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Raiz Invest Limited (RZI)

27 November 2020

Early Replication of Australian Successes into SE Asia

Our View

RZI's future success hinges on continuing growth in active customer numbers, increasing funds under management, further leveraging its installed Australian customer base, and delivering on its early stage SE Asia growth opportunities. At this early juncture, RZI remains a pre-profit venture capital style investment – with associated (and expected) risks – but its FY20 result and recent AGM update both encouragingly displayed continuing positive momentum.

To the end of October, active user growth (yoy) was +43.8% and total FUM +27.9%. Progress is clearly being made and achieving these growth rates in a COVID impacted, uncertain consumer environment, is commendable. But the challenge is to improve customer engagement and gain greater share of customer wallet. The size of the opportunity is large, and combined with an $11.8m net cash position (30 June 2020; $5m held in regulatory capital) and Australian operations verging on cash flow breakeven, we remain positive, rating RZI a Speculative Buy.

Key Points

Growing out of its infancy – We stress that investors need be cognisant of both the opportunities and growing pains of an early stage funds platform business. RZI must successfully navigate its high growth phase, and we note:

- SE Asian's expansion into Indonesia and Malaysia has shown promising initial sign up numbers. RZI needs to monetise that initial interest. Encouragingly growth rates continued unhindered post June/July's fee introduction.
- Australian active users were up 10.6% in the year to end Oct 2020, an average month on month uptick of just 0.8%. Acknowledging COVID and SE Asian distractions, Australia's plateauing user numbers need bolstered through marketing, new user sources, and innovative products.
- Australian FUM up 27.9% for the 12 months to end Oct 2020 suggests greater success in convincing active users to increase contributions onto its platform. Positive user experiences and outperformance in its chosen ETFs are helping.
- The broader funds platform industry is competitive and alternate solutions may arrive from overseas. Positively, the technology on which RZI's offering is licensed (from Acorns) continues to gain traction in the US, proving its worth.

Australian growth plans – To encourage greater Australian customer saving and investing, RZI intends to launch new products over FY21. More portfolio options and the introduction of new custom portfolios, together with the onboarding of SMSFs are intended to broaden RZI's offering and appeal to users with larger account balances. With increased users comes increased maintenance fees ($2.50 set fee per user per month) and significantly, with increased FUM comes increased account fees (charged as a percentage of FUM). Traction here is crucial in RZI's more established Australian business. RZI needs to innovate to grow.

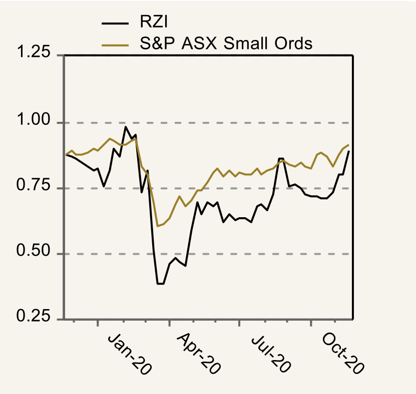
Encouraging initial SE Asian uptake – The initial uptake in both Indonesian and Malaysian active users was a lofty +84.0% and 311.6% respectively on a three-month basis to end-Oct. The month on month uptake was a still healthy 10.9% and 22.5%. Offices have been established in Jakarta and KL, licensing is in place, teams have been hired, and new partners targeted. These countries are to provide the blueprints for further pushes into Vietnam and Thailand and we watch with interest as these mobile phone prevalent, underbanked, and densely populated countries add to the RZI portfolio.

Recommendation: Spec Buy

Summary (AUD)

Market Capitalisation	**$70.5M**
Share price	**$0.94**
52 week low	$0.30
52 week high	$0.99

Share price graph (AUD)



Key Financials (AUD)

	FY18A	FY19A	FY20A
Revenue ($m)	6.2	2.8	10.4
EBIT ($m)	-5.3	-8.0	-1.7
NPAT Adj.	-1.8	-0.9	-3.4
EPS Adj. (c)	-7.1	-8.8	(4.8)
Growth (pcp)	n.m	n.m	n.m
PE Ratio (x)	**n.m**	**n.m**	**n.m**
DPS (c)	0.0	0.0	0.0
Div Yield	**0.0%**	**0.0%**	**0.0%**
Franking	0.0%	0.0%	0.0%
EV ($M)	57.6	52.5	54.0
EV/EBITDA (x)	n.m	n.m	n.m
EV/EBIT (x)	n.m	n.m	n.m

Raiz - Summary of Forecasts — RZI $0.94

PROFIT & LOSS SUMMARY (A$m)

Year end June	FY18A	FY19A	FY20A
Total Revenue	**2.8**	**6.2**	**9.8**
EBITDA	(8.0)	(5.3)	(2.3)
Dep'n/Other Amort'n	(0.9)	(1.8)	(2.4)
EBIT	(8.8)	(7.1)	(4.7)
Net Interest	0.0	0.0	0.0
Pre-Tax Profit	(8.8)	(7.1)	(4.7)
Tax Expense	0.2	(0.1)	(0.2)
NPAT Adj.	**(8.7)**	**(7.1)**	**(4.9)**
Reported NPAT	(8.7)	(7.1)	(4.9)
Margins on Sales Revenue			
EBITDA	-284.6%	-84.7%	-23.5%
EBIT	-315.8%	-113.7%	-48.0%
NPAT Adj.	-310.2%	-114.8%	-49.7%
Change on pcp			
Total Revenue			n.m
EBITDA			n.m
EBIT			n.m
NPAT Adj.			n.m

PER SHARE DATA

Year end June	FY18A	FY19A	FY20A
EPS Adj. (c)	**(58.6)**	**(10.8)**	**(6.9)**
Growth (pcp)	0.0%	0.0%	0.0%
Dividend (c)	0.0	0.0	0.0
Franking	0%	0%	0%
Gross CF per Share (c)	(12.1)	(5.4)	(2.4)
NTA per share (c)	8.8	8.8	12.9

KEY RATIOS

Year end June	FY18A	FY19A	FY20A
Net Debt : Equity (%)	-13.6%	-25.8%	-40.6%
EBIT Interest cover (x)	n.m	n.m	n.m
Oper CF/EBITDA	n.m	n.m	n.m
Current ratio (x)	7.3	4.5	5.6
ROE (%)	-27.0%	-27.0%	-15.0%
Dividend Payout Ratio (%)	0.0%	0.0%	0.0%

VALUATION MULTIPLES

Year end June	FY18A	FY19A	FY20A
PER (x)	**n.m**	**n.m**	**n.m**
Dividend Yield (%)	**0.0%**	**0.0%**	**0.0%**
FCF Yield (%)	n.m	n.m	n.m
EV/EBITDA (x)	n.m	n.m	n.m
EV/EBIT (x)	n.m	n.m	n.m

BALANCE SHEET SUMMARY

Year end June	FY18A	FY19A	FY20A
Cash	4.4	6.8	12.9
Receivables	0.9	0.4	0.8
Inventories	0.0	0.0	0.0
Other/large receivable	7.5	0.8	0.7
Total Current Assets	12.8	8.0	14.4
Investments	0.0	0.0	0.0
Deferred tax	0.7	0.5	0.6
Property Plant & Equip	0.0	0.1	0.1
Intangibles	22.0	20.7	20.0
Total Non-Current Assets	22.7	21.3	20.7
TOTAL ASSETS	**35.5**	**29.4**	**35.1**
Accounts Payable	1.7	1.6	1.9
Borrowings	0.0	0.0	0.0
Other liabilities	0.1	0.2	0.2
Total Current Liab	1.8	1.8	2.2
Borrowings	0.0	0.0	0.0
Provisions	0.0	0.0	0.0
Other/Right of use	1.1	1.1	1.2
Total Non-Current Liab	1.1	1.1	1.3
TOTAL LIABILITIES	**2.9**	**2.9**	**3.4**
TOTAL EQUITY	**32.6**	**26.5**	**31.6**

CASH FLOW SUMMARY

Year end June	FY18A	FY19A	FY20A
EBIT (excl Abs/Extr)	**(8.8)**	**(7.1)**	**(4.7)**
Add: Depreciation	0.9	1.8	2.4
JV Profit & Share Op	2.0	0.9	0.6
Less: Tax paid	0.0	0.0	0.0
Net Interest	0.0	0.0	0.0
Change in Rec.			
Change in Inv.			
Net working capital	-2.0	0.8	0.6
Gross Cashflows	(8.0)	(3.5)	(1.1)
Capex/Other	(27.3)	5.8	(1.8)
Free Cashflows	(35.3)	2.2	(2.9)
Dividends Paid	0.0	0.0	0.0
Equity/other	0.0	0.2	(0.1)
Net Cashflows	**(35.3)**	**2.4**	**(3.0)**

DIVISIONS - $'000

Year end June	FY18A	FY19A	FY20A
Netting	114	290	572
Advertising	152	993	1,063
Account fee	89	827	1,227
Maintenance fee	900	2,027	5,315
AFSL/other	1,153	2,090	1,628
Super and new products	-	-	-
Asia			
Sales $'000	**2,407**	**6,227**	**9,805**

Business Recap

We recap RZI's primary activities (see initiation report 24 Aug): RZI provides financial services through its micro-testing platform, providing customers an accessible way to regularly invest money using its mobile app at low cost and in small denominations into equity and investment markets. Seven portfolio options are offered via ETFs, with customers able to contribute lump sums, recurring deposits, or round-up transactions.

The intention is to attract larger sums of money, with the introduction of a superannuation offering with set risk-weighted portfolio options, custom portfolios, and SMSF onboarding designed to broaden the scope of active users.

RZI's revenue model is four-tiered:

1. Maintenance fees – Charging $2.50 per month per active account for balances under $10,000.
2. Account fees – For balances over $10,000, an annual 27.5bps of FUM fee is charged monthly.
3. Netting – Where added/disposed units on behalf of customers does not require an on-market transaction, RZI applies a buy/sell spread.
4. Advertising fees – Using its data set, RZI receives fees from targeted advertising under a 'paid for performance' setup with retailers. RZI has over 225 rewards partners including major brands Woolworths, Priceline, Aus Post, and BWS.

RZI has an exclusive, perpetual, and irrevocable licence to the Acorns US technology for use in Australia, NZ, and certain other jurisdictions in SE Asia. Acorns have the rights to distribute the technology in the rest of the world.

Positive Thesis

- **Continued growth in active users and funds under management** – Consistently able to retain and grow its active user base by 1-2% per month over a considerable period suggests there is legitimacy to RZI's offering. Sourcing new users comes from a combination of word of mouth, paid for performance searches, mining currently signed up but inactive users, marketing deals, and referrals fees from existing users. There is no silver bullet and RZI's key aim is to improve the conversion of signed up and unfunded investment accounts into active paying users.
- **Superannuation and other new product growth** – Superannuation remains a small part of the overall RZI user base but is a target area for FUM growth. Growth appears slower than expected with barriers including a lack of willingness to change from incumbent super providers – heightened by the convenience of employer-based systems – and the perceived risks associated with larger dollar amounts on a new mobile based app. Over the past two years, RZI's portfolio choices have outperformed its relevant benchmarks (Chant West), but a solid track record appears only part of the required inducement for millennials to switch offerings. New innovations – digital cards, single item insurance, and a 5% bitcoin weighting to one of the portfolio options – have the scope but not yet the traction to encourage greater switching to RZI's services.
- **SE Asian expansion** – SE Asia is seen as an ideal hunting ground for new users, given high mobile phone usage, large aspirational populations, and small-scale investors who are underbanked (even unbanked): Indonesia has 178m mobile phone users and 82% of the population is without a traditional bank account. Very much in its infancy in SE Asian markets, RZI's early moves are a land grab rather than a fee collection strategy but in time fees will need to be reviewed to reflect the cost of investment and establishment across the region.
- **Cash flow promise** – Australia has just begun to break even on a monthly cash flow basis, whilst the SE Asian push should remain cash hungry for some time. At the group level, cash outflows from operations improved from ($3.5m) in FY19 to ($1.1m) in FY20. The speed at which management wishes to capitalise on its first mover advantage and grow the user base in SE Asia will determine RZI's future cash requirements and the timing of any return to market to fund those ambitions.

Expansion Risks

In any aggressively growing micro-cap, there are inherent risks in over expansion, excessive cash burn, and the ever-present requirement to raise further capital to allow the company to continue on its growth path. RZI is no exception. We are conscious of the slowing monthly new customer win rates in its mature Australian market, and the possibility for increased marketing spend, necessary innovation, and fine-tuning of software/marketing approach. The high, early traction in Indonesia and Malaysia provides an offset to any growth slowing in Australia, but neither contribute meaningfully to revenues yet. To RZI's credit, much of the initial startup costs in both regions have been absorbed, with the next step seeing such costs wind down and being offset against real revenue delivery. That is yet to filter through.

We are prepared for speed bumps as RZI accelerates its growth strategy, with additional financial service offering ambitions not yet fully proven, the transience of targeted low balance millennial customers unknown, and the high portability of RZI's mobile based app potentially also lending itself to increased switching to alternatives as competitors enter the market. The size and potential of RZI's large targeted market is clear, but its path to capturing scale users, grow FUM meaningfully and cover the costs of expanding into new geographies are not without risk.

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