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# Laybuy Group Holdings (LBY)

Buy Now....!

**Recommendation**  
**Buy** (unchanged)  
**Price**  
**A\$0.475**  
**Valuation**  
**A\$1.20** (previously A\$2.95)  
**Risk**  
**Speculative**

**GICS Sector**  
**Software and Services**

**Expected Return**

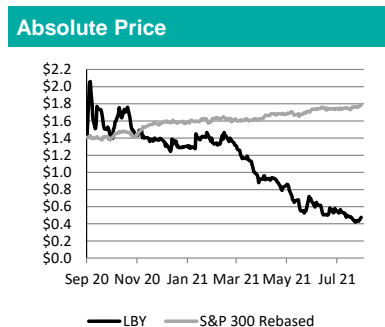
Capital growth	>100%
Dividend yield	0.0%
Total expected return	>100%

**Company Data & Ratios**

Enterprise value	<b>A\$155.5m</b>
Market cap	<b>A\$120.9m</b>
Issued capital	<b>254.5m</b>
Free float	<b>62.3%</b>
Avg. daily val. (52wk)	<b>\$0.9m</b>
12 month price range	<b>A\$0.41-\$2.30</b>

**Price Performance**

	(1m)	(3m)	(12m)
Price (A\$)	0.53	0.81	
Absolute (%)	-10.38	-41.36	
Rel market (%)	-13.02	-47.82	



SOURCE: IRESS

## ANZ leads in 1Q22, UK step change expected from 2Q22

LBY made solid progress during 1Q22, reporting record Group Gross Merchant Value (GMV) of NZ\$184m, up +58% YoY (annualising NZ\$738m). The ANZ division achieved record GMV of NZ\$88.2m, with the UK up 101% YoY to NZ\$95.8m. UK customer growth continues to lead ANZ, which remains key for LBY as it continues to build scale, and ANZ saw strong new Merchant growth during the quarter. LBY remained well capitalised with a cash balance of NZ\$36.5m

## Is LBY the most undervalued BNPL player?

In this report (page.4) we highlight that LBY is trading at a significant discount to its BNPL peers on both a Market Capitalisation to GMV and Active customer basis. LBY is a market leader in both the UK (No.3) and NZ, which represent strategic value, and we see increasing potential for the company to become a target for M&A activity.

UK retail spend represents ~2.0x that of Australia, and the market remains within relative infancy in the adoption of BNPL products compared to both Australian & the US. We see LBY's focus within this market as a differentiating factor within the BNPL market. LBY has positioned itself to deliver strong UK GMV & revenue growth in FY22 through recent partnerships with Rakuten Awin & Sovrn (which should drive higher engagement through access to ~5,000 merchants within the Laybuy App), this couples with the recent A\$40m capital raising to support this growth runway.

## Investment View: Buy (Spec) retained, Valuation A\$1.20ps

We reinstate our Buy (speculative) recommendation on LBY with the company on track to achieve guidance to exceed NZ\$1.0bn of GMV, and deliver 90%-100% revenue growth in FY22. At current levels we increasingly believe LBY's differentiated position within the BNPL sector remains overlooked by the market and should begin to re-rate as the company continues to hit key milestones. Updating our forecasts following LBY's FY21 and 1Q22 updates, along with LBY's equity raising in May'21, we adjust our underlying EPS estimates by -4.1cps, -4.0cps and +0.5cps for FY22-FY24 respectively and reinstate coverage with a Valuation of A\$1.20ps.

**Earnings Forecast**

Year end March 31	2021a	2022e	2023e	2024e
GMV (NZ\$bn)	587.8	1079.6	1735.7	2433.1
Sales (NZ\$m)	32.6	63.2	103.9	146.6
EBITDA (NZ\$)	-20.9	-25.1	-13.4	1.0
NPAT (NZ\$m)	-24.8	-28.4	-19.2	-7.7
NPAT (AU\$m)	-23.2	-26.1	-17.6	-7.0
EPS (adjusted and fully diluted) (Acps)	-11.8	-10.2	-6.4	-2.5
EPS growth (%)	n.m	n.m	n.m	n.m
Adjusted PER (x)	-4.0	-4.7	-7.5	-18.8
EV/EBITDA (x)	-4.5	-3.8	-7.0	92.8
EV/Sales (x)	2.9	1.5	0.9	0.6
Dividend (A¢ps)	0.0	0.0	0.0	0.0
Yield (%)	0.0%	0.0%	0.0%	0.0%
ROE (%)	-47%	-53%	-46%	-28%

SOURCE: BELL POTTER SECURITIES ESTIMATES

# 1Q21 Overview & Outlook

## LBY delivers 58% YoY GMV growth in 1Q22

LBY made solid progress during 1Q22, with Group Gross Merchant Value (GMV) up 58% YoY to NZ\$184.0m. The ANZ division achieved record GMV of NZ\$88.2m, with the UK up 101% YoY to NZ\$95.8m. UK customer growth continues to lead ANZ, which remains key for LBY as it continues to build scale, whilst ANZ saw strong new Merchant growth during the quarter. Net Transaction Margin (NTM) remains up vs. 1Q21 as previously flagged by LBY, driven by lower levels of customer defaults. Quarterly highlights include:

- UK GMV of NZ\$95.8m (+101% YoY);
- ANZ GMV of NZ\$88.2m (28% YoY);
- UK active customers of 523k (up +143% YoY);
- ANZ active customers of 306k (up +17% YoY);
- Active Merchants reached 10,472 (up +85% YoY);and
- Record Quarterly Revenue of NZ\$10.4m & NTM was up 150bps YoY to 2.0%

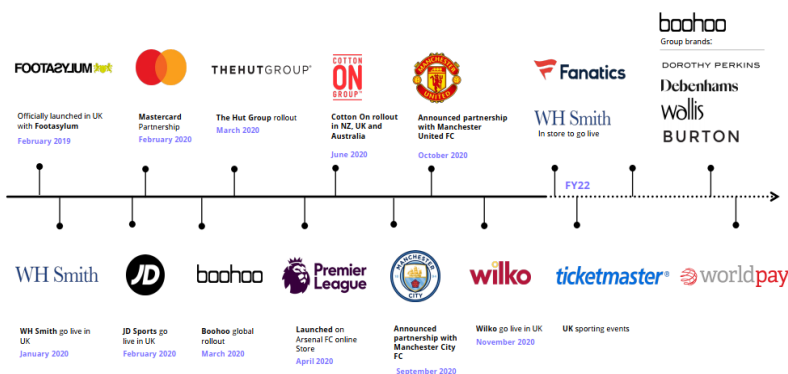
## Affiliate Marketing partnerships to drive acceleration from 2Q22

LBY’s strong merchant pipeline remains a key catalyst for further customer and GMV growth in FY22. On a look through basis at LBY’s 1Q22 update, the company is well positioned on this front, having signed 743 UK merchants and 1,126 ANZ merchants during the period. We anticipate LBY’s strategic partnerships with affiliate marketing networks/e-commerce providers AWIN, Rakuten and Sovrn, will launch formally from 2Q22, which will allow customers to use Laybuy at over 5,000 merchants (online & instore) in the UK, including a number of significant brands such as: ASOS, Nike, Marks & Spencer, Amazon, Boots, easyJet, Booking.com and eBay. LBY anticipate that the first 200 merchants will go live from Aug’21, with the remaining merchants expected to on board gradually over the course of the year.

## UK pipeline supports strong FY22 outlook

In light of LBY’s performance in 1Q22, and expanding merchant pipeline entering 2Q22 we remain confident that the company is well placed to achieve its FY22 guidance to exceed NZ\$1.0bn of GMV (with NTM expected to improve as UK continues to scale), and deliver 90%-100% revenue growth vs. FY21 (implying a FY22 revenue range of between NZ\$61.9m to \$65.1m).

Figure 1 - UK Merchant Timeline



SOURCE: COMPANY DATA

Figure 2 - LBY Strategic Partnerships



SOURCE: COMPANY DATA

# Quarterly GMV, Revenue & Customer Data

## Building momentum to drive uplift in GMV & Revenue

We see LBY's current FY22 guidance as achievable given the scope and scale of new merchants expected to join the LBY platform over the coming months. Additionally as the UK begins to emerge from lockdown LBY will increasingly be positioned to grow its instore capabilities, having launched its 'Tap to Pay' solution Jun21.

During FY22 we forecast LBY to exceed both the 1.0m Active customers and NZ\$1.0bn+ GMV milestones which should cement the company's position as a serious emerging and scalable player across both the ANZ & UK BNPL markets.

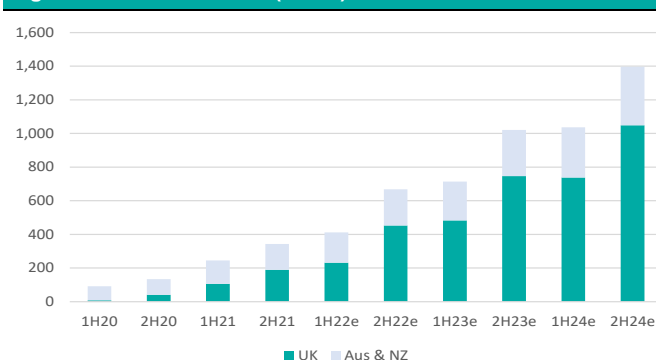
Between FY22-24e we forecast LBY's GMV grow at 69.9% CAGR, with Revenue to grow at 90.2% CAGR driven by LBY's ongoing uplift in customers, GMV and average spend.

Figure 3 - Assumptions

	FY19	FY20	1Q	2Q	3Q	4Q	FY21	1Q	2Qe	3Qe	4Qe	FY22e	1Qe	2Qe	3Qe	4Qe	FY23e
	Mar-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Mar-23
<b>Laybuy Group Holdings (LBY)</b>																	
<b>GMV &amp; Revenue (\$m)</b>																	
<b>GMV</b>																	
UK	1	49	48	58	100	89	295	96	136	233	220	685	226	257	396	350	1,229
NZ & Aust	125	177	69	70	82	72	293	88	91	115	100	395	114	117	146	128	506
<b>Total</b>	<b>126</b>	<b>227</b>	<b>117</b>	<b>128</b>	<b>182</b>	<b>161</b>	<b>588</b>	<b>184</b>	<b>227</b>	<b>348</b>	<b>320</b>	<b>1,080</b>	<b>340</b>	<b>374</b>	<b>543</b>	<b>478</b>	<b>1,736</b>
<b>Revenue (NZ) Merchant + Late Fees (NZ\$m)</b>																	
UK	0.0	2.4	2.8	3.5	5.4	6.1	17.7	6.0	8.5	14.9	14.1	43.5	14.4	16.4	25.4	22.4	78.7
NZ & Aust	7.1	11.3	3.3	3.8	4.1	3.7	14.8	4.4	4.5	5.8	5.0	19.7	5.7	5.8	7.3	6.4	25.3
<b>Total</b>	<b>7.2</b>	<b>13.7</b>	<b>6.1</b>	<b>7.2</b>	<b>9.5</b>	<b>9.8</b>	<b>32.6</b>	<b>10.4</b>	<b>13.1</b>	<b>20.6</b>	<b>19.1</b>	<b>63.2</b>	<b>20.2</b>	<b>22.3</b>	<b>32.7</b>	<b>28.8</b>	<b>103.9</b>
<b>Revenue as % of GMV</b>																	
UK	0.9%	4.9%	5.8%	5.9%	5.4%	6.9%	6.0%	6.3%	6.3%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%
NZ & Aust	5.7%	6.4%	4.8%	5.4%	5.0%	5.1%	5.1%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
<b>Total</b>	<b>5.7%</b>	<b>6.1%</b>	<b>5.2%</b>	<b>5.6%</b>	<b>5.2%</b>	<b>6.1%</b>	<b>5.5%</b>	<b>5.7%</b>	<b>5.8%</b>	<b>5.9%</b>	<b>6.0%</b>	<b>5.9%</b>	<b>5.9%</b>	<b>6.0%</b>	<b>6.0%</b>	<b>6.0%</b>	<b>6.0%</b>
<b>Customers</b>																	
<b>Active Customers (000's)</b>																	
UK	5	153	212	298	407	463	463	517	627	792	912	912	982	1,072	1,232	1,352	1,352
NZ & Aust	191	250	261	270	280	293	293	312	327	352	364	364	384	399	421	451	451
<b>Total</b>	<b>196</b>	<b>403</b>	<b>473</b>	<b>568</b>	<b>687</b>	<b>756</b>	<b>756</b>	<b>829</b>	<b>954</b>	<b>1,144</b>	<b>1,276</b>	<b>1,276</b>	<b>1,366</b>	<b>1,471</b>	<b>1,653</b>	<b>1,803</b>	<b>1,803</b>
<b>New Customer Growth (000's)</b>																	
UK	5	148	59	86	109	56	310	54	110	165	120	449	70	90	160	120	440
NZ & Aust	73	59	11	9	10	13	43	19	15	25	12	71	20	15	22	30	87
<b>Total</b>	<b>78</b>	<b>207</b>	<b>70</b>	<b>95</b>	<b>119</b>	<b>69</b>	<b>353</b>	<b>73</b>	<b>125</b>	<b>190</b>	<b>132</b>	<b>520</b>	<b>90</b>	<b>105</b>	<b>182</b>	<b>150</b>	<b>527</b>
<b>Average Active Customers (000's)</b>																	
UK	1	50	183	255	353	435	306	490	572	709	852	656	947	1,027	1,152	1,292	1,104
NZ & Aust	148	224	256	266	275	287	271	303	320	340	358	330	374	392	410	436	403
<b>Average Spend Per User (NZD)</b>																	
UK			261	229	284	205		196	238	328	258		238	250	344	271	
NZ & Aust			271	262	298	251		292	285	340	280		306	299	357	294	
<b>Average Spend Per User (GBP)</b>																	
UK			130	118	147	107		100	120	165	130		120	126	173	137	
NZD/GBP			0.50	0.51	0.52	0.52		0.51	0.50	0.50	0.50		0.50	0.50	0.50	0.50	

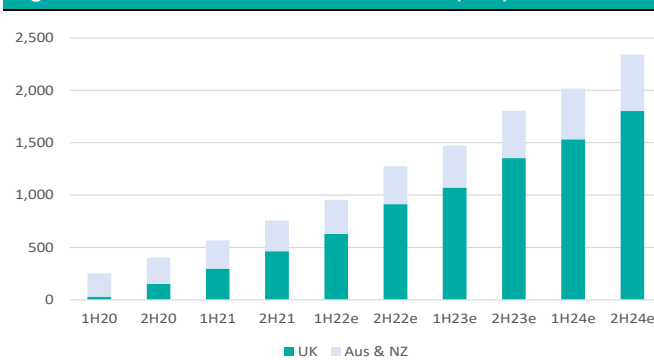
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 4 - GMV Forecasts (NZ\$m)



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 5 - LBY Customer Growth Forecasts ('000)



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

# Laybuy vs. Australian listed BNPL players

## Laybuy’s market opportunity & competition

Laybuy is recognised as one of the top three BNPL providers in the UK market where it is increasingly devoting its focus due to the larger population and market size, and relative early stage adoption of BNPL solutions. The UK retail market represents a substantial opportunity relative to LBY’s other target markets, with total annual retail spend being ~2x and ~8x that of Australia & New Zealand respectively. Collectively LBY’s three current target markets represent over A\$1,046bn in annual total retail spend.

Unlike a number of other BNPL providers, which have chosen to aggressively expand into highly competitive markets such as Australia and US, LBY has taken a more measured approach in focusing its efforts within the UK. We see this targeted growth strategy as differentiating factor amongst incumbent BNPL Players.

Figure 1 below illustrates a number of metrics across a number of core BNPL Markets. We reiterate that the UK market is in the early stages of BNPL adoption relative to the Australian and US Markets, and LBY remains strongly placed to further secure and expand on its top 3 market position within the UK before expanding into further adjacent markets.

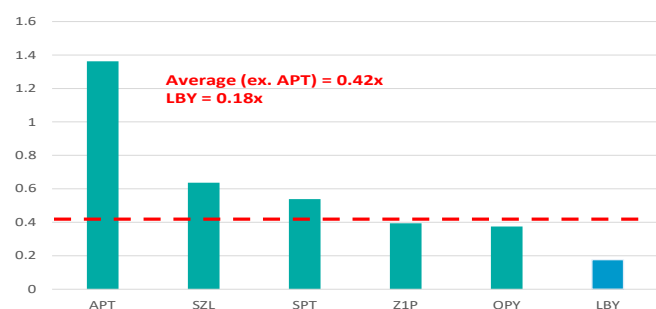
Figure 6 - Market Opportunity			
	UK	US	Aus/NZ
Country			
Market Size Annual Total Retail Spend	\$630b	\$5,000b	\$320b / \$96b
Online Sales as % of Retail spend	19.2%	13.6%	9.3% / 5.4%
Population	66.7m	328.2m	25.3m / 4.9m
Competitors	<ul style="list-style-type: none"> <li>- Klarna</li> <li>- ClearPay (Afterpay)</li> <li>- OpenPay</li> <li>- ZipCo</li> </ul>	<ul style="list-style-type: none"> <li>- Afterpay</li> <li>- Affirm</li> <li>- Futurepay</li> <li>- PayPal</li> <li>- Klarna</li> <li>- QuadPay (ZipCo)</li> <li>- Sezzle</li> <li>- Splitit</li> <li>- *Apple/Goldman Sachs</li> </ul>	<ul style="list-style-type: none"> <li>- Afterpay</li> <li>- Humm</li> <li>- Klarna</li> <li>- OpenPay</li> <li>- Pay It Later</li> <li>- PayPal</li> <li>- Sezzle</li> <li>- Splitit</li> <li>- ZipCo</li> </ul>

SOURCE: BELL POTTER SECURITIES ESTIMATES, \*PRODUCT REPORTED TO BE IN DEVELOPMENT

## Active Customer & GMV Growth rates of Listed BNPL

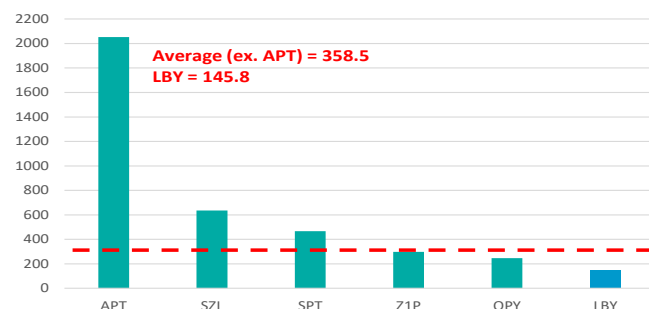
Although LBY has a significant growth runway within the Australian, NZ and the UK markets, the company trades at a material discount to other ASX listed BNPL players. In figure 7, we observe that ASX listed BNPL competitors currently trade on an average Market Cap to Annualised Gross Merchandise Value (GMV) of ~0.42x (Excluding APT, which is a relative valuation outlier), this compares to LBY on a value of ~0.18x GMV.

Figure 7 - Market Capitalisation/Annualised GMV (Jun-21)



SOURCE: COMPANY DATA \*MARKET CAP EXCL. ITM OPTION DILUTION

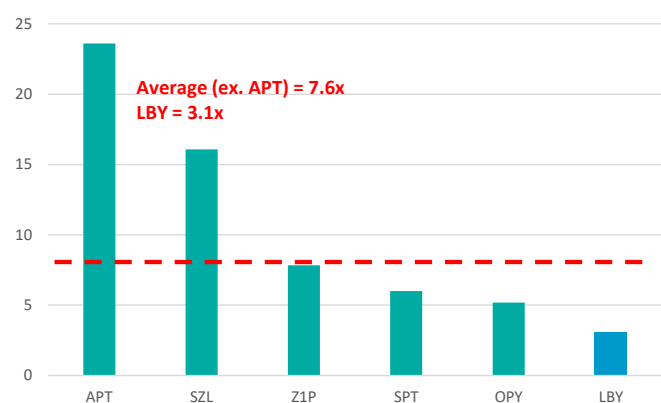
Figure 8 - Market Capitalisation/Active customers (Jun-21)



SOURCE: COMPANY DATA \*MARKET CAP EXCL. ITM OPTION DILUTION

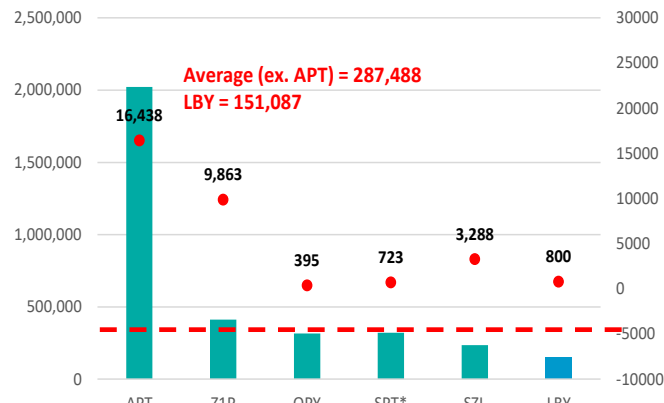
Similarly, figure 8 highlights that LBY also trades at a significant discount on a Market Cap to Active Customer basis (\$145.8 per customer), again well below the Average seen for listed competitors (~\$358.5 per customer, ex-APT). In our view, the market is currently undervaluing LBY’s market position and growth prospects within its current target markets.

**Figure 9 – Mcap/Annualised Revenue – (Jun’21)**



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

**Figure 10 – Mcap/Customer add rate (per day) – (Jun’21)**



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

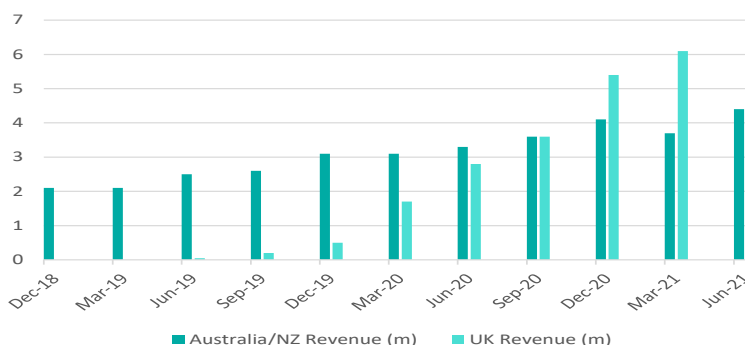
### Increase in customer add run rates a catalyst for LBY

Looking at Market Capitalisation per Annualised daily customer add rate (figure 10) across a handful of ASX Listed BNPL players, it appears the market is rewarding those companies which are showing higher Active customer acquisition rates (a proxy for future GMV & revenue growth). Whilst LBY currently trails some of its competitors, adding ~800 new customers per day (based on annualised 1Q22 add rate), through LBY’s extensive Merchant expansion strategy for FY22, we forecast that LBY will see a step change in customer acquisition rates over the year ahead, which should act as a potential catalyst for the company to re-rate to higher levels more consistent with other players in the market.

### Revenue growth reinforces differentiated UK strategy

Despite launching in the UK market later than in ANZ, LBY’s UK revenues have quickly overtaken ANZ, reinforcing our view that the UK is large underpenetrated market. We note that in splitting out UK and ANZ revenues on a per customer basis there is no material difference in revenue generated per customer. However, revenue per customer is growing at 19.3% in its UK operations versus 2.2% in ANZ. We take the view that LBY’s relative trading discount has factored in its position within a highly competitive ANZ market, whilst consideration for its position within the fledgling UK market and its large growth potential remains somewhat overlooked. We therefore continue to see relative value in LBY vs. other listed BNPL players.

**Figure 11 - LBY Revenue Growth (ANZ vs. UK) - NZ\$m**



SOURCE: COMPANY DATA

# Valuation and Changes

## Valuation

We utilise a Sum-of-the-Parts valuation methodology to value LBY, with the key component relying on a Customer Lifetime Value (CLV) based method. The key assumptions in our valuation can be found in figure 14 below. We note that our valuation is materially lower than our last published note (January 2021), due to a de-rating which has been seen across the BNPL sector. We therefore cross reference our Valuation to directly observable point in time comparable metrics across LBY's ASX listed peers, including Market Capitalisation to GMV and Market Capitalisation to Active customers, which derive a comparable implied valuation range of between A\$1.19-\$1.20 per share respectively. Based on these comparable metrics we see upside to LBY given its comparably low valuation vs. ASX listed peers.

Based on our valuation methodology, we derive a target valuation of A\$1.20 per share for LBY which is supportive of our Buy (Speculative) recommendation on the stock.

Figure 12 - LBY Sum-of-Parts Valuation & Cross Check

Sum-of-Parts Valuation		Valuation Cross Reference	
<b>Laybuy Customer Lifetime Value based methodology</b>		<b>LBY Market Capitalisation (A\$m) - 03/08/2021</b>	<b>120.9</b>
Discount rate (%)	9.6%		
Weighted three year customer numbers*	1,446,450	<b>LBY Operating Metrics</b>	
Customer average annual spend (NZ\$)	1,019	LBY Active Customer No. (Jun'21) - (m)	0.829
<b>Laybuy CLV based valuation (NZ\$m)</b>	<b>729</b>	LBY Annualised GMV (Jun'21) - NZ\$m	738.0
		LBY Annualised GMV (Jun'21) - A\$m	699.5
Net-cash (NZ\$m)	37		
Corporate expenses not captured above	-409	<b>Avg. ASX Listed BNPL Market Cap/Customer - A\$m</b>	<b>358.5</b>
<b>Total LBY value (NZ\$m)</b>	<b>357</b>	<b>Avg. ASX Listed BNPL Market Cap/GMV Multiple</b>	<b>0.42</b>
Fully diluted share count (m)	277	<b>LBY Implied valuation (customer basis) - A\$m</b>	<b>297.2</b>
<b>Valuation per share post dilution (NZ\$0.00)</b>	<b>1.29</b>	Plus: Cash Balance	35
		<b>A\$ Per Share (Fully Diluted)</b>	<b>1.20</b>
AUD/NZD assumption	1.06		
<b>Valuation per share post dilution in AUD (A\$0.00)</b>	<b>1.22</b>	<b>LBY implied valuation (GMV Basis) - A\$m</b>	<b>293.8</b>
		Plus: Cash Balance	35
		<b>A\$ Per Share (Fully Diluted)</b>	<b>1.19</b>

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

## Customer numbers and earnings revisions

We reinstate our Buy recommendation on Laybuy with a Price Target of A\$1.20 following an internal transfer of coverage. Adjusting our forecasts following LBY's FY21 and 1Q22 updates, along with dilution from LBY's equity raising in Jun'21, we adjust our underlying EPS estimates by -4.1cps, -4.0cps and +0.5cps for FY22-FY24 respectively.

Figure 13 - Earnings revisions

	FY22e (new)	FY22e (previous)	Change (%)	FY23e (new)	FY23e (previous)	Change (%)	FY24e (new)	FY24e (previous)	Change (%)
GMV (NZ\$m)	1,080	1,202	-10.2%	1,736	1,836	-5.4%	2,433	2,529	-3.8%
Revenue (NZ\$m)	63	65	-3.2%	104	100	4.4%	147	137	6.9%
Customer numbers (000's)	1,276	1,262	1.1%	1,803	1,727	4.4%	2,340	2,192	6.7%
EPS (Cash) (cps)	-10.2	-6.1	-67.2%	-6.4	-2.4	-165.7%	0.0	-0.5	100.0%

SOURCE: BELL POTTER SECURITIES ESTIMATES

## Balance sheet assumptions

At its 1Q22 update, LBY agreed to an early termination of their £80m debt funding facility with Victory Park Capital (VPC), allowing them to pursue alternate funding arrangements, in a step to improve the capital efficacy of the business. At 30 June 2021, LBY's Victory Park facility is drawn to £3.75m (NZ\$7.4m), which will be paid out in cash upon wind up. LBY will pay an early termination fee of £100,000, which we expect to be recognised as a one-off expense in 1H21.

As at 30 June 2021, LBY held Total Available funds of NZ\$48.7m, comprising cash and equivalents of NZ\$36.5m, and NZ\$12.2m of available undrawn debt (~61% of LBY's Kiwibank facility) which is contingent on LBY's receivables ledger balance. In figure 13, we estimate that on a pro-forma basis, factoring in the repayment of LBY's outstanding Victory Park Capital facility, LBY will hold ~\$40.5m of available capital to support its FY22 growth objectives. Based on LBY's historical receivables turnover of ~21x we estimate this could support additional GMV ~NZ\$0.85bn, although note that the company will need to balance this with appropriate OPEX levels to support it's the ongoing operations of the business.

**Figure 14 - LBY Pro-forma Receivable & Funding (NZ\$m) – As at 30/06/2021**

\$NZm	1Q22 Annualised	Total - 1Q22	
GMV - ANZ	352.0	88.0	
GMV - UK	384.0	96.0	
<b>Total GMV</b>	<b>736.0</b>	<b>184.0</b>	
<b>Receivable Ledger Balance (Jun'21)</b>		<b>36.1</b>	
ANZ Receivable (est.)		17.3	
UK Receivable (est.)		18.8	
Available Funding (Jun'21)	Facility Limit	Drawn Amount	Funds Available
Kiwibank debt facility	20.0	0.0	11.4
Cash			36.5
<b>Less:</b>			
Victory Park	N/a	7.4	-7.4
<b>Total Available Funds</b>			<b>40.5</b>
Est. incremental GMV (21x Turnover)			850.5

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

While LBY has flagged that they will cash fund receivables growth within the UK, and where possible utilise cheaper Kiwibank debt to support ANZ growth within the short term, our current modelling assumes the ongoing use of debt to support LBY's growth. These assumptions continue to be broadly based on the terms of LBY's Victory Park Capital facility and assume that LBY's consumer receivables are funded by ~50% Cash & Debt. At the time of this report, LBY remains in discussions with VPC to formally conclude its debt arrangements. LBY has flagged that once the VPC facility is formally ended, the company will be in a position to engage with other potential lenders. We remain confident that LBY will be able to secure alternate funding arrangements within an appropriate time frame, and will look to adjust our funding assumptions once more formal terms are provided to the market.



# Company Overview

Laybuy is a Buy Now Pay Later (BNPL) provider based in New Zealand, with operations in New Zealand, Australia and the United Kingdom. Laybuy provides its customers with the ability to split payments for purchases into 6 weekly, interest free instalments, with the first instalment made at the point of sale. Laybuy does not charge interest or fees to customers except for late fees if payments are not made on time. Laybuy's platform is available at merchants, through in-store and online purchases, across a number of sectors in the retail industry. As of June 2021, Laybuy had 10,431 Active Merchants and 829,000 Active Consumers.

## Risks Associated with Laybuy Group Holdings

Key risks for the stock include although are not limited to:

- **Ability to scale business:** LBY's ability to grow revenue and achieve profitability is dependent on its ability to achieve scale in its operations in key markets. While LBY has achieved a market leading position in New Zealand in a short period of time, it does not guarantee the same growth or ability to achieve growth in the United Kingdom.
- **Bad and doubtful debts:** Failure to implement and enhance credit controls and processes efficiently and effectively may result in an increase in bad and doubtful debts, especially as LBY's operations scale.
- **Fraud:** LBY is exposed to the risk of fraudulent behaviour by customers, employees, partners, individual borrowers and other third parties. These behaviours could include customers or other parties looking to bypass LBY's controls to process fraudulent transactions.
- **Competitors and new technology:** LBY operates in a competitive environment whereby its systems and practices require continual development and improvement, and new or rival offerings. There is a risk that new BNPL entrants or existing competitors deliver a superior product to which LBY would be unable to compete with effectively.
- **Liquidity and funding:** LBY's business model is highly reliant on funding as customers use LBY's services to acquire goods and services. The risk of having insufficient liquid funds available for purchases made by customers could impact LBY's operations and financial performance.
- **Debt funding facilities:** Failing to secure debt funding may adversely affect LBY's operations in the absence of alternative funding sources. In addition, failing to meet debt covenants under existing debt facilities may lead to default or a review under the facilities. As of Jul'21, LBY is in discussions to wind up its UK debt facility with VPC. This may pose additional short term risks should alternative funding can be sourced.
- **Provisions of services:** LBY has partnered with third party providers that deliver services such as identity verification, fraud checks, credit check services, middleware application development, payment processing and infrastructure support capabilities. LBY is exposed to sub-standard delivery of services from third-party providers, or there may be a disruption to services provided by third-party providers, to LBY.
- **Disruption of key business process:** LBY's operations are reliant of the execution of key business processes, particularly to support the on-boarding of new customers, service existing customers and to process transactions. These processes could be disrupted by events outside LBY's control.



- **Information technology:** LBY's operations are reliant on the use of information technology and the use of information technology by its third party service providers. Additionally, LBY's operations are dependent on the stability of connectivity between a merchant and LBY's platform, to enable successful activation of a merchant and completion of customer transactions.
- **Cybersecurity and data protection:** Given LBY holds a significant amount of personal information about its customers, compromised security or breach of safeguards by LBY to maintain confidentiality of such information may impact financial performance and cause reputational damage.
- **Regulatory compliance:** LBY is subject to a range of laws, regulation and industry compliance in the jurisdictions it operates in. These being, New Zealand, Australia and the United Kingdom. Failure to comply with these laws, regulation and compliance requirements may result in a severe impact to LBY's financial performance and reputation.
- **Changes in laws and regulations:** There is a risk that changes to the current BNPL arrangements in New Zealand, Australia and the United Kingdom may result in LBY's existing operations being subject to additional legal, regulatory or industry compliance obligations, which may result in additional costs to the business.
- **Anti-money laundering and counter-terrorism financing and privacy legislation:** LBY is bound by statutory obligations in relation to anti-money laundering and counterfeit financing laws, and privacy and data protection laws, by which it must comply within New Zealand, Australia and the United Kingdom. Failure to comply with these obligations may result in penalties and reputational damage.
- **Loss of merchant contracts and relationships:** LBY's operations are dependent on attracting and maintaining existing merchant client contracts and relationships. There is no guarantee that these contracts and relationships will continue or remain successful. Due to the relatively short-term and non-exclusive nature of arrangements with merchants, merchants are generally able to reduce or cancel the use of LBY's product without penalty at relatively short notice.
- **Key personnel:** LBY relies on the expertise of its skilled workforce, especially its technology team, to ensure its product offerings are innovative and not superseded by competitive offers.
- **Intellectual property:** LBY benefits from developing its brand, innovation and expertise, as well as protecting its intellectual property and confidential information. Failure to protect intellectual property and confidential information may result in reputational damage or impede growth in LBY's operations.
- **COVID-19 and related impact on consumer spending:** LBY's operations are highly dependent on consumer spending, which has been, and may continue to be, impacted by the outbreak of COVID-19. LBY's future business developments are dependent on duration, spread and containment measures of the outbreak in New Zealand, Australia and the United Kingdom. The impact on general economic conditions, consumer confidence and discretionary spending may also affect LBY's future business developments.

# Laybuy Group Holdings

as at 03 August 2021

Recommendation

Buy, Speculative

Price

A\$0.475

Valuation

A\$1.20

Table 1 - Financial summary

Laybuy Group Holdings (LBY)	Valuation (A\$)	1.20	Share Price (A\$)	0.475	
	Recommendation:	Buy (Spec)	Market Cap (A\$m)	120.9	
<b>INCOME STATEMENT</b>					
Y/e March 31 (NZ\$m)	2020*	2021	2022e	2023e	2024e
Group Revenue	13.7	32.6	63.2	103.9	146.6
Net Transaction Margin	0.0	10.7	24.6	47.2	70.0
Undelying EBTDA	-15.7	-20.9	-25.1	-13.4	1.0
Non-operating Items	-0.6	1.6	0.0	0.0	0.0
Depreciation & Amortisation	-0.5	-1.0	-1.3	-1.3	-1.3
Underlying EBIT	-15.7	-23.4	-26.4	-14.6	-0.2
Net Interest Income/(Expense)	-0.4	-1.6	-2.0	-4.6	-7.4
Underlying Profit Before Tax	-16.0	-25.0	-28.4	-19.2	-7.7
Operating income tax expense	0.0	0.2	0.0	0.0	0.0
Underlying NPAT (NZ\$m)	-16.0	-24.8	-28.4	-19.2	-7.7
Significant items (after tax)	-0.1	-16.4	0.0	0.0	0.0
Reported profit (NZ\$m)	-16.1	-41.3	-28.4	-19.2	-7.7
<b>CASHFLOW</b>					
Y/e March 31 (NZ\$m)	2020*	2021	2022e	2023e	2024e
EBITDA	-15.7	-29.5	-25.2	-13.4	1.0
Change in provisions	9.9	0.7	1.4	1.5	1.6
Working capital changes	-15.7	-13.7	-21.1	-21.8	-20.9
Net Interest	0.0	-0.8	-2.0	-4.6	-7.4
Tax paid	0.0	-0.3	0.0	0.0	0.0
Other operating items	-1.7	-1.7	0.0	0.0	0.0
Operating cash flow	-23.2	-45.3	-46.9	-38.3	-25.7
Stay in business capex	0.0	-0.1	-0.2	-0.2	-0.2
Growth capex & acquisitions	0.0	-2.0	-1.0	-1.0	-1.0
Disposals	0.0	0.0	0.0	0.0	0.0
Other Investing Items	-1.0	0.2	0.0	0.0	0.0
Investing cashflow	-1.0	-2.0	-1.2	-1.2	-1.2
Dividends	0.0	0.0	0.0	0.0	0.0
Share issues/(buy backs)	13.0	47.5	40.0	0.0	0.0
Change in borrowings	2.5	9.4	9.6	27.7	23.4
Other	15.3	-2.8	0.3	0.0	0.0
Financing cash flow	30.8	54.1	49.9	27.7	23.4
Cash at end of period	55.1	15.5	17.3	5.4	1.8
<b>BALANCE SHEET</b>					
Y/e March 31 (NZ\$m)	2020*	2021	2022e	2023e	2024e
Cash	55.1	15.5	17.3	5.4	1.8
Loan receivables (net)	15.1	27.3	52.5	81.1	110.9
Other receivables	2.1	5.2	11.1	14.8	20.3
PPE	0.2	0.2	0.2	0.2	0.2
Intangibles	0.8	2.1	2.1	2.0	2.0
Other	3.6	9.7	9.5	9.5	9.5
Total assets	76.9	60.1	92.6	113.0	144.8
Payables	7.5	9.1	19.1	29.5	43.9
Interest bearing liabilities	6.0	11.4	21.0	48.7	72.1
Provisions	0.6	1.3	2.7	4.2	5.8
Other	2.2	1.5	1.5	1.5	1.5
Total liabilities	16.4	23.3	44.3	83.9	123.3
Total Equity	60.1	36.7	48.3	29.1	21.4
W/A shares on issue	160.8	169.9	229.8	254.5	254.5
Fully diluted shares on issue	196.6	196.6	276.6	276.6	276.6
<b>VALUATION DATA</b>					
Y/e March 31 (NZ\$m)	2020	2021	2022e	2023e	2024e
Adjusted NPAT (NZ\$m)	-16.0	-24.8	-28.4	-19.2	-7.7
Adjusted NPAT (A\$m)	-15.2	-23.2	-26.1	-17.6	-7.0
Adjusted EPS (fully diluted) (Acps)	-8.6	-11.8	-10.2	-6.4	-2.5
EPS growth (%)	n.m	n.m	n.m	n.m	n.m
Diluted adjusted P/E ratio (x)	-5.5	-4.0	-4.7	-7.5	-18.8
CFPS (c)	-14.4	-26.6	-20.4	-15.1	-10.1
Price/CF (x)	-3.3	-1.8	-2.3	-3.2	-4.7
EV/Gross Merchandise Value (x)	0.4	0.2	0.1	0.1	0.0
EV/Sales (x)	6.8	2.9	1.5	0.9	0.6
EV/EBITDA (x)	-6.0	-4.5	-3.8	-7.0	92.8
Price/book (x)	1.3	2.2	2.3	4.2	5.6
NTA/share (\$)	0.37	0.20	0.20	0.11	0.08
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%
<b>PROFITABILITY RATIOS</b>					
Y/e March 31 (NZ\$m)	2020	2021	2022e	2023e	2024e
EBIT/sales (%)	-113.9%	-72.0%	-41.8%	-14.1%	-0.2%
Return on assets (%)	-19.8%	-34.8%	-33.1%	-17.8%	-5.7%
Return on equity (%)	-25.3%	-47.4%	-52.8%	-46.5%	-27.9%
Dividend cover (x)	0.0	0.0	0.0	0.0	0.0
Effective tax rate (%)	0.0%	-0.9%	0.0%	0.0%	0.0%
<b>LIQUIDITY AND LEVERAGE RATIOS</b>					
Y/e March 31 (NZ\$m)	2020	2021	2022e	2023e	2024e
Net debt/(cash) (NZ\$m)	-49.1	-4.1	3.7	43.3	70.3
Net debt (Cash)/equity (%)	-81.7%	-11.2%	7.7%	148.8%	327.7%
Debt/Net receivables (%)	39.9%	41.6%	40.0%	60.0%	65.0%
Current ratio (x)	9.0	5.5	4.1	3.3	2.9
<b>Drivers &amp; Assumptions</b>					
Y/e March 31 (NZ\$m)	2020	2021	2022e	2023e	2024e
ANZ - GMV - NZ\$m	177.2	292.6	394.9	506.2	646.3
UK - GMV - NZ\$m	49.4	295.2	684.7	1229.5	1786.8
Total GMV - NZ\$m	226.6	587.8	1079.6	1735.7	2433.1
GMV Growth (%)	79.6%	159.4%	83.7%	60.8%	40.2%
Active Customers (000's)	403.0	756.0	1275.9	1802.9	2339.9
Revenue as % of GMV	6.1%	5.5%	5.9%	6.0%	6.0%
Bad Debts as % of GMV	4.1%	2.4%	2.2%	2.1%	2.1%
Net Transaction Margin (NTM)	0.0%	1.8%	2.3%	2.7%	2.9%
Late fees/revenue (%)	48%	45%	43%	39%	35%
Loanbook Turnover (x)	15.0	21.5	20.6	21.4	21.9

SOURCE: BELL POTTER SECURITIES ESTIMATES

**Recommendation structure**

**Buy:** Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

**Hold:** Expect total return between -5% and 15% on a 12 month view

**Sell:** Expect <-5% total return on a 12 month view

*Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.*

*Such investments may carry an exceptionally high level of capital risk and volatility of returns.*

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The stocks of early stage companies without regular revenue streams from product sales or ongoing service revenue should always be regarded as speculative in character. As LBY is yet to establish a regular income stream capable of producing net cash inflows from operations it is regarded as speculative in nature. Stocks with 'Speculative' designation are prone to high volatility in share price movements. Investors are advised to be cognisant of these risks before buying such a stock including **Laybuy (LBY)** (of which a list of specific risks is highlighted within).

Disclosure: Bell Potter Securities acted as Joint Lead Manager to LBY's Sep'20 IPO & May'21 Placement and received fees for that service.

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