's register to make in-store purchases.
- Accessing the Affiliate Marketing Network, comprising over 5,000 new merchants in the UK (refer Customer section below for further details).

## How the product works

The majority of LBY's customers transact online. The process is quick and easy for new and existing customers and can be summarised in the steps below.

**Fig. 2 – How it works (for online purchases)**

| Step | Description |
|---|---|
| 1 | Customer downloads Laybuy app, and signs up. |
| 2 | Customer selects Laybuy as their payment preference at checkout. |
| 3 | LBY's payment gateway is launched and the customer enters their Laybuy login details.<br>If customer is not already signed up, instead of entering their Laybuy login details, the customer can navigate to LBY's online sign-up process and is asked to add the details of their chosen payment method (debit or credit card) to their account. |
| 4 | Customer is presented with their payment schedule (the dates on which each instalment will be deducted from their default payment method). Each instalment is normally the transaction value divided by six. |
| 5 | Customer can change or add a new payment method that they wish to have the initial and upcoming payments debited from (e.g. an alternate debit card), or change which day of the week future instalments will be debited. |
| 6 | Customer confirms the purchase and their repayment schedule. |
| 7 | The order is shipped to the customer by the merchant together with a receipt, and LBY directly debits the customer's future instalments per the confirmed payment schedule. |
| 8 | Customer can view and manage their payment schedule (online or through the app) at any time, and can make as many subsequent purchases as they wish up to their remaining transaction limit (subject to LBY's approval in each case). Each transaction has its own repayment schedule. |
| 9 | The returns process is largely the same for the customer and the merchant as if any other payment option had been used. The only difference is that the refunded amount is paid to LBY (who passes this on to the customer) and not directly to the customer. |

Source: LBY

In-store transactions contribute less transactions to the Laybuy platform than online transactions. They are currently facilitated through the use of the customer's mobile phone number or the Laybuy App. However, LBY anticipates the recent introduction of the new digital Tap and Go payment method to the product will reduce friction in the payment process (e.g. additional steps, waiting time or complexity) and help drive sales through the in-store channel. The table below summarises the current in-store experience and the future in-store experience using Tap and Go.

**Fig. 2 – How it works (for in-store purchases)**

| Step | Description (Current Experience and with future Tap and Go) |
|---|---|
| 1 | Customer downloads Laybuy app, and can sign up in minutes. |
| 2 | Customer takes their goods to the counter & requests to pay using Laybuy (in a reseller model, this involves LBY purchasing the goods at the customer's request, in return for the customer's agreement to repay LBY in fixed instalments). |
| 3 | Shop assistant will either scan the customer's unique in-app barcode or enter the customer's mobile phone number into the Laybuy merchant interface. This step is not required under Tap and Go. |
| 4 | Customer is instantaneously either sent a text message with a link or redirected through the mobile app to advise them of their repayment schedule. This step is not required under Tap and Go. |
| 5 | Customer can change or add a new payment method that the initial and upcoming payments are debited from, or change which day of the week they wish their future instalments to be debited on. |
| 6 | Customer confirms the purchase and their repayment schedule. For Tap and Go, customer confirms and pays by tapping their digital card at the terminal. |
| 7 | The customer takes their purchase (together with their receipt generated by the merchant) and LBY directly debits the customer's future instalments per the payment schedule. |
| 8 | Customer can view and manage their payment schedule (online or through the app) at any time. Subject to LBY's approval in each case, can make subsequent purchases up to their remaining transaction limit, with each transaction on its own repayment schedule. |
| 9 | The returns process is largely the same for the consumer and the merchant as if any other payment option had been used. The only difference is that the refunded amount is paid to LBY (who passes this on to the customer) and not directly to the customer. |

Source: LBY

## Customers

Since establishment in 2017, LBY has consistently delivered strong growth in both merchants and customers on the Laybuy platform. For FY2021, the company reported:

- Active merchants of 9,126 (+75% on FY20). This was comprised of 7,341 (+51%) merchants in Australia and NZ, and 1,785 in the UK (+433%).
- Active customers of ~756k (+88% on FY20). This was comprised of ~293k (+17%) active customers in Australia and NZ, and ~463k in the UK (+203%).
- Repeat customers of ~500k (+115% on FY20). This was comprised of ~214k (+30%) repeat customers in Australia and NZ, and ~286k in the UK (+326%). Repeat customers in FY21 represent 66.1% of active customers, which is a strong uplift over the prior year repeat customers which represented 57.6% of active customers.

The charts below depict the strong growth in active customers and active merchants by quarter over the last 3 years rolling (to Q2 FY22). The combination of growth in active merchants and customers, together with an increasing proportion of repeat customers, drives growth in the number of transactions on the Laybuy platform, as well as the average transaction value (given that purchasing frequency increases over time, as does customer quality).

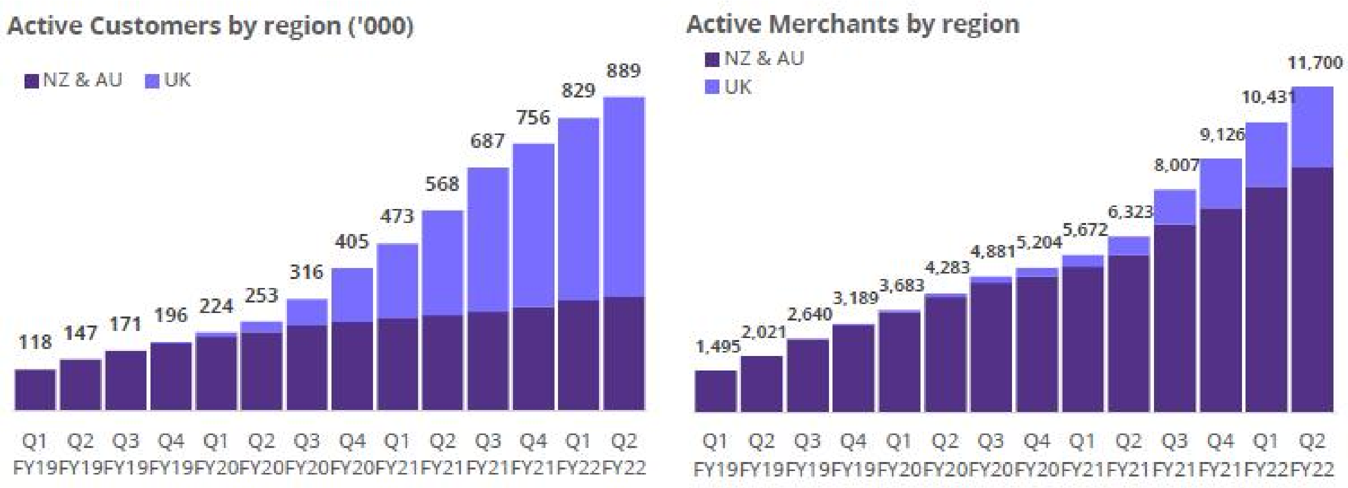
The combination of these factors results in the strong growth in Gross Merchandise Value (GMV) delivered by LBY over the same period. LBY's revenue is directly linked to the GMV of sales processed through the Laybuy platform. LBY's quarterly GMV and revenue by region for the same time period is also illustrated in the charts below.

The trajectory of growth in the UK is much more accelerated in comparison to Australia and NZ, and a key focus of LBY's growth strategy going forward. UK revenue now makes up ~55% of group revenue (for FY21).

# Laybuy Group (LBY)

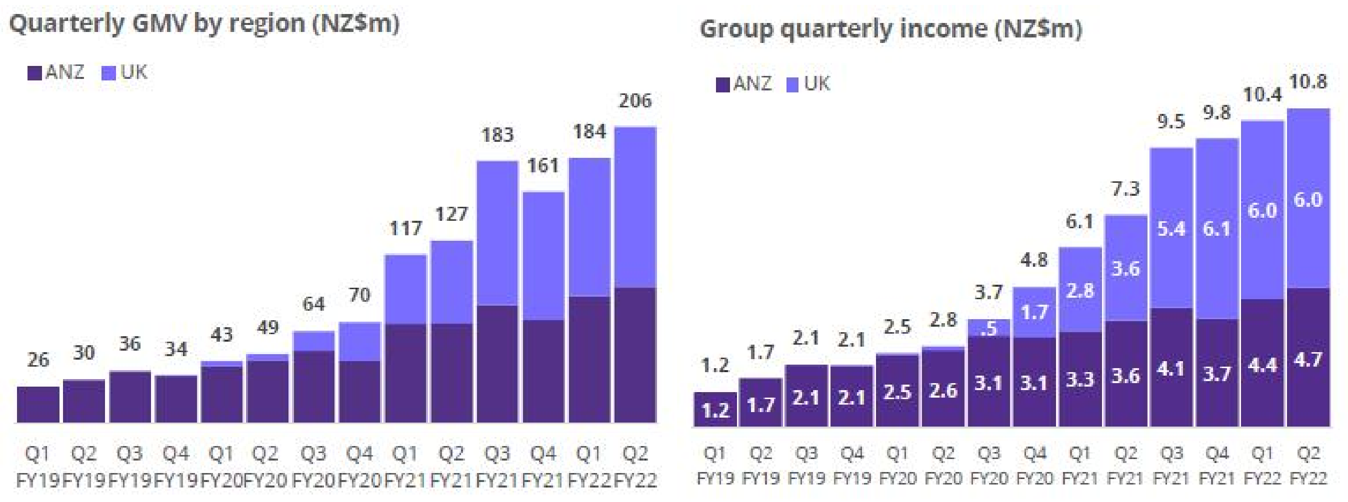
Fast growing BNPL provider trading at discount to peer group

**Fig. 4 – Active customer and active merchant growth**




Source: LBY

**Fig. 5 – Gross merchandise value (GMV) and Group income growth**




Source: LBY

## Strategic Partnerships

BNPL providers partner with merchants to provide consumers with easy to manage, periodic payment options for goods and services. The merchants can benefit by gaining access to the BNPL providers' customers as BNPL providers promote their merchants to their customer base.

### Merchant partnerships

LBY has developed a number of strategic partnerships with key merchants, which are aimed at strengthening the business model across multiple high growth sectors, and widening its appeal to different groups of merchants and target consumers.

Merchants operating in the retail sectors of fast fashion, health and beauty and footwear have been and will continue to be prime candidates to partner with LBY. However, many sectors are applicable, especially where consumption is expandable.

Some online retailers with a heavy social media presence (e.g. Boohoo), continue to grow at a significant pace seen in recent years, allowing LBY the ability to leverage that growth. Boohoo for example, has grown from ~£200m in sales for FY16 to ~£1.2b for FY20, with ~6.6m Instagram followers and ~3.5m Facebook followers indicating a large consumer reach.

LBY has sought to drive brand awareness, gain credibility and grow volumes and revenue in its target UK market in particular. Since launching in the UK in Feb 2019, LBY has been successful in partnering with several well-known UK merchants, as well as major Premier League Football clubs.

Key strategic merchant partnerships include:

- WHSmith – One of the UK's leading retail groups and a household name for books, newspapers and stationery, with over 600 stores on the high street and another 800+ stores at airports, train stations, hospitals and motorway services.
- JD Sports – UK sports and fashion retailer with a global instore and online presence of >2,400 stores and £4.7b revenue. Has acted as an anchor merchant for LBY, providing the UK platform with volume and a large customer base to leverage. As a growing global retailer, JD Sports can provide similar opportunities for LBY in other territories (e.g. Australia).
- The Hut Group – British e-commerce platform operator on an exponential growth trajectory, with revenue of ~£750m. It is a key partner helping LBY grow revenue, brand awareness and credibility in the UK market. The partnership also gives LBY access to a diverse portfolio of e-commerce websites that operate in a number of sub verticals, helping LBY to mitigate concentration risk.
- Boohoo Group plc – Collaboration agreement whereby Boohoo undertakes certain marketing and/or promotional tasks to raise awareness of the Laybuy platform, and to promote the brand and use of the platform to Boohoo's customers. This support may extend to some of its websites including Karen Millen, Misspap, NastyGal, Prettylittlething, and Coast Fashion. Boohoo has been granted options, some of which are already vested and some of which will vest if certain targets are achieved.
- Cotton On – One of the largest retail groups in Australasia, with multiple brands and >1,400 stores globally (>800 in Aust/NZ). As one of Cotton On's preferred BNPL providers in Aust/NZ and the UK, LBY will seek to leverage Cotton On's market presence and brand awareness to drive increased acquisition of both merchants and customers. Cotton On has also been granted options, some of which are already vested and some of which will vest if certain targets are achieved.

**Major sporting clubs**

Partnerships with major professional sporting clubs also provide a unique opportunity, given their global brand and base of followers on social media and other channels. These relationships offer LBY access to consumers as well as providing a platform for it to increase its brand awareness in the UK, Australia, NZ and in other potential territories.

LBY has developed partnerships with several major English Premier League Football clubs and NZ Rugby Clubs, which are expected to assist the company to grow awareness of the Laybuy platform, drive customer acquisition and increase revenue and transactional volumes, both in the current operational markets and other future territories. These partnership are:

- Arsenal FC – LBY provides BNPL services for Arsenal's online store. LBY started on the UK store merchandise in Apr 2020, with Australia and NZ launching during 3Q 2020.
- Manchester United and Manchester City FC – LBY is the official BNPL partner of Manchester United and Manchester City FC in NZ, Australia and the UK. Manchester United FC alone has over 1.1b global fans and followers and as of July 2020 has 36m Instagram and 73m Facebook followers.
- Super Rugby – LBY has entered into a multi-year sponsorship deal with 4 Super Rugby clubs in NZ (The Crusaders, Chiefs, Blues and Highlanders), in which LBY will be an official partner and exclusive BNPL provider.

## Global Partner Programme

At the end of Sep 2020, LBY launched its global partner programme, which is a set of strategic relationships and integrations with over 20 e-commerce platforms and agencies. Major global e-commerce platforms involved in the programme at launch include BigCommerce, Shopify, Wix, nopCommerce, Aurora Commerce and others. These partnerships offer LBY access to a broad range of merchants through a seamless integration process. As a result, onboarded merchant numbers accelerated in Q3 FY21, and LBY expects it to continue to drive strong merchant take up.

LBY continues to be well placed to acquire SME merchants via its integrations with the above leading e-commerce platform providers and also Magento, and WooCommerce, amongst others.

## Affiliate Marketing Network

In May 2021, LBY announced a strategic partnership with Rakuten, Awin and Sovrn, which will provide Laybuy customers with access to the Affiliate Marketing Network, comprising over 5,000 new merchants in the UK, including household brands ASOS, Marks & Spencer, Amazon, Nike, Adidas, Boots, easyJet, Booking.com and eBay.

These partnerships will enable customers to use LBY's innovative Tap to Pay digital card with these merchants as well as online through the Laybuy app, allowing them to pay with Laybuy without further merchant integration or direct relationships being required. Access to these leading retailers is expected to see LBY's UK business continue to accelerate GMV growth and repeat customer usage in FY22.

LBY launched the network at the end of Aug 2021 (initially with 160 brands), and has recently announced that performance to date is exceeding internal projections. Since launch, orders processed and GMV are >5x the internal first month forecast. Given the early strong success of the initiative, the Affiliate Marketing Network is expected to form a key part of LBY's growth strategy going forward. The Affiliate Marketing Network is also referred to as App Exclusives.

## Sales & Distribution / Marketing

LBY's business depends on maintaining its contracts and relationships with existing key merchant clients and attracting new merchant clients. The company generally contracts with merchants under relatively short-term arrangements on a non-exclusive basis, and merchants are generally able to reduce or cancel their use of LBY's product and terminate relevant contracts without penalty at relatively short notice.

### Target market

LBY's platform appeals to consumers across a range of age demographics, particularly younger consumers (or 'millennials') who may be seeking alternatives to traditional credit cards. BNPL services are generally used for smaller, discretionary transactions.

LBY's BNPL services are available online and in-store at merchants across a wide range of retail segments including fashion, travel, sports and entertainment, homewares, electronics, health and beauty and more.

After initially launching in NZ in May 2017, and experiencing early success, LBY launched in Australia in May 2018 to support trans-Tasman merchants. At the same time, LBY identified the UK as an attractive growth opportunity for several reasons, including:

- the high proportion of online retail sales (since a significant portion of Laybuy transactions are online),
- similar regulatory environments to NZ and Australia,
- market familiarity with BNPL given other providers already existed in the UK.

Consequently, LBY officially launched in the UK with shoe retailer Foot Asylum in Feb 2019 (after a soft launch in Oct 2018). The company is now strongly focused on expanding rapidly in the UK while solidifying its position as a leading BNPL provider in NZ and also growing its Australian business.

### Sales Model

LBY's sales model varies across its geographical regions due to each market's unique size and level of maturity. The model can be summarised as including the following key initiatives:

- Grow existing presence in the UK by continuing to target large scale merchants, increasing engagement with SMEs and leveraging existing strategic partnership arrangements with key merchants.
  - Developing strategic partnerships with large, influential merchants provides validation of the Laybuy BNPL service, enables the platform to benefit from scale and drives a network effect for other merchants. LBY targets these merchants with an outbound sales approach through an experienced sales team.
  - SME merchants are targeted via LBY's existing merchant partnerships and by using inbound marketing strategies to reduce the associated costs of acquisition and on-boarding.
- Continue to develop LBY's Australian presence by supporting existing NZ retailers who have an Australian presence and by investing in sales and marketing initiatives to on-board new Australian retailers.
- Continue as a leading BNPL provider in NZ by extending the online and instore categories to rapidly penetrate new industry verticals.
- Across all regions, build partnerships with digital agencies, systems integrators, payment service providers and other platform providers who have large numbers of merchant customers. These agencies can help encourage their customers to adopt Laybuy by acting as a sales platform and integrating the LBY on-boarding process into these sites can help reduce the on-boarding time for the merchant.

### Marketing Strategy

LBY's marketing strategy has B2B and B2C applications.

B2B marketing initially focuses on merchant acquisition through:

- Lead generation campaigns on LinkedIn and other digital platforms which highlight the value Laybuy delivers for its merchant partners.
- Industry events and exclusive round-table events for C-suite business leaders.
- Partnering with complementary businesses such as e-commerce development agencies to promote the benefits of Laybuy to their clients.

Once a merchant has been on-boarded, the focus shifts to driving engagement. A merchant engagement plan is developed which includes providing the merchant with Laybuy marketing collateral and coordinating regular promotions with that merchant.

B2C marketing focuses on driving brand awareness, growing the customer database and encouraging repeat purchases. This is realised through a combination of direct-to-consumer marketing and co-branded promotions with merchants. Direct-to-consumer marketing includes:

- Digital brand advertising campaigns,
- PR, social media and influencer activity,
- Targeted and personalised messages/push notifications,
- Editorial and content media partnerships,
- High-profile sports sponsorship deals.

The direct-to-consumer marketing is complemented by collaborative marketing with key merchant partners to develop brand awareness and knowledge at the point of purchase. This typically includes:

- Consumer education launch campaigns,
- Exclusive Laybuy competitions and promotions,
- Optimising the in-store and online consumer journey to maximise conversion rates (proportion of visitors who make a purchase).

## Suppliers

LBY has partnered with a number of independent third-party service providers to deliver a reliable product and service to its customers. Services provided by third parties to LBY include:

- identity verification and AML/CTF compliance
- fraud detection
- credit checks and default risk management
- middleware application development
- payment processing and infrastructure support capabilities

The company has an internal Senior Risk and Compliance Manager who supports and monitors these providers insofar as risk management is concerned. The platform also contains a number of features which are designed to reduce default and fraud risk.

### AML/CTF compliance

LBY has established AML/CTF programs that use identification technology to assist with regulatory compliance. LBY uses third party identity bureaus to undertake AML/CTF verification on consumers and the beneficial owners of merchants during the sign-up or on-boarding process.

### Default and payment fraud

LBY partners with independent consumer Credit Reference Bureaus (CRBs) as part of the process it uses to decide whether or not to approve a transaction limit for a new customer or a specific transaction by an existing customer (i.e. the platform decision process). When a customer signs up to LBY, the CRB provides a numeric score based on the customer's credit rating, which is then used to assign the customer a transaction limit. The minimum and maximum transaction limits are approximately NZ$120 and NZ$1,500.

LBY assesses the fraud and default risk of a customer (currently using Sift Science) at three stages of their interaction with the Laybuy platform:

- at sign up,
- at login (returning customer),
- at the time of each order.

LBYs platform continually builds and updates data obtained from the customer's use of the platform, which is used to assess the probability of payment fraud. This generates an internal risk score which forms part of the platform decision process in deciding whether to allow or decline each individual sale from proceeding. LBY has risk assessment tools which enable it to review applications on a daily basis to identify and block customers who appear to present a heightened fraud risk.

LBY's payments are tokenised and processed with Stripe. Stripe provides an additional layer of security through its 'Stripe Radar' feature. Stripe Radar allows LBY to increase conversion and reduce fraud by creating custom rules based on specific user data points or Stripe's own machine learning algorithms.

LBY uses 2-factor authentication to enable customers to be authenticated with their card issuer when their card details are added to Laybuy as a payment method. In some cases, LBY may require a higher level of identification assurance before transacting with a prospective customer or merchant. This is currently performed via Onfido, a software solution which matches a photo-based identity document provided by the user to a selfie which is taken in near real time through their phone or computer.

As a result of COVID-19, LBY has slightly tightened the credit criteria which are applied as part of the customer sign-up process by increasing credit score thresholds for qualifying customers. The company has not seen a deterioration in credit performance and has observed overall default levels continuing to decline in line with LBY's pre-COVID expectations.

There are a number of other Laybuy platform features which are designed to reduce default and fraud risk:

- The first instalment on any order is taken at the point of purchase.
- Instalments are extended to customers for a short duration of 35 days, minimising the likelihood that a customer's financial circumstances may change.
- Transactions conducted on the platform have relatively low values, with the average order size being NZ$133 in FY20.
- The customer is reminded via push notification or email in advance of an upcoming payment and the customer's chosen payment method is automatically debited in accordance with the payment schedule.
- If the customer misses a payment, LBY notifies the customer to remind them of the payment failure and allows them a further 24 hours to make the payment before charging a late fee.
- If a customer does default on a payment, their account is temporarily suspended from making any further purchases until the payment plan is brought up to date.
- Merchant transactions are monitored continuously by LBY's management, and any significant anomalies are investigated.

### Technology

The Laybuy platform technology is relatively simple in terms of integration with customers, larger merchants can take less than a week and smaller merchants can integrate without LBY technical support. The platform is easily integrated with the majority of popular e-commerce platforms including Shopify, Salesforce and Magento.

Enabling new geographies from a technology perspective is also relatively straightforward. The platform was built from the beginning with a view to facilitating use in international markets beyond NZ and is currency agnostic. Product innovation and adaptions can be quickly executed, with continuous integration and deployments at the core of LBY's development cycle.

The platform uses Kubernetes, a containerised application structure, which allows it to immediately scale in response to user demand. The databases and back end systems behind the platform are hosted on Amazon Web Services which scale up the service in line with demand and server-load. Global third parties handle the platform's transactional needs, ensuring it is able to support large volumes of transactions at any one point in time.

LBY engages independent third party providers to test the platform against potential cybersecurity threats on a regular basis. CloudFlare, a global security platform, is also used to mitigate any potential for service downtime due to excessive loads or malicious attacks.

LBY has an extensive pipeline of product improvements aimed at continuously simplifying and improving the consumer experience. In particular, it is focused on enhancing the mobile app to encourage user engagement and repeat purchasing as well as making greater use of data to identify issues and opportunities during the customer journey.

## Regulation

LBY is subject to a range of laws, regulations and industry compliance requirements in NZ, Australia and the UK. The BNPL industry is currently subject to increased focus of regulators in a range of jurisdictions, which are taking an increasingly active role in monitoring BNPL participants.

There is a risk that the current position with respect to regulation of BNPL arrangements in NZ, Australia or the UK is altered, which could result in LBY's existing operations becoming subject to additional legal, regulatory or industry compliance requirements together with the costs of those requirements. This may include the requirement for LBY to be subject to credit licensing, financial services licensing or other licensing or regulatory requirements or limitations.

LBY is committed to being a leader in responsible credit. Every new customer is credit-checked and strict credit limits are put in place to ensure they are not taking on debt they cannot afford. If a customer's financial situation changes, LBY proactively works with them to develop a tailored solution. As a consequence, LBY's average default rate is well below 3%.

### Existing regulatory framework

LBY is required to comply with many applicable laws and regulations in each country of operation. These include laws relating to privacy and data protection, anti-money laundering, consumer lending and collection. The key laws in the relevant jurisdictions under which LBY is permitted to operate as a BNPL provider are summarised below.

#### Financial services/consumer finance legislation

Contracts entered into by customers using the Laybuy platform fall outside the scope of regulated consumer finance in NZ, the UK and Australia.

New Zealand – Credit contracts and consumer finance in NZ are regulated by the Credit Contracts and Consumer Finance Act 2003 (CCCFA). LBY's BNPL services are a credit contract under the CCCFA, and therefore subject to the oppressive credit contract provisions in the CCCFA. However, its services do not fall within the scope of consumer credit contracts under the CCCFA as it does not charge interest, credit fees or take security interests. Because of this, LBY is not treated as a lender and not required to comply with further obligations that apply to consumer credit contracts under the CCCFA, such as the lender responsibility principles.

Financial service providers in NZ are subject to the Financial Service Providers (Registration and Dispute Resolution) Act 2008 (FSPA). LBY is required to be, and is, registered on the Financial Service Providers Register as it is in the business of providing a financial service as defined in the FSPA. Under the FSPA, LBY is also required to be part of a financial disputes scheme and provide an annual confirmation of details to the Registrar of Financial Service Providers.

United Kingdom – Consumer credit in the UK is a regulated activity under the Financial Services and Markets Act 2000 and the associated Financial Services and Markets Act (Regulated Activities) Order 2001 (RAO). Therefore, authorisation by the Financial Conduct Authority (FCA) is required, unless the activities fall within an exemption.

LBY relies on the instalment (fixed-sum) credit exemption set out in the RAO. This applies to agreements that are, inter alia, for fixed sum credit, with no interest or other charges, have not more than 12 repayments, and are repaid within 12 months.

Australia – In Australia, credit for which no charge is imposed on the debtor falls outside the scope of the National Consumer Credit Protection Act 2009 (Cth), being the Australian licensing and conduct framework for credit provided for personal, domestic or household purposes. It follows that LBY and others operating in the BNPL sector who do not charge for credit and instead derive revenue from merchants, are able to operate without holding an Australian Credit Licence. This position is recognised by ASIC in Report 600 – Review of BNPL Arrangements, published in Nov 2018. Fees charged for failing to make a repayment on time or failing to rectify a default, are not regarded as charges for credit.

Australia's financial services licensing regime under Chapter 7 of the Corporations Act similarly does not apply to credit contracts entered into on the LBY platform because credit facilities are excluded from the general concept of financial product under that regime. It follows that LBY and others operating in the BNPL sector are able to operate without holding an Australian Financial Services Licence.

The provision of credit by a business is, however, regulated as a financial service under Part 2 of the Australian Securities and Investments Commission Act 2001 (Cth) which contains general consumer protection provisions such as prohibitions against misleading and deceptive conduct and unconscionable conduct and provisions which deem unfair contract terms to be void. This Act does not impose a licensing framework.

**Anti-Money Laundering and Counter-Terrorism Financing**

In NZ, LBY is a reporting entity under the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 (NZ AML/CTF Act), as it carries out lending to customers in the ordinary course of its business. LBY has an AML/CTF compliance program and a risk assessment as required by the NZ AML/CTF Act. The company is required to review its AML/CTF program to ensure compliance with its obligations under the Act as part of an annual reporting process.

In the UK, financial institutions under the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLR) are required to register with a competent authority and meet various anti-money laundering compliance requirements. Firms that undertake consumer credit activities are generally financial institutions under the MLR.

There is an MLR exemption for creditors under a debtor-creditor-supplier agreement, which applies where the creditor provides fixed sum credit in relation to the provision of services by way of deferred payment or by instalments, over a period not exceeding 12 months. LBY relies on this exemption based on the position that as a reseller it is technically both the creditor and supplier.

In Australia, LBY is required to comply with the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Cth) (Australian AML/CTF Act) and is currently enrolled with the Australian Transaction Reports and Analysis Centre. LBY has developed an AML/CTF program for Australia that sets out the procedures it will follow to ensure it meets its regulatory obligations and adequately manages money-laundering and terrorism-financing risks.

### The Woolard Review

In Feb 2021, the outcome of the FCA's Woolard Review into the unsecured credit market was released in the UK. The key recommendations from the Review will require all BNPL providers to ensure that customer wellbeing is a top priority in their operations.

The Woolard Review concluded that there is potential for harm to consumers in the BNPL market, and that therefore some regulatory oversight is appropriate. It suggested that the FCA and HM Treasury should work together on legislative changes to bring BNPL products within the scope of regulation, after which the FCA will need to develop an appropriate regulatory framework.

Importantly, the Review recognised the fundamental utility of BNPL products to consumers, insofar as BNPL is an innovative, simple and effective tool to help people manage their budgets.

LBY believes it is already in a strong position in relation to potential regulatory change that may flow from the Woolard Review. Since launching in 2017, the company imposes strict credit limits on customers and externally credit checks every customer when they sign up to the platform, which reflects its commitment to being a responsible and transparent credit provider. There is also automatic suspension of accounts in the event of a missed payment to limit additional debt being accrued. LBY will continue to work closely with the UK government and regulator as potential actions following the Review are considered. HM Treasury is currently going through a consultation process, which is likely to continue for most of 2022.

# Business Analysis

## The BNPL Market

The BNPL industry has been growing rapidly in recent years due to a variety of factors. Consumers have increasingly adopted electronic payment methods over the last decade, such as cards, direct transfers and online payment platforms, instead of using cash and cheques to make payments. The COVID-19 pandemic is further driving the use of electronic, digital and non-traditional payment methods.

Australia and NZ are some of the most advanced markets for BNPL in terms of adoption by consumers. Key regions such as the UK and North America are at earlier stages of adoption for BNPL services and as such should represent significant growth opportunities for BNPL providers.

### Growth Drivers

Consumers across a range of income brackets are attracted to BNPL services. LBY believes one of the key value propositions of BNPL services is that they allow consumers to manage payments with respect to their individual budgets.

BNPL services can provide lead generation for merchants and enable consumers to make purchases that they otherwise might not be willing or able to finance. Consequently, merchants that partner with BNPL providers could benefit from an uplift in sales (including increased average order values), higher conversion rates (i.e. proportion of visitors to a store who make a purchase) and lower product returns by only requiring a fraction of the payment upfront (so customers may be less likely to have buyer's remorse).

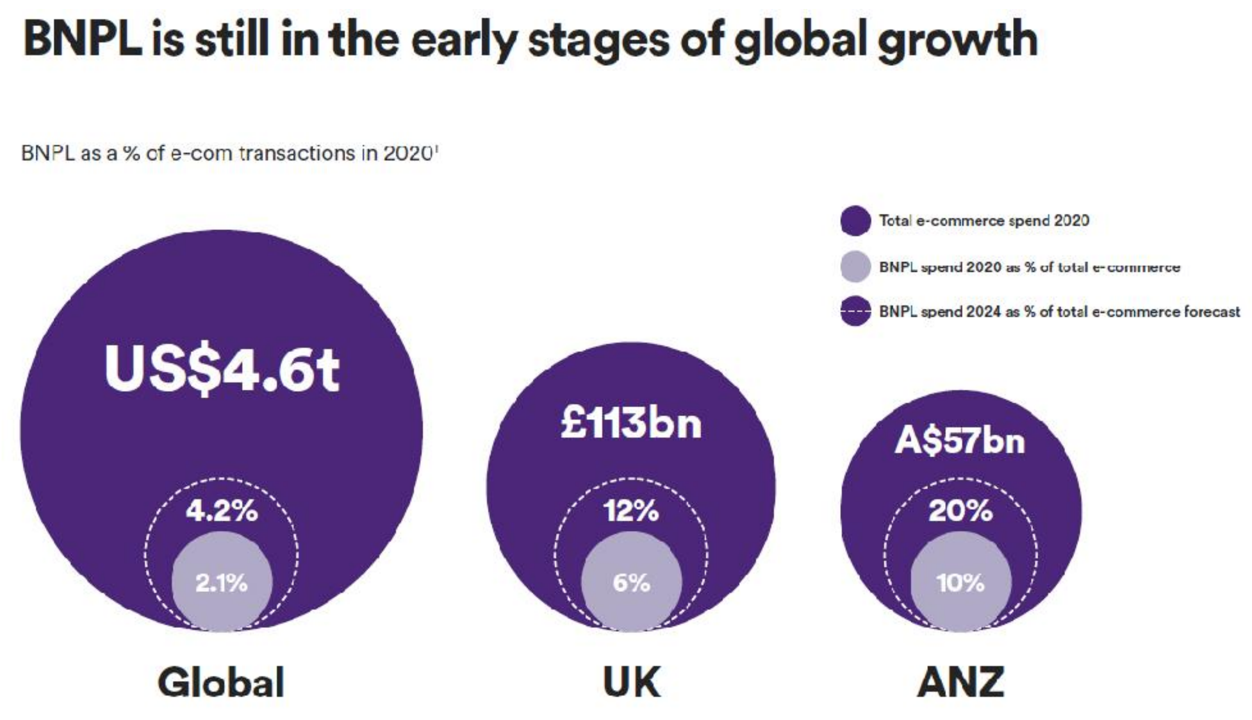
The strong growth in the use of BNPL services by consumers over recent years is driven by a number of factors, including:

- Consumer payment trends, such as;
  - the trend towards electronic payment methods
  - decline in credit card use
  - Increasing consumer demand for credit alternatives
- The volume and size of overall discretionary consumer spending.
- Technological innovation which has improved the BNPL user experience and streamlined customer credit assessments.
- Growth in merchants accepting BNPL transactions.
- The outbreak of COVID-19 initially had a negative impact on consumer spending, but extended lockdowns in many markets have subsequently materially boosted the levels of on-line shopping.

### Market Opportunity

The chart below shows the size of the total e-commerce spend in 2020 in each of the markets where LBY is currently operating (Australia/NZ and the UK), together with the corresponding BNPL penetration in each market. In each case, BNPL penetration of e-commerce is forecast to double by 2024[1].

**Fig. 6 – Total e-commerce market size in ANZ and the UK (2020)**




Source: LBY / FIS Worldpay

[1] FIS Worldpay, The 2021 Global Payments Report.

**Australia / NZ**

The total size of the ANZ e-commerce market was approximately A$57bn in 2020. This represents a relatively lower level of e-commerce penetration of the total retail market across ANZ, compared to some other jurisdictions. Previous country specific data obtained by LBY showed that e-commerce represented:

- ~5.4% of the total NZ retail market of NZ$89.7bn (2019)
- ~9.3% of the total Australian retail market of A$330bn (2019)

Both the Australian and NZ retail markets are exhibiting a continuing shift towards online spending, which is growing in double digits, while spending at physical stores remains flat to low single digit.

BNPL penetration of e-commerce across ANZ was approximately 10% in 2020, according to FIS Worldpay.

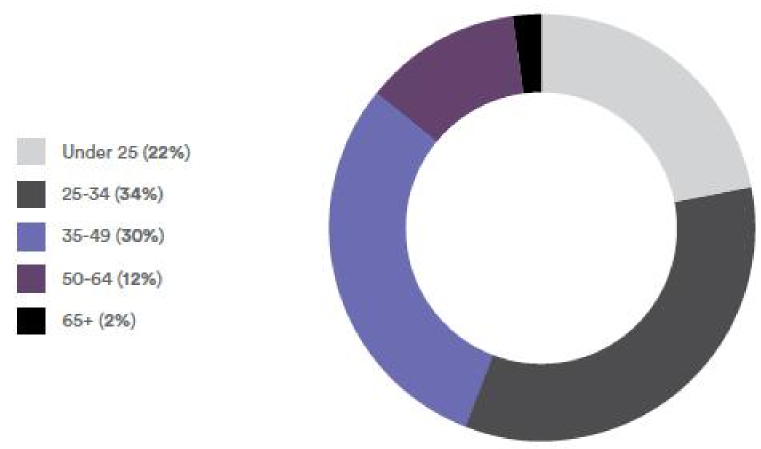
In NZ, adoption of BNPL solutions has occurred rapidly and the proportion of total spend made through BNPL providers is expected to continue to grow. In a report issued by NZ Post, it was estimated that 20% of all online clothing and footwear spend in 2018 was made through BNPL providers. The BNPL user base referred to in the NZ Post report was dominated by females (70% of BNPL users) who are typically of younger ages (61% of BNPL users were female and under 45 years old).

In Australia, there has historically been a strong appetite for BNPL services, with the number of BNPL providers and transactions growing rapidly since 2015. In FY16, it was estimated that there were approximately 0.4m consumers in Australia who had used at least one BNPL arrangement from a provider within the prior 12 months. This increased to more than 2.0m in FY18, representing ~10% of the adult population in Australia (ASIC Report 600 - Review of BNPL arrangements, Nov 2018).

Australian consumers have demonstrated a high level of repeat usage for BNPL services. Consumer research conducted by ASIC found that more than four in five consumers who had used a BNPL arrangement in the year to Jan 2018, planned to do so again.

As shown in the chart below, as at Sep 2019, Australians aged 18-34 accounted for 56% of BNPL users over the preceding 12 months, with those in the 25-34 age range making up 34% of all BNPL users.

**Fig. 7 – BNPL usage by age group (Australia)**




Source: LBY / Roy Morgan (Sept 2019)

ASIC data further shows that those in the 18-34 age demographic prefer to use BNPL arrangements over credit cards. By contrast, Australians over 50 make up only 14.2% of BNPL users despite being 40.7% of the population over 14 years of age. ASIC's research suggests this demographic generally prefers the use of credit cards over BNPL (ASIC Report 600 - Review of BNPL arrangements, Nov 2018).

**United Kingdom**

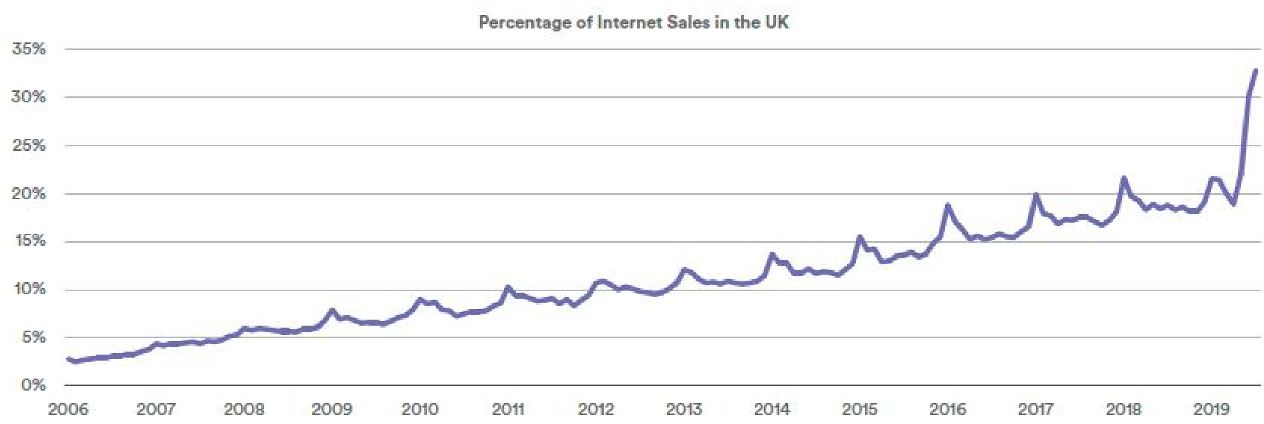
The total size of the UK e-commerce market was approximately £113bn in 2020. The total UK consumer retail market grew 2.3% to £403bn in 2020, so e-commerce penetration is estimated at around 28%. This is significantly higher than both Australia and NZ, and has spiked drastically over the last 12 months from only around 19% penetration in 2019. This was driven to a large extent by changed consumer behaviour as a consequence of extended COVID-19 lockdowns.

BNPL penetration of e-commerce in the UK was approximately 6% in 2020, which continues to be some way behind ANZ.

LBY believes the UK represents a significant commercial opportunity for BNPL providers due to the size of the overall retail market. The UK is at least 2x larger than ANZ in terms of overall retail spending, and online purchases comprise a much larger part of total expenditure, yet BNPL penetration of e-commerce is lagging.

Consequently, LBY considers that there is great potential for the success of BNPL providers in the Australian market to be replicated in the UK market on a larger scale.

**Fig. 8 – Internet sales as a percentage of total retail sales in the UK**




Source: LBY / United Kingdom Office of National Statistics

BNPL services are a new value proposition to the payments industry in the UK with the adoption of BNPL considered immature in comparison to Australia. Kearney reports that the PoS credit market is growing by more than 15% pa. This growth is underpinned by, among other things, younger consumers seeking alternative and transparent financing options. These younger consumers are projected to overtake Baby Boomers (people born 1946-1964) as the largest generation in the UK when it comes to purchasing.

Kearney's UK research revealed that the majority of UK consumers surveyed in the 23-38 age bracket preferred to shop at stores offering BNPL services when spending more than £250 (Sep/Oct 2019). In older age brackets, the percentage of consumers preferring BNPL services was progressively lower, but still amounted to 22% for 55-73 year olds. The average across all UK consumers was 37%. The study also revealed that there were consumers in every age bracket surveyed (18-73) who had this preference.

## Goals and Strategy

LBY is committed to becoming a leading global BNPL provider, and continues to invest for future growth. This includes investments in marketing, people, product development and partnerships.

While strongly focused on continuing its growth in the UK, it is also solidifying its position as a leading BNPL provider in NZ, growing its Australian business and potentially expanding into other international markets.

LBY anticipates that the next stage of growth in the ANZ operations will come from new verticals (e.g. health and ticketing), increasing in-store purchasing through the Tap to Pay product and increased frequency of purchasing by existing customers. (Customers who signed up to Laybuy in 2017 are making 17.5 purchases pa on average).

The company's global growth strategy is anchored around leveraging its scalable platform and has the following 3 key components:

**1. Increase market share in previously established geographies**

New customer growth – LBY plans to further improve penetration in industries and sectors it already operates in by continuing to broaden its merchant network and undertaking more co-branded marketing campaigns with merchants. It will also look to continue growing merchant partners through its Global Partner programme.

Grow repeat usage – LBY expects that it can increase the number of active payment plans per customer by undertaking targeted marketing campaigns to its existing customers and ongoing individual customer engagement. By continuing to provide high quality customer service and a user-friendly experience, LBY believes it can ensure that new customers become long term, repeat users.

New industries and sectors – LBY is planning to expand the number of industries and sectors in which Laybuy is offered. There are a number of industries and sectors in which LBY has proven successful in certain countries that can be offered in other geographies. Other verticals that offer growth opportunities for LBY include health & beauty, digital (ebooks, games, etc.), consumer marketplaces, hairdressing, travel and event ticketing. Targeting multiple industries also allows LBY to diversify risk.

**2. Rapidly grow in the UK and other potential international markets**

LBY's focus remains firmly on accelerating growth in the UK market, which continues to present enormous opportunities, by targeted large, influential merchants to bring brand recognition and scale to the platform. The company is looking to maintain momentum with the launch of Tap to Pay in the UK, alongside new strategic partnerships, allowing customers to shop easily with Laybuy at some of the UK's largest and most iconic brands.

In FY22, LBY is entering into new merchant integrations in the UK with Debenhams, Dorothy Perkins, Burton, Wallis, Fanatics and Ticketmaster Sport as it work towards the goal of having Laybuy offered at all the UK's top retailers.

LBY is also engaging with payment service providers and with international digital commerce agencies who can refer merchants to LBY and provide access to their customer bases. This will allow LBY to increasingly target the vast number of SME sized retailers in the UK market. Laybuy will use its customer base and exclusive relationships to target SMEs through its partnership programme to diversify its retailer base and increase average commissions.

The LBY platform has been designed to scale its service to markets across the globe. Based on LBY's experience in Australia and the UK, LBY expects its existing partnerships and integrations with global banks, payment processors and credit bureaus will facilitate technological enablement of the platform in any additional new market in a relatively short timeframe.

LBY has demonstrated that its proposition is successful in markets outside of NZ through its expansion into Australia and most recently the UK. LBY has undertaken a strategic review of other potential international growth opportunities, which will form part of LBY's expansion plans. While the company will continue to consider expanding into new geographies in order to support existing merchants who are multinational retailers, its current focus is to capitalise on its successful entry into the UK market.

LBY has also noted potential M&A opportunities may arise from industry consolidation.

**3. Strategic partnerships and opportunities for platform enhancements to drive network effects**

LBY is actively exploring potential options for expanding the functionality of the platform in order to further improve interactions with customers and merchants, improve operational efficiencies, and merchant and customer experience. This is supported by improvements to the Laybuy app to increase user engagement and repeat purchases.

The card project (including the MasterCard collaboration in NZ) is a significant near-term strategic initiative for LBY which it expects will enable a seamless, contactless point of sale experience in store for merchants and customers.

Future platform enhancements are expected to be focused on enhancing the functionality of the mobile app and incentivising customers to use Laybuy more frequently through loyalty and rewards programs. These initiatives are aimed at facilitating interactions between LBY customers and merchants to drive GMV growth.

Growth in the number of customers using Laybuy drives more merchants onto the platform, which in turn drives more customer acquisition, creating a virtuous cycle of growth.

## US Market

LBY commenced a beta launch in the US in late Q3 FY21 via its Laybuy Global product with selected retailers, which has continued through Q2 FY22. The purpose of this launch was to enable UK, NZ and Australian merchants to access US based customers.

The US market is extraordinarily large and represents a significant opportunity for LBY. The US Census Bureau estimates that for the year to Sep 2020, the total US retail market was US$5.5tn with online e-commerce representing over US$730bn (~13%). BNPL is at relatively early stages of penetration in the US market and it represents a huge growth opportunity.

LBY has undertaken a market analysis for the US and has concluded that for now, its priority and focus remains on the UK where it has established a position as one of the 3 major players in that market. For the foreseeable future, its focus and resources will be applied to cementing and growing the Laybuy brand and business in the UK where there remains an enormous growth opportunity.

## Competition

Recent growth in the BNPL sector, coupled with relatively low barriers to entry, has seen a rapid increase in the number of new BNPL providers. There is ongoing potential for further new entrants in the market, or consolidation among existing participants, leading to economies of scale, which could increase competition. New technological developments may also result in rival products with a competitive advantage in terms of customer solutions, experience or cost.

The competitive situation in each of LBY's markets is described below, along with the BNPL providers which LBY views as its key competitors in each jurisdiction.

- New Zealand – LBY is a dominant provider in the NZ market, along with Afterpay. Zip has around half the share of the leaders.
- Australia - The Australian market is more competitive than NZ, with Afterpay and Zip dominating, and several others all competing for market share, including Klarna, LatitudePay and Openpay. LBY is holding its market share in Australia.
- United Kingdom - Competition in the UK is lower compared to both Australia and NZ, with LBY now a clear top 3 BNPL provider. However, it remains some way behind marker leader Klarna and the other key player Clearpay (Afterpay subsidiary).

One of the primary differentiators between BNPL providers is the difference in payment schedules (frequency of instalments payable by the customer and overall length). Typically, LNY's customers repay their purchase over 6, weekly payments. Some of LBY's competitors require their customers to pay instalments fortnightly or monthly, or spread payments over a longer time period (e.g. Afterpay customers pay fortnightly over 8 weeks, Openpay allows payment plans of up to 24 months). LBY's rationale for weekly repayments is based on its internal research and understanding that weekly budgeting is preferred by most consumers.

The table below provides a high-level overview of LBY's key BNPL competitors by market, including LBY's understanding of the launch dates and repayment schedules of each. Note some of the BNPL providers listed in the table operate in additional geographic regions, and the business models of some of the providers vary between different geographic regions.

**Fig. 9 – High-level comparison of competitor offers**

| Company | Platform launch date | Business model (Primary instalment schedule) | | |
|---|---|---|---|---|
| | | Weekly | Fortnightly | Monthly |
| **New Zealand** | | | | |
| Laybuy | 2017 | Y | | |
| Afterpay | 2017 | | Y | |
| Zip[1] | 2017 | Y | Y | Y |
| Latitude, Genoapay | 2016 | Y | | |
| **Australia** | | | | |
| Laybuy | 2018 | Y | | |
| Afterpay | 2015 | | Y | |
| Zip[1] | 2015 | Y | Y | Y |
| Klarna | 2020 | | Y | |
| **United Kingdom** | | | | |
| Laybuy | 2019 | Y | | |
| Clearpay (Afterpay) | 2019 | | Y | |
| Zip | 2019 | | Y | |
| Klarna | 2016 | | | Y[2] |

Source: LBY

### Differentiated offer

LBY differentiates itself from other BNPL and traditional credit offerings through the combination of the following features:

- Simple to use platform
- Weekly repayments schedules
- Never charging interest
- Available in-store and online
- Credit checks via independent 3rd parties and use of fraud mitigation technologies
- First to market with Laybuy Boost (allows customers to increase value of their purchase, lifting LBY's commission)
- Enabling international purchases with seamless currency conversion via Laybuy Global
- Tap to Pay capability, improving ease of transaction in store

## Key Risks

### Scaling the business and funding / liquidity

The ability of LBY to increase revenue and achieve profitability is dependent to a large extent on its ability to profitably scale its business in its key markets, especially the UK. LBY has been successful in achieving a market leading position in NZ in a short timeframe, but is still actively competing to maximise its position in the UK. As LBY continues to grow and expand its market share, it will need access to additional capital injections to fund growing receivables ledgers.

LBY's business model is reliant on the ability to pay merchants upfront as customers use Laybuy services to acquire products. If sufficient liquid funds are not available to transfer to merchants within the specific service levels agreed in relation to purchases made by customers, merchants may become dissatisfied and terminate their merchant agreements.

### Bad and doubtful debts / Fraud

Part of LBY's operating cost structure relates to the incidence of bad and doubtful debts incurred by the company on account of customers who default on their contracted repayment schedules. Historically, credit losses spiked when LBY entered the UK, and it went through a period of rapid growth in a new market.

LBY has several internal controls to combat credit losses, including credit limits on individual customers and external 3rd party credit checks. While the UK credit loss situation has been rectified over the last year, continuous enhancements to the credit decision process may be required as LBYs operations continue to scale up.

LBY is also exposed to the risk that customers and other parties may seek to commit fraud against the company or in connection with the products/services it provides. This may include customers or other parties attempting to evade LBY's controls and process fraudulent transactions.

### Competition and new technology

LBY operates in a competitive environment in which systems and practices are subject to continual development and improvement, and new or rival offerings. There is a risk that new BNPL entrants (including retailers with white-labelled products) or existing competitors may deliver a superior solution and customer experience offering to that currently offered by LBY, or consolidate with other providers to deliver enhanced scale benefits with which to more effectively compete against LBY.

### Information Technology and data security

LBY's operations are heavily reliant on information technology and the ability of LBY to provide reliable services is dependent on the performance of its and its 3rd party service providers' technology systems. Additionally, LBY's operations are dependent on the stability of connectivity as between the merchant's platform and LBY's platform, to ensure the successful activation of a merchant and completion of customer transactions. LBY may use 3rd party service providers to develop, maintain and host this connectivity software, which provides both LBY and its merchants with more limited oversight in ensuring the continued reliability and availability of the connectivity.

Given the nature of LBY's business, LBY collects and holds a significant amount of personal information about its customers. LBY's systems, or those of its 3rd party service providers, may fail, or be subject to disruption as a result of external threats or system errors. Cyber-attacks could also compromise or breach the safeguards implemented by LBY to maintain confidentiality of such information.

#### AML, counter-terrorism financing and privacy legislation

In each of its jurisdictions, LBY is bound by, and must comply with, statutory obligations in relation to anti-money laundering and counter-terrorism financing laws, and privacy and data protection laws.

LBY has identified issues and areas for improvement with some of its practices, as well as potential non-compliance or breaches of anti-money laundering and counter-terrorism financing, and privacy and data protection requirements. As a result, the company has modified some of its processes to ensure that it complies with all of its obligations in each geography going forward. LBY runs the risk of penalties and/or reputational damage if it is found to have breached any relevant legislation.

## Financial Analysis

### Business Economics

Since inception in 2017, LBY has made a loss in each financial year FY2018 to FY2021. In FY21 the company reported a loss of NZ$41.3m at the NPAT level, up from NZ$16.1m in the prior year. However, revenue has grown materially over this period, and we expect LBY to move into profit as the business continues to grow and leverage investments made in recent years, particularly in the UK. Currently, we expect this is likely to occur from FY25, subject to maintenance of current momentum and no new markets being entered which would require additional investment.

In FY21, LBY delivered revenue of NZ$32.7m, which was a strong uplift of 138% on FY20. This was driven by ongoing expansion in the Australian and NZ market, but more importantly the rapid expansion in the UK market flowing from signing of new merchants and ongoing promotion and advertising of the Laybuy brand in the UK. The impact of lockdowns associated with Covid-19 across all of LBY's markets at various times was also a key driver of an uplift in online retail sales which assisted BNPL transactions.

Gross Merchandise Value (GMV) is expected to continue growing strongly over the next few years, with LBY guiding to at least NZ$1bn GMV in FY22 (+70%). This is supported by the following drivers discussed elsewhere in this report:

- Signing up of new merchants in ANZ and the UK in particular, where FY21 ended with 1,785 active merchants up from 335 at the end of FY20. Active merchants in the UK have already reached 3,000 in October.
- Ongoing growth in active customers through advertising and promotion and in response to merchant growth. FY21 ended with 463k active customers in the UK, up from 153k in FY20. Recently, active customers reached 600k in the UK.
- Continuing growth in the number of repeat customers, which help to further drive the number of transactions. In FY21, repeat customers grew to 62% of active customers in the UK (44% in FY20).
- Growth in average transaction value as customers become more familiar with BNPL services, and as the mix of higher quality repeat customers increases.

Revenue (which comprises merchant fees and late fees) should grow strongly off GMV growth, with LBY guiding to income growth of >90% in FY22. In addition to GMV growth, revenue will also be influenced by the following factors:

- To the extent the new merchants onboarded comprise an increasing mix of SMEs relative to larger merchants, the average merchant fee is expected to creep up (as % of GMV).
- This should be balanced by the fact that the increasing relative contribution of GMV from the UK, where lower processing costs are often passed on to merchants, may drive lower merchant fees (as a % of GMV).
- The growth in repeat customers, while positive for transaction numbers and value, will also have the result of declining late fee income (as a % of GMV). However, this will have the counter benefit of declining credit losses further down in the P&L.

Total operating expenses amounted to NZ$61.6m in FY21 and NZ$28.9m in FY20, and were comprised as set out in the table below. Operating expenses included NZ$2.1m of non-recurring costs in FY21 related to the IPO, which we treat as an abnormal item and are not included below. In addition, LBY identified further costs of ~NZ$6.1m which it also considered non-recurring, including fair value adjustments on embedded derivatives and FX losses. We have not adjusted for these costs and they are included below, although we have taken them into account in the base for our forecasts.

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**Fig. 10: Operating expenses**

| Expense | FY20 NZ$m | FY21 NZ$m |
|---|---|---|
| Merchant & marketing expenses | 4.07 | 12.20 |
| Employment expenses | 4.61 | 10.37 |
| Transaction expenses | 4.23 | 6.61 |
| Consumer receivables impairment | 9.62 | 15.13 |
| Platform development & hosting | 0.35 | 1.09 |
| Other operating expenses | 6.55 | 12.21 |
| Other losses / (gains) (incl. FX) | -0.56 | 3.99 |
| Total | 28.87 | 61.60 |

Source: LBY

LBY delivered an EBITDA loss of NZ$28.9m in FY21 (ex IPO costs of NZ$2.1m), an increase on the NZ$15.1m loss in FY20. This was driven largely by the cost of investing in accelerated expansion into the UK market. Net Transaction Margin (NTM) was positive at NZ$10.7m (1.8% of GMV) before other operating costs of NZ$39.7m (6.7% of GMV). This compares to breakeven NTM in FY20, prior to NZ$15.1m other operating costs.

The improvement in FY21 NTM (as % of GMV) to effectively pre-UK expansion levels, reflected:

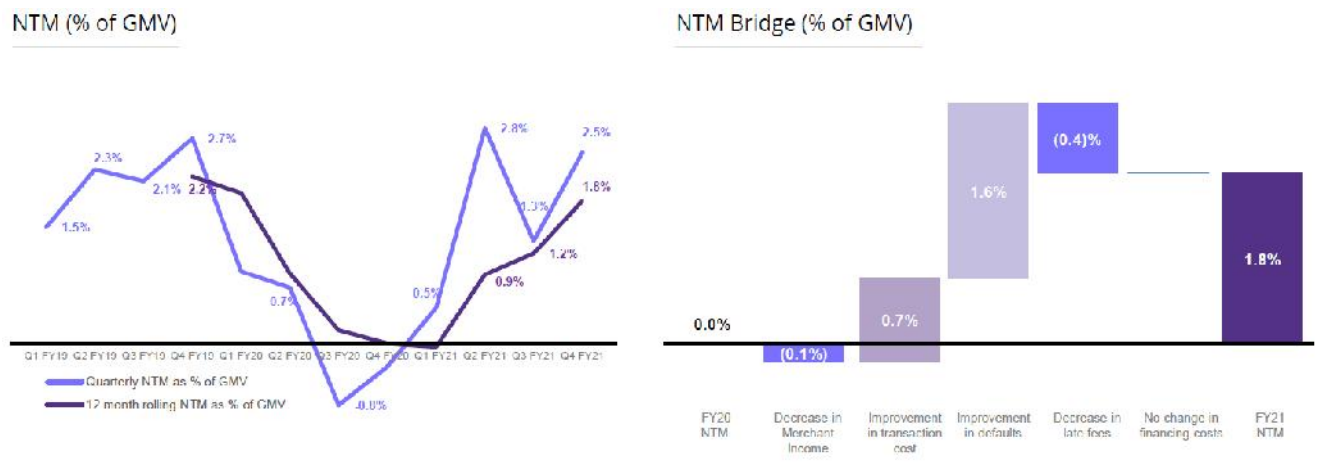
- Lower cost of sales (as % of GMV), as transaction processing costs (paid to 3rd parties) benefited from LBY's increasing scale and due to being generally lower in the UK market, which is growing faster than LBY's other markets.
- Lower credit losses (as % of GMV) due to more repeat purchasing and introduction of better fraud management technology. Entry to new markets (e.g. UK) brings initial higher default risks and associated costs, until the customer base begins to mature and repeat customers grow.

Other operating costs increased in line with GMV in FY21.

Going forward, NTM is expected to increase materially as GMV and revenue grows. In addition, there is likely to be progressive uplift in NTM as a % of GMV, although 1Q and 2Q FY22 were slightly down to 2.0% and 1.9% respectively (after 4Q FY21 jumped to 2.5%). This will be supported by the following drivers, all else being equal:

- Continuing faster growth in the UK business where processing costs are lower,
- Increasing scale economies in processing costs, and
- Declining credit losses due to growing repeat purchasing as the UK business in particular matures.

**Fig. 11: Net Transaction Margin – Improvement in FY21**




Source: LBY

The rising NTM should drive EBITDA higher, which should be further assisted by LBY leveraging other operating costs (much of which we understand to be relatively fixed), as it drives growth in the top line. Based on current assumptions and modelling, we expect LBY to reach positive EBITDA margin from FY25 and deliver further uplifts in subsequent periods. LBY should also become profitable at the NPAT level from FY25.

In terms of cash flow, LBY delivered negative operating cash flow of NZ$47.8m in FY21, an increase from negative NZ$21.8m in FY20. The negative cash flow reflects the growth in the loan receivables book and the start-up costs of establishing the business in the UK. LBY operating cash flow is subject to significant seasonal impacts. In particular, the 3Q typically results in high cash outflows as LBY funds Christmas related purchases by consumers, followed by strong collections in the 4Q. This resulted in positive operating cash flow of NZ$1.0m for the 4Q FY21.

The most recent Quarterly Cash Flow report (2Q FY21), showed negative operating cash flow of NZ$16.9m, compared with $11.0m in Q1. The increase largely reflected strong growth of the receivables ledger. The report also showed cash reserves of ~NZ$23.3m, after LBY completed a NZ$43.1m capital raising in Q1. Combined with undrawn debt facilities available at the end of the quarter of ~NZ$0.5m, this leaves LBY with total available funding of NZ$23.8m at the end of Sept. This represents approximately 1.4 quarters of trading, based on the negative operating cash flow in the quarter and subject to no major change to current business operations. Note however, LBY has subsequently upgraded its ANZ debt facility and negotiated a new UK facility to replace Victory Park (discussed below), which will be available to draw down from the 3Q. These facilities increase pro-forma available funding to NZ$42.0m, representing ~2.5 quarters of trading.

## Capital Management

LBY listed on the ASX in Sep 2020, raising A$40m (NZ$42.6m) in new equity through issue of 28.4m new shares at A$1.41 per share. The IPO also comprised a sell down by existing shareholders of an additional 28.4m shares also valued at A$40m. The prior existing shareholders included in the sell-down were the Rohloff family and Pioneer Capital. The IPO proceeds have mainly been used for the following purposes:

- Funding the growing receivables book, particularly in the UK
- Increasing sales and marketing expenditure, especially in the UK
- Increasing staffing to support business growth in the UK
- Funding general working capital requirements

Apart from the new shares issued in the IPO noted above, LBY also issued 1.0m shares to employees to settle the prior share option plan, and a further 25.0m shares in exchange for conversion of prior convertible notes. In total, issued shares numbered 174.5m post IPO and as at the end of FY2021 (Mar).

Various shares issued in the IPO or held by related parties are subject to escrow periods, as shown in the table below. The total number of shares subject to voluntary escrow is ~97.0m, representing ~55.6% of total shares post IPO.

**Fig. 12 – LBY shares subject to escrow**

| Escrowed party | End of escrow period | Number of Shares subject to escrow on completion of Offer |
|---|---|---|
| Pioneer | Until the release to ASX of Laybuy's FY22 financial results, subject to the early release conditions below | 44,450,675 |
| Gary Rohloff | Until the release to ASX of Laybuy's FY22 financial results, subject to the early release conditions below | 25,744,681 |
| Robyn Rohloff | Until the release to ASX of Laybuy's FY22 financial results, subject to the early release conditions below | 25,786,739 |
| Other senior management | 12 months from Listing | 1,016,793 |

Source: LBY

Some of the above shares (50% of Pioneer's and 25% of the Rohloffs') may become eligible for early release from escrow after publication of LBY's 1H FY22 accounts, if the following conditions are met:

- LBY's revenue in the year to Sep 2021 is at least 2.5x its revenue in the year to Sep 2020; or
- The VWAP of LBY shares over any 15 trading days before the release of the Appendix 4D for the period ending Sep 2021, is at least A$2.115.

LBY completed a further recent capital raising of A$40.0m in the JunQ2021, through the issue of 80.0m additional new shares at A$0.50 per share via a placement and SPP. Proceeds will mainly be used for investing further in technology, marketing and people to continue LBY's strong momentum and further accelerate business growth. Consequently, total shares currently on issue is approximately 254.5m.

There is also approximately 20.6m options and 3.1m warrants on issue as at the end of FY21 (Mar).

As it grows, LBY requires ongoing capital to support its business model of funding merchants for purchases by end customers in advance of payment by the customer. In addition to the funds raised in the IPO and the more recent placement, LBY has the following debt funding facilities in place:

- NZ$30m debt facility with Kiwibank to fund its NZ and Australian operations – Secured against the NZ and Australian receivables ledgers, with 80% LVR. This facility was increased in Oct 2021 from NZ$20m with 75% LVR, and matures in June 2023.
- £30m (~NZ$58m) debt facility with Partners for Growth (PFG) to fund UK operations – secured against the UK receivables ledger, with 75% LVR. Represents new alternative facility finalised in Oct 2021, following the repayment and termination of the previous £80m UK facility with Victory Park Capital in Aug 2021. The new facility will have much greater availability and flexibility for draw downs, and matures in Oct 2024. Until the new facility is drawn, LBY will equity fund the UK receivables book.

As at the end of 2Q FY22 (Sep 2021), the drawn down balance on the above facilities was NZ$11.6m in the case of Kiwibank, and NZ$0.0m in the case of VPC. The available balances to draw under these facilities depend on the size of the receivables book in each territory. On a pro-forma basis, undrawn capacity under the new/renegotiated facilities as at Sep 2021 is NZ$1.3m for Kiwibank and NZ$17.4m for PFG (total NZ$18.7m). Following the restructure of the facilities, LBY has sufficient funding in place to support GMV growth of up to NZ$2.0bn.

As part of the terms of the VPC facility agreement, LBY common stock warrants were issued to affiliates of VPC, which entitled them in aggregate to ~2% of the fully diluted capital of LBY immediately prior to the IPO. Under the new PFG facility agreement, LBY has agreed to also issue warrants to PFG which grant PFG the right to subscribe for 5,679,360 ordinary shares in the company. The exercise price of the warrants will be the lower of A$0.56, or the 10-day VWAP before the commencement date of the facility, or the first anniversary of the commencement date of the facility. The warrants have a term of 7 years.

No dividends have been paid by LBY to date. Given the current earnings and cash flow position, we don't expect the company will declare any dividends in the near term until at least its first year of positive earnings and free cash flow. Based on our current assumptions, we expect positive earnings from FY25. Given that a large proportion of group earnings will likely be sourced offshore and not subject to tax in Australia, franking levels are expected to be restricted accordingly.

## Valuation

We have modelled LBY's business based on its reported results to date, guidance issued by the company, and our understanding of the company's operations and strategy. Our forecasts are summarised in the appendix to this report. We have also completed a DCF valuation for LBY, based on our current forecasts. The valuation is presented in the chart below, and arrives at an equity value of NZ$1.01 (A$0.96) per LBY share.

We expect there is future upside to our valuation as business development continues, scale and profitability improves, certainty increases and the company de-risks. This will likely see a lower discount rate applied in our DCF. In addition, de-risking is expected to drive a higher share price, which may result in fewer shares being issued to finance future raisings, and consequently slightly less dilution.

**It is important to note that our forecasts and valuation are based on a number of assumptions, which could vary significantly in nature, timing and magnitude from the estimates we have adopted. Some of the key assumptions are discussed below. Given the early stage of the company's life cycle, there is naturally a high level of uncertainty surrounding any forecast assumptions, and accordingly our forecasts and valuation should be treated with due caution.**

## Laybuy Group (LBY)

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**Fig. 13 – DCF Valuation of LBY**

| **Year** | **2022** | **2023** | **2024** | **2025** | **2026** | **2027** |
|---|---|---|---|---|---|---|
| EBIT | -29.1 | -23.5 | -4.4 | 10.4 | 38.4 | 43.0 |
| Depreciation & Amort | 1.5 | 1.9 | 2.1 | 2.3 | 2.4 | 2.5 |
| Tax | 0.0 | 0.0 | 0.0 | -0.8 | -9.0 | -10.6 |
| Adj for Net Int tax shield | 0.0 | 0.0 | 0.0 | -0.7 | -1.7 | -1.4 |
| Inv in Net working capital | -11.4 | -17.6 | -23.0 | -16.4 | -29.2 | -5.9 |
| **Operating CF before financing** | **-39.0** | **-39.1** | **-25.3** | **-5.2** | **0.8** | **27.6** |
| | | | | | | |
| Capex | -0.2 | -0.3 | -0.3 | -0.3 | -0.3 | -0.3 |
| Inv in Intangibles | -1.6 | -2.0 | -2.2 | -2.4 | -2.5 | -2.6 |
| Inv in net other assets | -3.6 | -0.1 | 0.5 | -5.2 | -0.2 | -1.5 |
| **Free CF before financing** | **-44.5** | **-41.5** | **-27.2** | **-13.1** | **-2.2** | **23.2** |
| **Terminal Value [FCF*(1+g)/(WACC-g)]** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **621.5** |

| | | | |
|---|---|---|---|
| Risk free rate (Rf) | 2.0% | NPV of explicit free cash flow | -$94.3 |
| Market risk premium (Rm-Rf) | 6.5% | NPV of terminal value | $383.2 |
| Beta (β) | 1.50 | **Total Company Value (NZ$m)** | **$288.9** |
| Cost of equity capital (Ke) | 11.8% | | |
| | | Less Net Debt | $4.0 |
| Cost of debt (Kd) | 7.0% | Less Minority Interests | $0.0 |
| Corporate tax rate (Tc) | 28.0% | **Value of Equity (NZ$m)** | **$292.8** |
| Target gearing [d/(d+e)] | 50.0% | | |
| WACC | 8.4% | Shares on Issue (EFPO) (m) | 317.3 |
| | | Adj for notional conversion (NZ$m) | 29.2 |
| Terminal growth rate (g) | 4.5% | **Value per share (NZ$)** | **$1.01** |

Source: CCR and company data

The following key assumptions underpin our forecasts and valuation, together with the assumed valuation inputs shown above:

- GMV growth of ~41% CAGR over the next 5 years, and Revenue (Income) growth broadly in line at ~45% CAGR, driven by ongoing expansion of active merchants and active customers on the platform in both the UK and ANZ.
- Progressive improvement in EBITDA margins through operating leverage, resulting in positive earnings from FY25.
- Net working capital requirements of ~NZ$30m in FY22 (+NZ$12m), growing to ~NZ$116m in 5 years, in line with Revenue growth.
- Draw down of debt capital as required and available to LBY under its new and revised facilities with Partners for Growth (PFG) and Kiwibank, based on the quantum of the receivables ledger at any point in time.
- Additional capital requirements to be funded from equity. We assume an equity raising of at least NZ$15m will be required early in FY22 to continue to fund operations pending LBY reaching positive free cash flow.
- Fully diluted share count of 317.3m includes 80m shares issued in May 2021, ~33.5m assumed to be issued in FY22 and ~29m notional shares to be issued on exercise of executive and 3rd party options and warrants currently on issue. Some of these options and warrants are currently not in the money, and may ultimately not be exercised.

### Peer Comparison

In addition to the DCF valuation, we have also compared LBY's current market valuation to the peer group of ASX-listed BNPL providers on the basis of Enterprise Value (EV) to GMV and to Revenue, using consensus data for FY22. The results are presented in the chart below. It is evident LBY is trading at EV multiples that are at the lower end of the peer group. Unsurprisingly, the companies with businesses that are relatively more progressed tend to trade at significantly higher multiples, reflecting greater scale, higher profitability, reduced risks and greater investor certainty.

## Laybuy Group (LBY)

Fast growing BNPL provider trading at discount to peer group

**Fig. 14 – LBY trading multiples compared to BNPL sector consensus**

| FY22 Est. | Afterpay APT-ASX | Zip Co Z1P-ASX | Sezzle Inc SZL-ASX | Splitit SPT-ASX | Openpay OPY-ASX | Laybuy LBY-ASX |
|---|---|---|---|---|---|---|
| GMV (A$m) | 33,986 | | 2,470 | | 767 | 979 |
| Revenue (A$m) | 1,478 | 684 | 159 | 15 | 55 | 55 |
| EBITDA (A$m) | 134 | -49 | -67 | -26 | -45 | -26 |
| Market cap (A$m) | 33,143 | 3,252 | 894 | 155 | 161 | 108 |
| Enterprise value | 32,683 | 4,848 | 839 | 142 | 136 | 61 |
| **EV/GMV (x)** | **0.96** | | **0.34** | | **0.18** | **0.06** |
| **EV/Revenue (x)** | **22.11** | **7.08** | **5.28** | **9.33** | **2.50** | **1.11** |

Source: CCR / Factset

## Appendix 1: Board of Directors

### Gary Rohloff

**Managing Director**

Mr Rohloff co-founded Laybuy in 2016 and has served as Managing Director of the company since that time. He is responsible for the overall management and strategic direction of Laybuy. Mr Rohloff has held a number of CEO roles in the retail industry with some of the country's largest retailers, including Number One Shoes, Warehouse Stationery, and EziBuy. Gary is currently based in New Zealand.

Prior to his retail experience, Mr Rohloff worked in treasury roles and in banking. He has a Master of Business Administration (MBA) from Massey University, where he graduated with Distinction in 1994.

### Steven Fisher

**Chairperson**

Mr Fisher has more than 30 years' experience in general management positions in the wholesale consumer goods industry and was previously Chief Executive of the Voyager Group. He is currently the non-executive Chair of ASX-listed Breville Group Limited and The Reject Shop Limited.

Steven was a practising chartered accountant, having qualified in South Africa with a Bachelor of Accounting from the University of Witwatersrand, Johannesburg.

### Mark Haberlin

**Director**

Mr Haberlin has significant experience in senior finance and management roles, including having been a partner at PwC in Australia for 24 years and serving two of those years as Chair. He is currently an Independent Non-Executive Director and Chair of the Audit and Risk Committee of ASX-listed Abacus Property Group and Australian Clinical Laboratories, as well as director of two private companies.

Mark has a Bachelor of Science (Civil Engineering) (Honours) from Imperial College London.

### Craig Styris

**Director**

Mr Styris is an Executive Director of Pioneer Capital, a private and growth equity firm focused on investments in New Zealand businesses. He has sourced and managed a number of investments for Pioneer across a range of growth sectors. Prior to Pioneer Capital, Mr Styris was an Associate Director at Craigs Investment Partners and an Associate at Houlihan Lokey in Los Angeles. He is currently a director of Magic Memories Group Holdings Limited, Rockit Global, and Tom & Luke.

Mr Styris has a Bachelor of Management Studies (Accounting and Economics) and a Graduate Diploma in Finance from the University of Waikato.

# Laybuy Group (LBY)

Fast growing BNPL provider trading at discount to peer group

## Laybuy Group (LBY: NZ$0.447 / A$0.425)

### Valuation data

| Year ending Jun | 2020 | 2021 | 2022f | 2023f | 2024f |
|---|---|---|---|---|---|
| **EPS (c)** | **(54.6)** | **(22.5)** | **(11.6)** | **(8.4)** | **(2.5)** |
| **P/E ratio (x)** | **(0.8)** | **(2.0)** | **(3.8)** | **(5.3)** | **(18.2)** |
| P/E relative | | | | | |
| **EPS growth (%)** | | **-58.9%** | **-48.2%** | **-27.6%** | **-71%** |
| **EV / EBIT (x)** | **0.0** | **(3.0)** | **(3.1)** | **(3.8)** | **(20.6)** |
| EV / EBITDA (x) | 0.0 | (3.1) | (3.2) | (4.2) | (40.2) |
| CFPS (c) | (73.9) | (27.4) | (10.4) | (6.9) | (0.6) |
| Price / CF (x) | 0.0 | (1.6) | (4.3) | (6.5) | (80.3) |
| DPS (c) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Yield (%)** | **0.0%** | **0.0%** | **0.0%** | **0.0%** | **0.0%** |
| Franking (%) | 0% | 0% | 0% | 0% | 0% |
| NTA per share | $0.95 | $0.33 | $0.32 | $0.38 | $0.51 |
| Pr / NTA | 0.5 | 1.3 | 1.4 | 1.2 | 0.9 |

### Profit and loss (NZ$m)

| Year ending Jun | 2020 | 2021 | 2022f | 2023f | 2024f |
|---|---|---|---|---|---|
| Sales revenue | 13.7 | 32.7 | 53.2 | 84.7 | 126.1 |
| *growth over pcp* | *92.1%* | *138%* | *63%* | *59%* | *48.8%* |
| EBITDA | (15.1) | (28.9) | (27.6) | (21.5) | (2.2) |
| Dep'n and amort'n | (0.5) | (1.0) | (1.5) | (1.9) | (2.1) |
| **EBITAg** | **(15.7)** | **(29.9)** | **(29.1)** | **(23.5)** | **(4.4)** |
| Goodwill amortisation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **EBIT** | **(15.7)** | **(29.9)** | **(29.1)** | **(23.5)** | **(4.4)** |
| *growth over pcp* | *375%* | *91.0%* | *-3%* | *-19%* | *-81%* |
| Net interest expense | (0.5) | (9.5) | (0.5) | (0.8) | (2.7) |
| Pre-tax profit | (16.1) | (39.4) | (29.6) | (24.3) | (7.1) |
| Tax | 0.0 | 0.2 | 0.0 | 0.0 | 0.0 |
| *Effective tax rate* | *0.0%* | *0.5%* | *0.0%* | *0.0%* | *0.0%* |
| Preference dividends | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Minorities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Share of assoc | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| CCR adjustments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **CCR adj profit** | **(16.1)** | **(39.2)** | **(29.6)** | **(24.3)** | **(7.1)** |
| Reported profit (pre abn) | (16.1) | (39.2) | (29.6) | (24.3) | (7.1) |
| Abn / extra's (after tax) | 0.0 | (2.1) | 0.0 | 0.0 | 0.0 |
| Reported net profit | (16.1) | (41.3) | (29.6) | (24.3) | (7.1) |

### Profitability ratios

| Year ending Jun | 2020 | 2021 | 2022f | 2023f | 2024f |
|---|---|---|---|---|---|
| EBITDA / sales (%) | -110% | -88.5% | -51.9% | -25.4% | -1.8% |
| **EBITAg / sales (%)** | **-114%** | **-91.6%** | **-54.7%** | **-27.7%** | **-3.5%** |
| **EBIT / sales (%)** | **-114%** | **-91.6%** | **-54.7%** | **-27.7%** | **-3.5%** |
| Return on assets (%) | -54.3% | -49.5% | -34.7% | -20.5% | -2.5% |
| Return on equity (%) | 2151% | -107% | -62.8% | -64.1% | -23.1% |
| Dividend cover (x) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

### Liquidity and leverage ratios

| Year ending Jun | 2020 | 2021 | 2022f | 2023f | 2024f |
|---|---|---|---|---|---|
| Net debt / (cash) ($m) | 11.4 | (4.0) | (2.1) | 23.3 | 51.2 |
| Debt / equity (%) | -28.3% | 0.3% | 0.4% | 1.2% | 2.4% |
| **Net debt / equity (%)** | **-15.1%** | **-0.1%** | **0.0%** | **0.6%** | **1.7%** |
| Interest cover (x) | | | | | |

### Segments (NZ$m)

| | 2020 | 2021 | 2022f | 2023f | 2024f |
|---|---|---|---|---|---|
| ANZ | 11.3 | 14.7 | 19.1 | 23.8 | 29.0 |
| UK | 2.4 | 17.9 | 34.0 | 60.8 | 97.0 |
| Other | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Corporate | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 |
| **Sales revenue** | **13.7** | **32.7** | **53.2** | **84.7** | **126.1** |
| ANZ | (4.4) | (2.1) | 0.1 | 2.8 | 6.1 |
| UK | (10.7) | (20.9) | (27.8) | (24.5) | (8.5) |
| Other | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Corporate | 0.0 | (6.0) | 0.1 | 0.1 | 0.1 |
| **EBITDA** | **(15.1)** | **(28.9)** | **(27.6)** | **(21.5)** | **(2.2)** |

### Cashflow (NZ$m)

| Year ending Jun | 2020 | 2021 | 2022f | 2023f | 2024f |
|---|---|---|---|---|---|
| EBIT | (15.7) | (29.9) | (29.1) | (23.5) | (4.4) |
| Net interest paid | (0.5) | (9.5) | (0.5) | (0.8) | (2.7) |
| Dep'n and amort'n | 0.5 | 1.0 | 1.5 | 1.9 | 2.1 |
| Tax paid | 0.0 | 0.2 | 0.0 | 0.0 | 0.0 |
| Dividends from assoc | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Gross cash from op'n** | **(15.6)** | **(38.2)** | **(28.1)** | **(22.3)** | **(5.0)** |
| (Inc) / dec in wk'g cap | (4.0) | (14.2) | (11.4) | (17.6) | (23.0) |
| Other | (2.2) | 4.6 | 1.7 | 2.6 | 3.4 |
| **Operating cashflow** | **(21.8)** | **(47.8)** | **(37.9)** | **(37.3)** | **(24.6)** |
| *Investing cashflows* | | | | | |
| Capital expenditure | (0.1) | (0.1) | (0.2) | (0.3) | (0.3) |
| Asset sales | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Investments / Divestments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | 0.0 | 0.0 | (3.8) | (2.8) | (3.0) |
| *Financing cashflows* | | | | | |
| Equity raised | 13.0 | 36.2 | 40.0 | 15.0 | 0.0 |
| Dividends paid | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Chg in loans** | **2.3** | **9.1** | **5.0** | **27.3** | **29.9** |
| Other non-op flows | 0.0 | 0.0 | (0.0) | 0.0 | 0.0 |
| **Net chg in cash** | **(6.6)** | **(2.6)** | **3.1** | **1.9** | **2.0** |

### Balance sheet (NZ$m)

| Year ending Jun | 2020 | 2021 | 2022f | 2023f | 2024f |
|---|---|---|---|---|---|
| Cash | 9.9 | 15.5 | 18.6 | 20.4 | 22.5 |
| Receivables | 11.5 | 27.3 | 44.5 | 70.9 | 105.5 |
| Inventories | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Current assets** | **21.4** | **42.8** | **63.1** | **91.4** | **128.0** |
| Net PPE | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 |
| Investments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Goodwill | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other intangibles | 0.8 | 2.1 | 2.4 | 2.7 | 3.0 |
| Other | 6.5 | 14.9 | 17.1 | 17.9 | 18.7 |
| **Non-current assets** | **7.5** | **17.2** | **19.8** | **20.9** | **22.0** |
| **Total assets** | **28.9** | **60.1** | **82.8** | **112.2** | **150.0** |
| Debt | 21.2 | 11.5 | 16.5 | 43.8 | 73.7 |
| Payables | 7.5 | 9.1 | 14.9 | 23.7 | 35.3 |
| Other | 0.8 | 2.7 | 4.3 | 6.9 | 10.3 |
| **Total liabilities** | **29.6** | **23.3** | **35.7** | **74.4** | **119.3** |
| Equity / reserves | 20.0 | 98.8 | 138.8 | 153.8 | 153.8 |
| Retained profits | (20.8) | (62.1) | (91.7) | (115.9) | (123.0) |
| **Total s/h funds** | **(0.8)** | **36.7** | **47.1** | **37.9** | **30.8** |
| Minorities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total funds emp.** | **28.9** | **60.1** | **82.8** | **112.2** | **150.0** |

Model summary as at 12/11/21

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