Prospa Group Limited
ACN 625 648 722

# The Economic Impact of Prospa Lending to Small Business

January 2019



# Foreword

We started Prospa in 2012 to transform the way Australian small businesses experience finance. We both knew firsthand the frustrations of securing a loan. We wanted to create something for the 2.2 million small businesses across the country who are the backbone of the economy, and need fast, easy access to finance to prosper.

In just seven years, our team has helped more than 18,000 Australian small businesses with $920 million in funding. For some, this is a way to manage cash flow challenges so the business can keep going, but for many, a loan means new, exciting opportunities to grow.

We've always known our lending has a positive economic impact and keeps small business moving. For the first time, this report by RFi Group and the Centre for International Economics (CIE), shines a light on how providing access to capital allows small businesses to grow and create jobs. The results are greater than we had ever imagined and give us an immense sense of pride in the role of Prospa in the Australian economy.

The contribution of Prospa's lending to Australian GDP is in the billions of dollars, and even more incredible is the 52,500 jobs sustained or created for Australians since 2013. That's 52,500 more jobs for tradies, hospitality workers, hairdressers and accountants, across every state and territory. This number keeps growing every year!

The finance industry is experiencing rapid change and our role in supporting small business is now even more vital. We hope that this report reinforces the importance of alternative lenders in providing small business funding and the wider, positive impact this will have on the Australian economy.

We would also like to acknowledge the role of stakeholders including our team, customers, partners, funders and investors, who share our vision and values and enable us to serve Australia's small business economy.

We're incredibly proud of our achievements to date, and we believe this is just the beginning.

Greg & Beau,
Founders and Joint CEOs

Greg & Beau

# Executive summary

## Small business access to finance

Small businesses are considered the engine room of the economy in Australia due to their influence — they represent 97% of all businesses, 44% of private sector employment and 35% of GDP.[1] Many small businesses find it challenging to access finance, especially without providing real estate as security. In addition, small businesses perceive access to finance as becoming increasingly difficult.

Private sector lenders can become significant economic enablers. Without access to finance small businesses can either fail to grow, or worse – fail to exist. Prospa has always celebrated every individual customer as a success story. However, as the leader in online small business lending in Australia, the constant question which has been raised is how to quantify the value of Prospa's small business lending.

## Purpose and scope of analysis

RFi Group and the Centre for International Economics (CIE) were engaged by Prospa to investigate the economic impact of Prospa's lending to small businesses in Australia.

Focused exclusively on financial services, RFi Group specialise in evidence-based insight generation and business decision support for the world's leading financial service providers. CIE is an economic consultancy that provides independent quantitative economic analysis for government, private and international clients.

Prospa is a financial technology company. Founded in 2012, Prospa has lent almost $920 million to more than 18,000 Australian small businesses. Prospa's loans are between $5,000 and $250,000 and are used to help small businesses manage their cash flow and fund growth initiatives.

## High level methodology

Prospa undertook an exercise to estimate the full economic impact of its lending activities. This considered the value of funds lent by Prospa over the period 2013 – 2018 and utilised data points on how funds have benefited recipient businesses through increases in revenue and employment and the flow-on effects of these funds to the wider economy.

The exercise entailed:

- A quantitative survey conducted by RFi Group in October 2018
- Modeling of the flow-on effect of Prospa lending leveraging survey output and Prospa's proprietary data sets conducted by the CIE
- In-depth interviews conducted among Prospa customers to understand how they have used the funds loaned by Prospa and the positive impacts for their business conducted by Prospa.

## Limits of analysis

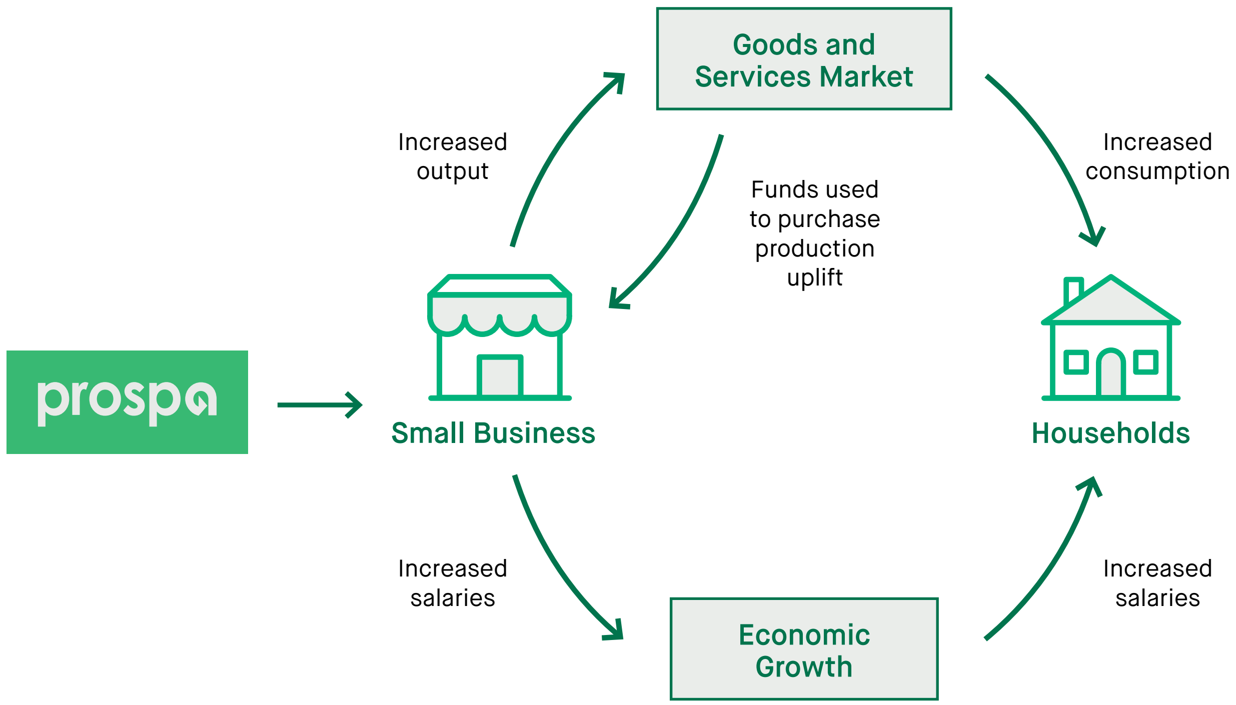
It is intended the value of Prospa's lending to small businesses as calculated will provide a broad indication of size and magnitude. The analysis is based on the unique composition of Prospa's customer base and lending book, including sector composition, geography, success and loss rates and seasonality. The characteristics of Prospa customers are different from customers belonging to any other lender. There is a large proportion of Prospa customers that indicated they could only borrow from Prospa.

Caution should therefore be exercised around the extrapolation of these figures across all small business lending in Australia.

## Summary of findings and implications

- Prospa's lending contributed $3.65 bn to nominal Australian GDP and resulted in more than 52,500 annual FTE positions being maintained over the period 2013-2018
- More than one in four businesses surveyed were unsure if they would still exist without Prospa lending or believed they would no longer be around
- In 2018 alone, Prospa's lending added $1.697 bn to Australian GDP and resulted in close to 24,400 FTE positions being maintained
- 82% of customers believe their most recent Prospa loan resulted in an increase in business revenue
- For every $1m in lending by Prospa there is a corresponding $4m increase in GDP and 57 FTE positions are maintained
- The industry sectors where Prospa's lending made the biggest impact on employment in 2018 were construction, hospitality, other services and retail.
- Retail, construction, hospitality, and other services were also the biggest benefitors in 2018 in terms of impact on customer revenue.

**Figure 1. The economic impact of Prospa lending**




[1] Parliament of Australia, Department of Parliamentary Services, Research Paper Series, 2017-18.

# The economic impact of Prospa lending to small business

Every
**$1m**
Prospa lending results in

→ **57 FTE**
Annual employment

→ **$4m**
In Australian GDP

2013-2018

**$920m**
Prospa lending

→ **52,500 FTE**
Annual employment

→ **$3.65b**
In Australian GDP

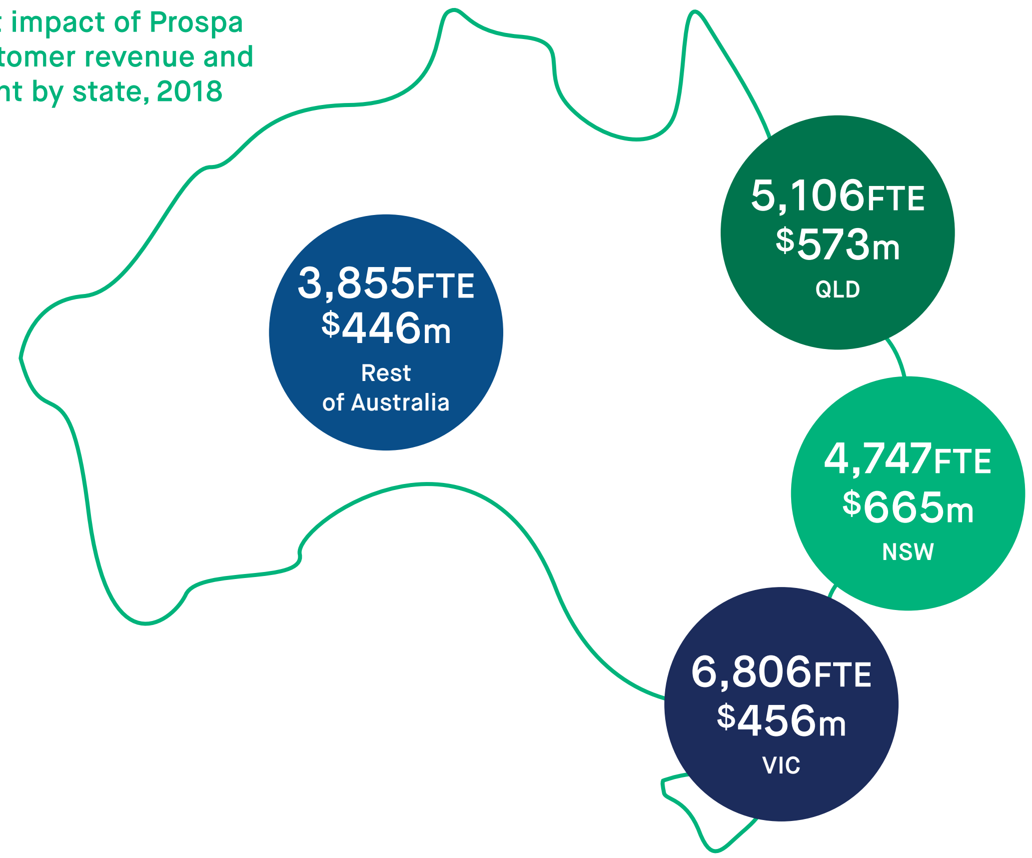
2018

**$427m**
Prospa lending

→ **24,400 FTE**
Annual employment

→ **$1.697b**
In Australian GDP

Figure 2. Direct impact of Prospa lending on customer revenue and FTE employment by state, 2018




Direct impact of Prospa lending on customer revenue by industry sector, 2018

| | |
| --- | --- |
| Retail | $517m |
| Construction | $500m |
| Hospitality | $355m |
| Manufacturing | $102m |

Direct impact of Prospa lending on customer FTE employment by industry sector, 2018

| | |
| --- | --- |
| Construction | 4,632 |
| Hospitality | 3,941 |
| Other Services | 3,782 |
| Retail | 2,613 |

# Small business in Australia

## 2.24m

### Businesses in Australia

According to the Australian Bureau of Statistics ("ABS"), as of 30 June 2017, a total of 2.24 million businesses were operating in Australia.[2]

## 97%

### Small business

There are 2.18 million businesses in Australia employing fewer than 20 people, representing approximately 97% of all businesses.[3]

## 44%

### Private sector employment

In 2016, small businesses employed 44% of Australia's private sector workforce.[4]

## 35%

### of Australia's GDP

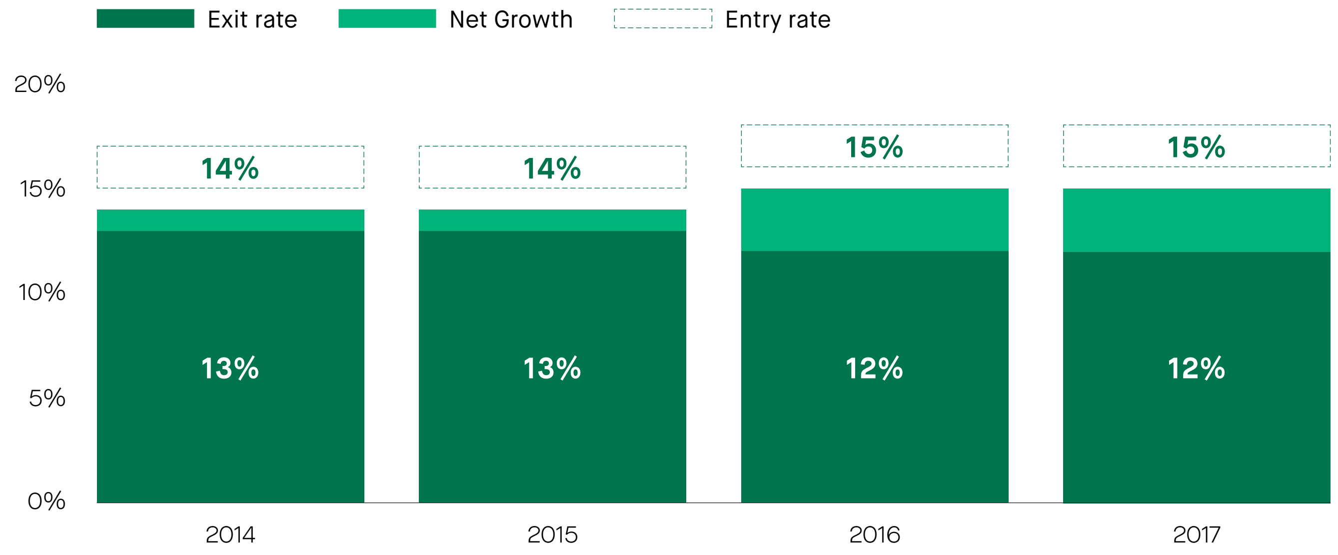
In 2016, small businesses generated 35% of Australia's GDP.

The Australian small business sector is a vibrant but also a fluid one. Close to 330,000 small businesses were established in 2016-2017 with an overall entry rate of 15%. However, building a successful small business is not easy. Close to 260,000 businesses ceased to operate during the same period with an overall exit rate of 12%.[5]

[2,3,5] ABS 8165 (Counts of Australian Businesses including Entries and Exits), June 2017 (released in February 2018).
[4] Parliament of Australia, Department of Parliamentary Services, Research Paper Series, 2017-18.

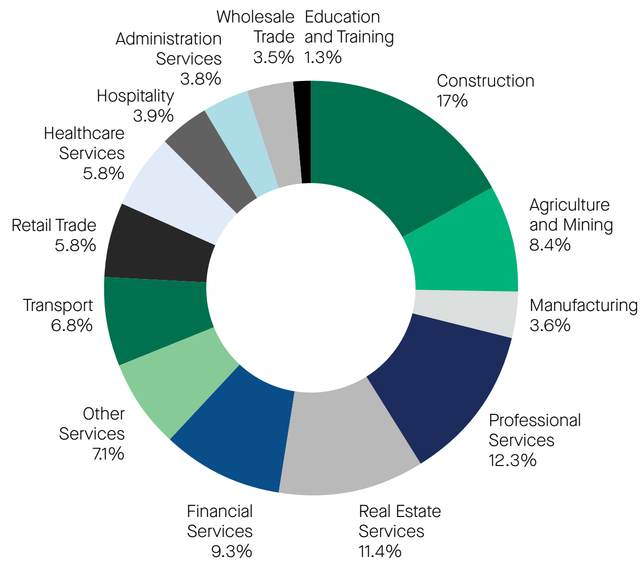


**Figure 3. Small business entry and exit rates for businesses that employ <20 people, 2014 - 2017[6]**



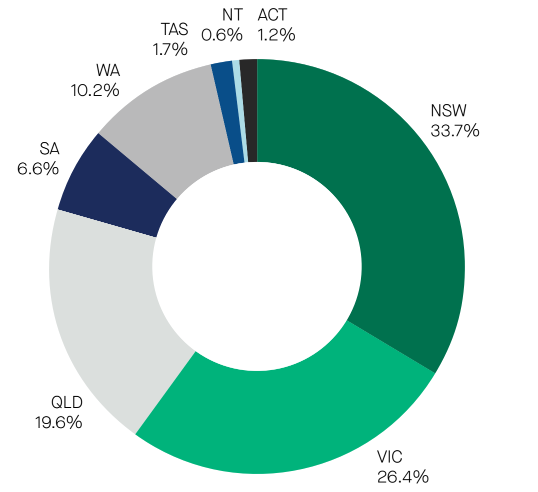

Australian small businesses operate across a wide range of industries and regions. Over 70% of the Australian small business sector is comprised of services-related businesses, with the balance consisting of construction (17.0%), agriculture (8.4%) and manufacturing (3.6%). Geographically, the majority of Australian small businesses are concentrated in New South Wales, Victoria and Queensland, roughly in line with population.

**Figure 4. Australian small business sector industry split (based on number of employees) as at 30 June 2017[7]**




71% service-based small businesses

**Figure 5. Australian small business sector geographic split (based on number of employees) as at 30 June 2017[7]**




[6] ABS 8165 (Counts of Australian Businesses including Entries and Exits), June 2017 (released in February 2018).
[7] Small businesses defined as having fewer than 20 employees, including non-employing businesses; ABS 8165 (Counts of Australian Businesses including Entries and Exits), June 2017 (released in February 2018).


> "We're not a generic type of business, so it's really good that Prospa actually looked into what we do, what our needs were, and supported us with that funding."
>
> **Cinci, WA**

### Cinci, WA

Cinci runs a new disability services provider that assists people with disabilities and their families to live a full and valued life. The business offers a range of support services and workshops designed to increase involvement in social and community activities, personal independence and development.

"As a new disability service provider, we hadn't been operating for a full year, and a lot of the banks weren't interested in lending to us. When we were looking at establishing offices and expanding, there were limited options to get the financial support. Our broker proposed that we go to Prospa and it was great – painless and quick!"

"We're not a generic type of business, so it's really good that Prospa actually looked into what we do, what our needs were, and supported us with that funding, rather than saying, 'oh that doesn't fit in the box, sorry, bad luck!'"

"We have an office in Midland and a property we rent in Bertram. We've just purchased a farm and we hope to be doing some interesting things out there, supporting people that need a helping hand."

# The need for funding by small business

Small businesses seek debt or equity finance for a number of business activities.

**Maintaining short-term cash flow or liquidity**

**Replacing, upgrading or purchasing additional equipment or machinery**

**Introducing new or improved goods, services or processes**

**Pursuing expansion opportunities**

Maintaining short-term cash flow or liquidity is the most common reason given by small businesses for seeking finance. This is due to the fact there are often delays between the performance of services or delivery of goods, and the payment of invoices by customers. The 2017 Payment Times and Practices Inquiry found that in the last financial year one in four businesses experienced an average payment delay of 31 to 60 days past agreed terms.[8]

The need for finance may also be attributed to seasonality. For example, a retailer may need to stock up for the holiday season, or a professional services business may need funds to cover rent or wages during the low sales volume month of January. Funding can also be required to help a small business owner seize a growth opportunity, such as a hair salon purchasing bulk stock before the end of financial year to secure a discount, or a builder purchasing materials to start a new contract.

Furthermore, small business owners are often time poor with research by YouGov showing approximately 26% of small business owners report working 50 hours a week or more and 24% report working 7 days a week.[9] This further highlights the need for a quick application and funding process.

## Time poor

26% of small business owners report working 50 hours a week or more and 24% report working 7 days a week.

[8] 2017 Payment Times and Practices Inquiry, conducted by the Australian Small Business and Family Enterprise Ombudsman ("ASBFEO"), report released March 2017.
[9] YouGov survey of Australian SMEs for Prospa, December 2017. YouGov is an independent, publicly listed global consumer insight company.

# The challenge of accessing finance

Small businesses in Australia can sometimes find it difficult to access business loans from traditional lenders, such as banks, due to a number of factors.

### Structural challenges

Due to regulatory capital requirements, the lending portfolios of Australian banks are typically weighted to residential mortgages, and their commercial lending divisions predominantly focus on sizeable debt facilities to larger corporate businesses.

### Products not well suited to small business

Traditional banks mostly offer business lending products typically with longer approval times, larger amounts, longer terms, inflexible monthly repayments and strict security requirements. We consider the key lending products available to small businesses from traditional banks are either small business loans secured over residential property, personal credit cards and, in some cases, invoice financing.

### Information requirements

Banks often have more onerous information requirements to undertake a credit assessment, including requiring the small business to produce profit and loss statements and/or business plans.

### Risk appetite

For a direct small business loan, banks often require some form of security to reduce the perceived risk of lending to small businesses. Small businesses often have limited business assets, and either do not own property to use as security, or their owners may not wish to provide security over their personal assets.

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**Ben, VIC**

Ben runs an architecture and interior design practice in Brighton, Melbourne, with a focus on custom and bespoke residential design.

As a young business, Ben required a small loan to help cover overheads and supplier costs, and to invest in social media marketing. He was unable to access finance from his usual bank because the business had not been up and running for at least 18 months.

"I've banked with them for more than 10 years as a personal client and it was natural that I wanted to have my business with them ... it was a bit disheartening, but I said 'well, I'll have to look elsewhere.'"

Prospa provided Ben with two $5000 loans, which he used to cover day-to-day operations costs while waiting on outstanding invoices.

He also used some funds to increase brand awareness via small marketing campaigns on Facebook and Instagram.

He's now working on a high-end residential project due to be completed before the end of year.

"I found Prospa right from the start to be very responsive, very positive and encouraging; and at the same time I felt they understood a bit more about the nature of my business and the service I provide."

"As my business grows, I'd love to broaden my scope and do retail and hospitality design. Eventually when my practice is large enough and I've gained that level of expertise and experience and have a team under me, I'd love to do a boutique hotel or a small resort."



"I found Prospa right from the start to be very responsive, very positive and encouraging; and at the same time I felt they understood a bit more about the nature of my business and the service I provide."

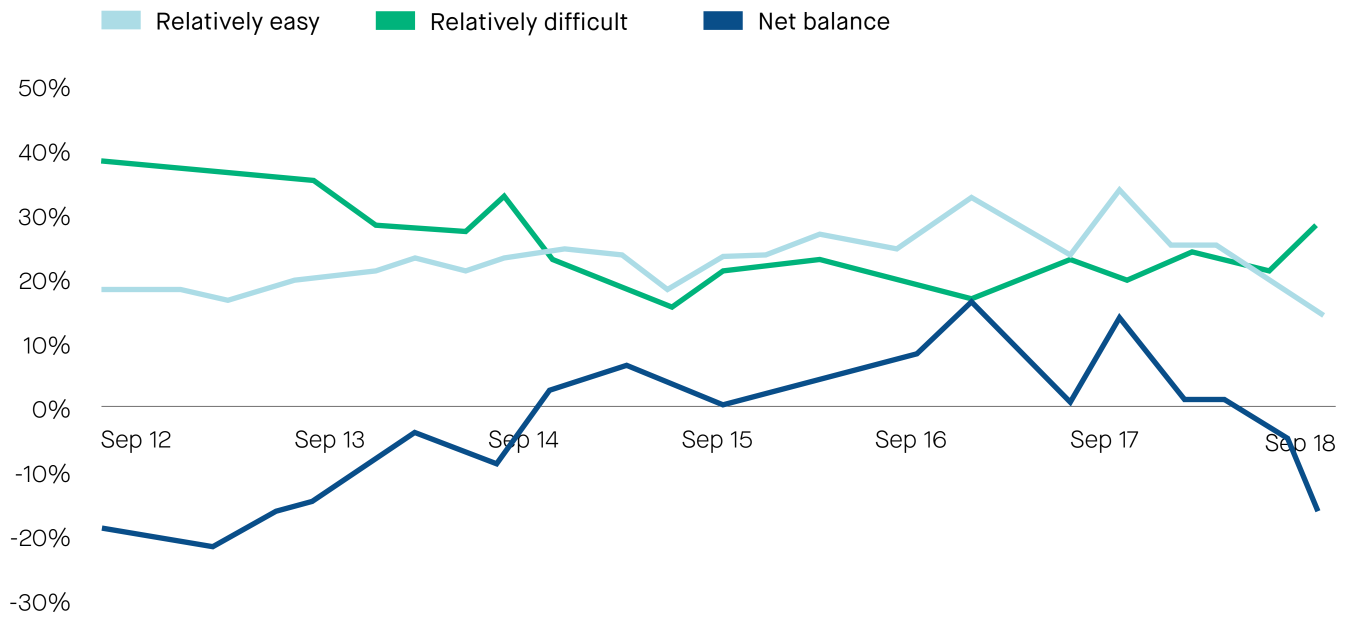
Ben, VIC

© Gemma Carr Photography

## Difficulty level is increasing

The credit challenge facing small businesses is very real. The September 2018 Sensis Business Index reports more than 30% of small businesses that tried to access finance in the previous quarter were unsuccessful. It also found that during the quarter, businesses stating it was difficult to access finance increased 9 points to 31%, while those finding it easy fell by 5 points to 14%.[10]

### Figure 6. Sensis Business Index, access to finance, 2012-2018




Source: Sensis Business Index September 2018 - released 27 November 2018

As a result, many small businesses often turn to a fragmented range of finance options including equipment and vehicle finance, invoice financing, debtor financing, personal credit cards, borrowing from family and friends, or drawing down on their personal home mortgage. Each of these options comes with challenges.

The following table outlines some of the current financing alternatives available to small businesses and their related advantages and disadvantages.

[10] Sensis Business Index September 2018 - released 27 November 2018.

## Key financing products for small businesses

| Financing product | Description | Advantages for small businesses | Disadvantages for small businesses |
|---|---|---|---|
| **Bank loans** | Provision of a range of lending products such as term loans and overdrafts from traditional banking institutions | ✓ Relatively lower cost to the customer<br>✓ Consolidated view of all business accounts | × Often requires asset security as collateral (such as residential property)<br>× Small businesses may fall outside credit decision matrices<br>× Often associated with a time-consuming application process |
| **Credit cards** | Provision of a line of credit from traditional banking institutions and other specialist providers | ✓ Often no asset security required to access finance<br>✓ Easily accessible<br>✓ Ongoing access to funds | × Small business owners often have to apply for a personal line of credit<br>× Credit limit may be insufficient for both business and personal needs |
| **Equipment financing** | Provision of a loan or lease to purchase equipment or assets for a small business | ✓ Tailored solution for asset-based businesses<br>✓ Relatively lower cost to the customer | × Often specific to certain use cases and asset-intensive industries (including construction, mining and agriculture) |
| **Invoice financing** | Provision of a cash advance to a small business against the value of their trade receivables | ✓ Short-term working capital finance solution<br>✓ Ongoing access to funds | × Only relevant to invoice-based businesses<br>× Requires due diligence by financier over trade receivables counterparties |
| **Debtor financing** | Provision of a cash advance to a small business in exchange for the legal transfer of the small business's trade receivables to the financier | ✓ Short-term working capital finance solution<br>✓ Ongoing access to funds | × Only relevant to invoice-based businesses<br>× 'Higher friction' model where financier takes control of debtor ledger<br>× Requires due diligence by financier over trade receivables counterparties |

## Consequences of using inappropriate financing options include:

- Using personal credit products blurs the distinction between personal and business affairs, and means business owners can find it difficult to accurately plan business cash flow.
- Using a family home to access the finance attaches a significantly higher degree of personal risk, and therefore stress, to the success or otherwise of a small business.
- If application experiences are slow and difficult, small businesses are unable to seize opportunities that are time sensitive. In some circumstances this can lead to business failure e.g. where short-term funds are needed to pay employees, suppliers, tax obligations, rent or utilities.

## The role of online small business lenders

The use of online small business lenders such as Prospa by Australian small businesses is increasing, due to their ability to provide easy online application processes, timely credit decisions and funding, unsecured finance, payment flexibility and an excellent customer experience.

According to the Australian SME Banking Council, the number of small businesses surveyed that are using an alternative lender has increased from 10% in December 2017 to 13% in December 2018.[11]

As awareness increases, we expect small business owners will increasingly consider online small business lenders as an alternative to traditional lenders.

Increased awareness has been driven by a number of factors including:

- Increased number of industry participants;
- Increased marketing investment by industry participants;
- Increased media discussion of online lenders; and
- The Australian Government reference to online lenders as a viable alternative source of finance for small business owners (at both the State and Federal level).

The online lending sector in Australia is still relatively new, but recent growth figures indicate it is a viable disruptor to incumbent small business lenders. The Australian online alternative finance market, including both consumer and business lending, grew by 88% in the 12 months to 31 December 2017 to $1,497 million.[12]

There are several key trends impacting the growth of the small business lending sector in Australia, including increasing adoption of online and digital services by small business owners, finance brokers looking to further diversify their offerings, and continued Government support for small businesses. The development of the Australian financial technology sector has attracted support from both sides of Government and industry regulators, particularly in recognition of its potential to improve consumer and small business outcomes and to increase competition.

**13%**

The number of small businesses surveyed in December 2018 using an alternative lender.

[11] RFi Group, Australian SME Banking Council, December 2017; market consideration percentage based on survey results.
[12] Total Market Volume in Australia. KPMG The 3rd Asia Pacific Region Alternative Finance Industry Report, November 2018; USDAUD FX rate of 0.767.



# Prospa's role in supporting small business

### Prospa is a financial technology company and was launched in 2012 to solve the problem of access to finance for small business.

Prospa has built an experience that puts customers first. It provides small business owners with an easy online application process, a fast credit decision and funding, payment flexibility and excellent customer service. Prospa offers a business loan product with amounts between $5,000 and $250,000 and no asset security is required to access up to $100,000. Applications take just 10 minutes, with a decision and funding possible within 24 hours.

**$920m**

### 18,000 customers

Since 2013 Prospa has delivered almost $920 million to more than 18,000 customers throughout Australia.

**+77**

### Net promoter score[13]

Prospa has a Net Promoter Score (NPS) of +77.

**69%**

### Repeat rate[14]

69% of Prospa customers have borrowed from Prospa more than once and on average a customer has borrowed from Prospa 2.5 times.

**#1**

### Online lender to small business[15]

Trustpilot[16]

★★★★★ 9.8/10

[13] Prospa data, for the 12 months to 31 December 2018. Net Promoter Score is a management tool that can be used to gauge the loyalty of a firm's customer relationships; it serves as an alternative to traditional customer satisfaction research. It is an index ranging from 1 to 100 that measures the willingness of customers to recommend a company's products or services to others.
[14] Prospa data, where repeat rate represents the average repeat rate for eligible customers (where eligible customers are defined as not having defaulted on their Prospa loan).
[15] 15 Market position for online balance sheet lenders to Australian small businesses, based on Prospa's volume as a percentage of total market volume in 2017 as reported in KPMG "The 3rd Asia Pacific Region Alternative Finance Industry Report", November 2018; USDAUD FX rate of 0.767.
[16] Independent review site TrustPilot based on 2,231 reviews as at 24 January 2019.

# Detailed findings

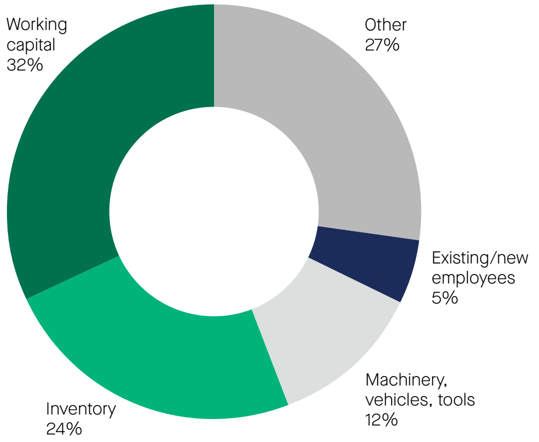
Prospa's loans have a direct and positive impact on recipient businesses, enabling to them to achieve business objectives or operate in a way that would not otherwise be possible. In addition, loan funds have a broader economic impact. As loan funds are spent by recipient businesses, they benefit their employees and suppliers. These benefits then flow-on to positively impact the wider economy. The total economic impact of Prospa's lending is therefore greater than the value of funds loaned.

The true extent of the economic impact of Prospa's lending been can only be determined by surveying Prospa customers, asking them how they used their loan funds, and then using their responses to feed an economic modeling exercise. RFi Group and the CIE undertook this exercise using Prospa customer feedback, Prospa proprietary data, and data from a variety of secondary data sources.

The output quantifies Prospa's impacts on customer revenue and employment at an individual industry level and GDP and employment at an Australian economy-wide level.

Funds lent by Prospa often support a range of business-critical activities. The survey found that 57% of Prospa customers have used a portion of their most recent Prospa loan for working capital. On average a total of 32% of loan funds have been used for this purpose, increasing to 44% among transport businesses. 40% of businesses have used a portion of their most recent Prospa loan for purchasing inventory/stock. On average a total of 24% of loan funds have been used for this purpose, increasing to 51% among retail and wholesale businesses. 13% of businesses have used a portion of their most recent Prospa loan to purchase machinery, tools etc. with the average making up 12% of loan funds. This increases to 21% in the hair and beauty sector.

**Figure 7. Use of most recent loan funds by Prospa customers, average use of loan funds, by value**




**32%**

On average, a total of 32% of Prospa lending has been used for working capital.

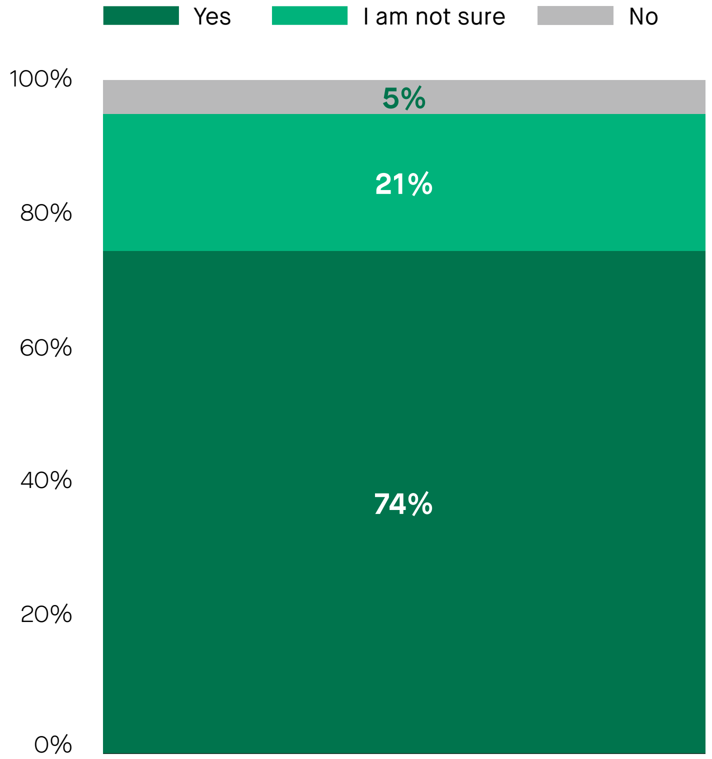
Source: Survey of Prospa customers conducted by RFi Group in October 2018

However, for some businesses a loan from Prospa is the difference between shutting up shop and staying in operation. 26% of customers are either unsure whether they would be still be operating without their most recent loan or believe they would have been forced to close. 13% of customers in the hospitality sector believe they would no longer be operating if it were not for their most recent Prospa loan.

**>1 in 4**

Prospa customers are unsure if they would still be operating without their most recent Prospa loan.

**Figure 8. Ability of Prospa customers to continue operation in the absence of most recent loan**




Source: Survey of Prospa customers conducted by RFi Group in October 2018

"Prospa was going to say yes or no to me in one day. You can make the next move a lot easier knowing, either way. There was no mucking around."

**Michael, QLD**

Michael is a sixth-generation painter and decorator. His family has been painting and decorating "anything and everything" in Brisbane since 1890 and today he oversees thirty-six employees.

Michael took out an initial loan from Prospa after a number of builders he was working for went into receivership, creating cashflow issues for his business. Unable to take out a loan from traditional lenders due to a lack of equity in his home, Michael says he would have had to halve his business if he hadn't been able to access funds to pay employees and suppliers.

"In one instance, it was two months of work. We don't have subcontractors – only employees – so we copped a couple of bad losses and started falling behind."

"I would have had to let go of seventeen employees. We were up to fifty employees, dropped down to thirty-six and the way things were going, I was going to have to halve that!"

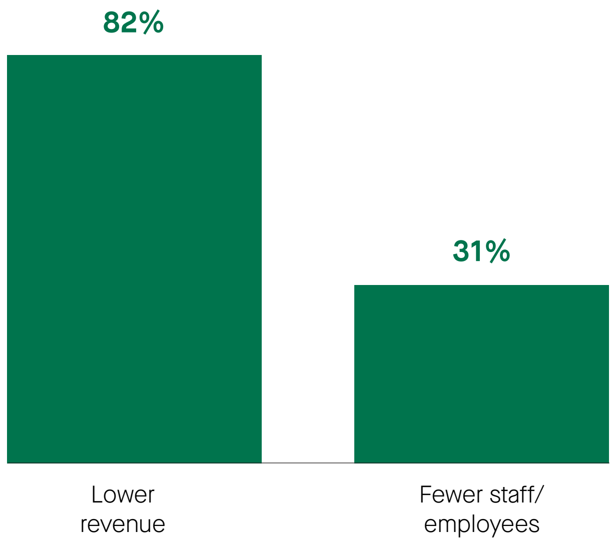
"With the banks they'd say, 'oh we'll do this, we'll look into this.' Either way, Prospa was going to say yes or no to me in one day. You can make the next move a lot easier knowing, either way. There was no mucking around."



Where a loan from Prospa is used to rent new premises, purchase new equipment or machinery or to capitalise on a new business opportunity, it can often result in an increase in revenue for the recipient business. Similarly, loan funds are often used to hire new staff or support the ongoing employment of existing employees.

Overall, 82% of Prospa customers believe their revenue would be lower without their most recent loan from Prospa, while 31% believe their business would have fewer employees. In the manufacturing and hospitality sectors, more than 90% of Prospa customers believe their revenue would be lower if it were not for their most recent Prospa loan.

**Figure 9. Direct impact of Prospa lending on customers**



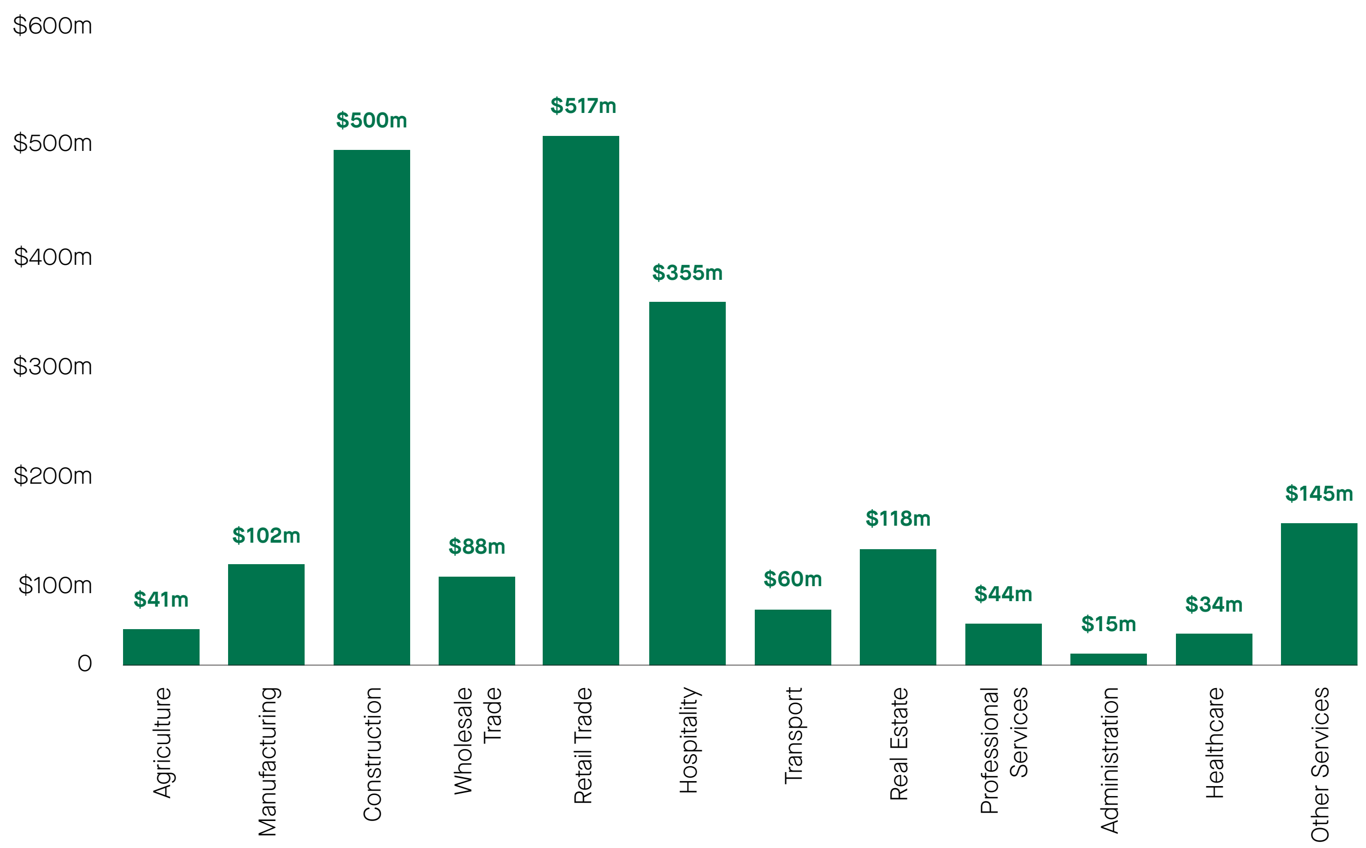

Source: Survey of Prospa customers conducted by RFi Group in October 2018

**82%**

**of Prospa customers believe their revenue would be lower if it were not for their Prospa loan.**

Prospa customers were asked how much lower their revenue would be without their Prospa loan. By applying their responses to the wider Prospa customer base it is possible to determine the overall impact of Prospa's lending on the revenue of its customers. In total it is estimated that without Prospa's lending the 2018 revenue of its customers would have been reduced by $2.14 billion. Across industries some significant impacts are visible. In retail, for example, total 2018 customer revenue would have been $517 million lower. In construction, total revenue would have been $500 million lower and in hospitality total revenue would have been $355 million lower.

**Figure 10. Direct impact of Prospa lending on customer revenue by sector, 2018**




Source: Survey of Prospa customers conducted by RFi Group in October 2018.

## Glen, SA

Glen is the owner of a signage production company that also designs websites for small to medium sized businesses in the Adelaide region.

He used two loans from Prospa to help cover significant upfront costs on an exciting new job, on-board a third employee, and kick-start a branding change with new uniforms and signage for his vehicles.

"I estimate business output has increased by 20 percent as a result of the loan, in particular because the team was able to take on such a big project."

"In that particular instance, it was quite a bit of materials ... we normally try to do everything from money we have available, but in this situation, we needed to do something."

"As a result, we've been offered more work. I'm looking at my jobs board at the moment, and it's looking incredibly healthy."

"It wasn't that we needed the money that week, but the fact that we got it took the stress off... the following week I was able to put in the orders, pay for them, and that made a huge difference."


"I estimate business output has increased by 20 percent as a result of the loan, in particular because the team was able to take on such a big project."

Glen, SA

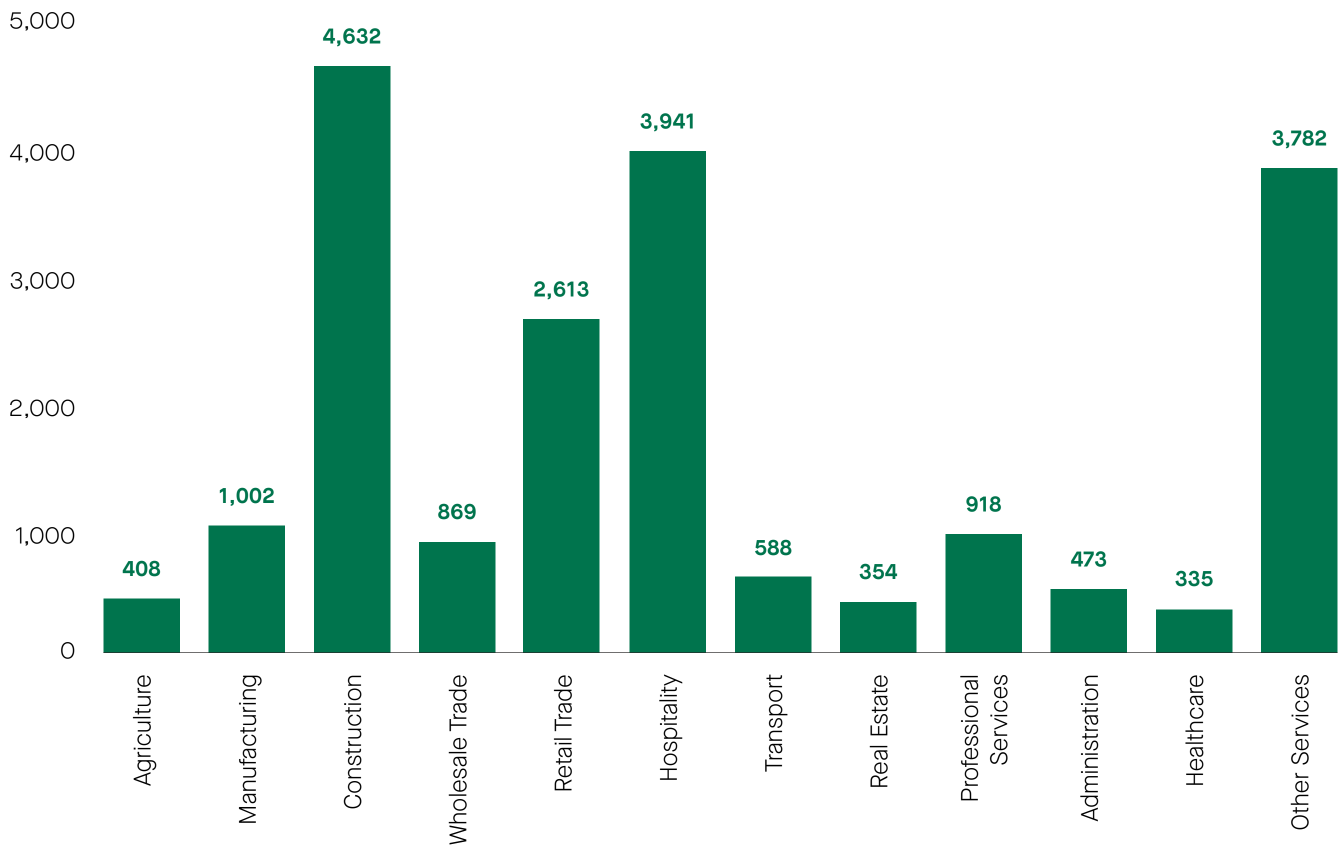
"I hired an extra 4 staff and have massively grown our clientele and business. It's been awesome."

Brie, NSW



Prospa customers were also asked how much smaller their workforce would be had it not been for their Prospa loan. Applying the survey results to the overall Prospa customer base it is determined that an impact of more than 20,500 FTEs would have been felt. The workforce of Prospa customers in construction would have been reduced by more than 4,600 FTEs had they not been able to borrow from Prospa. Similarly, the workforce of Prospa customers in hospitality would have been reduced by almost 3,950 FTEs and in retail by more than 2,600 FTEs.

### Figure 11. Direct impact of Prospa lending on customer employment by sector, FTE positions maintained, 2018




Source: Survey of Prospa customers conducted by RFi Group in October 2018.

### Brie, NSW

Brie runs two successful hair studios in New South Wales, which she started with her mum at just 19 years old. She oversees eleven staff across two studios in Warner's Bay and New Lambton, where the team specialise in colour and weddings.

After her young age and lack of assets made it difficult to access finance from traditional lenders, Brie used an initial $15,000 loan from Prospa to open a second studio in the area, which she says nearly doubled her business. A year later, that studio was popular enough to outgrow the space and Brie took out a second loan of $50,000 to expand into bigger premises.

"It's amazing, the best thing we ever did, and I wouldn't have been able to do it without Prospa."

"I hired an extra 4 staff and have massively grown our clientele and business. It's been awesome."

"I liked the speedier process and that it was accessible. If an opportunity comes up, I like to be able to jump on it. Especially being a sole trader, the amount of paperwork you have to do with traditional lenders, and the meetings … I just don't have time for that. I need to move forward."

Prospa's lending activities have had a significant impact on Australian GDP. RFi Group and the CIE estimate that for every $1 million in lending by Prospa there is a corresponding $4 million increase in GDP. Therefore, Prospa's lending in 2018 added an estimated $1.697 billion to nominal Australian GDP. Since 2013, it is estimated that Prospa has added more than $3.65 billion to nominal Australian GDP.

**$3.65b**

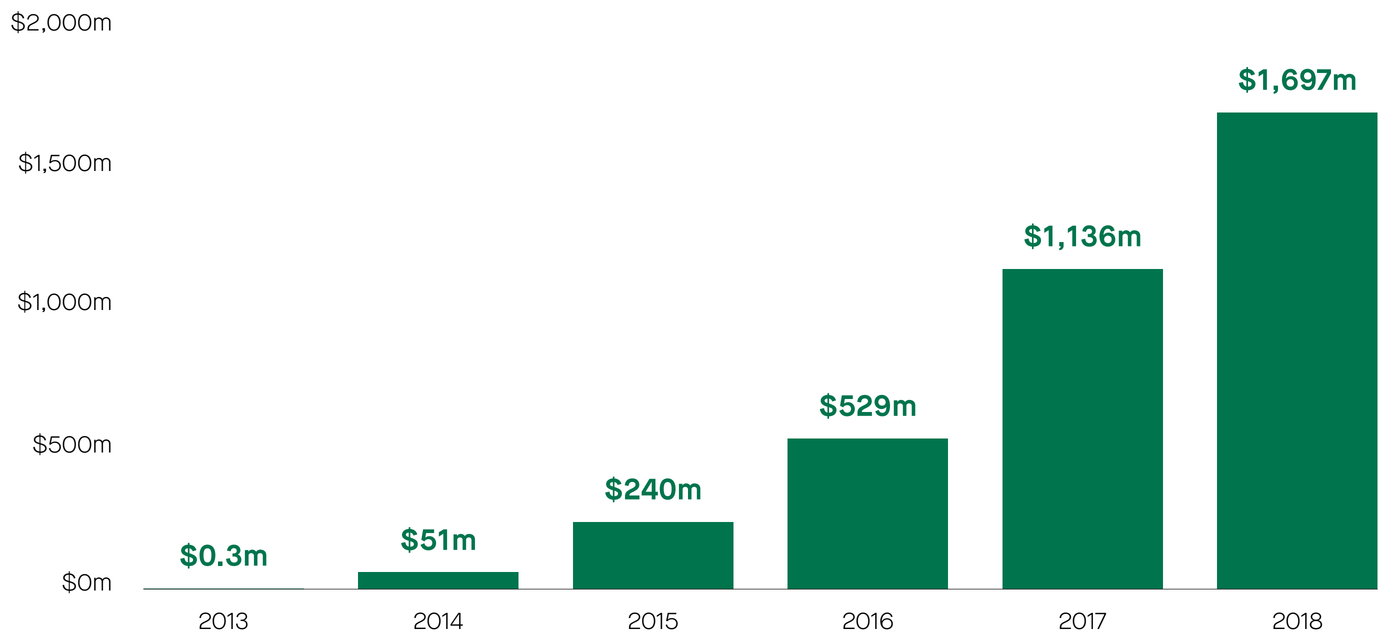
From 2013 to 2018 Prospa's loans added $3.65 billion to Australian GDP.

**$1.697b**

Prospa lending boosted Australian GDP by almost $1.7 billion in 2018.

Every **$1m** Prospa lending results in → **$4m** In Australian GDP

Figure 12. Impact of Prospa lending on nominal Australian GDP, 2013-2018




Source: Economic modelling conducted by the Centre for International Economics (CIE)


"I used the money to create cash flow, buy new stock, and generate income that way. It has actually allowed me to keep trading and basically, just to be here."

**Brigid, VIC**

Brigid is the owner of a ladies' fashion store in Gippsland, Victoria. The store opened its doors seven years ago, catering to the 40+ demographic, and is now a popular destination for locals.

Having experienced the twists and turns of the Australian retail industry, an earlier business failure made it challenging for Brigid to access the funds she needed to keep her new store going. While traditional lenders had been unable to provide funds, Prospa offered a loan of $15,000, which Brigid paid back with daily micro-payments.

"Even the ones that say they will help you, actually won't. It's very hard to find someone who is willing to give you a bit of a go."

"I had myself in a situation where I was really cash flow restricted. I was always on the back foot. It got to a point where I thought, if I can't get a loan, I'm in serious trouble. We hadn't had a great winter, and there were suppliers that I still owed, and I needed to be able to buy stock."

"I used the money to create cash flow, buy new stock, and generate income that way."

"It has actually allowed me to keep trading and basically, just to be here."


## “Prospa offered this wonderful solution and it made a big impact on my life and the way I run the business.”

### Tony, NSW

Tony runs a family-owned timber window and door manufacturing business based in Queanbeyan on the ACT-NSW border. He is the third family member to take on the business, which he did following a twenty-year career in property.

A Prospa loan of $50,000 helped Tony manage cash flow at the end of his first year, where business basically shuts down. The loan allowed him to pay wages, bills and purchase new materials, ensuring the business kept up momentum into the new year. Tony took out a second loan the following year and estimates his business output has increased by 30 percent thanks to the funds.

“Going back to the family business is an interesting choice, but it’s one that I’m loving and enjoying very much. It’s been very hands on and a big learning curve.”

“I looked at traditional options such as overdrafts and personal loans, but it took a long time to get what I wanted, which was just to get the cash flow going. Prospa offered this wonderful solution and it made a big impact on my life and the way I run the business.”

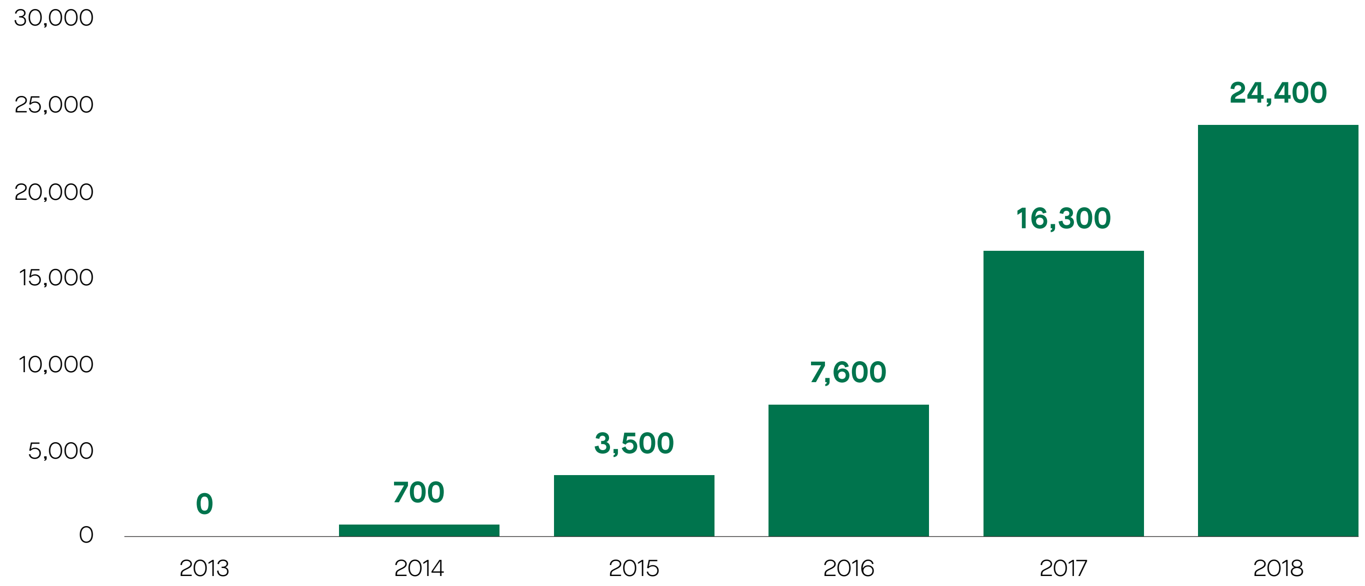
“I’ve been able to create two jobs – one on the admin side, and an out-the-back factory hand.”



Prospa’s lending has also made a valuable contribution to economy-wide employment. The work undertaken by RFi Group and the CIE estimates that every $1 million in lending by Prospa results in 57 FTE positions being maintained across Australia. In 2018 Prospa's lending therefore resulted in close to 24,400 FTE positions being maintained and over the period 2013-2018 this number was more than 52,500 FTE positions.

Every
**$1m**
Prospa lending results in → **57FTE**
Annual employment

**Figure 13. The impact of Prospa lending on Australian employment FTE positions maintained, 2013-2018**




Source: Economic modeling conducted by the Centre for International Economics (CIE)

**52,500FTE**

From 2013 to 2018 Prospa lending resulted in 52,500 FTE positions.

# Conclusion

This analysis has found Prospa to be a significant economic enabler. Small businesses that have been recipients of Prospa lending have made a valuable contribution to the Australian economy.

Over the period 2013-2018, Prospa's lending resulted in more than 52,500 annual FTE positions economywide, and nearly 24,400 positions in 2018 alone. In the same period, Prospa's lending and the recipient businesses contributed $3.65 billion to Australian GDP, with almost $1.7 billion being contributed in 2018.

Despite comprising 97% of all businesses in Australia, employing 4.77 million people and generating 35% of Australia's GDP, the diverse and influential small business sector is underserved by traditional lenders. There is no evidence this will change in any meaningful way in the immediate future. In fact, the number of small business owners reporting difficulty in accessing finance is increasing, while the number finding it easy is decreasing.

Small business owners work long hours, wear many hats, and their challenges include managing cash flow, finding and winning new customers, replacing and upgrading equipment or machinery, introducing new products and services and pursuing expansion opportunities.

A number of factors contribute to the difficulty small business owners experience accessing finance from traditional lenders. These include onerous information requirements, slow response times, the need for asset security like a family home, and bank products that are unsuitable for small business.

Prospa helps solve this critical problem. In the current context of systemic failures and breaches of trust, Prospa has set out to change the way small businesses experience finance. By combining proprietary risk models and cutting-edge technology with advanced data and analytics, Prospa can say 'yes' more often and make capital available to many small business owners for the first time.

Since 2013, Prospa has loaned almost $920m to approximately 18,000 small businesses in both metro and regional communities across Australia. The average loan size is approximately $28,000. The vast majority of these loans have been made to businesses with a turnover of less than $2m per annum. These are the businesses driving the Australian economy forward.

Prospa customers use their funds to renovate premises, buy stock, pay for materials for new projects or undertake marketing campaigns. They use their funds to unlock jobs. And when they borrow from Prospa they create a ripple effect through their supply chains that boosts their local communities and the wider economy.

This analysis is based on the unique composition of Prospa's customer base and lending book, including sector composition, geography, success and loss rates and seasonality. Prospa's advanced data and insights have enabled us to undertake this exercise and provide confidence in the results.

The economic benefits of Prospa lending vary across industries and states. Every million dollars of Prospa lending in Australia contributes 57 annual FTE positions and an increase in GDP of $4 million.

Many customers say they would have ceased to exist without Prospa funding.

60% of Prospa customers say they wouldn't have been able to access the loan amount they needed, in the time-frame they needed it, without Prospa. The full economic benefit of lending to these businesses has been attributed to Prospa.

40% of customers borrow from Prospa even when they have an alternative. Only the marginal impact of lending to these customers has been credited to Prospa.

Caution should be exercised around extrapolating these figures across all small business lending in Australia.

"So I would go to my banks regularly, I have two of them, and I would fill them in on all the wonderful, amazing things I'm doing. And all I got was a no, sorry I can't help you."

**Nyoli, NSW**

## Methodology

In October 2018 RFi undertook a survey of Prospa's customer base. More than 7,100 customers were invited to complete the survey and n = 618 did so (equating to a response rate of 8.6%). Survey respondents were tested and determined as being closely representative of the overall Prospa customer base. The resultant Confidence Interval is +/- 3.86 at a 95% Confidence Level.

The survey asked questions relating to the following topics:

- Current number of employees and annual turnover
- Timing of first and most recent loan from Prospa
- Use of loan funds – including working capital, purchasing machinery, tools, vehicles, renting new premises, hiring additional employees etc.
- Realistic alternatives to borrowing from Prospa, including bank overdrafts, credit cards, personal loans, secured loans etc.
- Reasons for choosing Prospa – including faster/easier application experience, convenience, not needing to provide loan security etc.
- Consequences of not being able to borrow from Prospa – including any impacts on output and employment.

The Centre for International Economics (the CIE) were engaged to model the economic impacts of Prospa's lending. The modelling approach can be explained in the following steps.

### Step 1. Segment customers into two groups based on whether they had an alternative to borrowing from Prospa

An important assumption in the modelling is that the borrowing needs of some Prospa customers could only have been met by Prospa. This identification of customers whose borrowing needs could only have been met by Prospa is key to the modelling because it helps assign impacts to Prospa. If surveyed businesses reported that funding was only (realistically) available from Prospa, then the impacts of that funding — for example, higher revenue and employment — were attributed to Prospa in full. In contrast, if surveyed businesses reported that the required funding was also available from another source, then only the additional or marginal benefit brought about by Prospa funding versus the next best alternative was used in the economic modelling and attributed to Prospa.

In the survey Prospa customers were asked whether they could have obtained the loan amount they needed, within the time-frame they needed it, from any other provider.

Responses were used to segment customers into two groups:

**Group 1**: Customers who felt they could have only obtained the loan amount they needed, in the time-frame they needed it from Prospa.

**Group 2**: Customers who felt they could have obtained the amount they needed, in the time-frame they needed it from another source i.e. they chose Prospa despite believing they had an alternative.

60% of Prospa customers indicated they could only have borrowed from Prospa, versus 40% who felt they could have borrowed elsewhere.

### Step 2. Overlay Prospa proprietary data on survey findings

Prospa proprietary data was overlaid on the survey findings. This included information on the turnover of Prospa customers and the value of loans advanced. Prospa proprietary data was used to scale survey results to the overall Prospa customer base.

### Step 3. Determine the direct impacts of Prospa's lending

To determine the direct impact of Prospa's lending, Prospa customers were asked how they had benefited as a result of their loan(s) from Prospa. Specifically, they were asked whether they would still be operating without their most recent loan, and if so, to estimate the impact of their most recent loan on their annual revenue and employment.

For customers who believe they could have only borrowed from Prospa (Group 1) all of the above mentioned impacts can be attributed to Prospa as customers in this group believe they had no other borrowing alternative.

In contrast, for customers businesses who believe they could have obtained funds from elsewhere (Group 2) only part of the impacts can be attributed to Prospa since these customers believed they could have borrowed else-where. This is referred to as the 'marginal impact' of Prospa's lending i.e. the impact that can only be attributed to Prospa.

### Step 4. Determine the economic impact of Prospa's lending in 2018

Having used the customer survey to determine the direct impacts of Prospa's lending, the final step is to model the full economic impacts including the flow-on effects. To do this Prospa's full year lending for 2018 is used, as is an estimate of Australian GDP and employment for 2018. International Monetary Fund (IMF) forecasts are used for GDP and employment at an overall economy level.

### Step 5. Determine the economic impact of Prospa's lending over time

Having quantified the economic impacts of Prospa's lending in 2018, the economic impacts in previous years are estimated by extrapolating the data backwards.

RFi Group worked alongside the Centre for International Economics (the CIE) who undertook the required modelling.

RFi Group

RFi Group is a global data-driven business insights provider, exclusively focused within financial services. It specialises in data and information gathering, customer-based insight generation and business decision support for the world's leading financial service providers, as well as challenger and disruptive market participants, and companies aligned to the FS sector. Covering 46 key global markets, with regional offices in Toronto, London, Singapore, Sydney and Melbourne, RFi Group consistently provides clients with tailored advice and independent intelligence relevant to their specific markets and business needs.

The CIE

With three decades of experience, the Centre for International Economics (CIE) is an economic consultancy that provides independent, quantitative, evidence-based advice to support practical decision-making. The CIE works across all sectors and has built a reputation for analysing difficult and complex economic issues. The CIE has provided policy-relevant research to agencies and departments of Australian and foreign governments, international institutions, industry associations and private sector clients.

prospa

Based in Sydney, Prospa is a multi-award winning, high growth financial technology company with over 200 employees and more than 10,000 partner firms. Prospa has a history of industry leadership and innovation, and is a founding member of the AFIA Code of Lending Practice for online small business lenders.

Prospa was awarded the Telstra Business Award for Best Medium Business NSW in 2017, and in 2018 topped the Financial Times list of high-growth companies in Asia Pacific. In 2018 Prospa achieved a clean sweep of the MFAA Excellence Awards for Fintech Lender of the Year, winning in all States and nationally. Prospa is an AON Hewitt Employer of Choice in 2017 and 2018. More information can be found at www.prospa.com

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