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AUSTRALIA EQUITY RESEARCH | FINANCIALS | CONSUMER LENDING
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Harmoney
The Sweet Sound of Operational Leverage

JAMES LINDSAY
James.Lindsay@forsythbarr.co.nz
+64 9 368 0145

WILL TWISS
will.twiss@forsythbarr.co.nz
+64 9 368 0129

Harmoney Corp (HMY.AX) is Australasia's largest online direct personal lender. Its innovative online lending platform utilises comprehensive data insights, AI and machine learning to price and approve loans automatically, providing accessible and efficient financing at competitive rates. HMY's disruptive tech-driven platform, and its recently completed transition from a peer-to-peer platform to a diversified funding structure, position it well for growth as we approach an inflection point in the economic cycle, with interest rates set to decline. We expect HMY to capture market share from slow-moving and constrained incumbents in the significant ~A$159bn Australasian personal lending market, aided by the rollout of its Stellare® 2.0 lending platform opening new market segments and driving greater user conversion. Given its highly scalable tech platform, we are excited by the potential for HMY to generate significant operating leverage as it grows its loan book, driving the cost-to-income ratio down from an already impressive ~24% to ~17% by FY34. Near-term economic weakness presents a headwind for HMY, and we forecast a contraction in cash profit to A$0.9m in FY24 and a normalised loss of -A$3.3m (see Appendix 1: Explaining 'normalised' and 'cash' NPAT). However, we are attracted to the long-term growth potential and operating leverage opportunity, reflected in our spot valuation of A$1.27.

NZX Code	HMY
Share price	A$0.59
Spot Valuation	A$1.27
Risk rating	High
Issued shares	102.0m
Market cap	A$59.6m
Avg daily turnover	37.1k (A$16k)

Financials: Jun/	23A	24E	25E	26E
Rev (A$m)	105.5	123.2	135.4	156.1
NPAT* (A$m)	0.2	(3.3)	1.9	8.2
EPS* (Ac)	0.2	(3.2)	1.9	8.1
DPS (Ac)	0.0	0.0	0.0	0.0
Imputation (%)	0	0	0	0

*Based on normalised profits

Valuation (x)	23A	24E	25E	26E
PE	n/a	n/a	30.8	7.2
EV/EBIT	n/a	n/a	n/a	n/a
EV/EBITDA	n/a	n/a	n/a	n/a
Price / NTA	0.5	0.5	0.5	0.6
Cash div yld (%)	0.0	0.0	0.0	0.0
Gross div yld (%)	0.0	0.0	0.0	0.0

Laying the platform for the next stage of growth

Founded in NZ in 2013, HMY has since expanded into Australia and completed a transition to a diversified funding structure. Integrating technology into the direct-to-consumer model has streamlined processes, reduced operational costs, and driven efficiencies. Since its 2020 ASX IPO, HMY has grown its loan book to A$756m. With its funding model and next-generation lending platform, Stellare® 2.0, launching into the market, HMY is poised for continued growth over the next decade.

Navigating a path to best in sector returns after a challenging macroenvironment

HMY is on a trajectory of growth and increasing core profitability. However, rising interest rates have dampened borrower demand and a lift in incurred losses is likely to squeeze margins this year. Expansion of the loan book, technical innovation, and a discernible cost-to-income ratio reduction exemplify the company's drive for operational efficiency, sustainable long-term ROE, and growth.

Harmoney Corporation Ltd. (HMY)

Market Data (A$)	
Priced as at 19 Feb 2024	**0.59**
52 week high / low	0.65 / 0.31
Market capitalisation (A$m)	60.2

Key WACC assumptions	
Risk free rate	5.00%
Equity beta	1.40
WACC	11.7%
Terminal growth	2.0%

Profit and Loss Account (A$m)	2022A	2023A	2024E	2025E	2026E
Interest income	68.9	105.5	123.2	135.4	156.1
Net interest income	**50.8**	**65.7**	**67.9**	**74.6**	**86.4**
Other income	3.9	1.5	1.0	0.3	0.3
Net operating income	**54.7**	**67.2**	**68.9**	**74.9**	**86.7**
Operating expenses	(54.5)	(62.5)	(67.5)	(67.5)	(71.9)
Associate income	0	0	0	0	0
Tax	0	0	(0.5)	(0.6)	(1.2)
Minority interests	0	0	0	0	0
Normalised NPAT	**(3.9)**	**0.2**	**(3.3)**	**1.9**	**8.2**
Abnormals/other	(14.9)	(7.8)	(0.6)	(5.6)	(5.9)
Reported NPAT	**(18.8)**	**(7.6)**	**(3.9)**	**(3.7)**	**2.4**
Normalised EPS (cps)	(3.9)	0.2	(3.2)	1.9	8.1
DPS (cps)	0	0	0	0	0

Growth Rates	2022A	2023A	2024E	2025E	2026E
Revenue (%)	96.1	53.1	16.8	9.9	15.3
EBITDA (%)	n/a	n/a	n/a	n/a	n/a
EBIT (%)	n/a	n/a	n/a	n/a	n/a
Normalised NPAT (%)	n/a	n/a	n/a	n/a	>100
Normalised EPS (%)	n/a	n/a	n/a	n/a	>100
Ordinary DPS (%)	n/a	n/a	n/a	n/a	n/a

Cash Flow (A$m)	2022A	2023A	2024E	2025E	2026E
EBITDA	n/a	n/a	n/a	n/a	n/a
Working capital change	n/a	n/a	n/a	n/a	n/a
Interest & tax paid	n/a	n/a	n/a	n/a	n/a
Other	n/a	n/a	n/a	n/a	n/a
Operating cash flow	n/a	n/a	n/a	n/a	n/a
Capital expenditure	n/a	n/a	n/a	n/a	n/a
(Acquisitions)/divestments	n/a	n/a	n/a	n/a	n/a
Other	n/a	n/a	n/a	n/a	n/a
Funding available/(required)	n/a	n/a	n/a	n/a	n/a
Dividends paid	n/a	n/a	n/a	n/a	n/a
Equity raised/(returned)	n/a	n/a	n/a	n/a	n/a
(Increase)/decrease in net debt	n/a	n/a	n/a	n/a	n/a

Balance Sheet (A$m)	2022A	2023A	2024E	2025E	2026E
Working capital	56.8	43.5	33.8	28.5	30.1
Receivables	553.1	710.8	722.0	833.1	949.9
Intangibles	8.5	11.6	13.5	15.4	17.0
Right of use asset	0.2	3.4	3.5	3.0	2.5
Other assets	16.1	16.1	16.1	16.1	16.1
Total funds employed	**634.9**	**785.7**	**789.3**	**896.5**	**1,016.1**
Deposits	n/a	n/a	n/a	n/a	n/a
Other borrowings	570.4	726.9	731.5	839.4	960.2
Other liabilities	5.4	5.0	3.5	3.0	2.5
Shareholder's funds	59.1	53.8	54.2	54.1	53.4
Minority interests	0	0	0	0	0
Total funding sources	**634.9**	**785.7**	**789.3**	**896.5**	**1,016.1**

* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend** Information on Forsyth Barr's Carbon and ESG (CESG) ratings can be found at www.forsythbarr.co.nz/corporate-news-events/cesg-report

Spot valuation (A$)	**1.27**
DCF	1.27

DCF valuation summary (A$m)	
Total firm value	140
(Net debt)/cash	0
Less: Capitalised operating leases	(9)
Value of equity	130

Valuation Ratios	2022A	2023A	2024E	2025E	2026E
EV/Sales (x)	n/a	n/a	n/a	n/a	n/a
EV/EBITDA (x)	n/a	n/a	n/a	n/a	n/a
EV/EBIT (x)	n/a	n/a	n/a	n/a	n/a
PE (x)	n/a	>100x	n/a	31.0	7.3
Price/NTA (x)	0.5	0.5	0.5	0.6	0.6
Free cash flow yield (%)	n/a	n/a	n/a	n/a	n/a
Adj. free cash flow yield (%)	0.7	26.1	42.1	52.1	68.7
Gross dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0

Capital Structure	2022A	2023A	2024E	2025E	2026E
Interest cover EBIT (x)	>100x	>100x	>100x	>100x	>100x
Interest cover EBITDA (x)	>100x	>100x	>100x	>100x	>100x
Net debt/ND+E (%)	n/a	n/a	n/a	n/a	n/a
Net debt/EBITDA (x)	n/a	n/a	n/a	n/a	n/a

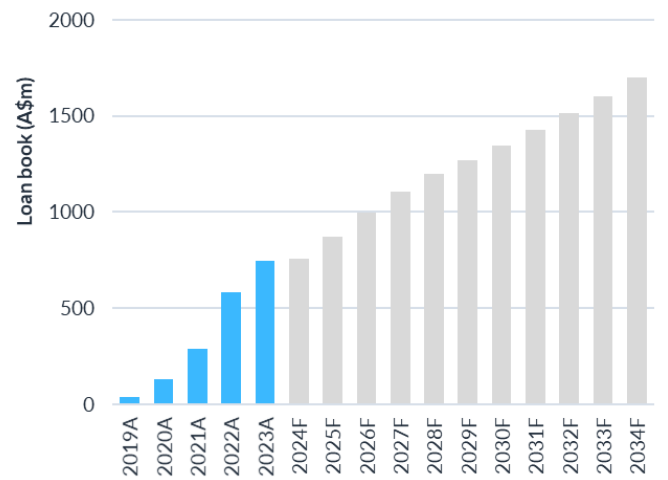
Key Ratios	2022A	2023A	2024E	2025E	2026E
Return on assets (%)	-0.6	0.0	-0.4	0.2	0.8
Return on equity (%)	-3.2	0.2	-2.7	1.6	6.6
Return on funds employed (%)	0.0	0.0	0.0	0.0	0.0
EBITDA margin (%)	n/a	n/a	n/a	n/a	n/a
EBIT margin (%)	n/a	n/a	n/a	n/a	n/a
Capex to sales (%)	n/a	n/a	n/a	n/a	n/a
Capex to depreciation (%)	n/a	n/a	n/a	n/a	n/a
Imputation (%)	0	0	0	0	0
Pay-out ratio (%)	0	0	0	0	0

Segment Performance	2022A	2023A	2024E	2025E	2026E
Group Reported NPAT	**(18.8)**	**(7.6)**	**(3.9)**	**(3.7)**	**2.4**
Movement in credit provision	14.9	7.8	0.6	5.6	5.9
Share based expenses	2.7	1.9	0.7	1.3	1.3
D&A expenses	1.3	2.5	3.4	3.6	4.0
Group Cash NPAT	**0.2**	**4.7**	**0.9**	**6.8**	**13.5**
Group Loan book ($m)	581.0	744.0	757.3	873.7	996.0
NIM (%)	11.8%	9.6%	9.0%	9.1%	9.2%
Equity ratio (%)	9.3%	6.8%	6.9%	6.0%	5.3%
Australia:					
Loan book (period end, $m)	274.1	381.6	393.1	491.3	594.5
Number of originations (#)	12,571	12,597	10,924	13,655	16,522
Total Income ($m)	25.8	52.7	62.5	72.9	90.0
NIM (%)	12.2%	10.3%	9.3%	9.4%	9.5%
AU Cash NPAT ($m)	(1.5)	5.8	4.8	9.7	15.9
New Zealand:					
Loan book (period end, $m)	306.8	362.4	364.2	382.4	401.5
Number of originations (#)	14,161	13,605	10,085	10,589	11,118
Total Income ($m)	47.0	54.3	61.8	62.7	66.4
NIM (%)	11.5%	9.0%	8.7%	8.8%	8.9%
NZ Cash NPAT ($m)	(7.9)	(11.7)	(3.9)	(2.9)	(2.4)

Executive summary

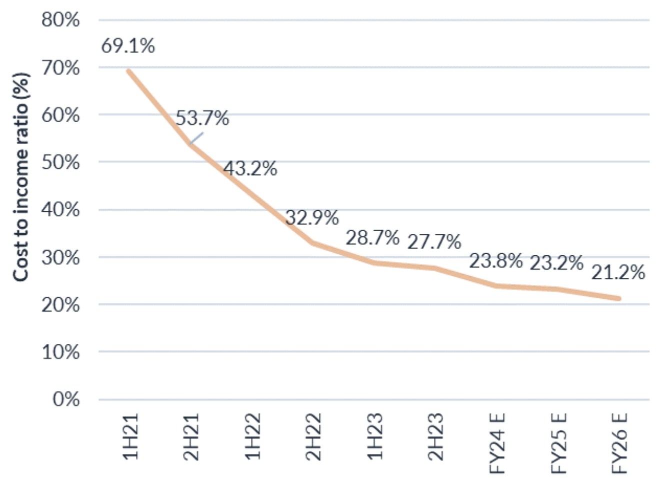
HMY's direct-to-consumer online lending platform has proven popular with customers, enabling its loan book to grow from zero to A$756m (December 2023) in roughly ten years. Having achieved a ~2.6% share of personal consumer lending in New Zealand, further growth will likely come from expansion into Australia's ~A$145bn personal lending market, where it has only a ~0.3% share. We think HMY can grow its Australian loan book to ~A1.15bn (from A$382m at FY23) over the next ten years (representing ~0.8% penetration assuming no market growth) as consumers increasingly pivot away from traditional lenders. Banks and other incumbent personal lenders are constrained by intensifying regulatory scrutiny and tightening risk appetites, allowing new entrants to cannibalise market share. The rollout of HMY's Stellare® 2.0 lending platform should also support growth, driving improved customer conversion and facilitating quicker delivery timelines for potential new products like credit cards or SME business loans. HMY has a low variable cost base, allowing its cost-to-income ratio to fall from 69.1% in 1H21 to an estimated 24% in 1H24 as its loan book has grown. We forecast further improvements, with the cost-to-income ratio falling to ~17% by our terminal year. Operating leverage from improved scale is the key driver for HMY to grow cash earnings and is central to our positive investment thesis and A$1.27 spot valuation.

Figure 1. HMY — loan book (A$m)



Source: Company, Forsyth Barr analysis

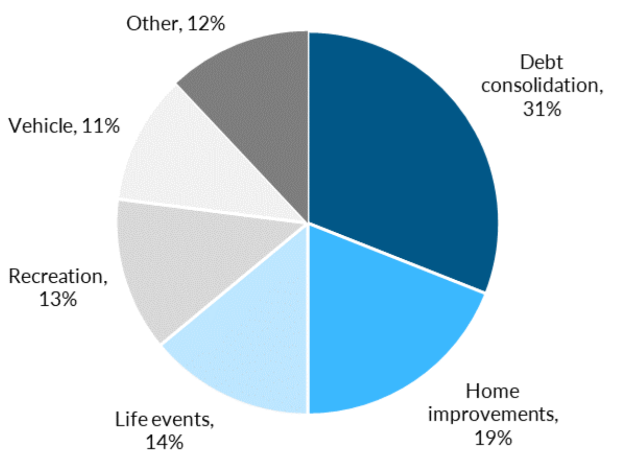
Figure 2. HMY — Cost-to-income ratio (%)



Source: Company, Forsyth Barr analysis

HMY's book has an average loan size of around ~A$21k, with funds most commonly used for debt consolidation, home improvements, and life events such as medical expenses or education costs, as well as travel and car purchases (see Figure 3). HMY lends for three, five or seven years, with most loans being repaid within two or three years. Understanding the reconciliation between statutory, normalised (our preferred measure), and cash NPAT is essential in analysing the sector, given the requirement to provision for losses at the point of origination (under NZ IFRS 9), not over the life of the loan. In Appendix 1: Explaining 'normalised' and 'cash' NPAT, we detail the important distinction and flow between these measures. A brief summary is included in Figure 4 below.

Figure 3. HMY — Loan purpose (FY23)



Source: Company, Forsyth Barr analysis

Figure 4. Explaining the differences between reported, normalised, and cash NPAT

Reported NPAT (statutory accounts)

add back '*Movement in expected credit loss provision*'

Normalised NPAT (our preferred income measure)

add back '*Share based payment expenses*'
add back '*Depreciation and amortisation expenses*'

Cash NPAT (HMY's measure)

Source: Forsyth Barr analysis

Looking ahead, five critical areas will determine HMY's future trajectory:

1. **HMY's ability to navigate the challenging macroeconomic environment with high interest rates dampening borrower demand and squeezing margins**. Elevated interest rates and rampant inflation have eroded consumer discretionary income, leading to slowing book growth and contracting lending margins in 1H24 for HMY. We think FY24 should represent a trough for book growth and lending margins as interest rates are expected to fall in both Australia and New Zealand in FY25. However, HMY may have to navigate a high interest rate environment for longer than expected as the 'higher for longer' rhetoric appears more apparent in regional bond markets.
2. **HMY's diversified funding facilities offer resilience but are vitally important to ensuring growth continues.** HMY has attracted funding from three of the big four banks, three mezzanine funders and a $30m corporate debt facility giving the company a solid, diversified funding model. HMY has also started a securitisation programme, which will likely play a role in diversifying its funding sources and enhancing its capital efficiency. In October 2021, it privately placed a A$105m asset-backed securitisation (ABS) deal. Then, in August 2023, it undertook a NZ$200m public securitisation deal and had BNZ as sole arranger and joint lead manager alongside the Commonwealth Bank of Australia. HMY now plans to be a regular securitisation issuer in NZ and Australia, and we estimate one securitisation deal each year. The securitisation enables HMY to tap into the capital markets, securing funds by packaging and selling pools of its loans to investors. The diversified nature of the funding will provide HMY with more flexible and scalable funding sources but also allow for reducing its reliance on traditional bank wholesale financing.
3. **The rollout of Stellare® 2.0 plays an important role in optimising credit assessments, limiting credit losses, and personalising customer offerings.** Stellare® 2.0 has been rolled out to the Australian market, with implementation in the NZ market expected later in FY24. HMY is already seeing the benefits of the new lending platform.
4. **HMY's ability to build the brand and lift conversion rates, given ~90%+ of applicants do not become clients. HMY is working hard to convert these enquiries into clients, requiring little new marketing spend**. Converting users who already engage with the HMY platform into customers is a key strategic priority for HMY. Stellare® should improve customer conversion rates through its advanced credit assessment capabilities. By harnessing machine learning algorithms and vast data points, Stellare® offers a more nuanced and accurate analysis of borrowers' creditworthiness. This allows for more efficient matching of loan products to individual customer profiles, thereby increasing the likelihood of loan acceptance. Additionally, Stellare® enhances the user experience with a streamlined application process, which further contributes to higher conversion rates. Its technology-driven approach enables HMY to effectively target previously underserved market segments, capitalising on opportunities within the ~A$157bn Australasian personal lending market.
5. **The company's continued drive to managing costs will be key to its ongoing success**. HMY's highly scalable tech lending platform has allowed it to make vast improvements in its cost-to-income ratio as its book has grown. Ensuring that book and sales growth continues to outpace expense growth is critical to achieving operating leverage and growing earnings.

In conclusion, while HMY faces short-term challenges, the opportunities for profitable growth remain substantial. Our spot valuation for HMY implies material upside to the current share price of A$0.585.

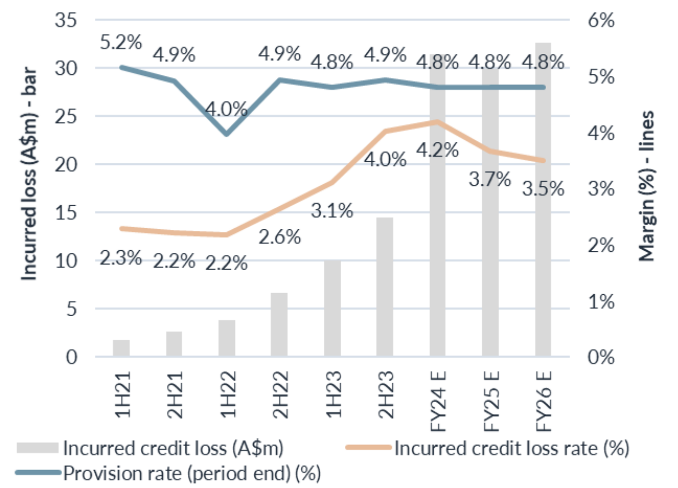
Part 1. Investment thesis and valuation

1.1 Valuation

Our **spot valuation for HMY is A$1.27**, derived from a discounted cash flow (DCF) valuation that thoroughly analysed HMY's financials, expansion opportunities, and risks. This valuation uses a weighted average cost of capital (WACC) of 11.7%, an asset beta of 1.4, risk-free rate (Rfr) of 5.00%, and a terminal growth rate of +2.00%. Our key forecast assumptions include:

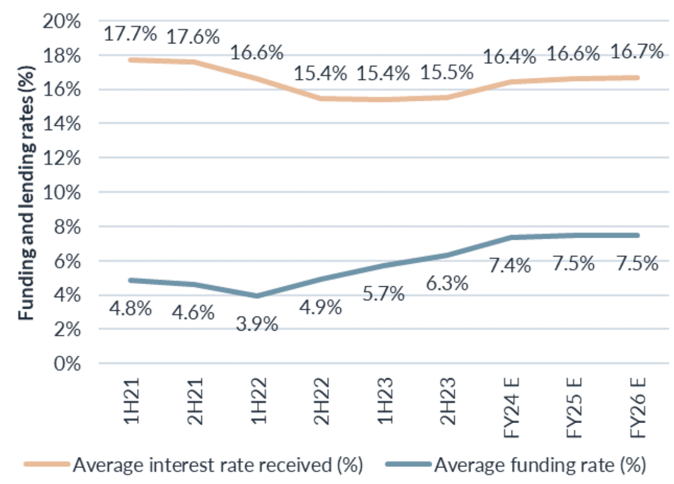
- **Book growth:** Growth in its loan book from A$756m in 1H24 to ~A$1.7b over the next ten years, supported by a shift in the consumer personal lending market towards innovative tech-driven players.
- **NIM:** Net interest margin under some pressure, falling from 9.6% in FY23 to 8.4% in terminal year. Management is targeting a NIM of 9% to 10% over time.
- **Incurred losses:** Incurred losses ranging between a forecast of 4.2% in FY24 and 3.6% in terminal year. Management is targeting incurred losses of between 3% to 4% of the loan book over time.
- **Cost-to-income**: Continued improvement in its cost-to-income ratio, from ~24% in 1H24 to ~17% over ten years. We expect loan book and revenue growth to significantly outpace expense growth due to the scalability of HMY's lending platform.

Figure 5. HMY — Incurred loss and provisioning rate



Source: Company, Forsyth Barr analysis

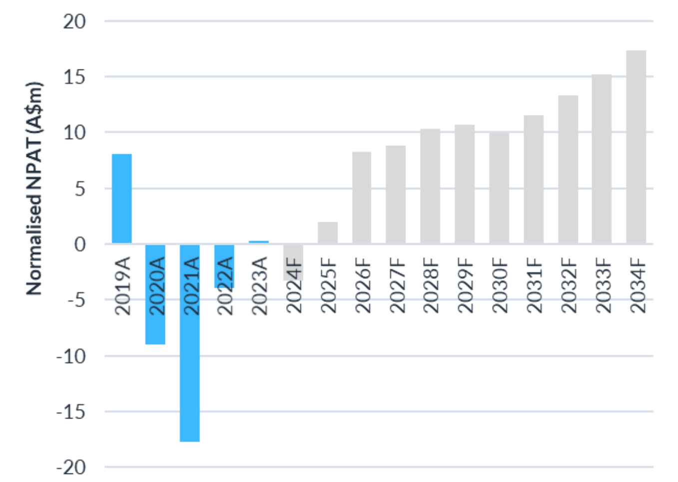
Figure 6. HMY — Average funding and lending rates (%)



Source: Company, Forsyth Barr analysis

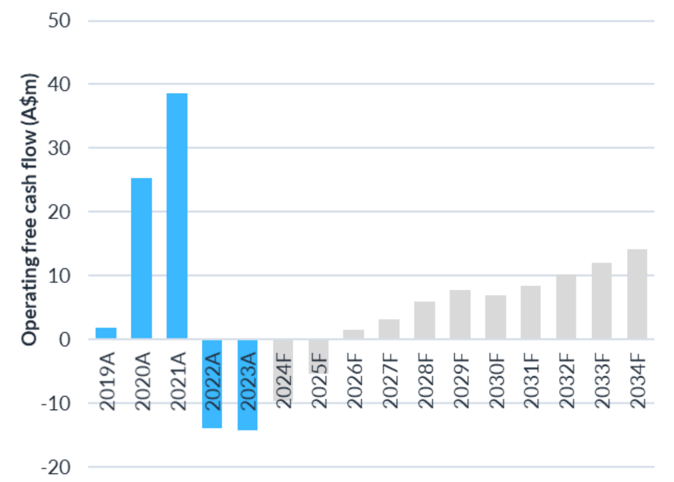
We forecast a strong recovery in earnings and cash flow in the medium term from FY25. This is driven by a number of factors including 1) NIM expansion as funding rates stabilise and the loan book rolls onto higher rates, 2) a fall in incurred credit losses as interest rates fall and economic conditions improve, and 3) operating leverage as the loan book returns to strong growth.

Figure 7. HMY — Normalised NPAT (A$m)



Source: Company, Forsyth Barr analysis

Figure 8. HMY — Operating free cash flow (A$m)



Source: Company, Forsyth Barr analysis

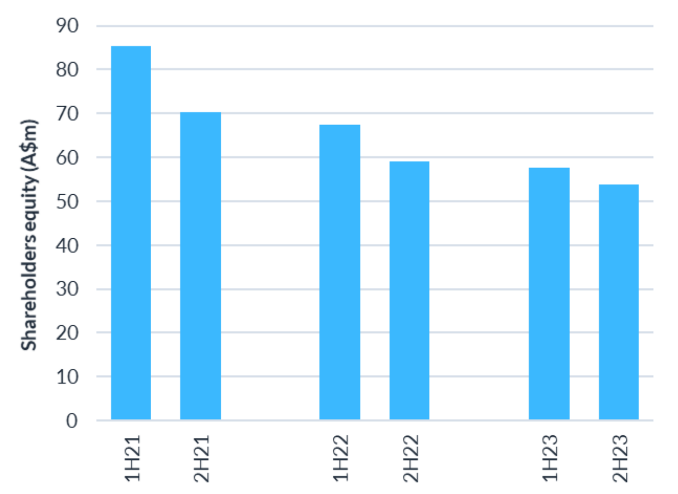
1.3 On the path to normalised profitability

HMY is moving along the path to sustainable profitability. Having achieved a normalised profit in 1H23 (NPAT + Movement in expected credit loss provision basis (our preferred metric)), we see several tailwinds building in coming reporting periods before the company becomes sustainably profitable from FY26 under our assumptions. Important inputs in upcoming results include:

1. The **growth** the company is achieving in Australia in the short term has been lower than prior years.
2. The transition to **diversified funding** has given HMY a diverse pool of funding sources.
3. Further and sustained **improvement in operating leverage and cost-to-income is likely.**
4. The increasing proportion of its lending coming from prior **customers returning**, with negligible marketing expenses and improving **conversion rates** as a result of increasing sophistication in targeting new customers and thus more efficient market expense spend.

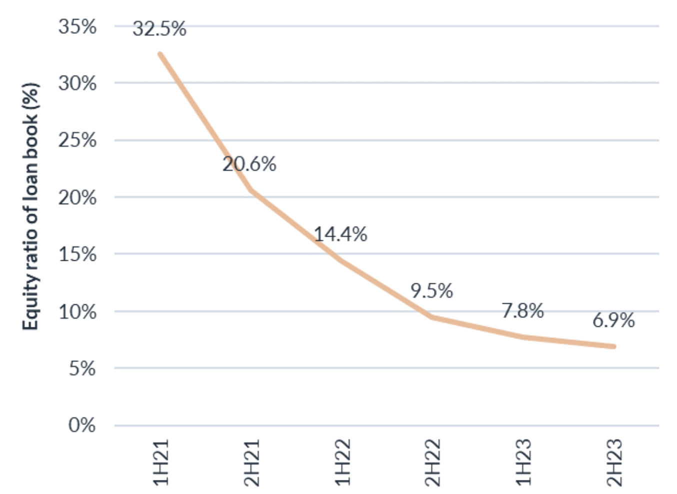
1.4 Is there a risk of a further capital raising?

Figure 9. HMY — Shareholders equity (A$m)



Source: Company, Forsyth Barr analysis

Figure 10. HMY — Capital ratio (%)



Source: Company, Forsyth Barr analysis

While we are not forecasting a capital raising by HMY in the short term we cannot rule it out, as a variety of factors could lead to a need to raise capital:

- Should a sudden unexpected rise in bad debts occur HMY may need to raise capital to strengthen its provisions and fund impaired loans on its own book, rather than in warehouses. This might only occur in extreme cases, such as the unexpected onset of a financial crisis, like the global financial crisis (GFC) in 2008, or in Australia's recession in the early 1990s.
- HMY's main source of cash consumption is from its net advances to customers and the need to back each loan with 5% equity, with the remainder financed through its existing warehouse and securitisation facilities. Should growth be higher than expected this could deplete its cash balance and require the company to raise addition capital to capture continued strong growth.
- HMY may wish to raise capital to accelerate growth, or for expansion into another lending category (such as credit cards) or another geographic region (such as the US, UK, Europe, or Asia).
- The company's strategy is focused on organic growth so acquisitions are unlikely; however, should a strategic opportunity arise the firm might also raise capital to undertake such an acquisition.

Part 2. Harmoney

Harmoney

2.1 Overview

HMY was founded in 2013 and focused initially on peer-to-peer lending in New Zealand, securing the country's first peer-to-peer lending license from the Financial Markets Authority (FMA) in 2014. Within two years of approving its first loan, HMY's total lending volume exceeded A$300m, and it launched an Australian pilot programme in February 2017. HMY has since transitioned from the peer-to-peer model to a diversified funding structure. Since its IPO on the ASX in November 2020, HMY has originated >A$1.1bn in total lending volume and now has a loan book of A$756m — split roughly evenly between New Zealand and Australia. The company has offices in Auckland and Sydney and employs ~85 staff, with over half of these roles in engineering, data science, and product development.

Product and value proposition

HMY's online platform provides customers with personal loans that are convenient, competitively priced, and can be paid out within 24 hours. Its automated loan approval system is powered by its Stellare® technology, which uses a combination of data, machine learning and automation to assess and price credit risk. Stellare® has been trained on over nine years of historical data and also uses a large volume of live consumer financial data to make accurate customer assessments. The vast array of data used in training the Stellare® technology allows HMY to price credit risk for demographics that may have been earmarked as not creditworthy by more simplistic models. The development of Stellare® is an iterative process, with >10,000 new users each month helping HMY to fine-tune the model. HMY is currently in the process of rolling out Stellare® 2.0, which will provide an enhanced customer experience and more sophisticated product delivery, enabling a broader product offering.

Funding

HMY has completed its transition away from peer-to-peer funding and utilises a diversified funding base. In total, HMY's funding facilities are worth >A$1.2bn, including five warehouse facilities supported by three of the four 'Big Four' Australian banks and a NZ$200m securitisation programme. In December of 2023, HMY announced the upsizing of its corporate debt facility from A$20m to A$30m, which provides ~A$200m of further lending capacity. As of December 2023, HMY also had undrawn warehouse funding capacity of A$247m. HMY's funding strategy is extremely capital efficient, with only ~5% of lending funded by HMY equity.

Strategy

HMY has a clearly defined business strategy which it hopes will help it achieve a cash ROE run rate of 20% in FY25. The strategy has four components:

1. **Lower customer acquisition costs (CAC).** Stellare® provides HMY with in-depth insights into desirable customers, allowing for targeted marketing spend and reduced overall cost.
2. **Lower losses.** As Stellare® develops its risk assessment and pricing capabilities, HMY should be able to improve the quality of its loan book and limit losses.
3. **Lower funding costs.** HMY's diversified funding facilities and capital-efficient lending model help to suppress funding costs.
4. **Fixed opex.** Because Stellare® is highly scalable HMY's loan book growth should be able to outpace growth in the operating expense base.

Figure 11. HMY — A strategy of 100% consumer direct business

Source: Company

2.1 The Harmoney offering

- Secured personal loans and unsecured vehicle loans of up to $70,000
- Secured/unsecured rates from 5.66%/5.77% to 20.07%/24.03% in Australia
- Secured/unsecured rates from 9.89%/9.99% to 21.49%/24.99% in NZ
- Rate is fixed for life of loan
- In Australia, an establishment fee of A$275 for loans under A$5,000, or A$575 for loans A$5,000 and over
- In NZ, an establishment fee of NZ$150
- No monthly account keeping or early repayment fees
- Weekly, fortnightly, or monthly repayments
- Three, five, or seven year loan terms.

Figure 12. HMY — Use of funds

Source: Company

Figure 13. HMY — Delivering faster, fairer loans via technology

- Personalised fixed rates based on customer credit characteristics.
- Loans up to $70,000 with terms of 3, 5 and 7 years.
- Average new loan size ~$21,000.
- Funding within 24 hours.
- One simple upfront loan establishment fee. No other fees.
- Loans fully compliant with consumer lending codes in AU/NZ.

Source: Company

2.2 Benefits of the direct-to-consumer model

HMY's customer flywheel

HMY's product provides customers with tangible benefits relative to competitors. Customer approval of HMY's loan offering is illustrated clearly by the company's 4.7/5 Google rating from >50,000 reviews. HMY leverages its 'repeat, return, renew' model to capitalise on this brand equity and maximise customer lifetime value.

- **Repeat.** Active customers with a demonstrable history of timely repayments and untapped borrowing capacity take out further loans.
- **Return.** Customers who have repaid loans return to HMY for a new loan. Typically, unforeseen events trigger loan origination.
- **Renew.** Quality borrowers at risk of being refinanced by another lender receive new loan terms.

The direct-to-consumer model employed by HMY has many benefits and contributes significantly to the company's competitive edge. HMY has no retail network and bypasses the broker system, allowing for complete control of the customer experience and loan distribution process. The benefit of this is three-fold: (1) HMY can build equity and establish long-term relationships with customers. These long-term relationships create a flywheel effect for HMY, with repeat borrowers originating ~140% of the original loan balance over six years, on average. (2) Direct-to-consumer lending is faster and more efficient than intermediated or broker models. (3) Via its direct model, HMY can gather rich first-party data, which it can use to enhance Stellare® and improve its credit risk assessment and pricing. The high level of granularity provided first-hand by HMY's users is superior to that collected by peers using other lending models.

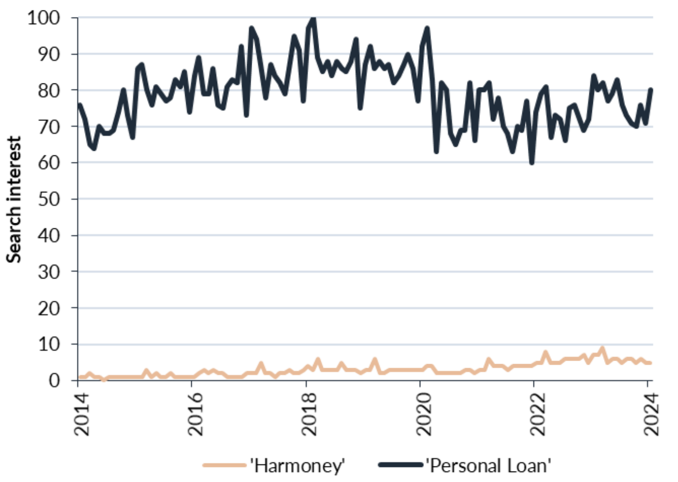
2.3 Marketing and partnerships

HMY taps into its Stellare® technology to optimise its marketing and customer acquisition processes. Stellare® can identify the characteristics of 'high-intent, highly eligible' borrowers and analyse online and application data to determine the most efficient ways to reach these potential customers. HMY has partnerships with the most prominent online advertisement distributors, including Google, Microsoft and Facebook, which allows it to create cost-effective acquisition channels. This low fixed-cost model allows HMY to adjust its marketing spend quickly and prioritise profitability over growth where needed. Once HMY has attracted the right customers into its ecosystem, customers generally have a positive experience with its product. Customers who return to use the product in the future create annuity revenue streams for HMY, which is advantageous because these customers have minimal to zero acquisition costs. In aggregate, HMY's (1) optimised customer acquisition model, (2) partnerships with leading advertisement distributors, and (3) benefit from low-acquisition cost repeat customers has helped its CAC to originations ratio decline steadily over the last three years.

Google search trends

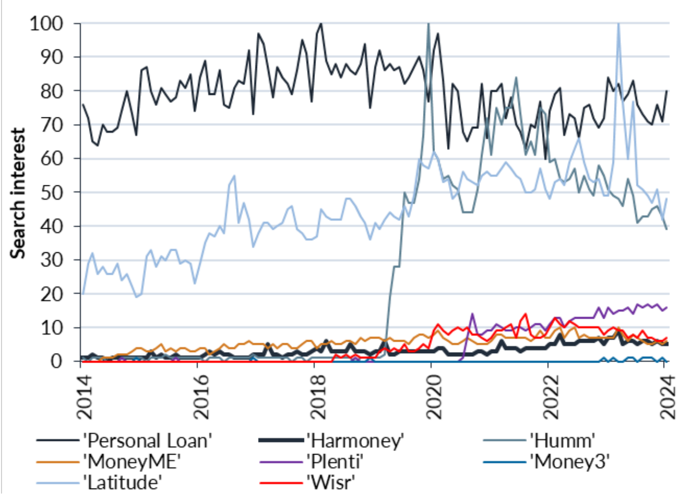
Search interest data from Google shows the search intensity for 'Harmoney' relative to 'Personal Loan' has increased over the last decade, peaking in March 2023. By contrast, search interest for 'Personal loan' has been relatively flat over the same period. Compared to its listed peer set, search interest for HMY is near the middle of the pack, with larger peers Latitude and Humm enjoying higher search intensity. In the context of HMY's low-cost acquisition model, its position (relative to itself and its peers) is a testament to its strategy.

Figure 14. 'Google search — 'Harmoney' vs 'Personal Loan'



Source: Google Trends, Forsyth Barr analysis

Figure 15. Google search — Different non-bank lenders vs. personal loan



Source: Google Trends, Forsyth Barr analysis

2.4 Stellare® 2.0 rollout

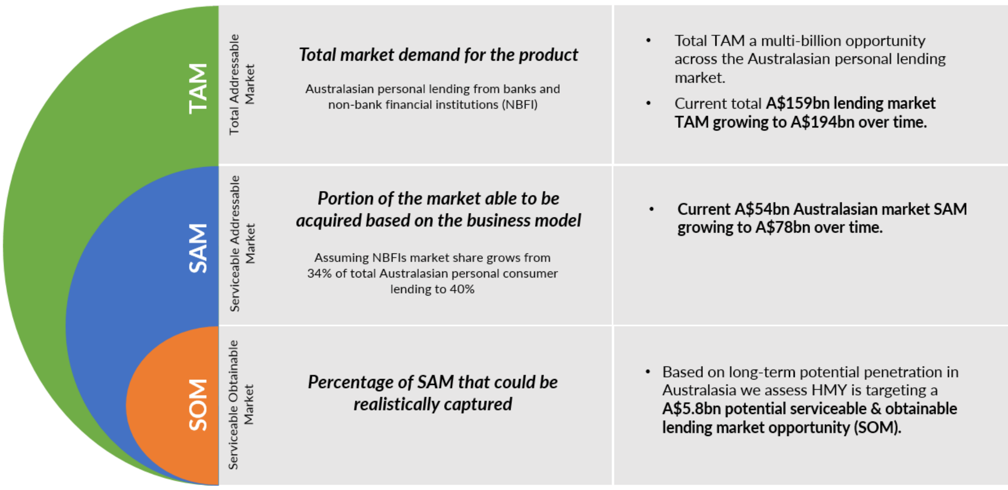
The latest version of HMY's proprietary Stellare® lending platform, Stellare® 2.0, has now been launched and is in use by customers in Australia. HMY expects Stellare® 2.0 to provide expanded technical and product capability. Notably, Stellare® 2.0 allows HMY to release new products to market faster than the legacy platform. For example, Stellare® 2.0 will cater to the smaller end of the borrowing market (A$2k to A$15k), approving a higher proportion of loans in this range than its predecessor, which was less proficient in calibrating to this market. Stellare® 2.0 was built in just nine months by HMY's internal development team and did not require significant external resources. In HMY's 1H24 trading update on 1 February 2024, CEO David Stephens commented that HMY 'are already beginning to see [Stellare® 2.0's] positive impacts on application conversion'. Once the rollout of Stellare® 2.0 in Australia is complete, HMY will implement the platform in New Zealand.

Part 3. Large personal lending markets and the fintech opportunity

3.1 Large addressable markets

HMY operates across Australia and NZ in the personal lending market. Its expansion and growth in the Australian market sees its loan book roughly equally weighted between both markets. However, with its position in Australia, HMY has unlocked a sizeable, addressable market that provides significant scope for growth. The personal lending market in Australia (A$145.2bn in December 2023) is roughly 11x as large as the personal lending market in New Zealand (A$13.8bn in December 2023), creating a total market of ~A$159bn at current exchange rates. We assess the market opportunity in front of HMY in a three-stage model, see Figure 16 below.

Figure 16. Our TAM/SAM and SOM framework in action

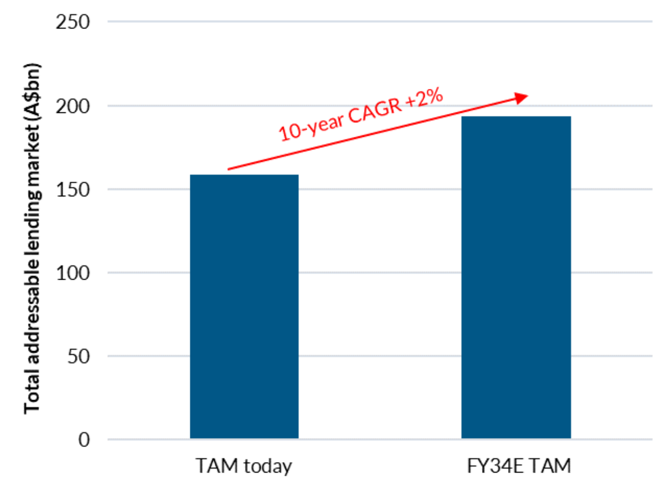


Source: Forsyth Barr analysis

Total addressable market (TAM)

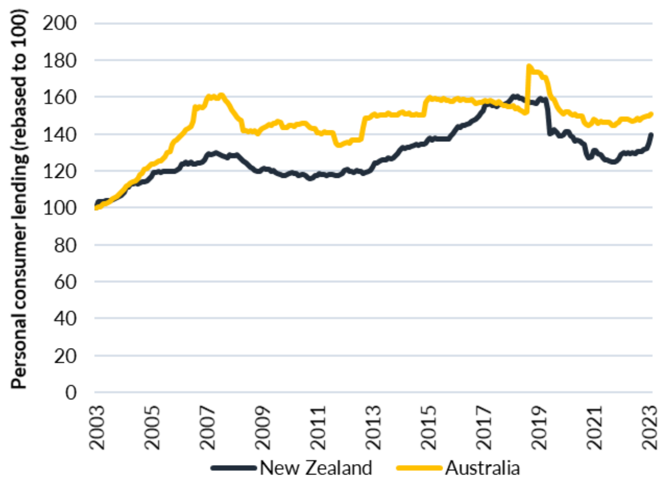
To estimate HMY's total addressable market (TAM) for lending, we grow the current Australasian (ANZ) personal consumer lending market (~A$159bn) by +2% annually over the next ten years to arrive at a value of ~A$194bn by FY34. The annual growth rate reflects our expectation for population growth, general economic expansion, and inflationary impacts to drive modest demand increases for personal lending. Over the last twenty years the ANZ personal consumer market has grown at an annualised +1.9%. The TAM looks specifically at the ANZ market, not considering the potential of HMY expanding into other geographic markets. TAM is an improbable level of lending achievable across all industry participants, with complete market penetration across a broad market definition. As such, it creates a potential for personal lending demand, albeit we consider it unrealistically large, requiring an assessment into more realistic terms by identifying the Serviceable Addressable Market (SAM) within the TAM.

Figure 17. TAM growth opportunity



Source: RBA, RBNZ, Forsyth Barr analysis

Figure 18. 20-year personal consumer lending growth in ANZ

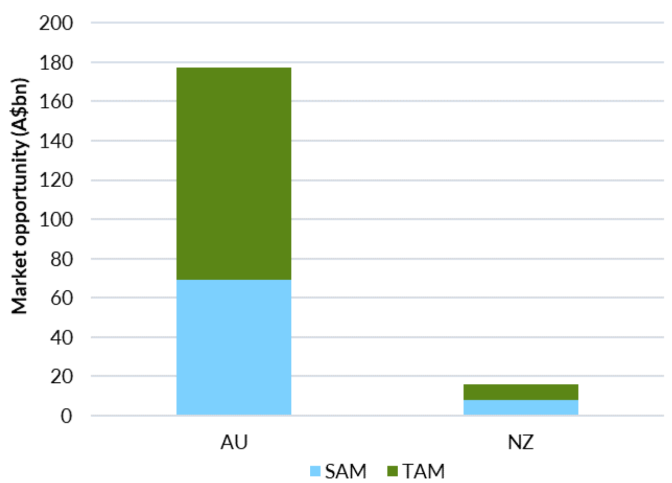


Source: RBA, RBNZ, Forsyth Barr analysis

Serviceable addressable market (SAM)

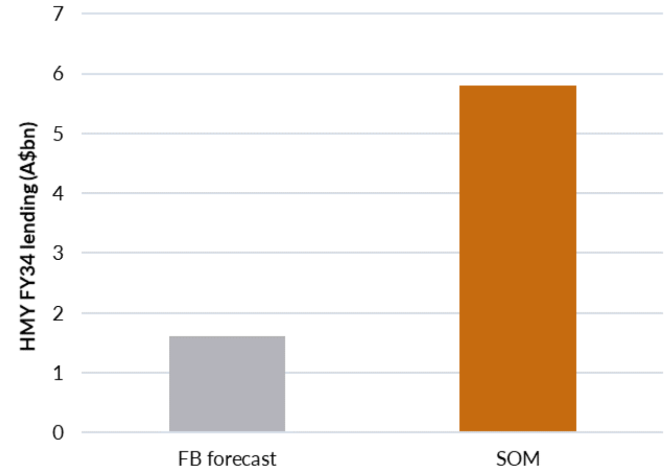
There are limitations to any business model, be they geographic, regulatory, or language barriers. Therefore, the SAM can allow a business to objectively estimate the market portion it could acquire in the most optimistic outcomes. To estimate HMY's lending SAM we look at the non-bank segment of the Australasian personal consumer lending market. Currently, non-bank financial institutions (NBFIs) have a ~34% share of the market, with a much higher share in New Zealand (~47%) and a lower share in Australia (~33%). Given the nimble and innovative offerings of NBFIs, and banks continuing to tighten risk tolerances, we expect some future convergence between the New Zealand and Australian markets. By FY34, NBFIs could account for ~40% of Australasian personal consumer lending, implying a SAM for HMY of A$78bn in FY34 (from A$54bn today).

Figure 19. SAM & TAM by market segment



Source: RBA, RBNZ, Forsyth Barr analysis

Figure 20. FB forecast versus SOM estimate

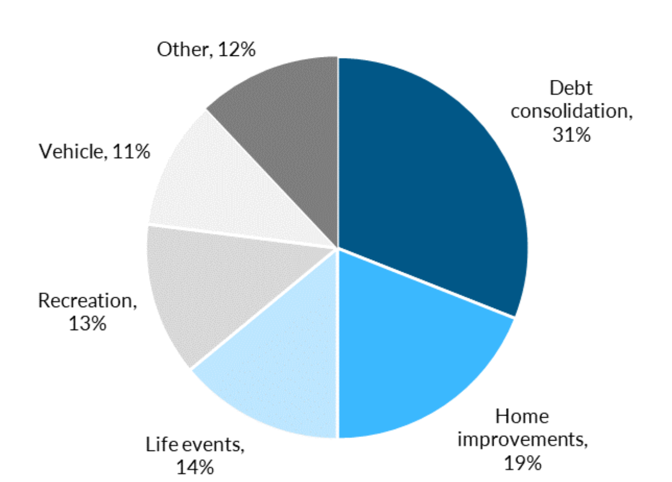


Source: RBA, RBNZ, Forsyth Barr analysis

Serviceable obtainable market (SOM)

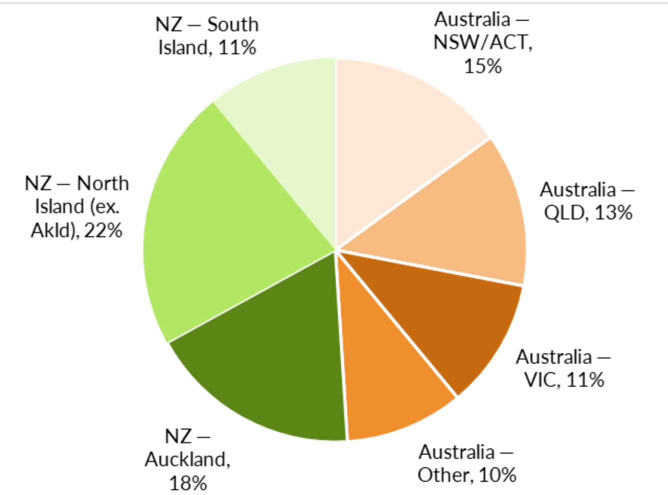
Given market share limitations, it is unlikely that any business could capture 100% of any market or segment. HMY's products also target specific market niches that are not representative of the whole market (see Figure 21), albeit they operate across all states in Australia and NZ-wide (see Figure 22). Given this, an important additional measure is calculating the Serviceable Obtainable Market (SOM) to determine what proportion of the market fit HMY's product offerings. From a SAM of A$78bn in FY34, we anticipate HMY could achieve a total market penetration of 7.5% in a close to best-case situation. Therefore, we assess HMY's lending SOM as A$5.8bn (see Figure 20), which compares to our forecast for HMY to grow its loan book to A$1.7bn by FY34, leaving ample scope for exceptional management execution.

Figure 21. HMY — Loan purpose



Source: Comany, Forsyth Barr analysis

Figure 22. HMY — Loan region

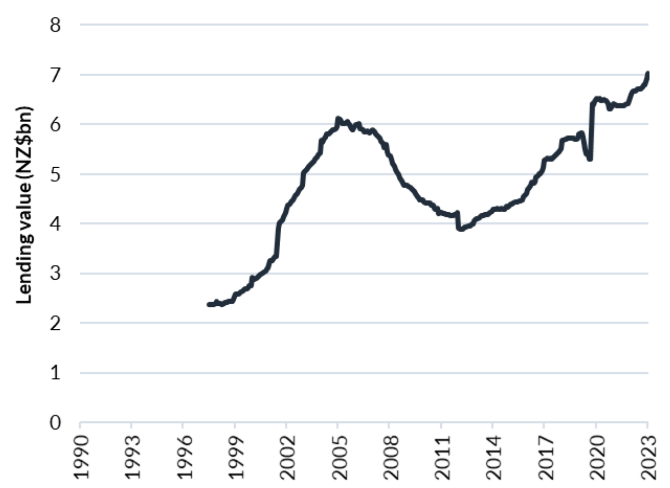


Source: Forsyth Barr analysis

3.2 Innovation in the direct to consumer lending fintech sector

- The consumer lending sector is seeing increased innovation, driven by technological advancements and evolving consumer demands. These developments will continue accelerating over 2024, reshaping the global lending landscape. Key themes are emerging:
- **Traditional banks are facing stricter regulations** aiding the rise of alternative lending, coupled with demand for faster and more accessible credit. This is paving the way for non-bank lenders, fintech startups, P2P platforms, and BNPL providers to take share (see Figures 23 and 24).
- **Artificial Intelligence** (AI) and Machine Learning (ML) are being extensively utilised to refine credit scoring models, allowing for a more nuanced understanding of borrower risk.
- The shift towards a **digital-first approach** has become the norm in the direct-to-consumer lending fintech sector. Mobile banking and online platforms have enabled near-instant loan approvals and processing. This trend caters to the younger, tech-savvy demographic, emphasising convenience and accessibility. Seamless loan applications, approvals, and management via **mobile apps** boost user convenience and market penetration.
- The **customisation** of loan products, offering bespoke solutions based on individual needs and preferences, has been made possible by the sophisticated use of data analytics.
- Development of **integrated budgeting tools**, credit score monitoring and educational resources to promote responsible borrowing and financial health is developing. Further, sustainability and social impact financing are anticipated to gain prominence in the fintech space. This will see the increasingly **environmentally and socially responsible lending practices** incorporated into business models.
- **Blockchain** technology is being increasingly discussed for integration into lending processes for facilitating secure, transparent transactions with automated smart contracts. This has the potential to reduce the need for intermediaries, cutting costs and enhancing efficiency.
- E-commerce platforms, retail stores and brands, and other social media platforms have started offering **embedded finance** tied to specific purchases or needs. This develops open banking via the sharing of financial data securely with lenders via APIs, which may unlock opportunities.
- **Collaborations** between fintechs and traditional banks are likely to become more commonplace. Such partnerships will combine the technological prowess of fintechs with the extensive customer base and financial expertise of established banks.
- The **direct-to-consumer** lending market is expected to witness heightened competition from existing players and new entrants.
- The global nature of the fintech ecosystem is also set to expand, with more firms venturing into **cross-border lending**.

Figure 23. Consumer lending by NZ non-bank lending institutions



Source: RBNZ, Forsyth Barr analysis

Figure 24. Consumer lending by AU non-bank lending institutions

Source: RBA, Forsyth Barr analysis

Part 4. Competitors

4.1 Competitive landscape

Australasia's personal lending market is competitive with diverse participants. Banks still finance a large majority of personal consumer lending. However, the banks' market share has eroded in recent times. Banks and other incumbent lenders often operate outdated systems, are more focused on other market segments such as residential mortgages, and have stringent regulatory requirements. These factors have enabled new market entrants to offer superior products and cannibalise share.

These new market entrants include pure-play personal loan players — Plenti Group (PLT), Wisr (WZR), and MoneyMe (MME) — and diversified personal lending players — Latitude Group Holdings (LFS), Humm (HUM), Pepper Money (PPM), Solvar (SVR), and Liberty (LFS). Each of these players operates in distinct market and geographic segments. Figure 25 shows a full breakdown of industry players.

Figure 25. Personal lending industry players

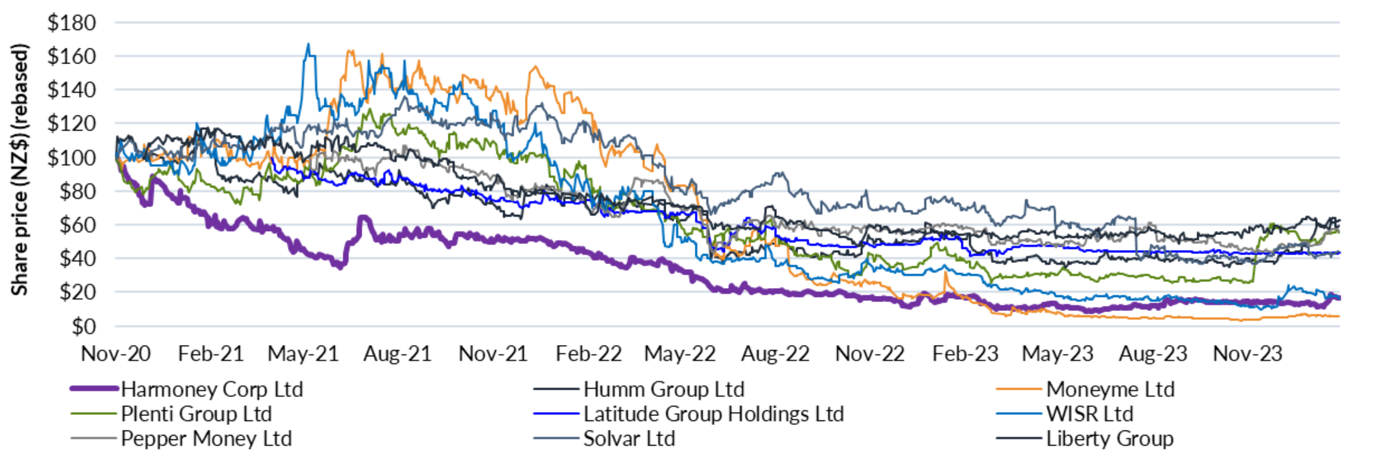
Company	Company name	Market Cap (A$m)	Main regions of Operation	Debt Consolidation	Home loans	Home renovation	Vehicle finance	Personal loans	BNPL	Payday lending	Business lending
HMY	Harmoney	60	AU, NZ	x	x	x	x	x			x
HUM	Humm	351	AU, NZ, UK, CAD, IRL			x		x	x		x
LFG	Liberty	1255	AU, NZ	x	x	x	x				x
LFS	Latitude	1216	AU, NZ	x		x	x	x			
MME	MoneyME	69	AU	x		x	x	x			x
PLT	Plenti	123	AU	x			x	x			
PPM	Pepper Money	682	AU, NZ	x	x	x	x	x			x
SVR	Solvar	255	AU, NZ				x				
WZR	WISR	45	AU	x		x	x	x			

Source: Company Data, Forsyth Barr analysis

Sector share price performance

Since HMY's IPO on the ASX in November 2020, listed players in the Australasian personal lending sector have faced a challenging period of share price performance. On average, HMY, HUM, LFG, LFS, MME, PLT, PPM, SVR and WZR have returned -60% during this period. HUM (-38%) has been the best performer, while MME (-94%) has experienced the biggest decline.

Figure 26. Sector share price performance since HMY listing (November 2020)



Source: Company Data, Forsyth Barr analysis

Share prices have been impacted by the sector's exposure to the credit cycle; rising interest rates create headwinds for credit demand and constrain lending margins, leading to declining growth and profitability. However, the sector is highly leveraged to a cyclical recovery in the economy and has been a strong performer as risk-on sentiment has returned to the market since the end of 2023. Over the last six months, the average return for the sector has been +20%, led by PLT (+82%), HUM (+57%) and HMY (+50%).

4.2 Sector analysis

Size and growth

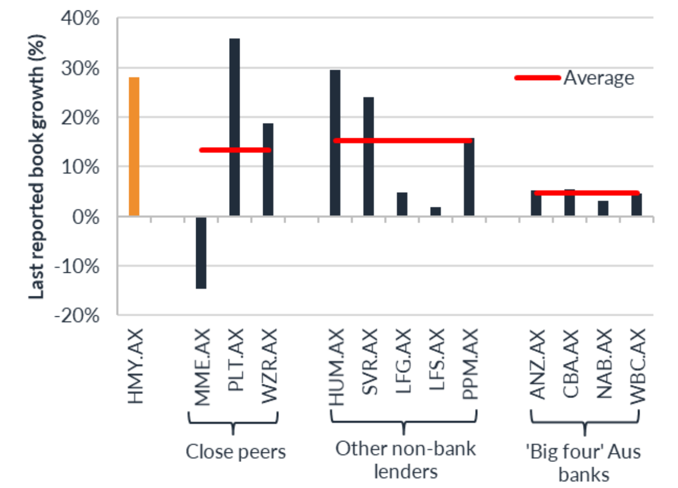
HMY is Australasia's largest online direct personal lender, but is one of the smallest listed lenders on the ASX in terms of market capitalisation and book size. However, its last reported 12-month book growth of +28% compares favourably to its peer set, with only PLT and HUM achieving faster growth. Revenue across the sector spiked in the last twelve months, driven by rising interest rates, with HMY's sales growth of +47% lagging its close peers slightly but ahead of the wider group of non-bank personal lenders.

Figure 27. Sector size and growth measures — last reported FY financials

Ticker	Company name	Last Balance Date	Share Price (A$)	Market Cap (A$m)	Closing Book (A$m)	12m Book Growth (%)	Revenue (A$m)	12m Rev. Growth (%)
HMY.AX	**Harmoney Corp Ltd**	**30/06/2023**	**0.585**	**59.6**	**744.0**	**28.1%**	**107.1**	**47.0%**
	Close peers							
MME.AX	Moneyme Ltd	30/06/2023	0.08	68.8	1,149.6	-14.5%	238.9	67.0%
PLT.AX	Plenti Group Ltd	31/03/2023	0.69	123.3	1,766.2	35.9%	143.5	62.1%
WZR.AX	WISR Ltd	30/06/2023	0.03	45.0	931.0	18.8%	91.9	54.7%
	Average			**79.1**	**1,282.3**	**13.4%**	**158.1**	**61.2%**
	Median			**68.8**	**1,149.6**	**18.8%**	**143.5**	**62.1%**
	Other non-bank lenders							
HUM.AX	Humm Group Ltd	30/06/2023	0.70	350.6	4,153.6	29.6%	510.4	15.9%
SVR.AX	Solvar Ltd	30/06/2023	1.21	255.1	910.1	24.1%	209.3	11.4%
LFG.AX	Liberty Group	30/06/2023	4.18	1,254.7	13,657.3	4.8%	1,009.3	60.0%
LFS.AX	Latitude Group Holdings Ltd	31/12/2022	1.17	1,216.4	6,474.2	1.9%	890.2	-4.5%
PPM.AX	Pepper Money Ltd	31/12/2022	1.52	681.7	18,327.8	15.9%	1,063.7	37.9%
	Average			**751.7**	**8,704.6**	**15.3%**	**736.5**	**24.1%**
	Median			**681.7**	**6,474.2**	**15.9%**	**890.2**	**15.9%**
	'Big Four' Aus banks							
ANZ.AX	ANZ Group Holdings Ltd	30/09/2023	28.50	85,473.5	701,606.0	5.2%	49,902.0	111%
CBA.AX	Commonwealth Bank of Australia	30/06/2023	117.13	194,728.5	903,675.0	5.5%	44,500.0	86%
NAB.AX	National Australia Bank Ltd	30/09/2023	33.17	102,860.7	697,243.0	3.2%	48,074.0	115%
WBC.AX	Westpac Banking Corp	30/09/2023	25.24	85,948.8	775,588.0	4.6%	43,753.0	88%
	Average			**117,252.9**	**769,528.0**	**4.6%**	**46,557.3**	**100%**
	Median			**94,404.7**	**738,597.0**	**4.9%**	**46,287.0**	**100%**

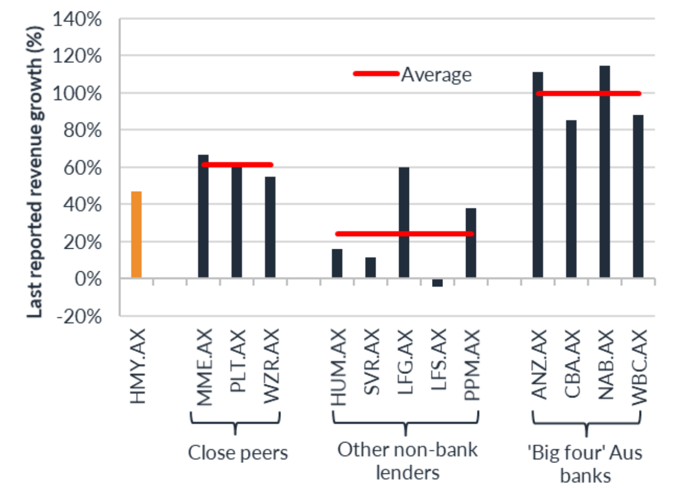
Source: Company data, Refinitiv Eikon, Forsyth Barr analysis

Figure 28. Sector last reported 12m book growth



Source: Company data, Refinitiv Eikon, Forsyth Barr analysis

Figure 29. Sector last reported 12m revenue growth



Source: Company data, Refinitiv Eikon, Forsyth Barr analysis

Profitability

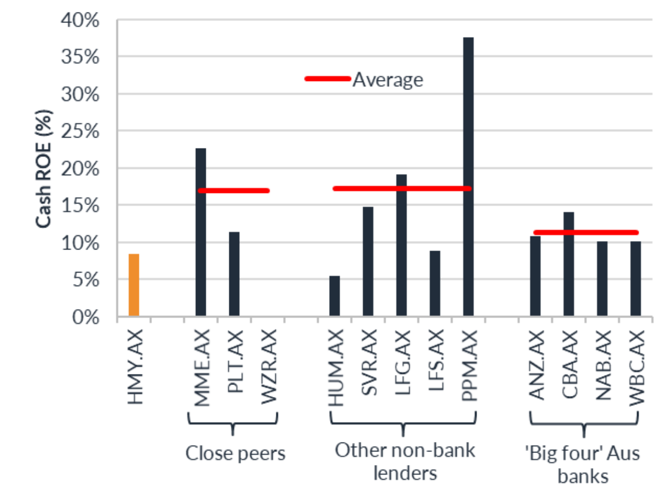
Profitability and returns across the Australasian consumer lending sector are mixed, with smaller-scale players (HMY and its close peers) generating thinner profits than the non-banks and banks. HMY's cash ROE of 8.4% trails sector averages, albeit there is significant dispersion in the close peer and non-bank groups. Cash ROE for the banks is more consistent, between 10% and 14%. We expect HMY's cash ROE to improve markedly as it benefits from scale and operational leverage. HMY currently trades at a trailing cash PE of 12.6x, roughly in-line with the close peer and bank average but significantly ahead of the average for non-bank peers. The premium to other non-bank lenders may be justified given HMY's superior growth outlook.

Figure 30. Profitability measures — last reported FY financials

Ticker	Company Name	Last Balance Date	Statutory NPAT (A$m)	'Cash' NPAT (A$m)	Average Equity (A$m)	ROE (%)	Cash ROE (%)	Trailing Cash PE (x)
HMY.AX	**Harmoney Corp Ltd**	**30/06/2023**	**-7.6**	**4.7**	**56.4**	**n/a**	**8.4%**	**12.6x**
	Close peers							
MME.AX	Moneyme Ltd	30/06/2023	12.3	29.1	128.7	9.5%	22.6%	2.4x
PLT.AX	Plenti Group Ltd	31/03/2023	-13.6	5.5	48.9	n/a	11.3%	23.3x
WZR.AX	WISR Ltd	30/06/2023	-13.2	-2.8	72.9	n/a	n/a	n/a
	Average		**-4.8**	**10.6**	**83.5**	**9.5%**	**17.0%**	**12.3x**
	Median		**-13.2**	**5.5**	**72.9**	**9.5%**	**17.0%**	**12.3x**
	Other non-bank lenders							
HUM.AX	Humm Group Ltd	30/06/2023	2.9	34.6	626.9	0.5%	5.5%	10.1x
SVR.AX	Solvar Ltd	30/06/2023	47.6	55.1	373.0	12.8%	14.8%	4.6x
LFG.AX	Liberty Group	30/06/2023	181.1	219.5	1,143.2	15.8%	19.2%	5.7x
LFS.AX	Latitude Group Holdings Ltd	31/12/2022	57.9	135.1	1,520.0	3.8%	8.9%	9.0x
PPM.AX	Pepper Money Ltd	31/12/2022	140.5	270.3	719.2	19.5%	37.6%	2.5x
	Average		**86.0**	**142.9**	**876.5**	**10.5%**	**17.2%**	**6.4x**
	Median		**57.9**	**135.1**	**719.2**	**12.8%**	**14.8%**	**5.7x**
	'Big Four' Aus banks							
ANZ.AX	ANZ Group Holdings Ltd	30/09/2023	7,098.0	7,410.0	68,223.5	10.4%	10.9%	11.5x
CBA.AX	Commonwealth Bank of Australia	30/06/2023	10,090.0	10,160.0	72,416.5	13.9%	14.0%	19.2x
NAB.AX	National Australia Bank Ltd	30/09/2023	7,414.0	7,700.0	71,524.0	10.4%	10.1%	13.4x
WBC.AX	Westpac Banking Corp	30/09/2023	7,201.0	7,201.0	71,524.0	10.1%	10.1%	11.9x
	Average		**7,950.8**	**8,117.8**	**70,922.0**	**11.2%**	**11.3%**	**14.0x**
	Median		**7,307.5**	**7,555.0**	**71,524.0**	**10.4%**	**10.5%**	**12.6x**

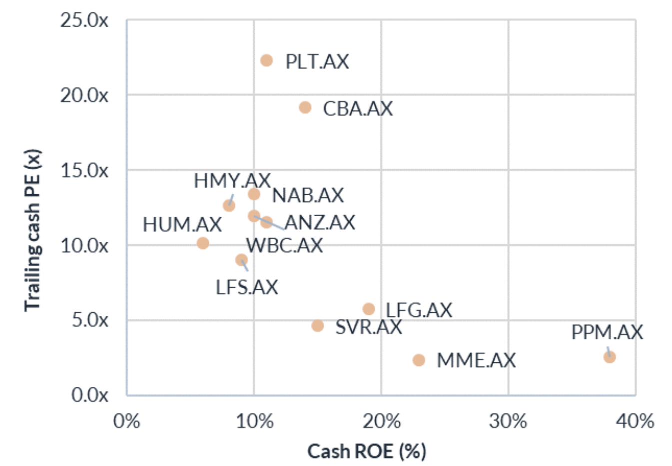
Source: Company data, Refinitiv Eikon, Forsyth Barr analysis

Figure 31. Sector cash ROE



Source: Company data, Refinitiv Eikon, Forsyth Barr analysis

Figure 32. Sector cash ROE versus trailing cash PE



Source: Forsyth Barr analysis

Lending

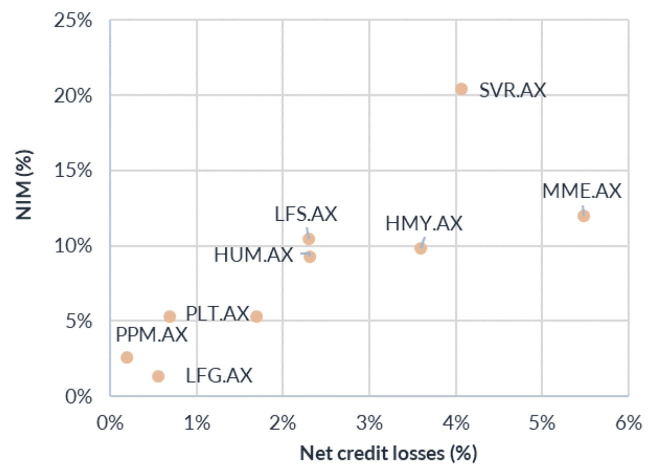
HMY's NIM (9.84% for FY23) compares well with its peers, especially when considering its net credit loss ratio. Of the three companies with a higher NIM than HMY, none have a lower net credit loss ratio (%). The relationship between NIM and credit losses in the sector is evident, with some players (such as MME) targeting higher margins at the expense of greater credit losses, while other players like the banks have much lower margins but structurally minimal credit losses. Pleasingly, HMY's risk-adjusted income yield of 6.25% also leads two of three companies in its close peer set.

Figure 33. Lending measures — last reported FY financials

Ticker	Company Name	Last Balance Date	Revenue Yield	NIM %	Net Credit Losses (%)	Risk Adjusted Income (A$m)	RAI (%)
HMY.AX	**Harmoney Corp Ltd**	**30/06/2023**	**15.67%**	**9.84%**	**3.59%**	**42.7**	**6.25%**
Close peers							
MME.AX	Moneyme Ltd	30/06/2023	19.15%	11.95%	5.48%	80.8	6.47%
PLT.AX	Plenti Group Ltd	31/03/2023	9.28%	5.29%	0.68%	71.2	4.61%
WZR.AX	WISR Ltd	30/06/2023	10.71%	5.33%	1.69%	31.2	3.64%
	Average		**13.05%**	**12.19%**	**2.62%**	**61.0**	**4.91%**
	Median		**10.71%**	**5.33%**	**1.69%**	**71.2**	**4.61%**
Other non-bank lenders							
HUM.AX	Humm Group Ltd	30/06/2023	13.84%	9.30%	2.31%	257.2	6.99%
SVR.AX	Solvar Ltd	30/06/2023	25.48%	20.38%	4.07%	134.0	16.31%
LFG.AX	Liberty Group	30/06/2023	7.56%	1.32%	0.56%	102.3	0.77%
LFS.AX	Latitude Group Holdings Ltd	31/12/2022	13.88%	10.47%	2.30%	523.9	8.17%
PPM.AX	Pepper Money Ltd	31/12/2022	6.23%	2.59%	0.20%	408.2	2.39%
	Average		**13.40%**	**8.81%**	**1.89%**	**285.1**	**6.93%**
	Median		**13.87%**	**9.30%**	**2.30%**	**257.2**	**6.99%**
'Big Four' Aus banks							
ANZ.AX	ANZ Group Holdings Ltd	30/09/2023	7.29%	2.42%	0.04%	16,336.0	2.39%
CBA.AX	Commonwealth Bank of Australia	30/06/2023	5.06%	2.62%	0.13%	21,973.0	2.50%
NAB.AX	National Australia Bank Ltd	30/09/2023	7.00%	2.63%	0.12%	17,207.0	2.51%
WBC.AX	Westpac Banking Corp	30/09/2023	5.77%	2.41%	0.09%	17,670.0	2.33%
	Average		**6.28%**	**2.52%**	**0.09%**	**18296.50**	**2.43%**
	Median		**6.39%**	**2.52%**	**0.10%**	**17438.50**	**2.44%**

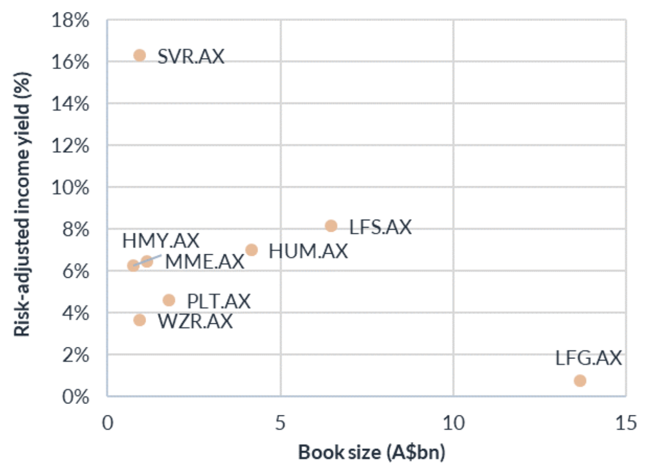
Source: Company data, Refinitiv Eikon, Forsyth Barr analysis

Figure 34. Sector NIM versus net credit losses



Source: Company data, Refinitiv Eikon, Forsyth Barr analysis

Figure 35. Sector risk-adjusted income yield versus book size



Source: Company data, Refinitiv Eikon, Forsyth Barr analysis

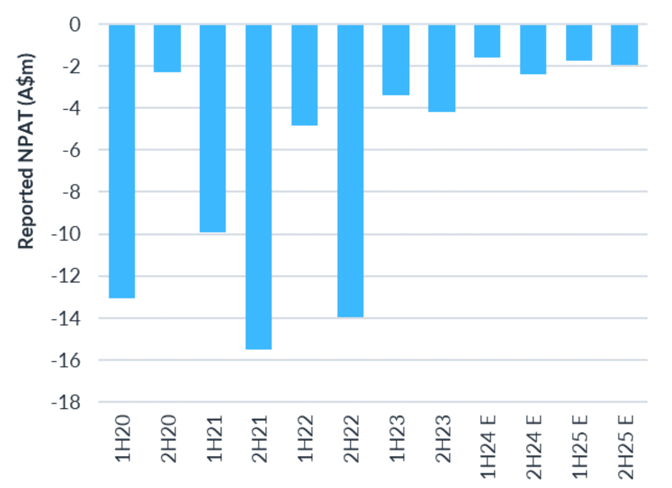
Appendices

Appendix 1: Explaining 'normalised' and 'cash' NPAT

HMY reports under the IFRS 9 accounting reporting standard. IFRS 9 is an International Financial Reporting Standard that addresses the accounting for financial instruments. IFRS 9 replaces IAS 39 and aims to provide a more intuitive approach to financial instrument reporting, focusing on how entities manage their financial instruments (business model) and the contractual cash flows characteristics of the assets. It introduces an expected loss model for impairment, replacing the incurred loss model, which requires entities to recognise credit losses earlier.

Understanding the distinction between reported numbers and how the company perceives operating results is necessary for analysing HMY. **Reported NPAT** includes recognition in the Profit and Loss statement of the 'Movement in the expected credit loss provision' at the loan outset, despite income being earned over the life of the loan. On loan origination, an expected credit loss provision accounts for anticipated losses from the treatment of expected credit loss provisions under NZ IFRS 9. This is in addition to the incurred loan losses in any period. Net growth in the loan book is the principal driver in the movement in expected credit loss provision. Our preferred earnings measure removes the 'Movement in expected credit loss provision' given at this level; it includes 'Incurred credit losses' (expected between 3% and 4%) but not the pre-expensing of a higher provision rate (c.4.8% to 5%). We name this measure **Normalised NPAT**, see Figure 38. Management's preferred metric, **Cash NPAT**, see Figure 39, also removes other non-cash items, including 'Share based payment expenses' and 'Depreciation and amortisation expenses'.

Figure 36. HMY — Reported NPAT



Source: Company, Forsyth Barr analysis

Figure 37. Explaining the differences between reported, normalised, and cash NPAT

Reported NPAT (statutory accounts)

add back '*Movement in expected credit loss provision*'

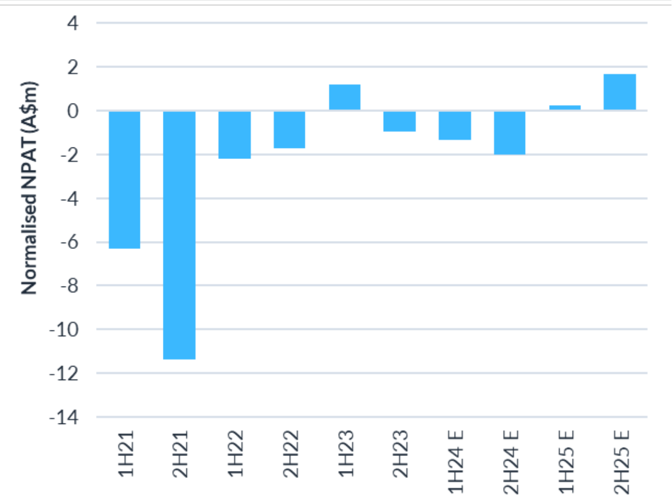
Normalised NPAT (our preferred income measure)

add back '*Share based payment expenses*'
add back '*Depreciation and amortisation expenses*'

Cash NPAT (HMY's measure)

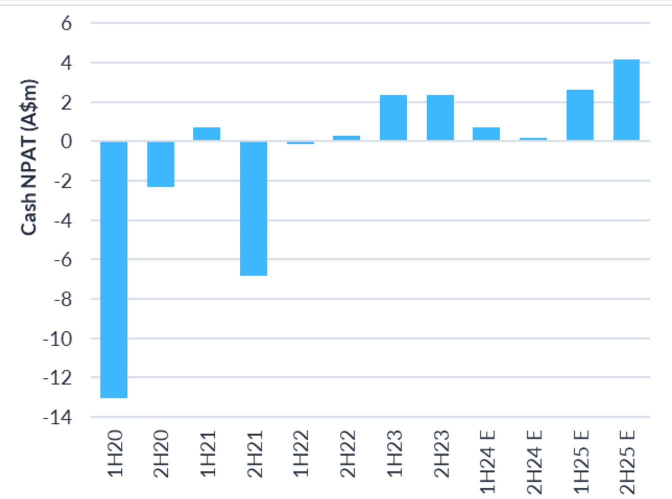
Source: Forsyth Barr analysis

Figure 38. HMY — Normalised NPAT



Source: Company, Forsyth Barr analysis

Figure 39. HMY — Cash NPAT



Source: Company, Forsyth Barr analysis

Appendix 2: FY24 outlook

Due to a general lift in interest rates, our FY24 projections see interest income climb by +17% to A$123m with relatively slow +2% loan book growth. Our forecasts see reported NPAT loss improving from -A$7.6m in FY23 to -A$3.9m in FY24. This equates to a -A$3.3m normalised NPAT loss and a cash NPAT of +A$0.9m. NIM is expected to fall from 9.6% in FY23 to 9.0% in FY24 and see the net lending margin fall from 6.0% to 4.8%, at the low of this cycle.

Figure 40. FY24 outlook

	FY23 Actual	FY24 Estimate	Change
Interest income	105.5	123.2	+17%
Other income	1.5	1.0	-35%
Total Income	**107.1**	**124.2**	**+16%**
Interest expense	(39.8)	(55.4)	+39%
Impairment expense	(32.4)	(32.1)	-1%
Customer acquisition expense (marketing expense pre 2021)	(12.3)	(10.7)	-13%
Personnel expenses	(12.9)	(11.6)	-10%
Customer servicing expenses (verficiation and servicing expenses pre 2021)	(6.2)	(5.9)	-5%
Technology expenses	(4.8)	(4.9)	+2%
General and administrative expenses	(3.7)	(3.7)	+0%
Depreciation and amortisation expenses	(2.5)	(3.4)	+35%
Profit/(Loss) before income tax expense	**(7.6)**	**(3.5)**	**-54%**
Income tax benefit / (expense)	-	(0.5)	n/a
Reported NPAT	**(7.6)**	**(3.9)**	**n/a**
Movement in expected credit loss provision	7.8	0.6	n/a
Normalised NPAT	**0.2**	**(3.3)**	**n/a**
Share based payment expenses	1.9	0.7	n/a
Depreciation and amortisation expenses	2.5	3.4	n/a
Cash NPAT	**4.7**	**0.9**	**n/a**

Source: Company data, Forsyth Barr analysis

Factors contributing to our FY24 forecasts

- **Credit conditions** — Tighter credit conditions see a more cautious customer battling the inflationary environment and presenting challenges for HMY. With disposable incomes under pressure, stricter lending criteria, and a higher cost of capital, credit becomes less accessible, leading to a decline in loan origination volume.
- **Interest rates** — Elevated interest rates have led to more expensive consumer borrowing costs, prompting a deferral in loans for discretionary expenditures such as vehicles, boats, and home improvements. This financial prudence directly responds to the increased cost of servicing new debt, making consumers hesitant to commit to large-scale purchases necessitating finance. We see some of this discretionary demand returning later in FY24 and into FY25 once interest rates begin to fall.
- **Incurred credit losses** — Rising interest rates and elevated cost of living pressures have precipitated an uptick in incurred credit losses. With borrowing costs escalating consumer repayment capabilities are strained, leading to a higher incidence of defaults. However, HMY's sophisticated credit scorecard does provide some insulation against this trend.
- **Provisioning** — The difference between reported NPAT and either our preferred normalised NPAT or HMY's Cash NPAT primarily stems from the mandated provision rate (4.8% expected in FY24) applied to the loan book balance and presented as the 'Expected credit loss provision' on the balance sheet. However, this provision rate varies due to differences in the composition of the Receivables balance on the balance sheet, and the Loan book (period end) balance. When a loan is written off, two entries are made: 1) a reduction in the Expected credit loss provision on the Balance Sheet (reflected as a credit expense in the P&L); and 2) an expense booked to Incurred credit loss on the P&L. The incurred credit losses, targeted by HMY management to be in the 3% to 4% range annually (which was 3.6% in FY23 and we forecast at 4.2% in FY24), represent actual charge-offs/write-offs as a percentage of the loan book balance. The difference between the provisioning rate mandated under NZ IFRS 9 and actual incurred losses of around the 3% to 4% range annually sees a building Expected credit loss provision and affects reported figures. The pace of book growth affects both the credit loss provision, and the reported Incurred credit loss ratio. Rapid book growth sees reported NPAT fall as the credit loss provision is booked immediately. In contrast, this rapid growth sees the incurred credit loss rate (%) fall due to the deferred nature of losses (peaking typically 12–18 months after loan origination).

1H24 expectations

On 1 February 2024 HMY updated the market on its expectations for 1H24. It has seen +2% growth in the loan book during the period and an impressive improvement in cost-to-income ratio to 24% in 1H24. Credit losses have, however, lifted to 4.2% for the period and net interest margin is expected to be around 9.2%. We forecast 1H24 interest income of A$59.9m and cash NPAT profit of +A$0.5m in-line with management estimates. At the normalised level, our estimate is for 1H24 NPAT loss of -A$1.5m and a reported NPAT loss of -A$1.8m. We anticipate HMY to announce its full 1H24 results on 23 February 2024.

Appendix 3: HMY Historical FY Results

Figure 41. HMY Historical FY Results

	FY19 Actual	FY20 Actual	FY21 Actual	FY22 Actual	FY23 Actual
Interest income	1.1	18.9	35.2	68.9	105.5
Other income	32.2	18.6	5.1	3.9	1.5
Total Income	**33.3**	**37.5**	**40.2**	**72.8**	**107.1**
Interest expense	(0.3)	(5.7)	(9.0)	(18.1)	(39.8)
Impairment expense	(0.8)	(8.9)	(12.2)	(25.5)	(32.4)
Customer acquisition expense (marketing expense pre 2021)	(9.4)	(14.1)	(15.4)	(20.7)	(12.3)
Personnel expenses	(11.5)	(13.2)	(12.4)	(12.6)	(12.9)
Customer servicing expenses (verificiation and servicing expenses pre 2021)	(3.1)	(3.9)	(3.4)	(5.2)	(6.2)
Technology expenses	(3.0)	(3.9)	(3.0)	(4.2)	(4.8)
General and administrative expenses	(5.3)	(6.9)	(4.6)	(4.0)	(3.7)
Depreciation and amortisation expenses	(0.1)	(1.0)	(1.0)	(1.3)	(2.5)
Profit/(Loss) before income tax expense	(0.2)	(20.0)	(27.6)	(18.8)	(7.6)
Income tax benefit / (expense)	7.5	4.6	2.1	-	-
Reported NPAT	**7.2**	**(15.4)**	**(25.4)**	**(18.8)**	**(7.6)**
Movement in expected credit loss provision	0.8	6.4	7.8	14.9	7.8
Normalised NPAT	**8.1**	**(9.0)**	**(17.7)**	**(3.9)**	**0.2**
Share based payment expenses	1.2	0.9	3.8	2.7	1.9
Depreciation and amortisation expenses	0.1	1.0	1.0	1.3	2.5
Cash NPAT	**9.4**	**(7.1)**	**(12.9)**	**0.2**	**4.7**

Source: Company Data, Forsyth Barr analysis

Appendix 4: FY23 Result Highlights

In FY23 Harmoney Corp Ltd (HMY) delivered a robust performance. The company's transition to diversified funding and strategic technological advancements have been pivotal in driving growth. Key financial highlights for FY23 include:

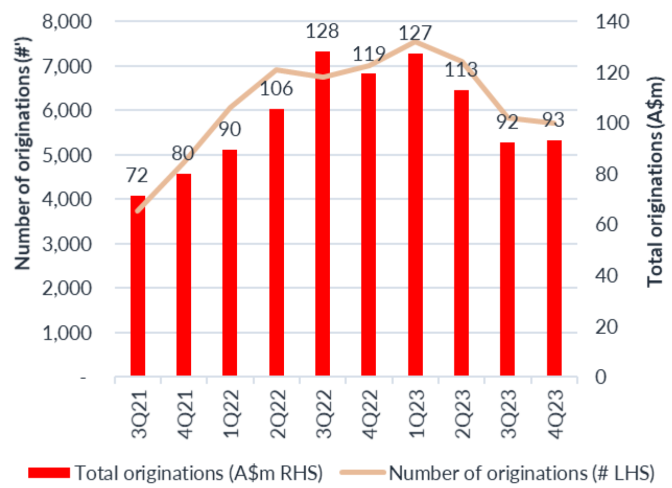
- Revenue experienced a significant uptick, increasing by +47% to A$107m compared to A$73m in FY22. This substantial increase is indicative of HMY's expanding market presence and efficient business model.
- The loan book exhibited healthy growth up +28% to A$744m.
- A marked improvement in Cash Net Profit After Tax (Cash NPAT), which rose to A$4.7m, a substantial increase from the A$0.2m recorded in the previous year. This improvement is a testament to HMY's effective cost management and operational efficiency.
- Net Interest Margin (NIM) was a solid 9.6%, showcasing HMY's prudent financial management and robust lending practices.
- Adoption of the Stellare® 2.0 platform played a crucial role in streamlining operations and enhancing the overall customer experience. The platform's impact on operational efficiency is evident in the company's financial results.

Figure 42. HMY — FY earnings

	FY22 Actual	FY23 Actual	Change
Interest income	68.9	105.5	+53%
Other income	3.9	1.5	-60%
Total Income	**72.8**	**107.1**	**+47%**
Interest expense	(18.1)	(39.8)	+120%
Impairment expense	(25.5)	(32.4)	+27%
Customer acquisition expense (marketing expense pre 2021)	(20.7)	(12.3)	-41%
Personnel expenses	(12.6)	(12.9)	+3%
Customer servicing expenses (verficiation and servicing expenses pre 2021)	(5.2)	(6.2)	+20%
Technology expenses	(4.2)	(4.8)	+15%
General and administrative expenses	(4.0)	(3.7)	-9%
Depreciation and amortisation expenses	(1.3)	(2.5)	+89%
Profit/(Loss) before income tax expense	**(18.8)**	**(7.6)**	**-60%**
Income tax benefit / (expense)	-	-	
Reported NPAT	**(18.8)**	**(7.6)**	**n/a**
Movement in expected credit loss provision	14.9	7.8	n/a
Normalised NPAT	**(3.9)**	**0.2**	**-106%**
Share based payment expenses	2.7	1.9	n/a
Depreciation and amortisation expenses	1.3	2.5	n/a
Cash NPAT	**0.2**	**4.7**	**n/a**

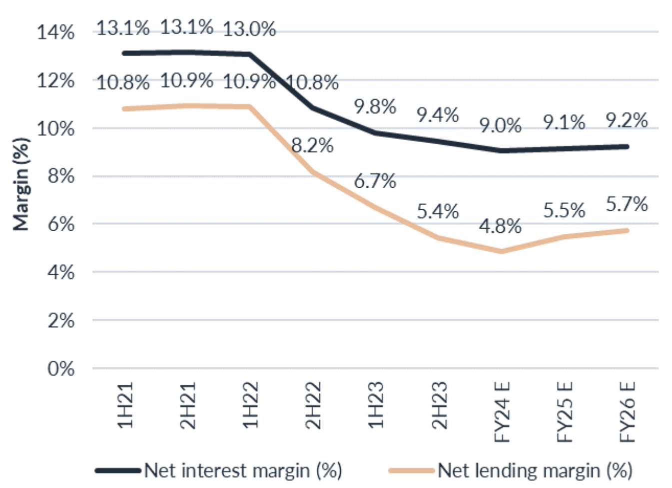
Source: Company Data, Forsyth Barr analysis

Figure 43. Number of originations and value of originations



Source: Company, Forsyth Barr analysis

Figure 44. HMY — NIM and NLM margins



Source: Company, Forsyth Barr analysis

Appendix 5: Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis

Figure 45. HMY — SWOT analysis

Strengths

- HMY leverages innovative technology, particularly its Stellare® platform, for efficient loan processing and risk assessment.
- Its direct-to-consumer model offers competitive advantages in loan offerings by utilizing better customer data.
- As a leading online direct personal lender in Australia and New Zealand, HMY holds significant market share.
- The customer base, especially in Australia, shows continuous growth.
- Operational efficiency is a key strength, with fixed business expenses enhancing operational leverage.
- Diverse funding sources, including warehouse facilities and institutional funding, provide financial stability.

Opportunities

- Potential for expansion in the Australian market and capitalizing on the growing demand for alternative lending.
- Introducing new loan products could widen market appeal.
- Technological advancements could lead to more efficient operations and customer acquisition.
- Collaborations with fintech and financial institutions could open new growth avenues.
- Positive regulatory changes in the lending sector could present new opportunities.

Weaknesses

- Heavy reliance on technology platforms can lead to vulnerabilities in case of tech disruptions.
- Operating in a dynamic regulatory environment poses risks of compliance and legal challenges.
- A focus on unsecured personal loans limits market appeal compared to competitors with diverse offerings.
- Aggressive marketing to expand in Australia increases operational costs.
- Interest rate fluctuations pose a risk to HMY's margins.

Threats

- The personal lending space faces high competition from both traditional banks and fintech firms.
- Regulatory changes can significantly impact operations and profitability.
- Economic downturns can affect loan repayments and increase default rates.
- Cybersecurity threats and data breaches are significant risks for HMY's technology-dependent business model.
- Trends like the popularity of Buy-Now-Pay-Later services could divert potential customers.

Source: Forsyth Barr analysis

Appendix 6: Company history

Figure 46. HMY — Company history

Date	Event
Jul-13	Founded by Neil Roberts
Jul-14	First NZ peer to peer lending licence granted by FMA to Harmoney
Aug-14	NZ$85m in wholesale funding, and first borrower on its platform
Feb-16	Facilitates $200m of loan volume, pays lenders on the marketplace $15m in interest income, and closes an $8.5m Series B financing round
Jun-16	David Flacks appointed Chair, Stuart McLean joins as Director
Feb-17	Brisbane pilot
Dec-18	Inaugaural NZ warehouse facility: NZ$89.5m
end 2018	Over NZ$1bn in lending volume
Aug-19	David Stevens appointed CEO, Neil Roberts appointed Chief Strategy Officer, Brag Hagstrom appointed COO
Oct-19	Completes A$42.9M capital raise
Jan-20	Inaugaural AU warehouse facility: A$115m
Feb-20	HMY no longer accepts retail investments, all future loans will be funded by HMY & its wholesale funders
Apr-20	Closure of New Zealand retail peer to peer lending, transition to warehouse funding
Nov-20	Harmoney lists on ASX with a foreign exempt listing on NZX
Dec-20	Harmoney secures NZ$200m debt facility from M&G investments
Feb-21	Paul Lahiff appointed as Independent Non-Executive Director
May-21	800% bounce back in lending volumes on April 2020
Aug-21	Settlement with New Zealand Commerce Commission
Oct-21	Prices A$105m inaugural ABS transaction
Dec-21	Signing of A$20m corporate debt facility
Feb-22	New A$150m facility
Jun-22	Harmoney secures additional NZ$215M facility
Jul-22	David Flack retires, Monique Cairns and John Quirk appointed as non-executive directors
Sep-22	Harmoney changes its reporting presentation currency from NZD to AUD
Sep-22	Harmoney delists from the NZX
Dec-22	Change of external auditor from PWC to KPMG
Aug-23	Harmoney prices inaugural NZ$200m ABS transaction
Oct-23	Completed the closure of its peer to peer platform
Dec-23	Harmoney announces refinancing and upsize of its corporate debt facility

Source: Company, Forsyth Barr analysis

Appendix 7: Board and management profiles and remuneration

Figure 47. HMY — Board of Directors profiles

Board Member	Position	Description
Paul Lahiff	Independent Director/ Chairman	Paul is a highly seasoned executive following 40 years of experience in financial services, encompassing a broad portfolio of Directorships. Paul is the Lead Independent Director of payments company Sezzle Inc. He is also the Chair of UBank, and NESS Super. Paul was previously the CEO and Managing Director of Mortgage Choice (2003 – 2009), during which time he led its successful listing on the Australian Stock Exchange. He was also a former Managing Director at Permanent Trustee, and before that at Heritage Building Society. Paul brings a recent track-record of Chairmanships where he gained extensive capital markets, regulatory and governance experience from his time at Cuscal Limited; New Payments Platform (NPP) Australia; Australian Retail Credit Association; and RFi Group. Paul is a member of Harmoney's Audit and Risk Committee and the Nomination and Remuneration Committee.
David Stevens	CEO & Managing Director	See management description.
John Quirk	Independent Director	John has over 40 years of experience in the technology sector across international and multinational information technology companies. He has held key leadership roles, including the position of Chief Executive Officer (Asia Pacific) of MI Services Group, an international management consulting and information systems company. For the past 20 years, he has specialised in strategic advisory to high-growth technology companies like Harmoney. John also has an extensive governance background, and has been actively involved in strategic, mentoring and M&A activity. Currently, he is Chair of Portainer.io, Aeroqual Limited and a Director of Television New Zealand. Previous roles have included Chair of Kordia Group, Clearpoint Group, SMX Limited, FrameCAD Group, Cumulo9, merlot.aero, WhereScape Software, Farm-IQ Systems and Axon Computers. John is a Chartered Member of the Institute of Directors.
Monique Cairns	Independent Director	Monique has over 20 years of experience in strategy, communications, marketing and sales, across financial institutions and a range of sectors. She has a diverse governance experience with extensive shareholder engagement. She is currently the Deputy Chair of New Zealand Home Loans and the Chair of their People and Culture Committee. Monique is also a Trustee of the NZ Portrait Gallery and a Committee Member of the Northern Club. Previously she was a Director of DEC International, Unitec Institute of NZ, Manukau Institute of Technology, Lotto NZ and SPCA. Monique owns Caribou, a consulting provider in New Zealand, providing business strategy, brand marketing, communication, people and culture advice to clients from diverse industry sectors, including Fintech and personal lending. Monique's unique experience across governance and marketing provides valuable insights for the Harmoney Board. Prior to her governance roles, Monique was the Chief Marketing Officer at GE Capital New Zealand, and the Head of Retail Sales Development and Customer Experience at the Bank of New Zealand. She is a member of the Australian Institute of Company Directors and the NZ Institute of Directors.
Neil Roberts	Founder, Chief Strategy Officer & Executive Director	See management description.

Source: Company, Forsyth Barr analysis

Figure 48. HMY — Remuneration for the Board of Directors

Name	Category	Total FY23 Compensation (A$)	Number of shares	Shareholding %
Paul Lahiff	Independent Chairman	188,309	n/a	
Tracey Jones	Independent Director	90,000	n/a	
Monique Cairns	Independent Director	81,667	n/a	
John Quirk	Independent Director	73,333	n/a	
David Flacks	Resigned 1 August 2022	7,667	822,600	0.80%
Neil Roberts	Founder, Chief Strategy Officer & Executive Director	n/a	18,821,602	18.54%
David Stevens	CEO & Managing Director	n/a	2,264,689	2.23%
		440,976		**21.57%**

Source: Company, Forsyth Barr analysis

Figure 49. HMY — Management profiles

Management	Position	Description
David Stevens	CEO	David is a highly experienced public company CEO specialising in consumer and commercial finance in Australia and New Zealand. Before commencing with Harmoney as CEO in 2019, David had most recently led a start-up consumer finance company, to ultimately securing a major equity stake in the business by a large Australian Bank in 2018. Prior to this, David served as CEO and CFO of Humm (formerly "FlexiGroup") (ASX: "FXL" now "HUM"). In David's nine years with FlexiGroup, he led a team of over 1,000 employees in the strategic growth of the business, through organic growth and M&A. What was a small company when he started, to becoming CEO of an ASX200- listed business. David also led the $300m+ acquisition of Fisher & Paykel Finance and spent considerable time in New Zealand in the course of his work in the local side of the business.
Simon Ward	CFO	Simon began his career as a banking and commercial lawyer at Russell McVeagh, before switching to accounting, joining Bank of America's London office where he held various senior roles supporting the European rates, currencies, commodities, credit, and equity teams. In 2008 he returned to NZ and helped establish a high-tech manufacturing start up owned by America's Cup team Oracle Team USA, where in 2010 he was promoted to CFO and held that position for four years before joining Harmoney.

Source: Company, Forsyth Barr analysis

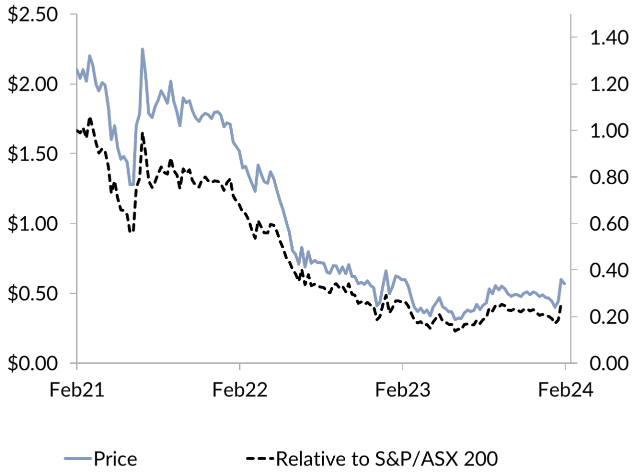
Appendix 8: Terms and definitions

Figure 50. HMY — Key terms and definitions

Term	Definition
ABS	Asset-backed security
Customer Acquisiton Cost (CAC)	Refers to the total cost associated with acquiring a new customer. This includes all marketing and sales expenses required to attract and convert a customer divided by the number of customers acquired over a specific period.
D&A	Depreciation & amortisation
DCF	Discounted cash flow
DPS	Dividend per share
DRP	Dividend reinvestment plan is a scheme which allows investors to exchange their cash dividends into additional SCT shares (or fractional SCT shares)
ECL	Expected Credit Loss
EPS	Earnings per share (EPS) describes the amount of profit a company makes per outstanding share of common stock. EPS is indicative of the profitability of a company
ESOP	Employee Share Option Plan
FTE	Full time equivilent employees
G&A	General and Administration expenses
Gross impaired assets	Includes all impaired assets, restructured assets, and assets acquired through the enforcement of security, but excludes past due assets
Gross loans and advances	Includes loans and advances, lease receivables (net of unearned income) and accrued interest receivable (where identifiable), but excludes amounts due from banks, marketable securities, loans to related parties, sundry debtors and prepayments
Gross revenue	Includes gross interest income, gross operating lease and net other income
Impaired asset expense	The charge to the Profit or Loss Account for bad debts and provisions for doubtful debts, which is net of recoveries (where identifiable)
Interest bearing liabilities	Customer deposits (including accrued interest payable where identifiable), balances with banks, debt securities, subordinated debt and balances with related parties
Interest earning assets	Cash on hand, money on call and balances with banks, trading and investment securities, net loans and advances (including accrued interest receivable where identifiable), leased assets net of depreciation and balances with related parties
Interest expense	Includes all forms of interest or returns paid on debt instruments
Interest spread	Difference between the average interest rate on average interest earning assets, and the average interest rate on average interest bearing liabilities
Net assets	Total assets less total liabilities
Net interest income	Interest income (including net income from acting as a lessor) less interest expense
Net interest margin	Net interest income divided by average interest earning assets
Net loans and advances	Loans and advances, net of provision for doubtful debts
NPAT	Net profit after tax
NTA	Net tangible assets
Operating expense	Includes all expenses charged to arrive at net profit before tax excluding interest expense, impaired asset expense, subvention payments, direct expense related to other income (where identifiable) and depreciation of leased assets where a lessor
Operating income	Net interest income, net operating lease income and net other income (where direct expense related to other income is identifiable)
P/E	Price-to-earnings ratio measures a company's current share price against earnings per share (EPS)
Past due assets	Includes any asset which has not been operated by the counterparty within its key terms for 90 days and which is not an impaired or restructured asset
PE	Price-to-Earnings is a financial ratio measuring a company's current share price to its EPS
Provision for doubtful debts	Includes both collective and individual provisions for bad and doubtful debts
RAI	Risk adjusted income is a measure that adjusts the income generated from the loan book for the level of risk associated with it. Essentially, it reflects how much income the company earns for each percentage point of risk taken on its loan book
ROE	Return on equity
ROI	Return on investment
S&M	Sales and Marketing expenses
SAM	Serviceable Addressable Market
SOM	Serviceable Obtainable Market
TAM	Total Addressable Market
Total assets	Excludes goodwill assets (unless specifically defined)
Underlying profit	Operating income less operating expense and impaired asset expense. Items of a non-recurring nature, unrelated to the ongoing operations of the entity, are excluded

Source: Forsyth Barr analysis

Figure 51. Price performance (A$)



Source: Forsyth Barr analysis

Figure 52. Substantial shareholders

Shareholder	Latest Holding
Heartland Group Holdings	10.1%
Lookman Family Trust	9.0%
Kirwood Capital	8.7%

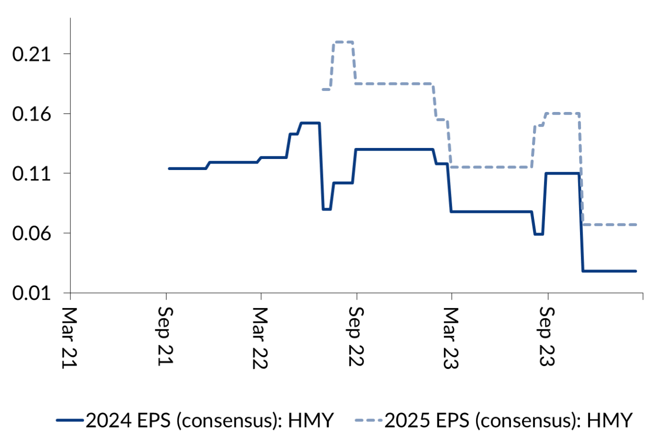
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 53. International valuation comparisons

Company	Code	Price	Mkt Cap	PE		EV/EBITDA		EV/EBIT		Cash Yld
(metrics re-weighted to reflect HMY's balance date - June)			(m)	2024E	2025E	2024E	2025E	2024E	2025E	2025E
Harmoney	**HMY AU**	**A$0.59**	**A$60**	**<0x**	**30.8x**	**n/a**	**n/a**	**n/a**	**n/a**	**0.0%**
Humm Group	HUM AU	A$0.69	A$351	13.0x	9.1x	59.2x	51.6x	>75x	>75x	3.6%
Moneyme	MME AU	A$0.09	A$73	2.6x	2.2x	45.3x	28.9x	45.6x	28.9x	n/a
Plenti Group	PLT AU	A$0.69	A$120	<0x	>50x	>75x	>75x	<0x	>75x	0.0%
Solvar	SVR AU	A$1.24	A$259	9.6x	8.2x	7.3x	6.7x	7.5x	6.8x	9.9%
Latitude Group Holdings	LFS AU	A$1.17	A$1,211	36.6x	11.8x	73.6x	40.0x	>75x	68.3x	5.8%
Wisr	WZR AU	A$0.03	A$45	16.5x	5.5x	>75x	>75x	n/a	n/a	n/a
Anz Group Holdings	ANZ AU	A$28.30	A$85,113	12.7x	13.0x	n/a	n/a	n/a	n/a	5.7%
Commonwealth Bank Of Austral	CBA AU	A$116.23	A$194,645	20.2x	20.9x	n/a	n/a	n/a	n/a	3.9%
National Australia Bank	NAB AU	A$32.90	A$102,320	14.6x	14.8x	n/a	n/a	n/a	n/a	5.1%
Westpac Banking Corp	WBC AU	A$24.58	A$85,984	13.0x	13.4x	n/a	n/a	n/a	n/a	5.8%
			Compco Average:	**15.4x**	**11.0x**	**46.3x**	**31.8x**	**26.5x**	**34.7x**	**5.0%**
EV = Mkt cap+net debt+lease liabilities+min interests-investments			**HMY Relative:**	**n/a**	**180%**	**n/a**	**n/a**	**n/a**	**n/a**	**-100%**

Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (HMY) companies fiscal year end

Figure 54. Consensus EPS momentum (A$)



Source: Forsyth Barr analysis

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