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Raiz Invest Limited (RZI)

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Strong User Growth Continues

Our View

RZI is a micro-investing platform with operations in Australia, Indonesia and Malaysia. RZI's platform enables users to round up money spent on day-to-day purchases and invest them in a group of ETFs. RZI's success hinges on:

- Continued growth in active customers;
- Further leveraging its Australian customer base; and
- Delivering on its early-stage SE Asia growth opportunities.

RZI remains a pre-profit venture capital style investment – with associated and expected risks – but its recent monthly updates display continued positive momentum.

While the Boardroom conflict was an unwelcome distraction, we welcome the speedy resolution. Whilst there was no effect on business performance, it highlights the speculative risks in a fast-growing tech play.

The market opportunity of micro-investing is large and combined with a $19.2m net cash position (30 June 2021; $5m held in regulatory capital) and cash flow positive Australian operations, we remain upbeat, rating RZI a Speculative Buy.

Key Points

Board of Directors – On 1 September 2021, a company associated with the CEO George Lucas, requested that an EGM be convened to remove three of RZI's Directors. Subsequently, after two directors announced they were standing down this notice was withdrawn. Further, RZI announced the appointment of a new co-CEO. We welcome this change as it provides more certainty for investors and allows management to focus fully on running the business.

Growing out of its infancy – Investors need be mindful of both the opportunities and growing pains of an early-stage funds platform business. During periods of high growth, the importance of successful execution by management is magnified. The following statistics show RZI has continued to drive strong performance:

- Successful expansion into Indonesia and Malaysia has continued with strong sign-up figures. Customer sign-ups to Aug 21 versus three months prior (May 21) in Indonesia and Malaysia were +46.3% and +37.4% respectively.
- Australian FUM up 94.2% (yoy) to Aug 2021 suggests success in convincing active users to increase contributions onto the platform. This is driven by positive user experiences and outperformance against benchmarks.
- In July 2021, RZI completed the purchase of SuperEstate, a niche integrated superannuation and Australian residential property investment platform. The purchase provides the option to invest in residential property as an asset class. The purchase added $70m of FUM and 6,000 customers.

Australian growth plans – To encourage greater Australian customer investing, RZI has recently launched additional portfolio options. New options include the introduction of customised, bitcoin inclusive and ESG friendly portfolio options. Along with the introduction of SMSFs, RZI is broadening its offering and appeal to users with larger account balances. Increased users generates both increased maintenance fees ($3.50 set fee per user per month) and more FUM to drive increased account fees (charged as a percentage of FUM).

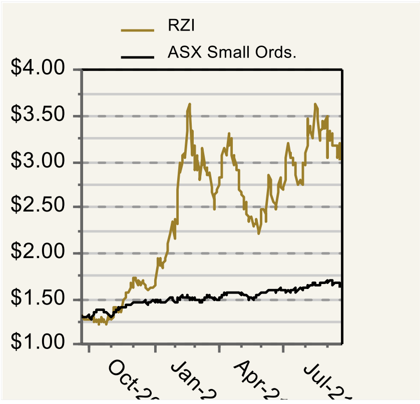
Continued SE Asian uptake – The continued uptake in both Indonesian and Malaysian active users was an impressive +34.6% and +29.1% respectively for the three months ending August 2021. The launch of Indonesia and Malaysia should provide the blueprint for future pushes into Vietnam and Thailand.

Recommendation: Spec Buy

Summary (AUD)

Market Capitalisation	**$147.5M**
Share price	**$1.80**
52 week low	$0.70
52 week high	$2.20

Share price graph (AUD)



Key Financials (AUD)

	FY21A	FY22E	FY23E
Revenue ($m)	14.0	18.7	23.1
EBIT ($m)	-4.7	-1.3	0.5
NPAT ($m)	-4.9	-1.6	0.5
EPS (c)	-5.9	-2.0	0.6
Growth (pcp)	13.4%	66.1%	122.3%
PE Ratio (x)	**(30.3)**	**(89.6)**	**312.3**
DPS (c)	0.0	0.0	0.0
Div Yield	**0.0%**	**0.0%**	**0.0%**
Franking	0.0%	0.0%	0.0%
EV ($M)	128.3	129.8	129.3
EV/EBITDA (x)	-62.8	161.5	51.2
EV/EBIT (x)	-27.1	-100.9	273.8

Raiz - Summary of Forecasts $ 1.80

PROFIT & LOSS SUMMARY (A$m)				
Year end June	FY20A	FY21A	FY22E	FY23E
Total Revenue	**10.3**	**14.0**	**18.7**	**23.1**
EBITDA	(2.3)	(2.0)	0.8	2.5
Dep'n/Other Amort'n	(2.4)	(2.7)	(2.1)	(2.1)
EBIT	(4.7)	(4.7)	(1.3)	0.5
Interest	0.0	0.0	0.0	0.0
Pre-Tax Profit	(4.7)	(4.7)	(1.3)	0.5
Tax Expense	(0.2)	(0.1)	(0.4)	0.0
NPAT	**(4.9)**	**(4.9)**	**(1.6)**	**0.5**
NCI - Parent	**(4.5)**	**(3.5)**	**(1.6)**	**0.5**
Margins on Sales Revenue				
EBITDA	-22.5%	-14.6%	4.3%	10.9%
EBIT	-46.0%	-33.9%	-6.9%	2.0%
NPAT	n.m	n.m	n.m	n.m
Change on pcp				
Total Revenue	65.2%	35.8%	33.8%	23.8%
EBITDA	n.m	n.m	n.m	214.3%
EBIT	n.m	n.m	n.m	n.m
NPAT	n.m	n.m	n.m	n.m

PER SHARE DATA				
Year end June	FY20A	FY21A	FY22E	FY23E
EPS (c)	**(6.9)**	**(5.9)**	**(2.0)**	**0.6**
Growth (pcp)	n.m	-13.4%	-66.1%	-128.7%
Dividend (c)	0.00	0.00	0.00	0.00
Franking	0%	0%	0%	0%
NTA per Share ($)	**0.44**	**0.45**	**0.43**	**0.44**

KEY RATIOS				
Year end June	FY20A	FY21A	FY22E	FY23E
Net Debt : Equity (%)	-40.7%	-51.6%	-49.8%	-50.7%
EBIT Interest Cover (x)	n.m	n.m	n.m	n.m
Oper CF/EBITDA	n.m	n.m	111.7%	112.4%
Current Ratio (x)	5.9	6.1	5.3	4.8
ROE (%)	-15.4%	-13.1%	-4.6%	1.3%
Dividend Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%

VALUATION MULTIPLES				
Year end June	FY20A	FY21A	FY22E	FY23E
PER (x)	**(26.3)**	**(30.3)**	**(89.6)**	**312.3**
Dividend Yield (%)	**0.0%**	**0.0%**	**0.0%**	**0.0%**
EV/EBITDA	-50.1	-62.8	161.5	51.2
EV/EBIT	-24.5	-27.1	-100.9	273.8

Source: Taylor Collison estimates and actuals

BALANCE SHEET SUMMARY				
Year end June	FY20A	FY21A	FY22E	FY23E
Cash	12.9	19.2	17.7	18.2
Receivables	0.8	1.7	2.1	2.6
Other	0.7	0.8	0.8	0.8
Total Current Assets	14.4	21.8	20.6	21.7
Property Plant & Equip	0.1	0.1	0.1	0.1
DTA	0.6	0.5	0.5	0.5
Goodwill	13.9	13.9	13.9	13.9
Intangibles	6.6	5.7	5.6	5.5
Total non current assets	21.2	20.3	20.1	20.0
TOTAL ASSETS	**35.6**	**42.0**	**40.7**	**41.7**
Accounts Payable	(2.2)	(3.1)	(3.4)	(4.0)
Provisions	(0.3)	(0.5)	(0.5)	(0.6)
Total current liabilities	(2.5)	(3.5)	(3.9)	(4.6)
DTL	(0.8)	(0.7)	(0.7)	(0.7)
Lease Liabilities	(0.6)	(0.5)	(0.5)	(0.4)
Total non-current liabilities	(1.4)	(1.3)	(1.2)	(1.2)
TOTAL LIABILITIES	**(3.9)**	**(4.8)**	**(5.1)**	**(5.7)**
TOTAL EQUITY	**31.7**	**37.2**	**35.6**	**35.9**

CASH FLOW SUMMARY				
Year end June	FY20A	FY21A	FY22E	FY23E
NPAT	**(5.0)**	**(5.0)**	**(1.6)**	**0.5**
Add: Depreciation	2.4	2.7	2.5	2.4
Plus: Other	0.9	0.9	0.1	0.0
Net Working Capital	0.6	0.9	(0.1)	(0.1)
Gross Cash Flows	(1.1)	(0.6)	0.9	2.8
Capex	(1.8)	(2.1)	(2.0)	(2.0)
Free Cash Flows	(2.9)	(2.7)	(1.1)	0.8
Equity Raised	7.2	9.8	0.0	0.0
Other	2.2	(0.1)	0.0	0.0
Lease Payments	(0.5)	(0.5)	(0.4)	(0.4)
Net Cash Flows	**6.1**	**6.5**	**(1.5)**	**0.5**

SEGMENTS				
Year end June	FY20A	FY21A	FY22E	FY23E
Platform Revenue	8.2	11.4	16.7	21.1
Other Revenue	1.6	2.0	2.0	2.0
Total Revenue	9.8	13.4	18.7	23.1

Business Recap

We recap RZI's primary activities (see initiation report 24 Aug 2020): 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 investment markets. Multiple 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 $3.50 per month per active account for balances under $15,000.
2. Account fees – For balances over $15,000, 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 being able to retain and grow its active user base 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. RZI does not rely on any single major customer.
- **Superannuation and other new product growth** – Superannuation remains a small but growing part of the overall RZI user base. 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 – ESG portfolios, custom portfolios and a 5% bitcoin weighting – have the scope 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 continued 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 ($1.1m) in FY20 to $(0.6)m in FY21. 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.

EGM & Expansion Risks

On 1 September 2021, a company associated with George Lucas, the CEO of RZI, sent shareholder request to the company seeking to remove three directors from the Board. On 17 September 2021, RZI announced that two directors had agreed to step down, RZI had appointed a co-CEO Brendan Malone, and George Lucas had withdrawn his 249D notice.

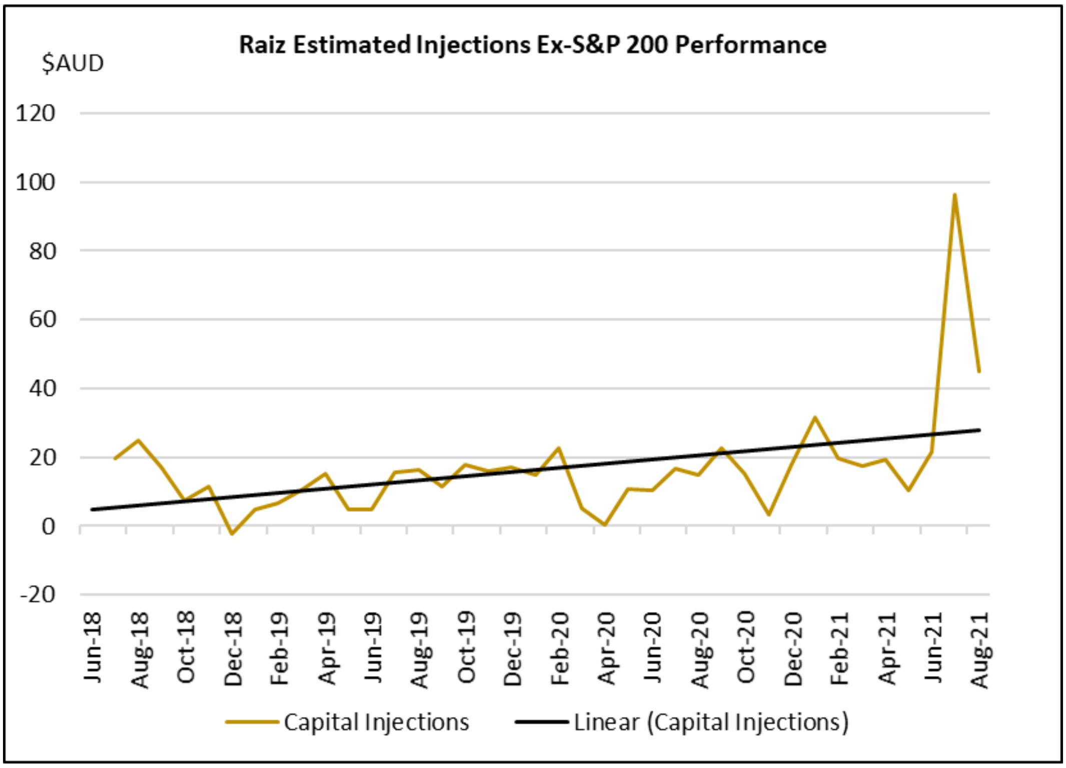
We are hopeful that this outcome provides more certainty for investors moving forward and allows management to focus on running the business.

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 its growth path. We are conscious of any slowing monthly new customer win rates in the 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. The next step is to see costs wind down whilst being offset against real revenue delivery.

We are prepared for speed bumps as RZI accelerates its growth strategy, with additional financial service offering ambitions not yet fully proven 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.

FUM Growth

In the below chart we highlight likely injections of capital made to RZI's FUM each month by backing out the estimated impact driven by ETF performance during the period.



The trendline for injections of capital has moved upwards over time, with ~$10m per month in June 18 up to in excess of $20m towards the end of FY21. We note that the major spike in July 21 relates to the purchase of SuperEstate. Pleasingly, August appears to have had the most significant monthly inflows by customers (excluding SuperEstate effects) in the past two and a half years. We partially attribute this increase in inflows to RZI's continued focus on customer experience and from customers gaining confidence its offerings.

We are also encouraged that only one month has seen FUM drawdowns throughout the three-year timeframe above. This is despite the challenge that COVID has presented and helps us gain confidence that users and their FUM remain sticky during volatile periods.

The challenge for RZI is to ensure these additional actives continue to monetise, remain engaged and ultimately remain on the platform.

Breakeven Forecasting

Currently, the Australian portion of RZI's business is operationally cash flow positive. We assume the cost base remains relatively flat, with incremental revenue enabling marketing expenses, employee benefits and sales expenses to become less of a proportion of revenue over time. Based on our modelling, if RZI were to increase revenue to around $23m, it is our expectation that the business would become profitable.

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