

## Readying for significant customer uplift

Wrkr Ltd (ASX:WRK) offers compliance solutions for Australian superannuation contributions and payroll including member onboarding, super payments, messaging and employee validation. The company has released its Q1 FY24 activities report, with key highlights including 43% growth in cash receipts on the previous corresponding period (pcp), 42% growth in revenue, and a cash burn runway of eight quarters before any R&D tax rebates or new customer transactions are considered. Revenue has been boosted by development and planning work for major customers ART and Link Group respectively. More comprehensive trading and outlook commentary is expected at the AGM in November but Q1 revenue (\$2.2m) is tracking to RaaS's H1 FY24 estimate of \$4.4m. Management has highlighted near-term priorities as continued development of the Superstream Gateway for Link, ensuring Wrkr PAY and Wrkr READY are ready once Link clients have migrated, and developing scalable APIs for other potential customer wins. Our numbers and valuation are unchanged.

### Business model

WRK operates three separate products, but each serves as a compliance solution for the Australia superannuation sector in one way or another. Wrkr PAY is a gateway clearing house, payment solution and ATO digital messaging provider used by payroll providers, employers, SMSF's and funds which generates fees on transactions, SaaS fees and float interest. Wrkr PLATFORM licenses the platform to super funds as a white-label solution and derives revenue from licence fees per user. Wrkr READY is a white-label automated onboarding solution for employees when selecting their super fund of choice and derives a fee for each onboarding, with further functionality expected to be added.

### Readying for the ART and Link user uplift

Q1 FY24 revenue increased 42% on the pcp and 14% over Q4 FY23 on the back of continued 'discovery and planning' work for Link Group (ASX:LNK) in readiness for the recently signed commercial agreement, and 'development work' for ART addressing additional, customer-led innovative features (See our 27 September report on the [Link announcement](#)). These are key planks to our earnings estimates beginning FY25, and WRK is continuing discussions around the profile and timing of the funds to be onboarded. Once migrated to Wrkr PAY, WRK has the opportunity to earn income from transaction fees, float interest and other services such as member onboarding.

### Valuation of \$0.08/share or \$105m market cap fully diluted

The near-term multiples of WRK do not reflect the medium-term revenue and earnings potential from Link customer migration, Pay Day Super, or direct client acquisitions. As a result, we deem a DCF as the most appropriate valuation methodology for WRK. Our DCF is unchanged at \$0.08/share and is driven by Pay Day Super, Link client migration assumptions and a normalised cash rate of 3.5% (for float interest). WRK has performed well against our selected peer group over the past three months, increasing 1.8% against a peer group decline of 11%.

Historical earnings and RaaS' estimates (in A\$ unless otherwise stated)							
Year end	Revenue	EBITDA adj.	NPATA adj.	EPS adj.	P/E (x)	EV/EBITDA (x)	EV/ARR* (x)
06/22a	4.6	(2.0)	(2.2)	(0.002)	n.m.	n.m.	9.8
06/23a	6.6	(1.3)	(1.5)	(0.001)	n.m.	n.m.	8.1
06/24f	10.2	0.0	(0.3)	(0.000)	n.m.	n.m.	5.5
06/25f	17.0	5.5	4.3	0.003	7.8	5.0	2.8

Source: FY22 and FY23 actual, RaaS estimates FY24f and FY25f; \*Excludes interest income

## IT Services & Software

30 October 2023

### Share Details

ASX code	WRK
Share price (27-Oct)	\$0.026
Market capitalisation	\$32.7M
Shares on issue	1,271.6M
Cash at 30-Sep-23	\$3.16M
Free float	33%

### Share Performance



### Upside Case

- Key Link clients migrate to Wrkr PAY
- Acceleration of direct customer growth using both super clearing, payroll, and onboarding
- Replicate the business model offshore

### Downside Case

- Change in fund administrator or a client taking solutions in-house results in contract loss
- Reduction or elimination of the super contribution clearing period
- Slower-than-expected migration of customers to the PAY platform

### Board and Management

Emma Dobson	Non-Executive Chair
Trent Lund	Executive Director/CEO
Paul Collins	Non-Executive Director
Randolf Clinton	Non-Executive Director
Karen Gilmour	Chief Financial Officer

### Company Interview

[Wrkr \(ASX:WRK\) RaaS Interview 1 August 23](#)

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## September Quarter Trading Update

Key observations from the Q1 FY24 4C cash-flow release include:

- Cash receipts of \$1.9m were 43% ahead of the pcp and 2% ahead of Q4 FY23;
- Revenue of \$2.02m was 42% ahead of the pcp and 14% ahead of Q4 FY23 on the back of customer spend for 'discovery and planning' for major customer Link, development work for major customer ART, and higher float interest.

RaaS's revenue estimate for H1 FY24 is \$4.4m, placing WRK on track to meet this expectation.

- Cash at bank in September 2023 was \$3.2m, down from \$4.1m in June 2023 on the back of continued new product development (\$462k) and operating cash outflow (\$365k); and
- Cash burn excluding product development has averaged \$368k/quarter for the past 12 months, implying eight quarters of cash runway before any R&D rebates and new paying customers are included.

### Exhibit 1: WRK quarterly cash flow (in A\$'000 unless otherwise stated)

Line item	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1 FY24
<b>Cash receipts</b>	<b>1,325</b>	<b>1,746</b>	<b>1,591</b>	<b>1,860</b>	<b>1,893</b>
% growth	37	81	38	26	43
<b>Cash outflow</b>	<b>(1,683)</b>	<b>(1,736)</b>	<b>(2,224)</b>	<b>(2,320)</b>	<b>(2,259)</b>
Government grants	0	133	922	0	0
Other (product development)	(6)	(14)	(10)	(467)	(508)
<b>Total cash burn (ex-other)</b>	<b>(364)</b>	<b>129</b>	<b>279</b>	<b>(460)</b>	<b>(366)</b>
Cash at beginning	1,277	3,662	5,022	4,846	4,108
Net cash outflow	2,385	1,350	(176)	(738)	(948)
<b>Cash at end</b>	<b>3,662</b>	<b>5,022</b>	<b>4,846</b>	<b>4,108</b>	<b>3,160</b>

Source: Company announcements

Our FY24 numbers remain UNCHANGED following the release of the Q1 FY24 cash-flow report. Management will provide a more detailed trading update and outlook comments at the AGM on November 16.

That said, key priorities for Q2 FY24 include:

- Continuing the detailed design and implementation of the clearing house and Superstream Gateway infrastructure and employer portal for Link;
- Ensuring Wrkr PAY and Wrkr READY are ready to take advantage of the potential opportunities around Link's customers; and
- Exposing the Wrkr platform at an API level with scalable and innovative solutions to enable the quick and easy activation of the platform with potential customers.

## Investment Case Revisited

From a \$6.6m revenue base in FY23 we see three distinct events that combined can drive revenue to \$29m by FY27, supporting a fully diluted valuation of \$0.08/share:

- WRK has built and refined a range of solutions that help super funds and employers automate and comply with government regulations around the payment of superannuation contributions and payroll. These regulations are ever-changing and create somewhat of a moat for potential new competitors.

- Australia's largest super fund (ART) is the major customer on the Wrkr PLATFORM with ~1.0m members and is yet to add QSuper members following the merger with SunSuper, offering the addition of at least 0.6m members or ~\$1.2m revenue per annum. ART continues to be a consolidator with Alcoa and Commonwealth Bank Super Group also in the process of merging with ART.
- The commercial agreement with Link Group (ASX:LNK) opens the way for the migration of key retirement and super clients of LNK to the Wrkr infrastructure (PAY), offering transaction fee, float interest and other revenue opportunities for WRK. Link counts three of the top-10 super funds in Australia as clients being Australian Super (2.8m members), REST (1.9m members), and HOSTPLUS (1.6m members). LNK will pay \$3m in implementation and licence fees over the next 18 months and Wrkr can then earn transaction fees from the migrated clients.
- Pay Day Super regulations slated for implementation in July 2026 require the payment of superannuation at the same time as salary/wages. Most employers currently pay quarterly, so a move to monthly or fortnightly super payments could increase the processing and messaging of super by between 2x-5x per year. RaaS numbers assume 2.0x and we estimate a revenue opportunity of \$6.0m in FY27, all else equal.
- Piggy-backing half the top-10 super funds in Australia offers WRK the opportunity to become an industry standard, and with that comes the promise of an even stronger moat and the use of more solutions including payroll.
- Some of WRK's product development is funded by its clients in the form of MSP and consulting fees, reducing the cash-flow burden on the group.
- The average quarterly cash burn of WRK over the past five quarters has been \$80k including government grants and \$132k excluding. A cash balance of \$4.1m including a Convertible Note provides ample funding to execute growth.
- We view a DCF as the most appropriate methodology to value WRK. The assumptions that drive our forecast result in a fully diluted DCF valuation of \$0.08/share. As a sense check this would imply an FY27 EV/EBITDA based on RaaS estimates of 4.6x against a profitable peer average for FY23 of 7.5x.

## Exhibit 2: WRK Financial Summary

Wrkr Limited (ASX:WRK)						Share price (27 October 2023)						A\$	0.026					
Profit and Loss (A\$m)						Interim (A\$m)						H122A	H222A	H123A	H223A	H124F	H224F	
Y/E 30 Jun	FY22A	FY23A	FY24F	FY25F	FY26F	Revenue	H122A	H222A	H123A	H223A	H124F	H224F						
Revenue	4.6	6.6	10.2	17.0	21.2	Revenue	1.8	2.8	2.7	3.9	4.4	5.8						
Gross profit	4.0	5.8	8.4	15.0	19.8	EBITDA	(1.6)	(0.4)	(1.2)	(0.1)	(0.5)	0.6						
GP margin %	87.6%	88.7%	82.1%	88.5%	93.4%	EBIT	(2.9)	(1.8)	(2.6)	(1.5)	(2.1)	(1.0)						
EBITDA	(2.0)	(1.3)	0.0	5.5	9.8	NPATA (normalised)	(1.6)	(0.6)	(1.3)	(0.2)	(0.7)	0.4						
Depn	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	Adjustments	(0.1)	0.6	0.1	(0.1)	0.0	0.0						
RoU	0.0	0.0	0.0	0.0	0.0	NPAT (reported)	(3.0)	(1.4)	(2.5)	(1.8)	(2.2)	(1.1)						
Amortisation	(2.7)	(2.8)	(3.0)	(3.0)	(3.0)	EPS (adjusted)	(0.001)	(0.000)	(0.001)	(0.000)	(0.001)	0.000						
EBIT	(4.7)	(4.1)	(3.0)	2.4	6.8	Dividend (cps)	0.000	0.000	0.000	0.000	0.000	0.000						
Interest expense	(0.0)	(0.1)	(0.3)	(0.1)	0.1	Imputation	0.0	0.0	0.0	0.0	0.0	0.0						
Tax	(0.2)	0.0	0.0	(1.1)	(2.9)	Operating cash flow	na	na	na	na	na	na						
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	Free Cash flow	na	na	na	na	na	na						
NPATA normalised	(2.2)	(1.5)	(0.3)	4.3	6.9	Divisionals	H122A	H222A	H123A	H223A	H124F	H224F						
Adjustments	0.5	0.0	0.0	0.0	0.0	Revenue	1.8	2.8	2.7	3.9	4.4	5.8						
NPAT (reported)	(4.3)	(4.2)	(3.3)	1.3	3.9	PAY	0.8	1.0	1.6	2.3	2.8	3.8						
Cash flow (A\$m)							PLATFORM	1.0	1.7	1.0	1.5	1.5	1.5					
Y/E 30 Jun	FY22A	FY23A	FY24F	FY25F	FY26F	READY	-	0.1	0.0	0.1	0.1	0.6						
Adj EBITDA (after rent)	(2.0)	(1.3)	0.0	5.5	9.8													
Interest	(0.0)	(0.2)	(0.3)	(0.1)	0.1	Gross profit	1.5	2.5	2.4	3.5	3.6	4.8						
Tax	0.0	0.9	0.3	0.2	(2.9)	Gross Profit Margin %	85.0%	89.2%	87.6%	89.4%	82.2%	82.0%						
Working capital/other	0.4	0.8	(1.0)	(0.7)	(0.2)	Employees	2.1	2.2	2.6	2.9	3.2	3.3						
Operating cash flow	(1.6)	0.2	(1.1)	4.9	6.7	Administration	0.1	0.0	0.1	0.0	0.1	0.1						
Mtce capex	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)	Other	0.8	0.7	0.8	0.7	0.9	0.8						
Capitalised Software	(0.4)	(0.4)	0.0	0.0	0.0	Total costs (ex SBP/1-off)	3.1	2.9	3.6	3.6	4.1	4.2						
Free cashflow	(2.0)	(0.3)	(1.1)	4.9	6.7	EBITDA	(1.6)	(0.4)	(1.2)	(0.1)	(0.5)	0.6						
Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0	EBITDA margin %	(88.2%)	(14.8%)	(44.8%)	(3.4%)	(12.2%)	9.5%						
Other	0.0	0.0	0.0	0.0	0.0	Margins, Leverage, Returns	FY22A	FY23A	FY24F	FY25F	FY26F							
Cash flow pre financing	(2.0)	(0.3)	(1.1)	4.9	6.7	EBITDA margin %		-43.0%	-20.3%	0.2%	32.3%	46.1%						
Equity	0.0	4.2	0.0	0.0	0.0	EBIT margin %		-102.8%	-62.5%	-29.5%	14.4%	31.8%						
Borrowings	0.6	0.1	0.0	0.0	0.0	NPAT margin (pre significant items)		-46.8%	-22.2%	-3.4%	25.3%	32.4%						
Net Dividends paid	0.0	0.0	0.0	0.0	0.0	Net Debt (Cash)		-	0.81	-	3.37	-	1.96	-	6.20	-	12.51	
Change in cash	(1.5)	4.0	(1.1)	4.9	6.7	Net debt/EBITDA (x)	(x)		0.4	2.5	-122.9	-1.1	-1.3					
Balance sheet (A\$m)							ND/ND+Equity (%)	(%)	(5.0%)	(22.5%)	1.7%	(49.3%)	(76.7%)					
Y/E 30 Jun	FY22A	FY23A	FY24F	FY25F	FY26F	EBITDA interest cover (x)	(x)	-703.3	-13.8	0.0	68.4	-163.1						
Cash	1.3	4.1	3.0	7.9	14.5	ROA		nm	(22.4%)	(17.9%)	14.6%	33.3%						
Accounts receivable	0.3	0.6	0.7	1.4	1.6	ROE		nm	(33.8%)	(36.8%)	9.4%	22.1%						
Other receivables	1.8	0.9	0.9	0.9	0.9	NTA (per share)		0.00	0.00	0.00	0.01	0.01						
Other current assets	0.0	0.0	0.0	0.0	0.0	Working capital		2.0	1.4	1.5	2.2	2.4						
Total current assets	3.4	5.6	4.6	10.1	17.0	WC/Sales (%)		43.7%	21.2%	15.1%	13.0%	11.3%						
PPE	0.0	0.1	0.1	0.1	0.2	Revenue growth		126.5%	43.0%	55.3%	66.0%	25.3%						
Intangibles	15.0	12.6	9.6	6.6	3.6	EBIT growth pa		n/a	n/a	n/a	(181.4%)	176.0%						
Other	0.0	0.0	1.0	1.3	1.7	Pricing		FY22A	FY23A	FY24F	FY25F	FY26F						
Total non current assets	15.0	12.7	10.7	8.0	5.4	No of shares (y/e)	(m)	1,223	1,272	1,272	1,385	1,385						
Total Assets	18.4	18.3	15.3	18.1	22.4	Weighted Av Dil Shares	(m)	1,223	1,256	1,256	1,294	1,370						
Trade payables	0.1	0.1	0.1	0.1	0.1	EPS Reported	A\$ cps	(0.0036)	(0.0034)	(0.0027)	0.0010	0.0028						
Other Payables	0.5	0.8	0.8	0.8	0.8	EPS Normalised/Diluted	A\$ cps	(0.0018)	(0.0012)	(0.0003)	0.0033	0.0050						
Contract Liabilities	0.4	0.7	0.9	1.6	1.9	EPS growth (norm/dil)		na	-34%	-76%	-1294%	52%						
Borrowings	0.6	0.2	0.2	0.2	0.2	DPS	cps	0.000	0.000	0.000	0.000	0.000						
Employee benefits	0.6	0.8	1.0	1.1	1.2	DPS Growth		na	na	na	na	na						
Other	0.4	0.1	0.1	0.1	0.1	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%						
Total current liabilities	2.6	2.6	3.0	3.8	4.2	Dividend imputation		0	0	0	0	0						
Employee benefits	0.0	0.1	0.1	0.1	0.1	PE (x)		-	14.8	-	22.4	-	93.6	7.8	5.2			
Convertible Note	0.0	2.6	2.6	0.0	0.0	PE market			15.0		15.0		15.0	15.0				
Other	0.1	0.5	0.5	0.5	0.5	Premium/(discount)			(198.5%)		(249.4%)		(724.1%)		(47.7%)		(65.5%)	
Total long term liabilities	0.1	3.2	3.2	0.6	0.6	EV/EBITDA (x)			(16.1)		(24.4)		2,049.3		5.0		0.0	
Total Liabilities	2.7	5.8	6.2	4.4	4.8	FCF/Share	A cps		(0.002)		(0.000)		(0.001)		0.004		0.005	
Net Assets	15.7	12.5	9.1	13.7	17.6	Price/FCF share			(15.8)		(97.1)		(28.9)		6.9		5.4	
Share capital	44.0	44.9	44.9	48.2	48.2	Free Cash flow Yield			(6.2%)		(1.0%)		(3.5%)		14.9%		20.4%	
Reserves	0.2	0.2	0.2	0.2	0.2													
Accumulated losses	(28.6)	(32.7)	(36.0)	(34.7)	(30.9)													
Total Shareholder funds	15.7	12.5	9.1	13.7	17.6													

Source: Company data for actuals, RaaS estimates

# FINANCIAL SERVICES GUIDE

**RaaS Advisory Pty Ltd**

**ABN 99 614 783 363**

**Corporate Authorised Representative, number 1248415**

**of**

**BR SECURITIES AUSTRALIA PTY LTD**

**ABN 92 168 734 530**

**AFSL 456663**

**Effective Date: 6<sup>th</sup> May 2021**

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- our services
- how we transact with you
- how we are paid, and
- complaint processes

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  - Securities
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In writing to: Australian Financial Complaints Authority, GPO Box 3, Melbourne, VIC, 3001.

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