Next generation personal lending

Harmoney offers investors exposure to the next generation of personal lending, providing an automated digital customer acquisition and risk-based pricing business model, with low variable costs, and significant benefits of scale from growth.

Digital, direct, data driven, delivers

The personal lending market is undergoing significant disruption, as banks are displaced by nimble technology driven lenders taking advantage of consumer data right regulations and automation led performance media buying, leveling the field for loan underwriting while delivering marketing efficiencies. While there are several such organisations, Harmoney is potentially the most advanced of these companies, 2/3rds of applications are handled without human intervention delivering extreme efficiencies, which will only increase with scale aided by improving algorithms on deeper customer data helping identify which potential customers are most profitable.

An organic growth story

Harmoney is an organic growth story, investing heavily in its data driven online marketing to obtain customers directly, rather than through loan broking intermediaries. This delivers economics similar to consumer direct general insurance, with a higher upfront cost of acquisition, offset by minimal ongoing costs once the customer relationship has been acquired. Excluding marketing costs, the business is profitable, and the company is aggressively marketing to increase scale given the size of the potential opportunity in Australia. Growth is also being turbo-charged by the conversion of its business from a peer-to-peer lender to a warehouse based lender, growing net interest margins delivering improved economics.

Potential Near-Term Catalysts

- The lift of lockdown in NSW in and Victoria leading to increased borrowing demand from "revenge spending"
- Continuing transition to warehouse funding, 61% at 30 June 2021, guiding 90% by 30 June 2022, lowering cost funds.
- Improved warehouse funding arrangements would lower Harmoney's cost of funding even further, lifting earnings.

Valuation

We value Harmoney at A$3.10. using a General Residual Income Model with a cost of equity of 8.0% referencing peer multiples to validate for reasonableness. Full details are within including key risks.

Glen Wellham
Senior Research Analyst

Harmoney

Harmoney's purpose is to help people achieve their goals through financial products that are fair, friendly, and simple to use.

Harmoney is an online direct personal lender that operates across Australia and New Zealand providing customers with unsecured personal loans that are easy to access, competitively priced (using risk-adjusted interest rates) and accessed 100% online.

Harmoney's proprietary digital lending platform, Stellare™, facilitates its personalised loan product with applications processed and loans typically funded within 24 hours of acceptance by the customer. Stellare™ applies a customer's individual circumstance to its data-driven, machine learning credit scorecard to deliver automated credit decisioning and accurate risk-based pricing.

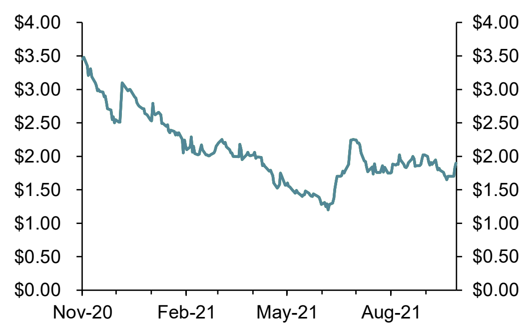
Stock	HMY.ASX
Price	A$1.90
Market cap	A$192m
Valuation	A$3.10

Company data	
Net debt (pro forma):	NZ$215.1m
Shares on issue:	100.9m

Recent Events	
IPO on the ASX	19 November 2020
FY21 Result	31 August 2021

Next steps	
AGM	29 November 2021
1H22 interim result	February 2022

HMY Share Price (ASX)



Financials

HARMONEY CORP LIMITED — HMY-AX

Year end 30 June, NZ$ unless otherwise noted

MARKET DATA				
Spot exchange rate	x		AUDNZD	1.05
Price	A$	$1.90	NZ$	$1.99
Valuation	A$	$3.10	NZ$	$3.24
52 week low - high	A$	1.20 - 3.55		
Market capitalisation	A$m	191.7	NZ$m	200.4
Shares on issue (basic)	m			100.9
Options / rights (currently antidilutive)	m			0.0
Other equity	m			0.0
Shares on issue (fully diluted)	m			100.9

INVESTMENT FUNDAMENTALS		FY20A	FY21A	FY22E	FY23E	FY24E
EPS - diluted reported	cps	-20.6	-27.2	-13.7	0.8	5.5
EPS - diluted cash	**cps**	**-10.0**	**-12.4**	**-6.4**	**8.2**	**15.5**
EPS growth	%	n.a.	24%	-48%	-227%	89%
PE	x	-19.9	-16.1	-30.8	24.3	12.8
DPS	cps	0.0	0.0	0.0	0.0	0.0
Franking	%	n.a.	n.a.	n.a.	n.a.	n.a.
Dividend yield	%	0%	0%	0%	0%	0%
Payout rato	%	0%	0%	0%	0%	0%
Operating cash flow per share	cps	8.3	-1.6	-4.6	11.0	19.3
Free cash flow to equity per share	cps	2.4	-26.9	-18.7	-8.8	-7.0
FCF yield	%	1%	-14%	-9%	-4%	-4%
Enterprise value	$m	298.2	415.4	724.9	913.5	1,110.6
EV/Total Income	x	3.5	5.3	7.6	7.6	7.9
EV/Net lending income	x	13.6	12.4	18.9	16.7	17.9
EV/Net operating margin	x	50.1	32.0	60.2	32.8	32.3
NAV per share	A$	0.20	0.75	0.61	0.62	0.68
Price / NAV	x	9.76	2.65	3.24	3.19	2.94
NTA per share	A$	0.20	0.72	0.56	0.55	0.58
Price / NTA	x	9.76	2.77	3.55	3.63	3.42

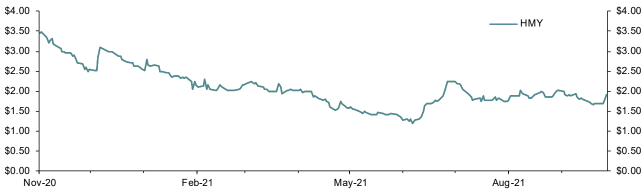
KEY RATIOS		FY20A	FY21A	FY22E	FY23E	FY24E
NTA/Net Receivables	%	26%	11%	8%	7%	7%
ROE - reported	%	-106%	-52%	-20%	1%	8%
ROE - cash	%	-52%	-23%	-9%	13%	24%
Net debt	**NZ$m**	**97.9**	**215.1**	**524.6**	**713.1**	**910.3**
Gross debt / equity	x	459%	385%	944%	1221%	1404%
Leverage (net debt / invested capital)	x	77%	74%	89%	92%	93%

DUPONT ANALYSIS		FY20A	FY21A	FY22E	FY23E	FY24E
Net Profit Margin	%	-41%	-69%	-19%	1%	4%
Asset Turnover	x	42%	14%	14%	15%	15%
Return on Assets	%	-17%	-10%	-3%	0%	1%
Financial Leverage	x	624%	544%	760%	1200%	1430%
Return on Equity	%	-106%	-52%	-20%	1%	8%

HALF YEARLY DATA		2H20A	1H21A	2H21A	1H22E	2H22E
Total income	NZ$m	28.9	19.4	19.7	30.9	42.6
Net lending income	NZ$m	19.2	9.7	6.7	11.6	17.5
Net operating margin	NZ$m	8.7	2.1	-6.2	-1.4	4.3
Reported NPAT	NZ$m	-2.3	-10.5	-16.5	-9.1	-4.7
Cash NPAT	NZ$m	-5.4	-0.1	-12.2	-5.7	-0.8
EPS - diluted cash	**cps**	**-5.1**	**-0.1**	**-12.1**	**-5.6**	**-0.8**
EPS - diluted reported	cps	-2.2	-8.6	-16.4	-9.0	-4.7
DPS	cps	0.0	0.0	0.0	0.0	0.0

KEY PERFORMANCE INDICATORS		FY20A	FY21A	FY22E	FY23E	FY24E
Originations	NZ$m	420.1	444.0	592.6	764.9	925.5
Number of originations	#	17,008	18,164	23,704	30,596	37,021
Warehouse funded % of book (average)	%	20%	44%	78%	94%	99%
Pro-forma gross loan receivables	NZ$m	499.3	500.8	677.5	826.6	1,004.9
Average gross loan receivables (AGR)	NZ$m	505.9	480.6	590.7	750.4	913.7
Growth in AGR	%	n.a.	-5%	23%	27%	22%
Interest income / AGR	%	16.8%	16.3%	15.9%	15.9%	15.2%
Interest expense / AGR	%	-6.2%	-5.7%	-3.7%	-3.6%	-3.4%
Net interest margin	%	10.6%	10.6%	12.1%	12.3%	11.8%
Credit losses as a % of receivables	%	25%	6%	6%	5%	5%
Net lending margin / AGR	%	5.80%	6.80%	6.48%	7.30%	6.79%
Cost to net lending income ratio	%	144%	137%	121%	89%	83%
New business expenses / total costs	%	51%	45%	57%	55%	54%

12-MONTH SHARE PRICE PERFORMANCE (A$)



PROFORMA PROFIT AND LOSS		FY20A	FY21A	FY22E	FY23E	FY24E
Interest income	NZ$m	85.2	78.6	93.9	119.3	139.2
Fee income	NZ$m	0.0	0.0	0.0	0.0	0.0
Other income	NZ$m	0.8	0.5	1.2	1.5	1.9
Total income	**NZ$m**	**86.0**	**79.1**	**95.1**	**120.8**	**141.1**
Interest expense	NZ$m	-31.4	-27.4	-22.1	-26.9	-31.5
Incurred credit losses	NZ$m	-24.4	-18.6	-24.8	-30.8	-37.6
Movement in ECL provision	NZ$m	-8.3	0.4	-9.9	-8.3	-10.0
Net lending income	**NZ$m**	**22.0**	**33.5**	**38.3**	**54.8**	**62.1**
Marketing expenses	NZ$m	-12.6	-16.5	-21.9	-22.3	-22.8
Verification and servicing expenses	NZ$m	-3.4	-4.0	-4.3	-4.6	-4.9
Net operating margin	**NZ$m**	**6.0**	**13.0**	**12.1**	**27.8**	**34.4**
Personnel expenses	NZ$m	-6.5	-9.2	-10.3	-10.6	-11.0
Share based payments	NZ$m	-0.8	-4.1	0.0	0.0	0.0
Technology expenses	NZ$m	-3.3	-3.2	-3.7	-3.8	-3.9
General and administrative expenses	NZ$m	-3.5	-7.7	-4.7	-4.8	-5.0
Depreciation and amortisation expenses	NZ$m	-1.6	-1.0	-1.5	-2.5	-4.2
Profit before income tax	**NZ$m**	**-9.7**	**-12.4**	**-8.1**	**6.1**	**10.4**
Income tax expense	NZ$m	2.7	3.5	1.6	-1.7	-2.9
Reported NPAT	**NZ$m**	**-7.0**	**-8.9**	**-6.5**	**4.4**	**7.5**
Cash NPAT	NZ$m	2.8	-0.4	4.9	15.2	21.6
Weighted average diluted shares	m	74.6	99.4	100.9	100.9	100.9

BALANCE SHEET		FY20A	FY21A	FY22E	FY23E	FY24E
Cash and cash equivalents	NZ$m	34.8	76.5	59.5	52.9	47.8
Finance receivables	NZ$m	129.2	294.8	575.6	756.9	948.6
Property, plant and equipment	NZ$m	1.4	0.6	1.0	1.4	1.8
Goodwill and other intangibles	NZ$m	0.0	3.5	5.4	7.6	9.6
Other assets	NZ$m	14.8	13.4	16.0	19.2	26.7
Total Assets	**NZ$m**	**180.2**	**388.8**	**657.5**	**837.9**	**1,034.4**
Trade and other liabilities	NZ$m	3.3	7.3	7.3	7.3	7.3
Borrowings	NZ$m	132.6	291.5	584.1	766.0	958.0
Provisions	NZ$m	12.8	13.4	3.4	1.0	0.0
Other liabilities	NZ$m	2.6	0.8	0.8	0.8	0.8
Total Liabilities	**NZ$m**	**151.3**	**313.1**	**595.6**	**775.2**	**966.2**
Net assets	**NZ$m**	**28.9**	**75.7**	**61.9**	**62.7**	**68.2**
Net tangible assets	**NZ$m**	**28.9**	**72.2**	**56.5**	**55.2**	**58.7**
Invested capital	**NZ$m**	**126.7**	**290.8**	**586.4**	**775.9**	**978.5**
Tangible invested capital	**NZ$m**	**126.7**	**287.3**	**581.1**	**768.3**	**968.9**
Contributed equity	NZ$m	56.7	131.4	131.4	131.4	131.4
Treasury shares	NZ$m	0.0	0.0	0.0	0.0	0.0
Reserves	NZ$m	1.6	0.7	0.7	0.7	0.7
Retained earnings/accumulated losses	NZ$m	-29.4	-56.4	-70.2	-69.4	-63.9
Non-controlling interests	NZ$m	0.0	0.0	0.0	0.0	0.0
Total equity	**NZ$m**	**28.9**	**75.7**	**61.9**	**62.7**	**68.2**
Basic shares on issue	m	142.0	100.9	100.9	100.9	100.9

CASH FLOW		FY20A	FY21A	FY22E	FY23E	FY24E
Operating						
Net operating cashflow	**NZ$m**	**6.2**	**-1.6**	**-4.7**	**11.1**	**19.5**
Investment						
Capital expenditure	NZ$m	0.0	-3.7	-13.2	-19.0	-25.6
Acquisitions and divestments	NZ$m	-99.2	-180.0	-176.7	-149.1	-178.3
Net investment cashflow	**NZ$m**	**-99.2**	**-183.7**	**-189.9**	**-168.1**	**-204.0**
Financing						
Equity	NZ$m	23.5	67.6	0.0	0.0	0.0
Debt	NZ$m	95.0	159.5	176.7	149.1	178.3
Leases	NZ$m	-0.2	-1.0	-1.0	-1.0	-1.0
Net financing cashflow	**NZ$m**	**118.3**	**226.1**	**175.7**	**148.1**	**177.3**
Net cash flow	**NZ$m**	**25.2**	**40.8**	**-18.9**	**-8.9**	**-7.1**
Free cash flow to equity	NZ$m	1.8	-26.8	-18.9	-8.9	-7.1

Source: HMY reports, MST Access estimates

Investment Thesis

Harmoney is a leading 100% online direct personal lender that operates across Australia and New Zealand. A combination of superior technology, direct business model, and effective marketing strategies gives Harmoney a clear edge over its peers. Harmoney uses multiple funding sources and is transitioning to 100% warehouse funding. The company's already attractive NIMs(Net Interest Margin) will be further enhanced by this transition. It is anticipated that the transition will be largely complete by the end of the current financial year (>90%), with the final <10% perhaps taking another couple of years. Harmoney is well-positioned in the cross-section of distribution and scalability, with a direct model and high scalability.

Harmoney's current funding consists of:

- Warehouse facilities: made up 71% of Harmoney's receivables (30 September 2021)
- Institutional peer-to-peer lenders make up a decreasing proportion of funding, having fallen to 39% at 30 June 2021
- Harmoney holds $76.5m in cash (30 June 2021)

Harmoney's highly automated Stellare™ technology ensures the businesses expenses are largely fixed, thus delivering strong operational leverage. Stellare's™ risk selection was strong from the outset and has continued to improve over time. The latest version, Stellare Libra 1.7 has achieved a ~25% improvement in credit performance compared to the index of prior internal scorecards.

Since listing, the Company has focused on growing into the large Australian market. The Australian market is an exciting proposition as its large consumer base has a track-record of responding positively to innovative technology. This is demonstrated in the successful mass adoption of Buy-Now Pay-Later offerings from companies such as Afterpay and Zip and of innovative technology program Canva.

Also, banks pulling back from the personal lending industry provides smaller alternative lenders (like Harmoney) an opportunity to capture large market share.

We expect Harmoney's 260% increase in new Australian customer originations from 1H21 to 2H21 to add strong revenue growth that will continue into the foreseeable future. Also, as stated by the Company, the increase in its Australian presence will result in marketing efforts remaining relatively constant at current dollar levels, which should significantly increase the Company's margins via the benefits of scale.

Company Description

Founded in 2014, Harmoney was created to capitalise on the early trend of disintermediated lending. After originating over $1.7 billion in total lending volume, the Company listed on the ASX in November 2020.

Harmoney is the largest 100% consumer-direct money platform in Australia and New Zealand. The Company provides customers with unsecured personal loans that are easy to access, competitively priced (using risk-adjusted interest rates) and accessed 100% online. By effectively combining superior data, superior technology, and superior marketing, Harmoney creates direct relationships with consumers, at scale.

It's direct-to-consumer automated loan approval system is underpinned by Harmoney's scalable Stellare™ proprietary technology platform. Stellare™ efficiently facilitates its personalised loan product with applications processed and loans typically funded within 24 hours of acceptance by the customer. The 100% consumer-direct aspect of Harmoney's business model allows the Company to gain access to deep data from consumers. The Stellare™ technology utilises deep consumer data and applies customer's individual circumstances to its machine learning credit scorecard to deliver automated credit decisioning and accurate risk-based pricing. Harmoney have continually improved their credit scoring technology, with the latest Stellare™ Libra 1.7 delivering high performance.

A large percentage of Harmoney's originations come from 3R (return, repeat, renew) customers. The minimal cost 3R's proved a stable source of quality originations through COVID for the business and remain intrinsic to the business going forward.

Harmoney encompasses a team of ~80 full time employees across Australia and New Zealand. Over half of their employee base comprise engineering, data science and product professionals. The Company has a head office in Sydney and one in Auckland.

Harmoney is funded by a number of sources including two “Big-4” bank warehouse programs across Australia and New Zealand and a facility from M&G Investments. Harmoney secured NZ$200 million in debt funding from M&G Investments in late December 2020. This was the Company’s third debt warehousing facility and significantly accelerated their transition process to a 100% warehouse funding model.

Harmoney hold an Australian Credit Licence (ACL) which allows the company to conduct business as a consumer lender in Australia. Despite the Company ceasing retail peer-to-peer loans in New Zealand, they maintain their FMCA licence in relation to the existing portfolio. Harmoney also hold an Australian Financial Services Licence (AFSL), which is regulated by ASIC.

The Harmoney offering:

- All loans are unsecured
- Rates from 5.35% (comparison rate 6.14%) in Australia and 6.99% in New Zealand
- Rate is fixed for life of loan
- In Australia, an establishment fee of $275 for loans under $5,000, or $575 for loans $5,000 and over
- In New Zealand, an establishment fee of $150
- No monthly account keeping or early repayment fees
- You can repay weekly, fortnightly, or monthly

Figure 1 – Loan offerings

	Australia	New Zealand
Loan limits	$2k - $70k ($50k cap for new loans, $70k for repeat loans)	$2k - $70k
Loan terms	3 or 5 years	3 or 5 years
Establishment fee	$275 for <$5000, otherwise $575	$150
Interest rate from (p.a.)	5.35%	6.99%
Early repayment fee	$0	$0

Source: Company websites

Recent Events

14-Oct-21	1Q22 trading update - new originations up 389% on pcp
31-Aug-21	FY21 Result including Media Release, Results Announcement, Appendix 4E and Annual Report
31-Aug-21	Appointment of Paul Alan Lahiff as the Independent Chairman of Harmoney’s Board
27-Aug-21	Settlement with New Zealand Commerce Commission
14-Jul-21	Harmoney delivers strong originations growth in 2HFY21
13-May-21	HMY - 800% bounce back in lending volumes on April 2020
12-Apr-21	HMY 3Q21 Trading Update
17-Mar-21	ASX Small and Mid-Cap Conference 2021 - HMY presentation
12-Mar-21	S&P DJI Announces March 2021 Quarterly Rebalance
24-Feb-21	1H21 Result including Media Release, Results Announcement and Appendix 4D and Half Year Report
15-Feb-21	Paul Lahiff appointed as Independent Non-Executive Director
20-Jan-21	Harmoney H1 FY21 business update
22-Dec-20	Harmoney secures NZ$200m debt facility from M&G investments
19-Nov-20	Harmoney lists on ASX with a foreign exempt listing on NZX

Potential near-term catalysts

We consider there to be a few upcoming catalysts for Harmoney's stock performance:

- The runoff of peer to peer funded loans, with Harmoney having a full economic interest in loans funded through its warehouse facilities, the impact being to improve its net interest margins. Improved warehouse funding arrangements would also lower Harmoney's cost of funding even further, again lifting earnings.
- Earn through of its rapidly growing Australian loan book, as the Company establishes a greater presence in Australia, which will lead to improved margins (given Harmoney is already profitable on a pro-forma basis, and also profitable prior to marketing expenses).
- The lift of lockdown restrictions in NSW in early October and lift of further restrictions in NSW and in Victoria in potentially late October should lead to increased borrowing demand as "revenge spending" occurs.
- The potential to securitise personal loans, similar to other asset based securities such as RMBS, which would free warehouse space and enable Harmoney to grow into a much larger business from its existing facilities (potentially even allowing it to reduce its warehouse facilities).
- Further information releases by the company, such as at its upcoming AGM on 29 November 2021.

Valuation summary

Figure 2 – MST Access General Residual Income Model (GRIM) valuation of Harmoney Corp Limited

Current date		16-Oct-21								
Last balance date		30-Jun-21								
		Jun-21	Dec-21	Jun-22	Dec-22	Jun-23	Dec-23	Jun-24	Dec-24	Jun-25
Book value per share	NZ$	0.75	0.66	0.61	0.61	0.62	0.64	0.68	0.73	0.80
Equity charge	NZ$		-0.03	-0.03	-0.02	-0.02	-0.02	-0.03	-0.03	-0.03
Cash EPS	NZ$	-0.12	-0.06	-0.01	0.03	0.05	0.07	0.09	0.12	0.14
Residual income	NZ$	**-0.12**	**-0.09**	**-0.03**	**0.01**	**0.03**	**0.04**	**0.06**	**0.09**	**0.11**
Discounted cash flow	NZ$	**0.00**	**-0.08**	**-0.03**	**0.00**	**0.02**	**0.03**	**0.05**	**0.07**	**0.08**

Sum of discount streams	NZ$	0.2	**CAPM**	
Future value into perpetuity	NZ$	3.1	Risk free rate	2.00%
NPV of terminal value	NZ$	2.3	Equity beta	2
add net assets	NZ$	0.75	Equity risk premium	3.00%
Residual income value per share	**NZ$**	**3.24**	Cost of equity	8.0%
P/B multiple implied by GRIM valuation	x	4.3	Terminal growth	1.5%
AUDNZD FX rate	x	1.05		
Residual income value per share	**A$**	**3.10**		
Upside/downside	%	63%		

Source: Company reports, MST Access estimates

Many analysts use some form of residual income or value-added valuation approach, due to the complexities and uncertainties involved in forecasting cashflow, in part due to regulatory capital requirements. Some of the advantages of this approach are that:

- the bulk of the valuation is generally recognized upfront, in the net asset value providing greater certainty around a large component of the valuation;
- uses profit, rather than cashflow, forecasts.

We use a two-stage model, using our explicit forecasts over the next five years, followed by a terminal value, to which we add current net assets per share. We assume a risk free rate of 2.0% and equity risk premium of 3.0%. We estimate HMY's equity beta to be 2. We estimate HMY's cost of equity to be 8.0% and terminal growth of 1.5%. This produces a valuation of NZ$3.24 or A$3.10 per share.

Figure 3 – Peer comparative multiples for Harmoney (based on consensus forecasts)

Company Name	NTM Net Lending Income A$m	EV A$m	EV/ Forward NLI x	P/NTA x
Harmoney Corp Limited (ASX:HMY)	90.35	397.7	4.4	2.9
Pure Play personal loan peers				
Plenti Group Limited (ASX:PLT)	89.57	770.7	8.6	5.0
Wisr Limited (ASX:WZR)	68.0	681.4	10.0	5.1
MoneyMe Limited (ASX:MME)	95.88	614.6	6.4	9.1
Average			**8.3**	**6.4**
Diversified personal lending peers				
Money3 Corporation Limited (ASX:MNY)	186.23	898.1	4.8	2.2
Latitude Group Holdings Limited (ASX:LFS)	842.32	7,693.2	9.1	4.4
Average			**7.0**	**3.3**

Note that the Harmoney NZD financials in this table are converted into AUD for comparability. Source: Capital IQ, IBES

Harmoney trades at a discount on its price to book and price to NTA ratios to its personal lending peers. If we were to use a subset of pure-play personal lending peers, using only the peers MoneyMe, Wisr and Plenti, an even higher multiple would be applicable.

Other equity market considerations such as short sales; any likely forthcoming changes in index inclusion; depth of stock research coverage; composition of and change in the mix of investors (such as founders, board and staff, domestic institutions, foreign institutions, and retail investors) are not incorporated in our valuation; however investors should consider such factors if they seek to develop a price target for the company.

Risks and sensitivities

We elaborate on Harmoney's risks and sensitivities later in this report. In summary, they can be categorised under strategic, financial and operational risks summarised as:

Strategic

Harmoney operates in a dynamic and changing market, which sees competitors providing new and innovative offerings in a bid to capture market share.

Furthermore, there is a significant number of regulatory requirements, and could suffer from adverse changes to the requirements, including in Australia:

- Anti-money laundering and counter terrorist financing requirements administered by Austrac;
- Privacy requirements administered by the Privacy Commissioner;
- Financial Service licencing and Credit licencing administered by the Australian Securities and Investments Commission (ASIC);
- Australian Consumer Law and unfair contract terms contained in the Corporations Act administered by the Australian Competition and Consumer Commission (ACCC);
- Taxation legislation administered by the Australian Taxation Office (ATO);
- Accounting standards required under the Corporations Act administered by the Australian Accounting Standards Board (AASB) and ASIC;
- Design and distribution obligations, several of which will be governed by contract law.

Financial

Being a finance company, Harmoney has a range of risks and sensitivities applicable to most companies in the financial sector. These include:

- Macroeconomic conditions
- Liquidity and funding risks
- Credit risk
- Fraud
- Compliance risks

Operational

Most companies, including Harmoney, have a range of operational risks. These include:

- Governance
- Key personnel
- Information technology
- Cybersecurity and data protection
- Force majeure events
- Litigation, claims and disputes

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Competitive landscape

Harmoney operates in a competitive and dynamic market for personal loans, containing a range of larger and smaller providers, some who specialise in niche consumer finance areas of the market, while others, such as the large banks, offer personal loans as one component in their broad product offering.

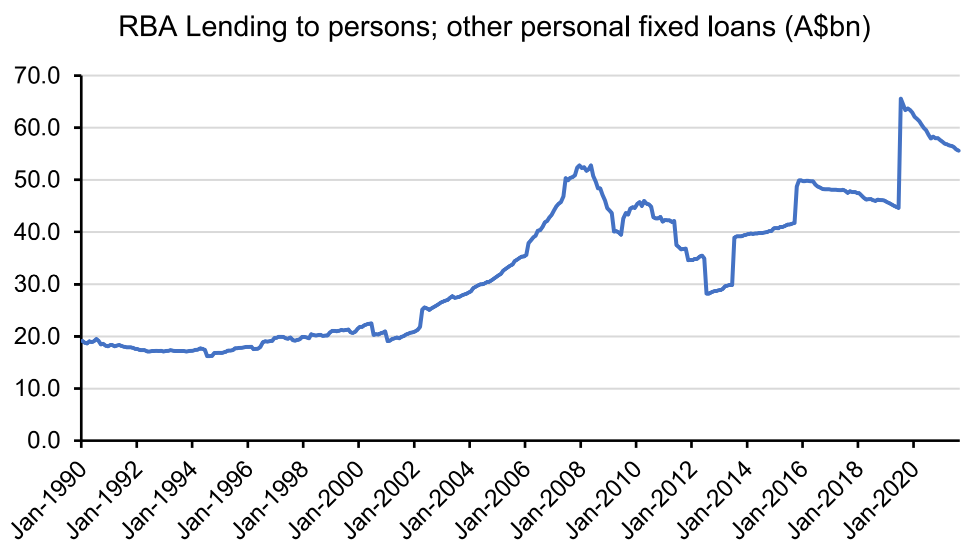
Similarly, there is a range of technology and automation used in the personal loan space. As highlighted by two recent transactions this half by Harmoney's competitors:

- Latitude acquiring Symple Loans,
- NAB, through its planned acquisition of Citigroup Australia's retail banking operations

many of the longstanding personal loan providers (including banks) have outdated and inefficient systems they are seeking to replace, with younger companies (including Harmoney) often running superior systems but not displaying the associated superior profitability, due to having less scale.

We suspect that the shakeup in the personal lending space has only just begun. Suncorp is running off its existing personal loan book as demand wanes due to increased competition and the growth of BNPL providers. While high value, long term BNPL providers may impact demand for some types of personal loans, ultimately such a business model may be unsustainable in a world with higher interest rates.

Figure 4 – Personal lending balances, excluding securitisations (includes series breaks)



Source: Reserve Bank of Australia Statistical Table D5, Bank Lending Classified by Sector, Series ID DBLSLPOPF

Personal lenders are also starting to dominate personal lending space, displacing the dominance displayed by the major banks, aided by positive consumer credit ratings and increased access to data through open banking and consumer data rights, enabling better loans underwriting, facilitating risk based pricing and increasing their competitiveness.

According to the Australian Bureau of Statistics (Lending Indicators, Households Personal Finance), the Australian fixed term personal lending market is currently providing around ~A$2bn a month in accepted new loan commitments, with between 60% and 70% of these associated with the purchase of vehicles and equipment. Around $100m a month in new commitments are made for the purchase of household and personal goods, although this may be elevated as loans commitments made for travel and holidays have been supressed due to COVID border closures for the last couple of years.

The ABS data for July 2021 demonstrates a strong rebound in the lending space from the lows of the first COVID-19 wave. Loan value has grown for a variety of uses and it appears consumers have overcome pandemic induced fear with borrowing.

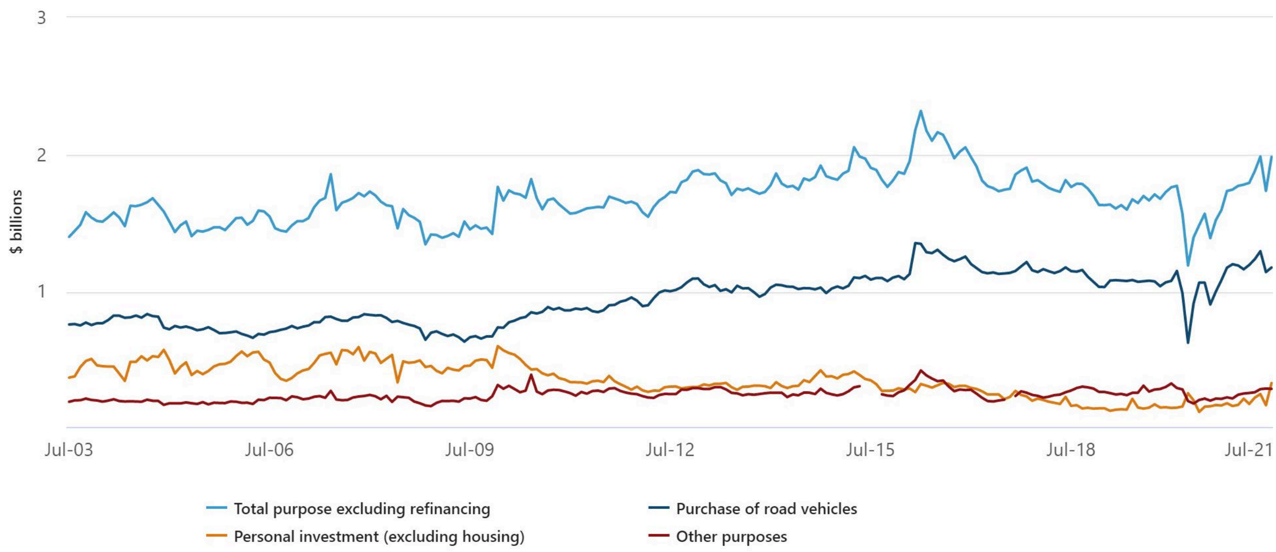
- Up 0.2% for housing
- Up 14.2% for personal fixed term loans
- Up 56.05% for business construction (typically a volatile series)

New loan commitments for personal fixed term loans have rebounded strongly after the first wave of COVID-19. Personal fixed term loans for large purposes were at an all-time low. However, since then, new loan commitments have recovered strongly.

In July 2021 in seasonally adjusted terms, the value of new loan commitments:

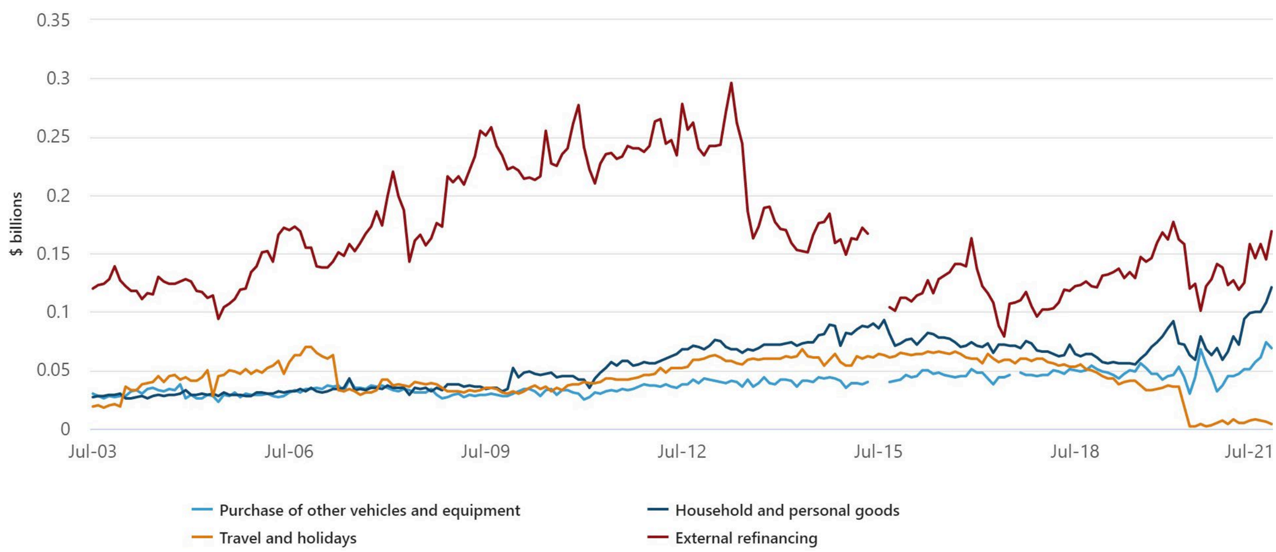
- For total fixed term personal lending rose 14.2%
- For personal investment rose 92.8%
- For road vehicles rose 2.9%

Figure 5 – New loan commitments, personal fixed term loans (seasonally adjusted), values, Australia – larger purposes



Source: Australian Bureau of Statistics, Lending indicators July 2021

Figure 6 – New loan commitments, personal fixed term loans (seasonally adjusted), values, Australia – smaller purposes



Source: Australian Bureau of Statistics, Lending indicators July 2021

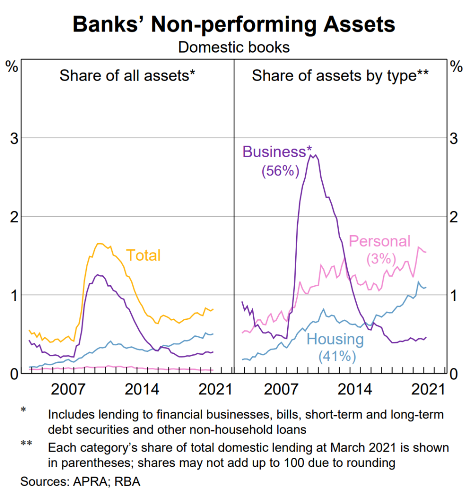
ABS data for personal fixed term loans for smaller purposes also demonstrates strong rebound post the lows of the pandemic. External refinancing has rebounded exceptionally well as consumers take advantage of cheap debt. As expected, loans for travel and holidays are at an all-time low (given travel restrictions/border closures).

Encouragingly, McKinsey believe that a new credit cycle will begin as the world economies transition to a COVID recovery phase. The pandemic essentially ended the previous credit cycle in majority of markets (McKinsey, 2021). The greatest opportunity lies with innovative companies that can offer desirable services for consumers. **This positions Harmoney to expand into new credit markets and win substantial market share.**

Also, personal lenders, like Harmoney, are considered disruptors in the loan industry. Disruptors have made substantial progress over the last 10 years as their ability to tap into new markets (e.g., millennials) and continue to win market share has proved effective. PWC's 2015 Consumer Lending report demonstrates that lenders with fast end-to-end application processes differentiate themselves greatly in the industry. **Harmoney's innovative Stellare™ platform positions them as an industry leader and vastly differentiates them from competitors.**

Quantifying the potential credit risks

Figure 7 – Australian banks' non-performing assets



With several banks, including the majors, accounting for half the market in personal loans, disclosures around the asset performance of their personal loan books in aggregate provide a clear indication as to how the overall industry is performing in terms of impaired assets. The RBA includes a chart in its monthly chart pack on banks' non-performing loans, with personal loans (including credit cards) appearing in pink, suggesting impaired assets have been slowly rising over the past two decades and are around 1.5% of personal lending balances.

Unfortunately, for Australia, there's not much more granular data available on this topic, other than individual companies' half yearly disclosures.

For New Zealand, disclosure is even less, with the Reserve Bank of New Zealand

not disclosing statistics on asset quality.
Source: RBA Chart Pack September 2021Broker vs Direct

Figure 8 – Advantages vs. Disadvantages of Brokers (for the borrower)

Advantages	Disadvantages
• Finding a loan with the most desirable terms and conditions will be easier as the broker does all the research for the borrower • Brokers can be incredibly useful for helping overcoming issues lower credit scores or student loan debt	• Established lenders between brokers and lenders may impede on the borrower being provided with the best options for them • Brokers could be incentivised by commission payments resulting in borrowers being tempted into more expensive loans • Additional fees with seeking help from a brokerage firm

Source: SoFi

Figure 9 – Advantages vs. Disadvantages of Direct Lenders (for the borrower)

Advantages	Disadvantages
• No brokerage fees • Direct lenders typically do all the loan processing, underwriting, and closing in-house • Time required to complete and fund an application can be significantly faster than going through a broker	• Ownership is on the borrower to find the most attractive loan – prior to the internet, this was very time consuming • Limited to loan programs of the institution you choose

Source: SoFi

Direct lenders like Harmony are essentially 'one stop shops' when it comes to loans as they both approve and finance the loans.

Loan brokers are the middleman between lenders and borrowers and act as intermediaries, helping the borrower find the most desirable loan by providing them with a variety of different options. Personal lenders who use brokers for distribution face lower upfront customer acquisition costs, but higher recurring costs as the expense of acquiring a customer is amortised over the life of the loan.

The internet has been transformative for both brokers and direct lenders in lowering costs and increasing lead generation. The search cost of comparing multiple direct lenders has decreased to the time taken to check a few websites; and there are even online comparison sites which will do this for particularly time poor borrowers. However, some of these online comparison sites are really loan brokers, incentivised by commission payments to skew search rankings or place paid advertisements at the top of rankings. Brokers in general have a habit of directing certain business to certain lenders, which limits the lenders' visibility of the market to just the slice of business directed its way. Direct lenders, such as Harmoney, get to see all potential customers, and all customer information, not the summary prepared by brokers for a lender. More information enables better algorithms to be developed.

Harmoney's competitors

Harmoney's competitors can be grouped into product competitors, which would include the major banks providing personal loans, and listed peers who also participate in personal lending, but who generally target a different market segment to Harmoney. Some of these providers operate in other areas of the personal loan market which Harmoney doesn't participate in, such as variable loans, securitised loans, credit cards, or broker intermediated personal loans. Some are pure-play personal lenders, while some others are more diversified credit providers, but have personal lending constituting a major part of their business. As such, personal loans that directly compete with Harmoney may be a secondary product offering outside their primary lending focus. Similarly, while some of Harmoney's competitors operate in both Australia and New Zealand, others operate in only one of these countries.

Figure 10 – Brief description on each of Harmoney's listed peers

Plenti Group Limited engages in the consumer fintech and investment business in Australia. It offers automotive, renewable energy, and personal loans to consolidate debt and for renovations, as well as legal finance. Plenti Group Limited was founded in 2014 and is headquartered in Sydney, Australia.
Wisr Limited engages in the lending business in Australia. It provides personal and secured vehicle loans for 3, 5, and 7-year maturities to consumers, and funding these loans through the warehouse to retail and institutional investors. The company was incorporated in 1966 and is based in The Rocks, Australia.
MoneyMe Limited operates in the digital consumer credit business in Australia. It offers personal, cash, short term, quick, express, and small loans; and line of credit and credit cards. The company was founded in 2013 and is based in Sydney, Australia.
Money3 Corporation Limited provides secured automotive loans in Australia and New Zealand. The company offers vehicle loans that include loans for new and used cars, motorbikes, campervans, vans, minibuses, caravans, trailers, boats, jet skis, trucks, ride on mowers, and tractors. It also provides secured and unsecured personal, and cash loans. The company provides loans through brokers under the Money3 and Go Car Finance brand names. Money3 Corporation Limited was incorporated in 2005 and is headquartered in Bundoora, Australia.
Latitude Group Holdings Limited operates in instalments and lending business in Australia and New Zealand. It provides various installment products that enable the customer to obtain the good or service needed and the merchant to facilitate the sale. The company also offers lending products comprising credit cards, personal loans, and motor loans through various channels, such as direct, third parties, and its white-label partner. In addition, it provides debt consolidation, home renovation, and travel loans, as well as insurance services. The company was incorporated in 2015 and is based in Docklands, Australia. Latitude Group Holdings Limited operates as a subsidiary of Latitude Financial Group Limited

Source: Company reports, MST Access estimates

Harmoney's edge

There are three components that provide Harmoney with a clear edge over competitors: **direct to consumer business model**, innovative and **superior technology (Stellare™)**, and their effective combined use of **partnerships and multiple distribution/marketing channels**. A direct-to-consumer strategy is important as it allows the Company to control the customer experience, build long-term brand equity, and Customer Lifetime Value. Harmoney's 3R business model (Repeat, Return, Renew) maximises customer retention. The Company's Stellare™ technology provides deep consumer data enabling accurate credit scoring and efficient loan processing to occur. A variety of advertising channels are used to maximise market penetration and grow the Company's presence. A strategic partnership with Google was formed to strengthen Harmoney's online customer acquisition strategy.

Direct to consumer and 3R business model

Harmoney's 100% online platform distributes its loan products by engaging prospective customers directly. The Company does not have a retail branch network or broker service. This direct strategy enables Harmoney to control the customer experience and build long-term brand equity and Customer Lifetime Value. The Company also has strong methods in place to retain customer's once they use the Harmoney platform. This involves their 3R business model:

- **Repeat**: Harmoney offers customers with an active loan who have a proven history of one time and in full repayments and additional repayment capacity to borrow additional funds;
- **Return**: Customers who have repaid their loan with Harmoney return for a new loan. Typically, the customer return to Harmoney as a life event has created a borrowing requirement; and
- **Renew**: A retention strategy for an existing customer with an active loan. This strategy is typically used to retain quality borrowers that have been identified as at risk of being refinanced by another lender.

This strategy has proved incredibly effective as on average, customers who accept repeat offers increase their loan size by 55% of their loan balance at the time the repeat offer is made.

Harmoney's direct strategy is far superior to its peers that use brokers.

- The long-standing relationships that are established via the direct model provide stable long-term loan volumes from repeat users. Direct strategies are generally cheaper the longer the customer is retained as a repeat borrower as the borrower isn't subject to additional brokerage fees. (i.e. the 3R strategy)
- Direct lending is far more efficient as the entire process, from approval of loan to money being deposited into the borrowers account is generally a lot faster.
- The information obtained by direct lenders is usually far broader and richer than the data used by broker intermediated lenders, and this allows for continued algorithm improvement, to repeatedly refine and optimise customer segments and profitability.

Stellare technology

Harmoney's innovative Stellare™ technology is highly automated. This ensures that majority of the business's expenses are fixed, which ultimately delivers strong operational leverage. Hamoney's Stellare™ platform is responsible for credit decisioning and reducing friction in the borrowers' application process.

The implementation of Stellare™ Libra 1.7 in February this year was a significant advancement for the Company. Stellare™ Libra encapsulates the future of credit scoring as it uses an innovative behavioural scorecard. Harmoney's Libra technology has effectively incorporated ease of use and speed characteristics into a process that was severely outdated and slow. For the first time ever, significant customer segments – like Millennials (many who have very thin credit files) can be incorporated into an efficient credit scorecard system.

The online application process is relatively straight forward. It links into internet banking logins for major banks to pull transaction data from accounts, similar to the POLi payment system, and also pulls a credit history from a personal credit rating provider to check for lending and credit accounts. Notably the application process doesn't have a final review step at the end of the various application steps, but goes straight into processing the application.

Stellare's straight through processing for 2/3rds of applications allows most applicants to have their loan approved within a couple of minutes and funded within a few hours. Some of the exceptions to straight through processing include where people are self-employed or business owners, so do not have a regular salary, requiring further review. These constitute a small minority (<10%) of loan applications.

Harmoney's pricing is broadly consistent to competitive with major bank peers. Consistent with the trends being observed in the home loan mortgage market, where significant loan volumes are flowing to those lenders with the fastest loan approvals and broadly competitive interest rates rather than the cheapest market-leading interest rates and slower service, Harmoney's speed of approval and funding provide a significant competitive advantage allowing Harmoney rather than competing solely on price, to compete on service and price while generating significant origination volumes benefiting its net interest margins.

Harmoney may be experiencing significantly lower conversion rates in Australia than in its New Zealand business due to a wider range of competitors offering similar rapid funded personal lending products as well as being a relatively younger business, which hasn't yet achieved the same volume of application experience on which the company can optimise its algorithms.

Sophisticated marketing partnership with Google

Harmoney's marketing strategy effectively encapsulates a variety of advertising channels. This strategy has helped the Company penetrate the market and diversify its customer acquisition capabilities. Harmoney's multiple marketing channels involve:

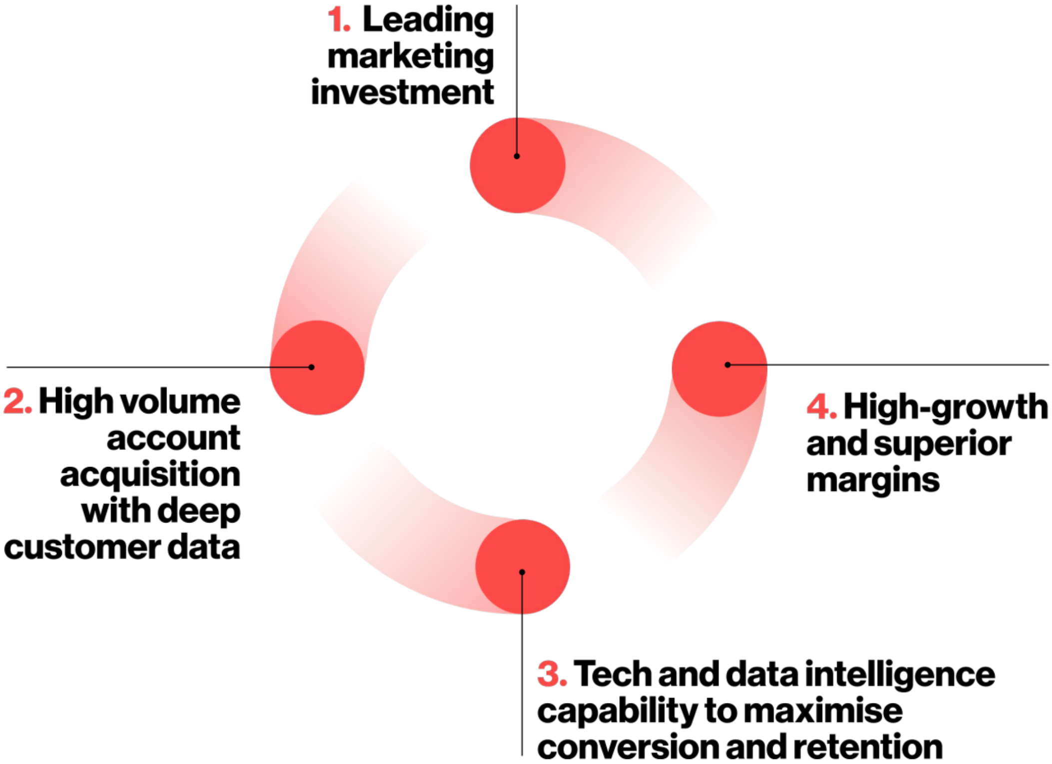
- Search engine marketing
- Comparison websites
- Display advertising
- Social media
- Online video platforms
- Direct mail campaigns
- TV
- Radio
- Digital radio
- Native display advertising

A key driver of Harmoney's online customer acquisition strategy is their partnership with Google. Through Google Smart Bidding machine learnings, the Stellare™ technology platform integrates with Google's algorithms to attract the ideal in-market audience, showcasing targeted advertising that is optimised for customer conversion Harmoney, 2020). The Google Smart Bidding algorithm seeks the characteristics and customer behaviour of prime target audiences across Google's platforms. This sophisticated partnership has attracted more qualified loan applicants and has improved Harmoney's return on advertising spend over time.

Harmoney's digital marketing strategy also involves engaging with a variety of prominent comparison websites, including Finder, Mozo, and RateCity. The Company has placed a strong emphasis on comparison websites to grow their presence. However, Harmoney is transitioning to growing the proportion of its customer engagement via low or no-cost online channels.

The Company has also experienced success with content marketing on social media. Native advertising of eBook guides (covering topics such as credit score improvement) have also enabled Harmoney to acquire large volumes of leads, and support customer acquisition.

Figure 11 – Harmoney growth fly-wheel



Source: Company reports

Google search trends

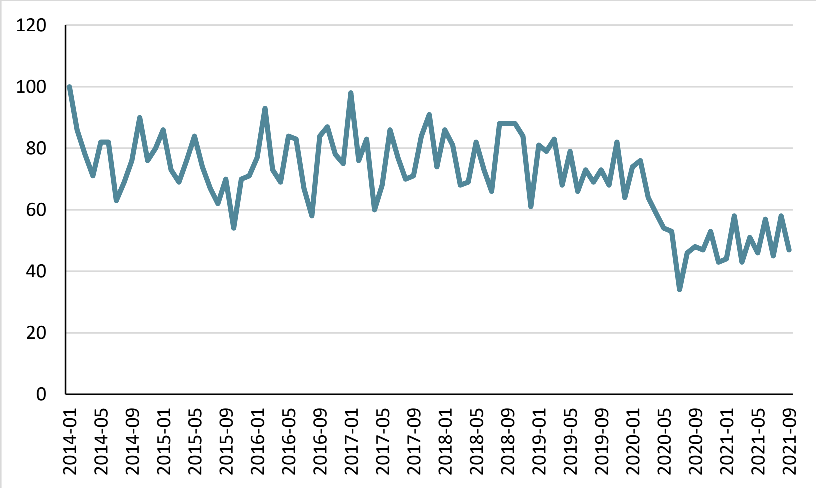
Through analysing Google search trend data over the last 5 years, it is clear Harmoney is receiving increasing attention from Australian users. Google awards search results with 'Breakout' status if they have had a significant increase in searches. The following terms all received 'Breakout' status from Australian Google users over the last 5 years:

- Harmoney loan
- Harmoney loans
- Personal loans
- Harmony loans reviews

Additionally, 'harmoney review' has seen a 250% increase in google searches over this time period. It is also important to note that Google provide trend history for topics and 'Loan' is up 1,100% over the past five years.

Encouragingly, search trends for 'personal loans' have remained relatively stable since 2014 (when Harmoney was established). A slight drop in searches occurred mid-way through 2020. This is likely a result of uncertainty caused by CV-19, as consumers became more risk averse.

Figure 12 – ‘Personal Loans’ Google search trend

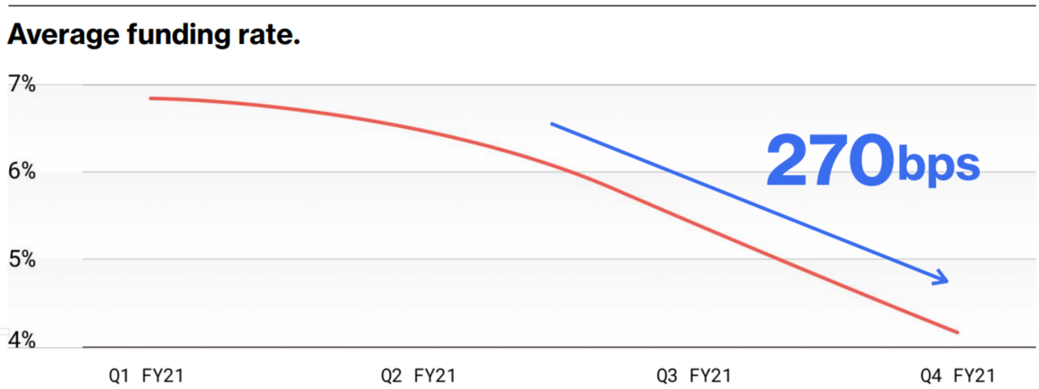


Source: Google Trends

The Google search trend data from New Zealand allocated ‘Breakout’ status to both ‘harmoney login nz’ and ‘harmoney log in’. This supports the Company’s increasing number of new accounts. Other notable mentions include a 300% increase in searches of ‘harmoney loan calculator’ and ‘harmoney calculator’ over the last 5 years. With regards to popular NZ topics, multiple relevant to debt finance have received ‘Breakout’ statuses.

Tailwinds from the transition away from peer to peer lending

Figure 13 – Harmoney’s average funding rate



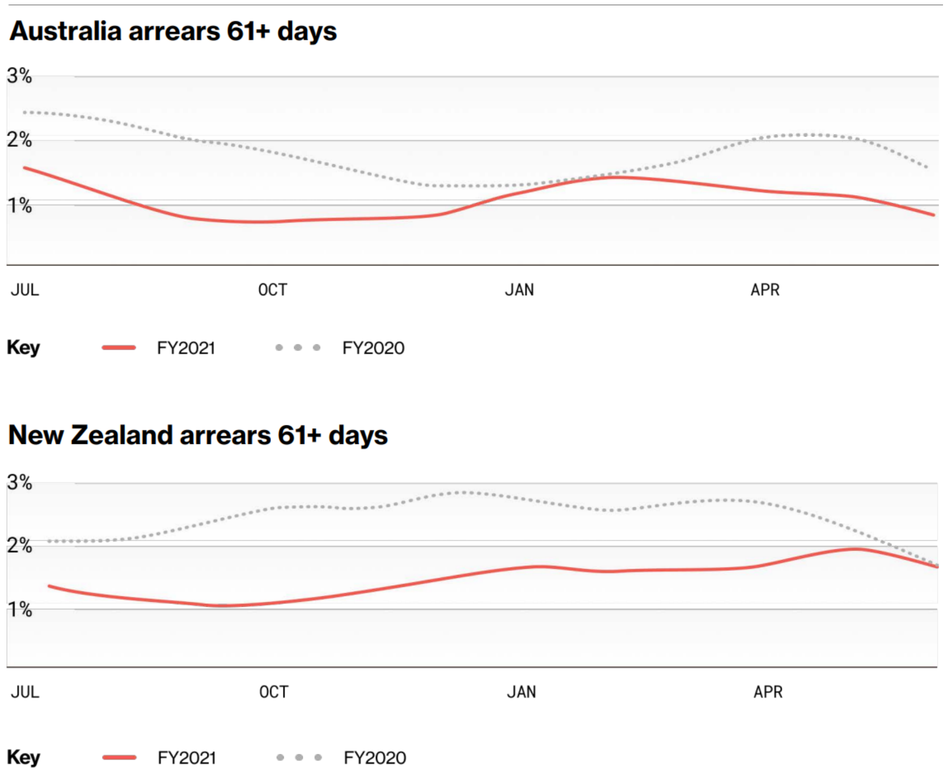
Source: Company reports

While initially a peer to peer lender, several years ago Harmoney switched its business model to use warehouse funding. This delivers several benefits to the company:

- Lower cost funding, enabling it to expand it NIM by 270bps over FY21 while offering more competitively priced loans. This improvement in NIM should continue in FY22 as the proportion of peer to peer financed loans continues to decrease.
- Rapidly growing earnings, facilitated by its warehoused loan balances growing faster than total loans, which are offset by the contraction in peer financed loans, where it has a lower proportion of the loan economics.
- Significantly more clarity around its funding pipeline, with warehouses providing greater capacity visibility than peer-to-peer lending.
- Furthermore, its good risk selection keeps getting better through improvements in its algorithms, which keeps impairment costs low, thus making the company more attractive to warehouse providers, and further lowering warehouse costs.

The improvement in credit quality can be seen looking at the year on year improvement in arrears – with the first half of FY20 occurring prior to the COVID-19 pandemic.

Figure 14 – Credit quality

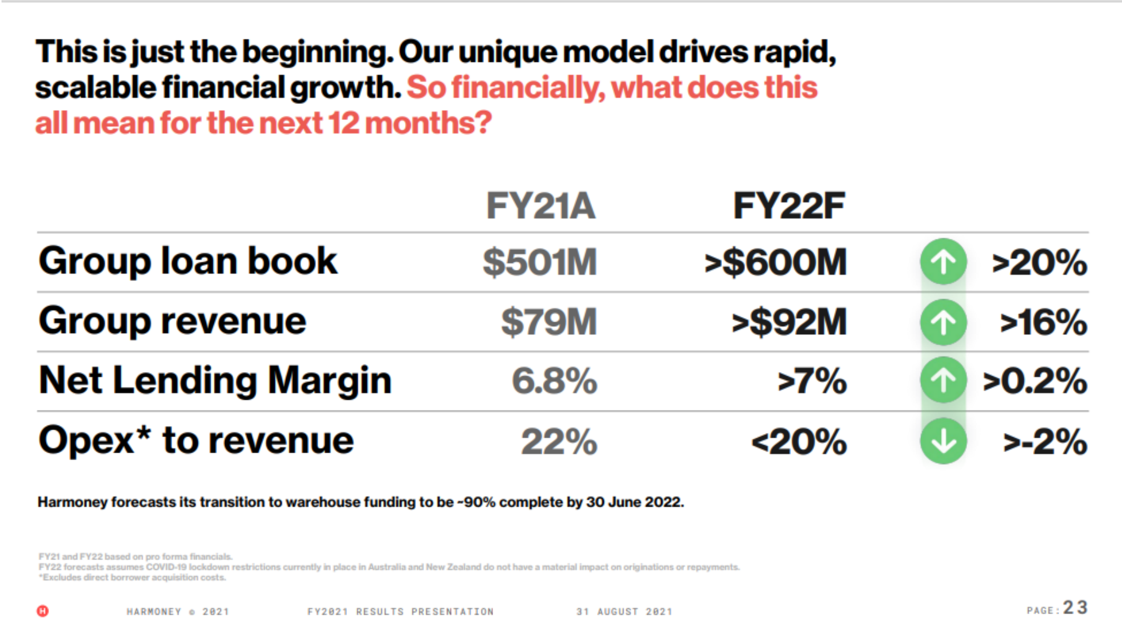


Source: Company reports, MST Access estimates

Outlook and growth options

Outlook commentary

Figure 15 – Harmoney's FY22 pro-forma guidance



	FY21A	FY22F		
Group loan book	$501M	>$600M	↑	>20%
Group revenue	$79M	>$92M	↑	>16%
Net Lending Margin	6.8%	>7%	↑	>0.2%
Opex* to revenue	22%	<20%	↓	>-2%

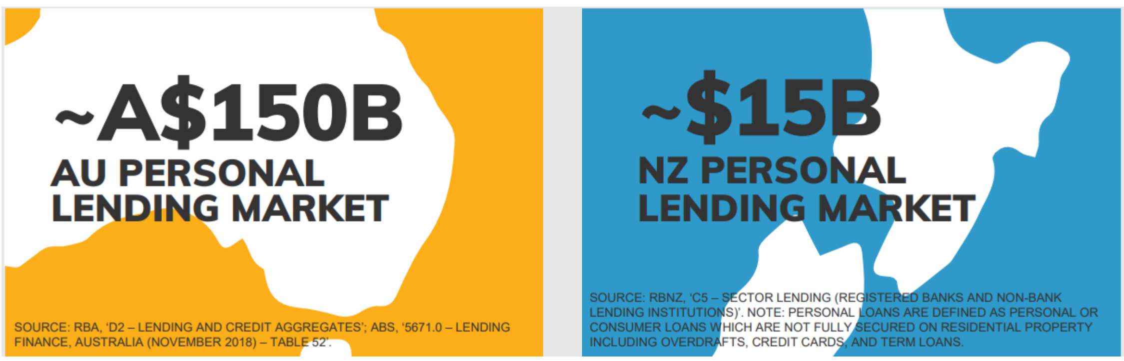
Source: Company reports, MST Access estimates

The ongoing transition to warehouse funding is set to lead to strong revenue growth over the next 12 months as fee income is replaced with net interest income. This increase in income increases Harmoney's net lending margin, and also has the impact of reducing operating expenses to revenue. These improving metrics should drive material improvements in profitability.

This guidance is provided on Harmoney's pro-forma basis, so needs t be adjusted to statutory, scaling the group loan book for the proportion in its own warehouses vs that financed through peer-to peer lending.

Australia is a large market to grow into

Figure 16 – Relative size of Australia and New Zealand personal lending markets



Source: Company reports

Australia represents a sizeable opportunity for Harmoney. With a market 10x the size of New Zealand, it can replicate the size of its New Zealand business with a much lower market share, and hence can be more selective around the loans it writes, or alternatively, can capture larger margins, consistent with the experience inferred from our secret shopper evaluation.

Longer term, as Harmoney develops greater scale, it may seek to enter similar additional markets, including Singapore, Canada and the UK, which should enable it to keep growing for many years to come. With Singapore likely a similar size to the New Zealand market, and Canada and the UK larger than the Australian market, Harmoney has the long-term opportunity to build a well diversified, high quality business, leveraging its Stellare platform to achieve market leading cost to income ratios, thus securing its long term profitability though the moats of superior risk selection and cost leadership. However, we suspect that the company will likely seek to grow its Australian business to break even or better over the next few years before it explores other markets.

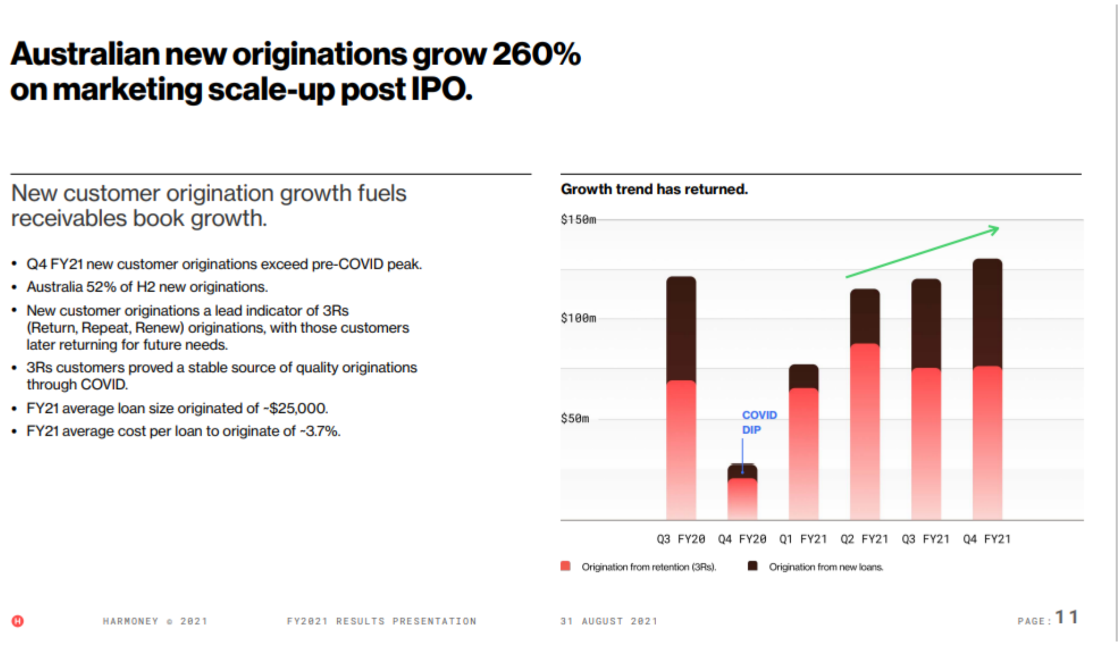
Path to Profitability

Harmoney is moving rapidly along the path to profitability. Its proforma accounts provide an insight as to how much higher its profitability will be once all loans are funded through its warehouses rather than legacy peer to peer funding arrangements. Having achieved a notional profit in FY21 on a pro-forma cash NPAT basis, we see several tailwinds accelerating the company becoming profitable on a statutory basis in FY23:

- The growth the company is achieving in Australia continuing as major state economies come out of lockdown
- The transition to warehouse funding progressing
- Furthermore, as discussed by the AFR in Australia's booming warehouse funding market eyes $10b (afr.com, 29 September 2021), there is increasing competition in the provision of warehouses, as large industry superannuation funds and credit fund managers increasing provide them in addition to major banks, which will likely see warehouse margins compress from competition in coming years, to the benefit of warehouse consumers such as Harmoney.
- The increasing proportion of its business mix coming from reselling to existing customers, with negligible marketing expenses
- Improving marketing conversion rates as a result of increasing sophistication in targeting new customers as part of its partnership with Google and thus more efficient market expense spend.

Risk of Further Capital Raising

Figure 17 – Rapid new lending growth being achieved in Australia



Source: Company reports, MST Access estimates

While we are not forecasting further capital raisings by Harmoney, we cannot rule them out, as a variety of factors could lead to a need to raise capital:

- Harmoney's main source of cash consumption is from its net advances to customers, much of which is financed through its existing warehouse facilities. Should growth be higher than expected, depleting its cash balance, the company may seek to raise addition capital to capture continued strong growth.
- Harmoney may wish to raise capital to accelerate its growth, either for increasing its existing direct consumer marketing further, or for expansion into another lending category (such as secured motor lending) 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.
- Should a sudden unexpected substantial rise in bad debts occur, Harmoney 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, such as what occurred in the US in 2008, or in Australia's recession in the early 1990's. It is worth noting that Harmoney's capital levels (measured as NTA/net receivables) are well above the level those of financial services organisations which needed to raise capital in these historic economic downturns.

Key valuation considerations

Key modelling assumptions

Our key assumptions underlying the growth in HMY's income over the next few years are listed below. We believe that, on balance these assumptions are on the conservative side of potential growth outcomes.

Figure 18 – Key modelling assumptions

Component	Details
Lending volumes	• Origination numbers rebound after the COVID lockdown driven slowdown to around 10% a half, with higher "revenge" growth in 1H23 on the back of weak comps, while the average value of originations remains around $25,000. • Combined with the more rapid runoff of the loan book than contracted, its loan book grows to $678m at the end of FY22, averaging $591m for the year, with slightly lower growth in FY23E as the proportion of business from repeat borrowers in Australia increases towards the 2/3ds level achieved in New Zealand.
Interest expenses	• We are forecasting a proforma net lending margin of 7.2% for FY23, consistent with Harmoney's guidance of a NIM > 7%. We have its NIM improving in future years as its funding costs fall due an increasing proportion of its loans funded through its warehouses.
Credit expenses	• Are assumed to continue to fall modestly, as the proportion of loans in warehouses increases, Harmoney's strong underwriting track record extends, and competition between warehouse providers increases.
Cash operating expenses	• The operational leverage implicit in Harmoney's digital operations should really begin to show, with operating expenses increasing in low single digits percentages in absolute terms, delivering falling operating expenses to income below 20% in FY22, consistent with Harmoney's guidance, and on our estimates falling to 14% by FY24E.
Depreciation and amortisation	• Notably the continued capitalisation of software algorithm development costs continues to build, leading to an increase in depreciation and amortisation expenses in future years.
FX	• We do not assume any major change in FX rates. • A stronger NZD against the AUD (due to the RBNZ raising cash rates ahead of the RBA) would lead to earnings downgrades due to the translation impact of Australian earnings, but a valuation upgrade, given the functional currency of NZD for a stock traded in AUD.
Tax	• Once the company becomes profitable, we assume it will incur tax at the New Zealand company rate of 28%. It may end up with a higher effective tax rate if its Australian operations grow to represent the majority of its business.
Share capital	• Anti-dilutive items are expected to become dilutionary once the company becomes profitable in FY23.
Investing cashflows	• Net advances to customers are funded purely through additional debt financing cashflows via Harmoney's warehouse facilities. • Ongoing increases in capex for PPE and software (mainly improvements to digital lending platform, Stellare™)

Source: Company reports, MST Access estimates

Income statement

Figure 19 – Proforma income statement

Date		Jun-20	Jun-21	Jun-22	Jun-23	Jun-24	Jun-25
Period		FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Interest income	NZ$m	85.220	78.560	93.871	119.266	139.226	168.589
Fee income	NZ$m	0.000	0.000	0.000	0.000	0.000	0.000
Other income	NZ$m	0.806	0.505	1.185	1.530	1.851	2.240
Total income	**NZ$m**	**86.026**	**79.065**	**95.056**	**120.795**	**141.077**	**170.829**
Interest expense	NZ$m	-31.394	-27.410	-22.102	-26.906	-31.468	-38.032
Incurred credit losses	NZ$m	-24.382	-18.626	-24.757	-30.754	-37.554	-45.475
Movement in ECL provision	NZ$m	-8.268	0.436	-9.894	-8.347	-9.986	-12.003
Net lending margin after loss provision	**NZ$m**	**21.982**	**33.465**	**38.303**	**54.788**	**62.069**	**75.319**
Marketing expenses	NZ$m	-12.601	-16.475	-21.903	-22.343	-22.792	-23.250
Verification and servicing expenses	NZ$m	-3.428	-4.006	-4.349	-4.614	-4.895	-5.193
Net operating margin	**NZ$m**	**5.953**	**12.984**	**12.051**	**27.831**	**34.382**	**46.876**
Personnel expenses	NZ$m	-6.499	-9.241	-10.320	-10.632	-10.954	-11.285
Share based payments	NZ$m	-0.760	-4.078	0.000	0.000	0.000	0.000
Technology expenses	NZ$m	-3.331	-3.245	-3.687	-3.789	-3.903	-4.021
General and administrative expenses	NZ$m	-3.458	-7.728	-4.688	-4.817	-4.963	-5.113
Depreciation and amortisation expenses	NZ$m	-1.617	-1.046	-1.463	-2.472	-4.178	-7.061
Profit before income tax	**NZ$m**	**-9.712**	**-12.354**	**-8.106**	**6.121**	**10.385**	**19.396**
Income tax expense	NZ$m	2.719	3.459	1.621	-1.714	-2.908	-5.431
Non-controlling interests	NZ$m	0.000	0.000	0.000	0.000	0.000	0.000
NPAT - continuing	**NZ$m**	**-6.993**	**-8.895**	**-6.485**	**4.407**	**7.477**	**13.965**
Discontinued operations	NZ$m	0.000	0.000	0.000	0.000	0.000	0.000
NPAT	**NZ$m**	**-6.993**	**-8.895**	**-6.485**	**4.407**	**7.477**	**13.965**
Non-cash adjustments							
Movement in ECL provision	NZ$m	8.268	-0.436	9.894	8.347	9.986	12.003
Share based payments expenses	NZ$m	0.76	4.078	0.000	0.000	0.000	0.000
Depreciation and amortisation	NZ$m	1.617	1.046	1.463	2.472	4.178	7.061
Other normalisation adjustments							
Warehouse establishment expenses	NZ$m	0.000	0.000	0.000	0.000	0.000	0.000
Borrower establishment fee rebate	NZ$m	3.000	4.000	0.000	0.000	0.000	0.000
IPO related expenses	NZ$m	0.000	3.172	0.000	0.000	0.000	0.000
Income tax impact of adjustments	NZ$m	-3.821	-3.321	0.000	0.000	0.000	0.000
Cash NPAT	**NZ$m**	**2.831**	**-0.356**	**4.872**	**15.226**	**21.641**	**33.029**

Source: Company reports, MST Access estimates

Figure 20 – Statutory income statement

Date		Jun-20	Jun-21	Jun-22	Jun-23	Jun-24	Jun-25
Period		FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Interest income	NZ$m	21.552	37.643	73.438	111.600	137.183	168.589
Fee income	NZ$m	13.829	0.659	0.000	0.000	0.000	0.000
Other income	NZ$m	2.099	0.845	0.000	0.000	0.000	0.000
Total income	**NZ$m**	**37.480**	**39.147**	**73.438**	**111.600**	**137.183**	**168.589**
Interest expense	NZ$m	-5.698	-9.647	-17.289	-25.177	-31.006	-38.032
Incurred credit losses	NZ$m	-2.676	-4.787	-19.325	-28.777	-37.003	-45.475
Movement in ECL provision	NZ$m	-6.223	-8.285	-7.667	-7.811	-9.840	-12.003
Net lending income	**NZ$m**	**22.883**	**16.428**	**29.156**	**49.835**	**59.334**	**73.079**
Marketing expenses	NZ$m	-15.085	-16.475	-21.903	-22.343	-22.792	-23.250
Verification and servicing expenses	NZ$m	-4.185	-4.006	-4.349	-4.614	-4.895	-5.193
Net operating margin	**NZ$m**	**3.613**	**-4.053**	**2.904**	**22.878**	**31.647**	**44.636**
Personnel expenses	NZ$m	-12.318	-9.170	-10.320	-10.632	-10.954	-11.285
Share based payments	NZ$m	-0.832	-4.077	0.000	0.000	0.000	0.000
Technology expenses	NZ$m	-4.135	-3.245	-3.687	-3.789	-3.903	-4.021
General and administrative expenses	NZ$m	-5.339	-7.728	-4.688	-4.817	-4.963	-5.113
Depreciation and amortisation expenses	NZ$m	-0.977	-1.046	-1.463	-2.472	-4.178	-7.061
Profit before income tax	**NZ$m**	**-19.988**	**-29.319**	**-17.253**	**1.168**	**7.650**	**17.157**
Income tax expense	NZ$m	4.616	2.286	3.451	-0.327	-2.142	-4.804
Non-controlling interests	NZ$m	0.000	0.000	0.000	0.000	0.000	0.000
NPAT - continuing	**NZ$m**	**-15.372**	**-27.033**	**-13.802**	**0.841**	**5.508**	**12.353**
Discontinued operations	NZ$m	0.000	0.000	0.000	0.000	0.000	0.000
NPAT	**NZ$m**	**-15.372**	**-27.033**	**-13.802**	**0.841**	**5.508**	**12.353**
Non-cash adjustments							
Change in expected revenue	NZ$m	0.000	0.000	0.000	0.000	0.000	0.000
Movement in ECL provision	NZ$m	6.223	8.285	7.667	7.811	9.840	12.003
Share based payments expenses	NZ$m	0.832	4.077	0.000	0.000	0.000	0.000
Depreciation and amortisation	NZ$m	0.977	1.046	1.463	2.472	4.178	7.061
Other normalisation adjustments							
Warehouse establishment expenses	NZ$m	0.000	0.000	0.000	0.000	0.000	0.000
Borrower establishment fee rebate	NZ$m	3.000	4.000	0.000	0.000	0.000	0.000
IPO related expenses	NZ$m	0.000	3.172	0.000	0.000	0.000	0.000
Income tax impact of adjustments	NZ$m	-3.118	-5.822	-1.826	-2.879	-3.925	-5.338
Cash NPAT	**NZ$m**	**-7.458**	**-12.275**	**-6.498**	**8.245**	**15.600**	**26.079**

Source: Company reports, MST Access estimates

Balance sheet

Figure 21 – Balance sheet

Date		Jun-20	Jun-21	Jun-22	Jun-23	Jun-24	Jun-25
Period		FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Assets							
Cash and cash equivalents	NZ$m	34.779	76.464	59.529	52.853	47.769	46.656
Trade and other assets	NZ$m	5.223	1.894	4.529	7.701	15.165	25.837
Finance receivables	NZ$m	129.222	294.821	575.616	756.874	948.617	1,150.957
Property and equipment	NZ$m	1.448	0.642	0.999	1.406	1.779	2.216
Intangible assets	NZ$m	0	3.455	5.375	7.565	9.572	11.927
Deferred tax assets	NZ$m	9.548	11.490	11.490	11.490	11.490	11.490
Total assets	**NZ$m**	**180.22**	**388.766**	**657.538**	**837.888**	**1,034.391**	**1,249.084**
Liabilities							
Payables and accruals	NZ$m	3.263	7.324	7.324	7.324	7.324	7.324
Borrowings	NZ$m	132.63	291.541	584.083	765.999	958.024	1,160.365
Provisions	NZ$m	12.832	13.405	3.437	1.031	0.000	0.000
Lease liability	NZ$m	1.684	0.717	0.717	0.717	0.717	0.717
Derivative financial instruments	NZ$m	0.926	0.085	0.085	0.085	0.085	0.085
Total liabilities	**NZ$m**	**151.335**	**313.072**	**595.646**	**775.156**	**966.150**	**1,168.491**
Net assets	**NZ$m**	**28.885**	**75.694**	**61.892**	**62.732**	**68.240**	**80.593**
Net tangible assets	**NZ$m**	**28.885**	**72.239**	**56.517**	**55.167**	**58.668**	**68.666**
Shareholder funds							
Contributed equity	NZ$m	56.686	131.399	131.399	131.399	131.399	131.399
Reserves	NZ$m	1.565	0.695	0.695	0.695	0.695	0.695
Retained earnings/accumulated los:	NZ$m	-29.366	-56.400	-70.202	-69.362	-63.854	-51.501
Total equity	**NZ$m**	**28.885**	**75.694**	**61.892**	**62.732**	**68.240**	**80.593**
Basic shares on isue	m	142.0	100.9	100.9	100.9	100.9	100.9
Diluted shares on issue	m	168.3	100.9	100.9	100.9	100.9	100.9
Basic BVPS aka NAV	A$	0.20	0.75	0.61	0.62	0.68	0.80
Basic TBVPS aka NTA	A$	0.20	0.72	0.56	0.55	0.58	0.68
Non-controlling interests per share	A$	0.00	0.00	0.00	0.00	0.00	0.00
Average assets	NZ$m	90.1	284.5	523.2	747.7	936.1	1,141.7
Average equity	NZ$m	14.4	52.3	68.8	62.3	65.5	74.4
Average tangible equity	NZ$m	14.4	50.6	64.4	55.8	56.9	63.7
Ratios							
Net debt to equity	%	339%	284%	848%	1137%	1334%	1382%
Net debt to tangible equity	%	339%	298%	928%	1293%	1552%	1622%
Net debt to capital	%	77%	74%	89%	92%	93%	93%
Net debt to tangible capital	%	77%	75%	90%	93%	94%	94%

Source: Company reports, MST Access estimates

Cash flow

Figure 22 – Cash flow

Date		Jun-20	Jun-21	Jun-22	Jun-23	Jun-24	Jun-25
Period		FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Operating cash flows - direct							
Cash receipts in the course of operations	NZ$m	32.712	6.809	0.000	0.000	0.000	0.000
Cash payments in the course of operations	NZ$m	-41.616	-35.384	-42.042	-23.317	-15.859	-4.226
Dividends received	NZ$m	0.000	0.000	0.000	0.000	0.000	0.000
Interest received	NZ$m	20.650	36.760	73.438	111.600	137.183	168.589
Interest paid	NZ$m	-5.576	-9.773	-17.289	-25.177	-31.006	-38.032
Income taxes paid	NZ$m	0.000	0.000	0.000	-0.492	-2.142	-4.804
Net cash from operating activities	**NZ$m**	**6.170**	**-1.588**	**-4.672**	**11.124**	**19.525**	**31.417**
Investing cash flows							
Capex - property, plant, equipment and software	NZ$m	-0.033	-3.694	-13.200	-19.008	-25.635	-33.902
Net advances to customers	NZ$m	-99.209	-180.044	-176.683	-149.056	-178.321	-214.343
Net cash used in investing activities	**NZ$m**	**-99.242**	**-183.738**	**-189.883**	**-168.064**	**-203.956**	**-248.246**
Financing cash flows							
Equity	NZ$m	23.469	67.550	0.000	0.000	0.000	0.000
Debt	NZ$m	95.026	159.533	176.683	149.056	178.321	214.343
Leases	NZ$m	-0.189	-0.969	-0.982	-0.982	-0.982	-0.982
Net cash used in financing activities	**NZ$m**	**118.306**	**226.114**	**175.701**	**148.074**	**177.339**	**213.361**
Net change in cash and cash equivalents	**NZ$m**	**25.234**	**40.788**	**-18.854**	**-8.866**	**-7.092**	**-3.467**
Cash and cash equivalents at the start of period	NZ$m	9.531	34.779	76.464	57.610	48.743	41.652
Impact of FX on cash balances	NZ$m	0.014	0.897	0.000	0.000	0.000	0.000
Cash and cash equivalents at period end	**NZ$m**	**34.779**	**76.464**	**57.610**	**48.743**	**41.652**	**38.184**
Free cash flow to the firm	NZ$m	-93.261	-186.295	-195.538	-157.922	-185.412	-217.811
Free cash flow to equity	**NZ$m**	**1.765**	**-26.762**	**-18.854**	**-8.866**	**-7.092**	**-3.467**

Source: Company reports, MST Access estimates

Valuation

We use a blend of valuation approaches to estimate Harmoney valuation, considering:

- peer multiples and growth rates,
- intrinsic valuation scenarios of its potential future growth profiles

Other equity market considerations such as short sales; any likely forthcoming changes in index inclusion; depth of stock research coverage; composition of and change in the mix of investors (such as founders, board and staff, domestic institutions, foreign institutions, and retail investors) are not incorporated in our valuation; however investors should consider such factors if they seek to develop a price target for the company.

Figure 23 – MST Access General Residual Income Model (GRIM) valuation of Harmoney Corp Limited

Current date		16-Oct-21								
Last balance date		30-Jun-21								
		Jun-21	Dec-21	Jun-22	Dec-22	Jun-23	Dec-23	Jun-24	Dec-24	Jun-25
Book value per share	NZ$	0.75	0.66	0.61	0.61	0.62	0.64	0.68	0.73	0.80
Equity charge	NZ$		-0.03	-0.03	-0.02	-0.02	-0.02	-0.03	-0.03	-0.03
Cash EPS	NZ$	-0.12	-0.06	-0.01	0.03	0.05	0.07	0.09	0.12	0.14
Residual income	NZ$	**-0.12**	**-0.09**	**-0.03**	**0.01**	**0.03**	**0.04**	**0.06**	**0.09**	**0.11**
Discounted cash flow	NZ$	**0.00**	**-0.08**	**-0.03**	**0.00**	**0.02**	**0.03**	**0.05**	**0.07**	**0.08**

Sum of discount streams	NZ$	0.2	**CAPM**	
Future value into perpetuity	NZ$	3.1	Risk free rate	2.00%
NPV of terminal value	NZ$	2.3	Equity beta	2
add net assets	NZ$	0.75	Equity risk premium	3.00%
Residual income value per share	**NZ$**	**3.24**	Cost of equity	8.0%
P/B multiple implied by GRIM valuation	x	4.3	Terminal growth	1.5%
AUDNZD FX rate	x	1.05		
Residual income value per share	**A$**	**3.10**		
Upside/downside	%	63%		

Source: Company reports, MST Access estimates

Many analysts use some form of residual income or value-added valuation approach, due to the complexities and uncertainties involved in forecasting cashflow, in part due to regulatory capital requirements. Some of the advantages of this approach are that:

- the bulk of the valuation is generally recognized upfront, in the net asset value providing greater certainty around a large component of the valuation;
- uses profit, rather than cashflow, forecasts.

We use a two-stage model, using our explicit forecasts over the next five years, followed by a terminal value, to which we add current net assets per share. We assume a risk free rate of 2.0% and equity risk premium of 3.0%. We estimate HMY's equity beta to be 2. We estimate HMY's cost of equity to be 8.0% and terminal growth of 1.5%. This produces a valuation of NZ$3.24 or A$3.10 per share.

Figure 24 – Peer comparative multiples for Harmoney (based on consensus forecasts)

Company Name	NTM Net Lending Income A$m	EV A$m	EV/ Forward NLI x	P/NTA x
Harmoney Corp Limited (ASX:HMY)	90.35	397.7	4.4	2.9
Pure Play personal loan peers				
Plenti Group Limited (ASX:PLT)	89.57	770.7	8.6	5.0
Wisr Limited (ASX:WZR)	68.0	681.4	10.0	5.1
MoneyMe Limited (ASX:MME)	95.88	614.6	6.4	9.1
Average			**8.3**	**6.4**
Diversified personal lending peers				

Money3 Corporation Limited (ASX:MNY)	145.1	186.23	898.1	6.2	4.8	2.2
Latitude Group Holdings Limited (ASX:LFS)	727.0	842.32	7,693.2	10.6	9.1	4.4
Average				**8.4**	**7.0**	**3.3**

Note that the Harmoney NZD financials in this table are converted into AUD for comparability. Source: Capital IQ, IBES

Harmoney trades at a discount on its price to book and price to NTA ratios to its personal lending peers. If we were to use a subset of pure-play personal lending peers, using only the peers MoneyMe, Wisr and Plenti, an even higher multiple would be applicable.

Governance Considerations

A busy board well aligned to shareholders

Harmoney has a well qualified board, however its independent directors are extremely busy based upon the boards they were sitting on at 30 June. These numbers may understate the true level of activity if they also sit on subsidiary company boards.

- Its Chair sits on a total of 9 other boards including 2 other boards as Chair, including Chair of 86 400, and as a director of AUB Group and Sezzle.
- Its sole female director sits on 10 boards, including Chair of Nikko Asset Management NZ.
- David Flacks silts on 11 boards of which he is Chair for 4; notably this includes several of Suncorp's subsidiaries in New Zealand including Vero Insurance and Asteron Life

With only one female director, Harmoney falls short of meeting the 30% 2021 target set by the ASX Governance Council. The addition of another female director, either replacing an existing male director or increasing the size of the board, would see Harmoney exceed this target.

Figure 25 –Board Composition

Director	Position*	Joined board	Committees	Shares	Performance rights	Total	% SOI
Paul Alan Lahiff B.Sc., BSc Agr, GAICD	Chair, INED	2021	Audit, Chair Nominations, Chair Compensation, Risk	35,462	0	35,462	0.04%
David John Stevens B.Com., C.A., SA Fin	CEO, MD	2020		1,890,465	3,000,000	4,890,465	4.85%
Neil Gordon Roberts	Founder, Chief Product Officer & Executive Director	2013		18,611,152	1,500,000	20,111,152	19.93%
David M. Flacks B.A., M.A.	INED	2016	Audit, Nominations, Compensation, Risk	816,354		816,354	0.81%
Tracey Kim Jones, B.Com, CA, MInstD	INED	2014	Audit, Nominations, Compensation, Risk	455,577		455,577	0.45%

* Independent Non-Executive Director (INED). Source: Company reports, MST Access estimates

Harmoney's board is well aligned with shareholders, with all board members holding meaningful shareholdings, and apart from the Chairman, all holding shares worth well in excess of their potential annual board fees.

Background on the board of directors

Figure 26 – Board of directors

Paul Alan Lahiff	Independent Chairman of Board
David John Stevens	CEO, MD & Director
Neil Gordon Roberts	Founder, Chief Product Officer & Executive Director
David M. Flacks	Independent Director
Tracey Kim Jones	Independent Director

Source: Company reports, MST Access estimates

Paul Alan Lahiff B.Sc., BSc Agr, GAICD, Independent Chairman of Board

Mr. Paul Alan Lahiff, BSc Agr, GAICD, serves as an Independent Chairman since 2021 and also serves as Independent Non-Executive Director at Harmoney Corporation Limited since February 15, 2021. He is an Independent Non-Executive Director of Sezzle Inc. since May 7, 2019. He served as Independent Chairman at Cuscal Ltd. since November 2018 until October 31, 2019. He runs his own consultancy business specialising in strategy formulation in the financial services sector. Mr. Lahiff previously served as the Chief Executive Officer since August 2003 and Managing Director from May 24, 2004 to July 2009 at Mortgage Choice Ltd. He was responsible for managing the operations of the firm. He was Chief Executive Officer of Heritage Bank. He also held senior management roles for Westpac Banking Corporation in Sydney and London. Mr. Lahiff also served as a Managing Director at Permanent Trustee Company Ltd since February 1999. He 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. Prior to this, he served as the Partner and Head of PA Consulting Group's Financial Services. Mr. Lahiff has a vast experience in banking and finance. He is the Chair of NPP Australia Limited and also chairs the Retail Finance Intelligence Advisory Board, the Australian Payments Clearing Association Stakeholder Forum, Australian Retail Credit Association, Smartline Personal Mortgage Advisors and LIXI Australia. He held senior roles in 86 400 Holdings Pty Ltd. He is a Board member of NESS Superannuation. Mr. Lahiff was a Non-Executive Director of Cancer Council NSW. He has been a Non-Executive Director at AUB Group Limited since October 1, 2015. He was a Director of Sunsuper Pty Ltd since January 2015. He was a Board Member of Thorn Group and New Payments Platform Australia. He is a graduate and fellow of the Australian Institute of Company Directors. He holds a B.S. from University Of Sydney.-

David John Stevens B.Com., C.A., SA Fin, CEO, MD & Director

Mr. David John Stevens, BCom, CA, SA Fin, serves as Chief Executive Officer of Harmoney Corporation Limited since September 2019 and also serves as its Managing Director. He serves as Director at Harmoney Corporation Limited since October 30, 2020. Mr. Stevens is a highly experienced chief executive officer specializing in the non-bank consumer and commercial finance sectors within Australia and New Zealand. He most recently led a start-up company providing medical payment options, ultimately securing a major equity stake in the business by the Bank of Queensland in 2018. Mr. Stevens served as Group Chief Financial Officer of Flexigroup Limited (now branded Humm Group) from July 01, 2013 to January 9, 2017 and its Managing Director of NZ until January 9, 2017. Mr. Stevens also served as Acting Chief Executive Officer of Flexigroup Limited from July 2015 to November 23, 2015. He also served as Head of Finance and Company Secretary of Flexigroup Limited from August 2008 until July 2013. He has studied Commerce, Accounting and Finance in the year 1997-1999 from University of Wollongong and is a qualified Chartered Accountant.

Neil Gordon Roberts, Founder, Chief Product Officer & Executive Director

Mr. Neil Roberts serves as Founder, Chief Product Officer and Executive Director at Harmoney Corporation Limited. Mr. Roberts founded Harmoney in July 2013 and led the business as Chief Executive Officer over six years driving the capital path, and building culture systems and processes that are intrinsic to Harmoney's success. Mr. Roberts served as Head of National Sales and Head of Business Development of Flexigroup Limited from July 1, 2011 to February 29, 2012. Mr. Roberts served as Head of Consumer Direct of Flexigroup Limited since August 15, 2006. Mr. Roberts founded the Direct Division of a New Zealand retail company, PRG Group, which sold personal loans to consumers and raised retail debentures to fund loans. Ultimately heading the business, Mr. Roberts was responsible for over 400 staff and a balance sheet of huge amount in assets with forecasted pre-tax profit six years later and prior to being sold to GE Money in 2006.

David M. Flacks B.A., M.A., Independent Director

Mr. David M. Flacks, BA, MA, serves as an Independent Director since 2021 and was Independent Chairman of the Board at Harmoney Corporation Limited since May 2016 until 2021. He is Independent Non-Executive Chairman at Vero Insurance New Zealand Ltd. since October 01, 2019 and has been its Director since 2013. He has been Chairman of Asteron Life Limited since October 1, 2019 and its Director since September 7, 205. He is an experienced governance and regulatory professional having been a senior corporate lawyer for many years. He has been the Chairman and Independent Director of AFT Pharmaceuticals Limited since June 22, 2015. He served as a Director at

New Zealand Venture Investment Fund Limited until December 2019. Mr. Flacks serves as an Acting Director of Flacks & Wong, a corporate law firm. Mr. Flacks served as Senior Corporate Partner of Bell Gully and served as its Partner. His in-depth experience of corporate and commercial law are complemented by management and leadership skills and an appreciation of corporate and boardroom strategy. Mr. Flacks acted for a number of major New Zealand corporates on general corporate work, acquisitions and divestments, advises on boardroom issues and directors duties and companies involved in friendly and hostile public company takeovers. He acted as Lead Partner on a number of public company listings on the New Zealand Stock Exchange and markets elsewhere including London's AIM. He served as General Counsel and Company Secretary of Carter Holt Harvey Limited for over few years in 1990's. In 2008, he was appointed to NZX Discipline. Mr. Flacks serves as Chair of Upside Biotechnologies Ltd. He served as the Chairman of New Zealand Markets Disciplinary Tribunal since June 2014 until June 2017. He is a chair of the Suncorp NZ group of companies. He has been Non-Executive Director of Asteron Life Limited since September 7, 2015. He serves as a Director of New Zealand Venture Investment Fund Limited, Vero Liability Insurance Limited and Todd Corporation. He was a Member of the Market Surveillance Panel and Takeovers Panel of the New Zealand Stock Exchange and the Legal & Advisory Board of the NZX. He holds BA and MA from St. John's College, University of Cambridge. He is a graduate in Law from University of Cambridge. He is chair of a number of company boards of the NZX.-

Tracey Kim Jones, BCom, CA, MInstD, Independent Director

Ms. Tracey Jones serves as an Independent Director at Harmoney Corporation Limited since July 2014. Ms. Jones serves as an Independent Non-Executive Director of Nikko Asset Management New Zealand Limited since joining in August 2017. Ms. Jones is a professional director and family office adviser. Ms. Jones currently has a portfolio of governance roles in the commercial, not for profit and charitable sectors. Ms. Jones has significant investment, commercial, and governance experience having previously held executive roles in one of NZ's largest family offices. She is a Chartered Accountant, a member of the Chartered Accountants of Australia & New Zealand, and a member of the NZ Institute of Directors.

Senior Management

Figure 27 – Senior management

David John Stevens	CEO, MD & Director
Neil Gordon Roberts	Founder, Chief Product Officer & Executive Director
Simon Ward	Chief Financial Officer
Brad Hagstrom	Chief Operations Officer
Andrew Bates	Chief Technical Officer
Mike Travis	General Counsel
Amanda Donaldson	Head of Human Resources
Glen MacKellaig	Head of Digital Marketing
Dave Nesbitt	Chief Risk Officer
Duncan Gross	Head of Institutional Funding & Group Treasurer

Source: Company reports, MST Access estimates

David John Stevens, CEO, MD & Director

Mr. David John Stevens serves as Chief Executive Officer of Harmoney Corporation Limited since September 2019 and also serves as its Managing Director. He serves as Director at Harmoney Corporation Limited since October 30, 2020. Mr. Stevens is a highly experienced chief executive officer specializing in the non-bank consumer and commercial finance sectors within Australia and New Zealand. He most recently led a start-up company providing medical payment options, ultimately securing a major equity stake in the business by the Bank of Queensland in 2018. Mr. Stevens served as Group Chief Financial Officer of Flexigroup Limited (now branded Humm Group) from July 01, 2013 to January 9, 2017 and its Managing Director of NZ until January 9, 2017. Mr. Stevens also served as Acting Chief Executive Officer of Flexigroup Limited from July 2015 to November 23, 2015. He also served as Head of Finance and Company Secretary of Flexigroup Limited from August 2008 until July 2013. He has studied Commerce, Accounting and Finance in the year 1997-1999 from University of Wollongong and is a qualified Chartered Accountant.

Neil Gordon Roberts, Founder, Chief Product Officer & Executive Director

Mr. Neil Roberts serves as Founder, Chief Product Officer and Executive Director at Harmoney Corporation Limited. Mr. Roberts founded Harmoney in July 2013 and led the business as Chief Executive Officer over six years driving the capital path, and building culture systems and processes that are intrinsic to Harmoney's success. Mr. Roberts served as Head of National Sales and Head of Business Development of Flexigroup Limited from July 1, 2011 to February 29, 2012. Mr. Roberts served as Head of Consumer Direct of Flexigroup Limited since August 15, 2006. Mr. Roberts founded the Direct Division of a New Zealand retail company, PRG Group, which sold personal loans to consumers and raised retail debentures to fund loans. Ultimately heading the business, Mr. Roberts was responsible for over 400 staff and a balance sheet of huge amount in assets with forecasted pre-tax profit six years later and prior to being sold to GE Money in 2006.

Simon Ward, Chief Financial Officer

Mr. Simon Ward serves as a Chief Financial Officer at Harmoney Corporation Limited since April 2014. Mr. Ward 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 Oracle Team USA, where in 2010 he was promoted to CFO and held that position for four years before joining Harmoney. He holds Batchelor of Commerce (Honours) and Batchelor of Laws and is a Chartered Global Management Accountant.

Brad Hagstrom, Chief Operations Officer

Mr. Brad Hagstrom serves as a Chief Operations Officer at Harmoney Corporation Limited since December 2019. Mr. Hagstrom was part of the team that launched PRF Direct. Developing the entire back office operation, he was ultimately responsible for over 250 staff. Mr. Hagstrom joined Flexi-rent with a mandate to create new products, channels, and distribution to grow the company as well as managing operations. He went on to develop a new channel and approach to finance in the SME market prior to joining Harmoney.

Andrew Bates, Chief Technical Officer

Mr. Andrew Bates serves as Chief Technical Officer at Harmoney Corporation Limited since December 2014. Mr. Bates is responsible for developing Harmoney's overall technology vision and ensures the systems and services meet the demanding needs of customers and partners, driving platform and marketplace initiatives as well as overseeing Harmoney's operational support teams. Mr. Bates has experience in successfully delivering large-scale solutions in various IT roles including Software Development, Enterprise Architecture and as a CTO.

Mike Travis, General Counsel

Mr. Mike Travis serves as a General Counsel at Harmoney Corporation Limited since August 2019. Mr. Travis has spent a long time as an in-house legal counsel in New Zealand and overseas, working with technology businesses or within industries undergoing a digital reinvention. Mr. Travis is a commercial lawyer at heart, with an interest in transformation strategy, technology optimisation, and data-driven decision making.

Amanda Donaldson, Head of Human Resources

Ms. Amanda Donaldson serves as Head of Human Resources at Harmoney Corporation Limited since August 2019. Ms. Donaldson is a highly accomplished People Operations professional with experience in Project Management, CEO executive support and Head of HR Operations. Ms. Donaldson began her career as a yachting professional within the superyacht industry, was selected to head up shorebased Logistics for an America's Cup challenge campaign, held HR management roles around the world, led and project managed several commercial office refurbishment projects, and was a senior level EA in Real Estate, Shipping and Civil Engineering before joining Harmoney.-

Glen MacKellaig, Head of Digital Marketing

Mr. Glen MacKellaig serves as Head of Digital Marketing at Harmoney Corporation Limited since August 2014. Mr. MacKellaig has been directing digital strategies across North America, Europe, and Australasia since 2005. Passionate about all facets of digital marketing, Mr. MacKellaig has held senior digital marketing roles specialising in financial services in New Zealand, including with Westpac, ANZ, and TOWER. Mr. MacKellaig launched a number of e-commerce, mobile, and social innovations for these brands. Mr. MacKellaig is always seeking to create a more intuitive online experience for visitors and find new ways to enhance the user journey across devices.-

Dave Nesbitt, Chief Risk Officer

Mr. Dave Nesbitt serves as a Chief Risk Officer at Harmoney Corporation Limited since October 2014. With working experience in the financial services sector, Mr. Nesbitt brings a wealth of experience to his new role with Harmoney. He joins Harmoney following a long time in a series of increasingly senior roles with ASX listed consumer finance company FlexiGroup, where he was most recently head of credit underwriting. Prior to his employment with FlexiGroup, Mr. Nesbitt held a series of roles with NRMA Finance.-

Duncan Gross, Head of Institutional Funding & Group Treasurer

Mr. Duncan Gross serves as Group Treasurer and Head of Institutional Funding at Harmoney Corporation Limited. Mr. Gross joined Harmoney in 2013. Mr. Gross is responsible for managing Harmoney's institutional funding partnerships in New Zealand and Australia. Prior to Harmoney, Mr. Gross held corporate development roles at Fidelity Investments, LLC, and First Marblehead Corp in Boston, Massachusetts. Mr. Gross began his career at BNZ Finance and has an MBA from Babson College.-

Significant shareholders

Figure 28 –Top 20 largest shareholders

Shareholder	% of total shares issued
Neil Roberts Trustee Company Limited	18.44
Michael Lookman and 187 Bridge Trustees 53 Limited	8.99
Kirwood Capital Partners IB Pty Limited	8.65
Heartland Group Holdings Limited	8.44
Trade Me Limited	7.55
National Nominees Limited	5.10
Alternative Credit Investments PLC	3.90
HSBC Custody Nominees (Australia) Limited	3.11
Citicorp Nominees Pty Limited	2.99
Ventures Harmoney Holdings Limited	2.10
Brad Hagstrom, Renai Hagstrom and Guy Hagstrom	1.90
CS Third Nominees Pty Limited	1.85
David John Stevens and C R Trustees Limited	1.70
Heartland Group Holdings Limited	1.34
Tap Capital Pty Ltd	1.08
Duncan Gross	0.99
Andrew Cathie	0.98
Mono Lake Trustee Limited	0.90
New Zealand Depository Nominee	0.86
Total	**83.06**

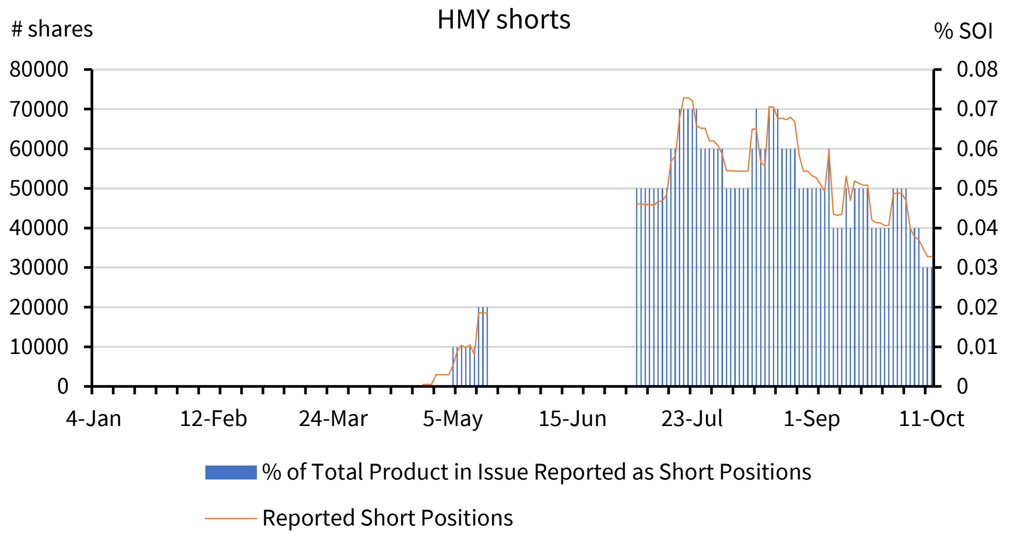
Source: Company reports, MST Access estimates

Harmoney has quite a concentrated share register, with six substantial shareholders, including 18.44% owned by the company's founder and executive director, and the top 20 shareholders owning 83% of the shares on issue, which includes sizeable stakes held by several members of the management team.

Many investors will be attracted to the strong founder ownership, management ownership and concentrated share register featuring several supportive institutions.

Short interest

Figure 29 – ASIC short position reports timeseries



Source: ASIC short position reports, MST Access estimates

Harmoney has had very little short selling activity occur in its stock over the past year, with no short sales for the best part of the year to date. There was a little short selling which occurred in May, and which was subsequently closed out, and a greater amount of short selling which has occurred during the current financial year, although this has been slowly reduced.

With around 0.04% of shares, or 41,234 shares on issue short sold, there is currently very little of the stock sold short. The total amount sold short is approximately half a day average trading volume based on volumes over the past year and hence a short squeeze in the stock is currently very unlikely.

Risks and sensitivities

Strategic

As highlighted in its prospectus, Harmoney is subject to a significant number of regulatory requirements, and could suffer from adverse changes to the requirements, including in Australia:

- Anti-money laundering and counter terrorist financing requirements administered by Austrac;
- Privacy requirements administered by the Privacy Commissioner;
- Financial Service licencing and Credit licencing administered by the Australian Securities and Investments Commission (ASIC);
- Australian Consumer Law and unfair contract terms contained in the Corporations Act administered by the Australian Competition and Consumer Commission (ACCC);
- Taxation legislation administered by the Australian Taxation Office (ATO);
- Accounting standards required under the Corporations Act administered by the Australian Accounting Standards Board (AASB) and ASIC;
- Design and distribution obligations, several of which will be governed by contract law

Similar requirements apply in other jurisdictions which Harmoney currently operates (such as New Zealand) or potential future markets.

The personal lending sector is becoming increasingly crowded, with banks and specialist lenders all targeting a shrinking market. Harmoney operates in a competitive environment in which systems and practices are subject to continual development and improvement and new or rival offerings emerge periodically. At some stage consolidation is likely to occur, which could lead to changes the scale required to be profitable. This could present itself to investors in the form of both strategic M&A risks and general market risks.

Any strategic initiative from Harmoney is likely to lead to a competitive response by traditional unsecured personal credit providers such as banks, credit card providers and personal loan providers, while Harmoney may itself need to deliver a competitive response to its personal lending competitors strategic initiatives. There is a risk that the growing number of high value, long term BNPL providers (including retailers with white-labelled products) or existing competitors may deliver a superior proposition and customer experience offering to that currently offered by Harmoney.

Combined, these market dynamics create dynamic brand strategy risks (as well as the operational equivalent of this risk, marketing execution).

Financial

Being a finance company, Harmoney has a range of risks and sensitivities applicable to most companies in the financial sector. These include:

- **Macroeconomic conditions** – many of the following risks vary through the economic cycle. Loose monetary conditions, such as those currently being experienced, supress many of these risks which can them emerge suddenly as macroeconomic policy tightens, and conditions deteriorate. Within this category we would place aggregate Gross Merchandise Value, as retail sales are inflated at the moment by closed borders due to COVID-19 in Australia and New Zealand - when travel is again allowed this could again see people opt to travel overseas rather than acquire goods on instalment. Similarly, COVID-19 economic stimulus appears to have had a positive impact on consumers' debt servicing capabilities, but this that deteriorate from 1 April 2021 when these economic stimulus measures are due to end, while merchants using Harmoney's services may also find their business viability challenged following the end of COVID-19 economic stimulus measures.
- **Liquidity and funding risks** – As a payment or finance provider, Harmoney is subject to a range of liquidity and funding risks. It can only extend funding to customers if it has the capacity to do so. While it uses warehouses and facilitates legacy peer-to-peer lending, it needs to retain a solid capital base in case of a credit event. For fast growing companies such as Harmoney, ensuring that its funding requirements are met during its rapid growth can sometimes be quite distracting for management. Depending on the company's expected path to profitability and remaining cash runway, this can lead to varying levels of market and shareholder support in part attributable to varying expectations around further capital raisings. As expectations of a capital raising rise, or for a number of other reasons, share prices may fall and this could lead to shareholders suffering greater dilution from any required raising.
- **Credit risk** – For organisations providing loans, advances or instalments, credit risk is usually thought of in terms of customer delinquencies or bad and doubtful debts which need to be impaired. However, there is also credit risk on the funding side, where the cost of debt funding could rapidly increase or become unavailable should lenders become uncomfortable with Harmoney's counterparty risk – something that might happen should there be a large rise in customer delinquencies. This impact led to several finance firms failing during the global financial crisis.
- **Fraud** – Any payments or credit provider can also be defrauded by customers, staff or third parties.
- **Compliance risks** – There are many regulations that companies in the finance sector need to follow, outlined above in strategic risks, including anti-money laundering and counter terrorist financing know your customer requirements, where failure to comply with the regulatory requirements can lead to material financial penalties or litigation.

Operational

Most companies, including Harmoney, have a range of operational risks. These include:

- **Governance** – Increasingly an investment focus as part of ESG, governance risks include all matters of agency costs within the business, including delegated responsibilities and authorisations, internal controls and how conflicts of interest are addressed. For Harmoney, with several relatives of the founders working in the business, these multifaceted relationships may present some complex governance risks.

- **Key personnel** – Harmoney's ability to scale its business assumes availability of suitably qualified staff and a reliance on key personnel.

- **Information technology** - Harmoney's key technology infrastructure includes its Stellare loan underwriting platform as well as its search engine optimisation paid advertisement intelligence. Should these become corrupted such as from hardware failure or malware it would be highly disruptive to Harmoney's operations. Furthermore IT hardware and software becomes obsolete after a few years and requires capital investments to be updated, otherwise the company is at high risk of becoming inefficient and being superseded by its competitors.
- **Cybersecurity and data protection** – Like any other business providing ongoing services to customers, Harmoney collects a substantial amount of customer data that is classified as personal information and thus obtains certain confidentiality protections under the Privacy Act. Human or system errors exposing this data could breach these confidentiality requirements, and could expose Harmoney to penalties. Similarly, Harmoney is a digital business reliant on its IT systems. A cyberattack could disable these systems, inconveniencing merchants or customers, or result in the loss of customer data – and creating substantial damage to the firm's reputation.
- **Force majeure events** – Events such as system failures, disruptions to utilities, natural perils (both environmental and human health) and warlike hostilities which prevent Harmoney from operating have a severe impact on its overall business, which grows exponentially the longer the system failure lasts for. For an example of how severe system failures can impact a finance business vaguely related to Harmoney, investors could study Tyro issues in early 2021, which led to a drop in transaction volumes and an attack on the company by a short seller. As Tyro has experienced, a prolonged outage can lead to damaged relationships leading to a loss of merchant contracts.
- **Litigation, claims and disputes** - Like any business, Harmoney could be subject to disputes and claims, which may end up being litigated, as well as litigation brought by regulators or class action funders. Such disputes tend to be expensive to resolve, can also result in substantial brand damage, and usually follow the realisation of another risk event. Catalysts can be contractual disputes, intellectual property infringement claims, employment disputes or indemnity claims. Harmoney is a member of the AFCA, which goes some way towards minimising some of the costs of some of these risks.

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Level 13, 14 Martin Place Sydney NSW, 2000
www.mstfinancial.com.au