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NAB Round Table:
Emerging lenders

October 2019



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EMERGING LENDERS ON THE PATH TO DEBT CAPITAL MARKETS

In October 2019, National Australia Bank hosted a Round Table with emerging lenders to share their experiences on the journey to bank securitisation funding and beyond.

Compared to a decade ago, the lending sector of today looks vastly different. Alternative fintech lenders have emerged and challenged the status quo, with the ability to service segments of the market in new and innovative ways.

While the major banks still dominate, the market share of alternative finance providers is growing and shows no signs of abating. The growth has been driven by changing consumer preferences for digital channels and quick access to finance, along with a constructive competition environment.

The added competition to the sector has delivered significant benefits for consumers, small businesses, and the broader Australian economy. With more people able to access finance when they need it, the contribution of lending to Australia's GDP continues to grow, and NAB has an important role to play in supporting this growth.

Research undertaken by Prospa, a pioneer in the alternative lending category, shows that A\$1 billion in Prospa lending to Australian SMEs since 2013 has contributed A\$4 billion to GDP and resulted in over 57,000 jobs being created or maintained.

During the wide-ranging Round Table conversation an interesting juxtaposition emerged – while on one hand, the emerging lenders are making finance easier to obtain, securing backing for their own businesses in the early days of their existence was challenging and finding the right institutional partner was a milestone.



Pictured from left to right: Katherine McConnell (Brighte), David Hurford (GetCapital), Bob Belan (Symple), Daniel Foggo (RateSetter), Greg Moshal (Prospa), Anthony Nantes (Wisr), Nathan Walsh (Athena), Peter Gray (ZIP)

Complexity of the funding journey

While the funding journey of each emerging lender has differed – and ultimately been successful in helping grow and scale their businesses – attendees agreed it had not been without complexities and challenges.

There was unanimous agreement that securing sustainable funding had been a concern since day one. For most, funding in the early stages of their business was mainly from supportive shareholders or High Net Worth equity partners.

Greg Moshal, Co-Founder and Joint-CEO at Prospa, attributes the company's early successes to its equity partners who believed in its vision. "Seven years ago, we were entering a new asset class and it was before the term 'fintech' had been coined, so we were fortunate to have strong relationships," he said.

In recent times, more institutions have begun to back the fintech sector and opened up access to larger amounts of capital via securitisation warehouses.

In 2016, NAB recognised an emerging financing gap in the market along with a strategic view that digital channel preferences would continue to grow with maturing millennials. At that time, there were limited early-stage debt funding options available for fintechs with strong business models, high growth potential and a real focus on delivering for their customers.

Anthony Nantes, CEO at Wisr said the industry is changing very rapidly. "As companies start to reach scale, having access to significant funding partners is more crucial than ever.

"From my perspective, the Australian banking sector, and NAB in particular, has acted earlier than global peers in supporting these styles of businesses. As result, we have the most advanced "buy now, pay later" sector in the world. This is great for not only consumers, but for Australia through employment growth and technology innovation," he said.

For RateSetter, which traditionally relied on funding from its 17,000 retail investors, exploring other means was a philosophical and strategic decision. "We really believe in our retail investors for some parts of our business, but for automotive finance it was important to have institutional partners, like NAB, who have a deep understanding of the asset class," said Daniel Foggo, Founder and CEO.

Mr Nantes of Wisr said that as a leader of a business, you never stop looking for ways to optimise your business. "There is no start or finish to these funding discussions – it's a continuous conversation and you're always looking for the right partner for the next phase who can help you scale to deliver more genuine innovation to customers."

Peter Gray, Co-Founder and Chief Operating Officer at Zip Co, reiterated this sentiment and said funding was a daily requirement that needed to be solved in order to scale the business.

PARTICIPANTS IN THE NAB ROUND TABLE

Participants

Bob Belan

Co-Founder and CEO, Symple

Daniel Foggo

Founder and CEO, RateSetter

Peter Gray

Co-Founder and COO, Zip Co

David Hurford

Chief Risk Officer, GetCapital

Katherine McConnell

Founder and CEO, Brighte

Greg Moshal

Co-Founder and Joint-CEO, Prospa

Anthony Nantes

CEO, Wisr

Nathan Walsh

Co-Founder and CEO, Athena

Moderators

Eric Williamson

Executive General Manger, Corporate Finance, NAB

Jacqueline Fox

General Manager, Capital Markets and Advisory, NAB

Steve Smith

Head of Emerging Technology Clients, NAB



“Knowing the path to securitisation was crucial in creating a viable business from day one.”

Katherine McConnell, Founder and CEO, Brighte Capital.

Reaching securitisation

For many attendees of the Round Table, securing funding via a securitisation warehouse facility was a milestone.

Katherine McConnell, Founder and CEO of Brighte Capital, said knowing the path to securitisation was crucial in creating a viable business from day one.

“We first approached NAB in October 2017 and by Christmas, we had largely agreed to the terms. It only took a few months to get into our first corporate debt warehouse facility, and only a year later we moved into our new asset-backed securitisation warehouse,” Ms McConnell said.

Bob Belan, Co-Founder and CEO of Symple, relayed a similar experience, approaching NAB because of the Bank’s strategic focus on the sector and capacity to support the levels of capital needed to meet the company’s growth aspirations. Symple and NAB partnered on a A\$57 million securitisation warehouse trust in September 2019.

While securitisation was a milestone for Athena, Nathan Walsh, Co-Founder and CEO, said it was a complex mechanism to create, with multiple areas of consideration.

“Firstly, it’s crossing the chasm of getting the first A\$100-\$250 million of loans done. The other element is the hundreds of design decisions required to create a responsible lending framework at the front, which links to an efficient securitisation structure at the back,” Mr Walsh said.

As some emerging lenders outgrew startup funding but remained too small to approach the banks, the only option was to rely on non-bank institutions for securitisation.

David Hurford, Chief Risk Officer at GetCapital, said the company had set up a securitisation facility with a non-bank institution several years ago as a less mature business.

“At this time, it was too early to approach a bank. The institution had the appetite to grow with us for a limited timeframe, but we needed a partner who could support us much further than that. After hearing NAB was working in the space, we approached the bank in 2017, and had a A\$50 million facility set up in mid-2018,” Mr Hurford said.



“The process brings increased levels of scrutiny of the company, including areas of corporate governance, lending products, policies and processes, and arrears management practices.”

Jacqueline Fox, General Manager Capital Markets and Advisory, NAB.



Capital markets: the end game

During the Round Table, capital markets were deemed the desired funding ‘end game’ for many of the participants.

Of the attending emerging lenders, Zip was the furthest along the capital markets journey, launching the Zip Master Trust earlier this year.

Having taken hundreds of securitisation transactions to the capital markets over the last decade and being awarded Securitisation House of the Year every year since 2012, the NAB Corporate and Institutional team shared insights into the capital markets journey.

Jacqueline Fox, General Manager Capital Markets and Advisory at NAB, said no two capital markets transactions are ever the same.

“The process brings increased levels of scrutiny of the company, including areas of corporate governance, lending products, policies and processes, and arrears management practices. This is why our team’s experience is of material value to an emerging lender,” she said.

This was reiterated by Zip’s Peter Gray, who likened the capital markets process to being publicly listed on the stock exchange.

“Being partnered with NAB has helped open doors across the globe.”

Nathan Walsh, Co-Founder and CEO, Athena.

The right partner matters

Closing out the Round Table was a discussion reiterating the importance of finding the right partner – both from a credit and expertise perspective.

“What I’ve really appreciated about the journey with NAB is their understanding of the resourcing and time restraints we face. It’s also been their support, partnership and handholding along the way, and insight into the sequencing of activity – who to talk to and when,” said Brighte’s Ms McConnell.

This was a sentiment echoed by Nathan Walsh of Athena, who said the right partner was not just about access to funding, but the expertise, networks and ability to look over the horizon. “Being partnered with NAB has helped open doors across the globe,” he said.

The credibility of being associated with NAB is very powerful, noted Symple’s Mr Belan. “There’s the capital benefit of course, but there’s also the intangible benefit of being linked with the NAB brand,” he said.



Zip's journey to capital markets success

Zip offers point-of-sale credit and digital payment services to consumers and merchants. Founded in 2013, Zip Co Ltd is ASX listed and has quickly grown to a market capitalisation of A\$1.3 billion.

At the Round Table, Zip's Co-Founder and COO, Peter Gray, shared the company's journey to capital markets. "Ultimately capital markets were always the end game for us," Mr Gray said.

"We wanted to start dealing with the banks as soon as possible, as the funding would help solve at the scale we wanted. We met NAB in late 2016 and had secured a \$200 million warehouse facility in early 2017, which we still have today."

At the time, this represented the largest debt market deal for an Australian fintech.

Given Zip's continued rate of growth and ambitious plans for scale, the company needed access to deeper pools of capital. In late 2018, NAB outlined a path to capital markets via a revolving master trust structure.

The Zip Master Trust was launched in July 2019, the inaugural issue was upsized to A\$500 million with a scheduled maturity date of two years. "We were blown away by the level of interest in the trust – in some tranches it was eight times oversubscribed."

The structure allows Zip to continually issue notes from the trust as needed. "It solves our funding requirements over the medium term, and over time, we expect the structure to give significant cost benefits.

"The process was significantly more challenging and complex than the warehouse, particularly around being rated. Even though our results were strong, we had limited trading history and were the first fintech in Australia to approach the capital markets.

"It was hugely beneficial to be listed already. To a certain degree, many of the reporting and data requirements had been set up during the listing process, and we were aware of the marketing and investor engagement process.

"NAB has been a great supporter throughout the journey, a true partner. In the high growth stage, you can't keep 'solving for now' – you need to take a longer-term view. Via the master trust and existing warehouse, we now have capacity for A\$1 billion."

GET IN TOUCH WITH US

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