

H1 EBITDA loss halves, +ive EBITDA forecast for 2H

Wrkr Ltd (ASX:WRK) offers compliance solutions for Australian superannuation contributions and payroll including member onboarding, super payments, messaging and employee validation. WRK has reported a H1 FY24 adjusted EBITDA loss of \$0.53m, half that of H1 FY23 and in line with RaaS estimates. The result benefitted from both operating leverage (43% revenue growth against a 6% increase in operating costs) and some reallocation of employee costs to capitalised product development. We forecast positive H2 FY24 EBITDA on the back of continued operating leverage, and in particular significant Hong Kong implementation fees (estimated at \$1.4m), higher float interest and continued cost control. We forecast positive FY25 EBITDA on the back of client migration to both Wrkr PAY (Link) and Wrkr PLATFORM (ART), continuing Hong Kong implementation and SaaS (Software as a Service) fees and higher interest and other product income from the new clients using Wrkr PAY. Our numbers and valuation remain unchanged, with our DCF valuation of \$0.08/share fully diluted for the convertible note. All options around the convertible note are currently being examined.

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, SMSFs 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 likely to be added.

Key assumptions in H2 FY24 and FY25

There are a lot of large moving parts and associated assumptions heading into FY25, and we detail our key assumptions below. We forecast H2 FY24 to see significant (~\$1.4m or 30% of H2 FY23) first time implementation fees from Hong Kong, with further implementation and recurring SaaS fees flowing into FY25. We forecast the average interest rate on float holdings in H2 FY24 to be 210bps ahead of H2 FY23, then stable into FY25 but on a forecast higher float balance due to Link client migration, resulting in higher interest income. ART is still expected to migrate all clients to the Wrkr PLATFORM upon QSuper contract expiries, almost doubling user numbers on the platform. Material PAY revenue uplift is expected in FY25 as REST clients complete testing and migrate, with additional funds expected to follow. Key risks centre around the timing of client migration, a change of control at Link and the uptake of new product solutions such as Wrkr READY.

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, in our view. 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 3.7% (for float interest). WRK has performed well against our selected peer group over the past three months, with its share price increasing 19% against a peer group increase of 1.0%.

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)	nm	nm	12.5
06/23a	6.6	(1.3)	(1.5)	(0.001)	nm	nm	10.6
06/24f	10.2	(0.0)	(0.2)	(0.000)	-nm	-nm	11.6
06/25f	16.8	5.5	4.3	0.003	10.0	7.3	4.6

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

IT Services & Software

5 March 2024

Share Details

ASX code	WRK
Share price (4-Mar)	\$0.033
Market capitalisation	\$41.5M
Shares on issue	1,271.6M
Cash at 31-Dec-23	\$2.1M
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 in Hong Kong

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/lower-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 RaaS 2024 Outlook Interview 25 Jan 2024](#)

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H1 FY24 Result Highlights

Key observations from the H1 FY24 result release include:

- **Revenue of \$3.9m (+44%) has already been disclosed** with planning and development work for major customer Link (\$425k for the half) and higher float interest the key drivers.
Divisionally the float interest and Link work can be seen in Wrkr Pay (+64%) while Wrkr Platform experienced modest (+10%) growth over the half.
- **Gross margin of 84.4%**, down 320bps on H1 FY23, we suspect due to the mix of consulting revenue against recurring revenue.
- **Operating costs up 6%** which we believe was well managed considering the activity around Link migration, Hong Kong planning and ART platform development. Some product development costs (in the form of employee expenses) were capitalised rather than expensed over the half.
- **EBITDA loss of \$0.5m**, in-line with RaaS estimates and an improvement on H1 FY23 due to leverage from revenue/gross profit growth.
- **Amortisation of \$1.5m**, in-line with our forecast; and
- Reported NPAT loss of \$2.8m, due mainly to the inclusion of non-cash amortisation and a fair value revaluation of the convertible note.

Exhibit 1: WRK H1 FY24 result summary (A\$ unless specified)

Variable (A\$000')	H1 FY23	H1 FY24	% CHG	Comments
Revenue	2.7	3.8	43	
Wrkr Pay	1.6	2.7	64	Mainly interest and LNK migration
Wrkr Platform	1.0	1.2	10	
Wrkr Ready	0.0	0.0	(92)	Not meaningful at this stage
Gross profit	2.4	3.2	38	Higher consulting/project mix
GP%	87.6	84.4		
Operating costs	3.6	3.8	6	Well controlled
EBITDA	-1.2	-0.5	(57)	Lower loss
Depreciation	0.0	0.1		
Amortisation	1.4	1.3		
EBIT	-2.6	-1.9	(27)	
Interest expense	0.0	0.0		
Pre-Tax	-2.7	-1.9	(27)	
Adjusted NPATA	-1.3	-0.6	(51)	
Adjustments	0.1	-0.9		Mainly revaluation of convertible note
Reported NPAT	-2.5	-2.8	(11)	

Source: Company announcements

Key Outlook Assumptions

Key assumptions that underpin our earnings estimates are detailed below:

- **Link client migration to Wrkr PAY.** We now expect REST (~1.4m active members) to begin client migration in Q1 FY25 and take two quarters to complete. We forecast HOSTPLUS to begin migration in Q2 FY25 (~0.9m active members) and another 0.3m in smaller funds by the end of H2 FY25, resulting in an additional 2.4m users on the PAY platform by the beginning of FY26. WRK management estimates the total Link opportunity at 7.0m users.

Link recently signed an MoU with Australian Super to extend their relationship 'until at least 2028'. We do not have Australian Super in our numbers, but migration of an estimated ~1.7m active members represents a further \$5.0m-\$6.0m revenue opportunity by our calculations.

- **ART client migration.** H1 FY24 revenues imply limited migration of the ~1.0m QSuper clients to the ART platform to date. We believe this migration is still likely post legacy contract expiry, with the QSuper merger with SunSuper to create ART occurring in February 2022. We continue to forecast full migration by the end of H2 FY25.
- **Interest income from float monies.** We estimate the average BBSW in H2 FY24 will be 210bps above H2 FY23, resulting in higher interest income on a stable float balance.

Into FY25 we forecast a stable BBSW but a higher average float balance as Link clients migrate to Wrkr PAY, further boosting float interest income.

- **Hong Kong.** We expect completed delivery of the Wrkr employer platform to HSBC (via Link) in Hong Kong by June 2024 and result in milestone payments for development, implementation and acceptance testing of approximately \$1.4m over H2 FY24.

Post implementation Wrkr will receive a service management fee and further milestone payments over the three-year contract term based on a minimum membership quota, with a total contract value of \$3.0m, according to the company. We have incorporated these revenues into our numbers between FY24 and FY27 and assumed a gross profit margin of 70%.

In Link's recent H1 FY24 result call management indicated HSBC (the first Link client) was a 10-year contract with considerable consolidation opportunities and that the Link Group expected 'a material (revenue) contribution from the region over the next 3-5 years', which would clearly be a positive for WRK, in our view.

- **No R&D tax credit assumed in FY24, but \$860k is assumed in FY25** on the back of the accelerated (capitalised) R&D spend in FY24. We have no tax credits forecast into FY26 as we forecast revenue to exceed \$20m; and
- **We expect EBITDA positive results in H2 FY24 and FY25.** In H2 FY24 significant forecast Hong Kong implementation fees together with similar trends from H1 FY24 (higher interest float, well managed cost base) should combine to produce a positive EBITDA (\$0.4m forecast).

In FY25 we expect the initial benefit from both Link client migration and ART client migration, and flow-on effects to interest income and other product offerings such as Wrkr READY to produce positive EBITDA (\$5.5m forecast).

We have made no material changes to our estimates, with key assumptions by division tabled in Exhibit 2.

Exhibit 2: WRK financial year earnings summary (in A\$ unless otherwise stated)

Line item	2023fa	2024f	2025f	2026f	2027f
Revenue	6.6	10.2	16.8	21.1	29.3
Wrkr PAY	3.9	6.0	10.5	15.3	22.9
Wrkr PLATFORM	2.6	4.2	4.5	3.7	4.2
Wrkr READY	0.1	0.0	1.8	2.0	2.2
Gross profit	5.8	8.0	14.7	19.9	28.1
GP%	88.7%	78.7%	87.9%	94.3%	95.9%
Operating costs	7.2	8.1	9.2	9.6	10.8
EBITDA	-1.3	0.0	5.5	10.3	17.3
D&A	2.8	2.6	3.0	3.0	3.0
EBIT	-4.1	-2.7	2.5	7.3	14.3
Interest expense/(income)	0.1	0.1	0.1	-0.1	-0.1
Tax expense	0.0	0.0	1.1	3.1	5.2
NPAT	-4.2	-2.8	1.4	4.3	9.2
NPATA	-1.4	-0.1	4.4	7.3	12.2
Adjustments	0.0	-0.9	0.0	0.0	0.0
Reported NPAT	-4.1	-3.6	1.4	4.3	9.2

Source: Company announcements and RaaS estimates (FY24-FY27)

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, in our view.
- 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 (3.2m members), REST (2.0m members) and HOSTPLUS (1.8m members). REST is currently conducting real-life trials, and we expect migration of the 1.4m active member base in Q1 FY25.
- Australia's second largest super fund (ART) is the major customer on the Wrkr PLATFORM with ~1.0m members and is yet to materially add QSuper members following the merger with SunSuper in February 2022 to create ART. Such migration promises at least 0.6m members or ~\$1.2m revenue per annum post legacy contract expiry at QSuper.
- 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 potential of an even stronger moat across a range of solutions.
- Some of WRK's product development is funded by its clients in the form of managed service programme and consulting fees, reducing the cash-flow burden on the group. WRK says it has also invested heavily in new product development over the past nine months, spending \$1.8m.
- We view a DCF as the most appropriate methodology to value WRK, with a summary of the key assumptions driving our \$0.08/share valuation detailed in Exhibit 3 below.

Exhibit 3: WRK base-case DCF valuation

Parameters	Outcome
Discount rate /WACC	11.8%
Beta	1.3x
Terminal growth rate assumption	2.2%
Sum of PV (\$m)	39.7
PV of terminal value (\$m)	61.6
PV of enterprise (\$m)	100.8
Debt @ Dec 23 (cash) (\$m)	(2.1)
Net value – shareholder (\$m)	103.0
No. of diluted shares on issue (m)	1,309
NPV (\$/share)	\$0.08

Source: RaaS estimates

Exhibit 4: WRK Financial Summary

Wrkr Limited (ASX:WRK)						Share price (4 March 2024)						A\$	0.033				
Profit and Loss (A\$m)						Interim (A\$m)						H122A	H222A	H123A	H223A	H124A	H224F
Y/E 30 Jun	FY22A	FY23A	FY24F	FY25F	FY26F	Revenue	1.8	2.8	2.7	3.9	3.9	6.3					
Revenue	4.6	6.6	10.2	16.8	21.1	EBITDA	(1.6)	(0.4)	(1.2)	(0.1)	(0.5)	0.4					
Gross profit	4.0	5.8	8.0	14.7	19.9	EBIT	(2.9)	(1.8)	(2.6)	(1.5)	(1.9)	(0.9)					
GP margin %	87.6%	88.7%	78.7%	87.9%	94.3%	NPATA (normalised)	(1.6)	(0.6)	(1.3)	(0.2)	(0.6)	0.4					
EBITDA	(2.0)	(1.3)	(0.0)	5.5	10.3	Adjustments	(0.1)	0.6	0.1	(0.1)	(0.9)	0.0					
Depn	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	NPAT (reported)	(3.0)	(1.4)	(2.5)	(1.6)	(2.8)	(1.1)					
RoU	0.0	0.0	0.0	0.0	0.0	EPS (adjusted)	(0.001)	(0.000)	(0.001)	(0.000)	(0.000)	0.000					
Amortisation	(2.7)	(2.8)	(2.6)	(3.0)	(3.0)	Dividend (cps)	0.000	0.000	0.000	0.000	0.000	0.000					
EBIT	(4.7)	(4.1)	(2.7)	2.5	7.2	Imputation	0.0	0.0	0.0	0.0	0.0	0.0					
Interest expense	(0.0)	(0.1)	(0.1)	(0.1)	0.1	Operating cash flow	na	na	na	na	na	na					
Tax	(0.2)	0.0	0.0	(1.1)	(3.1)	Free Cash flow	na	na	na	na	na	na					
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	NPATA normalised	(2.2)	(1.5)	(0.2)	4.3	7.2	0.0					
NPATA normalised	(2.2)	(1.5)	(0.2)	4.3	7.2	Divisionsals	H122A	H222A	H123A	H223A	H124A	H224F					
Adjustments	0.5	0.0	(0.9)	0.0	0.0	Revenue	1.8	2.8	2.7	3.9	3.9	6.3					
NPAT (reported)	(4.3)	(4.2)	(3.7)	1.3	4.2	PAY	0.8	1.0	1.6	2.3	2.7	3.3					
Cash flow (A\$m)							PLATFORM	1.0	1.7	1.0	1.5	1.2	3.0				
Y/E 30 Jun	FY22A	FY23A	FY24F	FY25F	FY26F	READY	-	0.1	0.0	0.1	0.0	0.0					
Adj EBITDA (after rent)	(2.0)	(1.3)	(0.0)	5.5	10.3	Gross profit	1.5	2.5	2.4	3.5	3.3	4.8					
Interest	(0.0)	(0.2)	(0.3)	(0.2)	0.1	Gross Profit Margin %	85.0%	89.2%	87.6%	89.4%	84.5%	75.1%					
Tax	0.0	0.9	0.0	0.9	(1.7)	Employees	2.1	2.2	2.6	2.9	2.8	3.2					
Working capital/other	0.4	0.8	(0.6)	(0.5)	(0.4)	Administration	0.1	0.0	0.1	0.0	0.1	0.1					
Operating cash flow	(1.6)	0.2	(1.0)	5.7	8.2	Other	0.8	0.7	0.8	0.7	0.9	1.0					
Mtce capex	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)	Total costs (ex SBP/1-off)	3.1	2.9	3.6	3.6	3.8	4.3					
Capitalised Software	(0.4)	(0.4)	(2.4)	(2.0)	(1.0)	EBITDA	(1.6)	(0.4)	(1.2)	(0.1)	(0.5)	0.4					
Free cashflow	(2.0)	(0.3)	(3.5)	3.6	7.1	EBITDA margin %	(88.2%)	(14.8%)	(44.8%)	(3.4%)	(12.5%)	7.0%					
Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0	Margins, Leverage, Returns	FY22A	FY23A	FY24F	FY25F	FY26F						
Other	0.0	0.0	0.0	0.0	0.0	EBITDA margin %		-43.0%	-20.3%	-0.4%	33.0%	48.7%					
Cash flow pre financing	(2.0)	(0.3)	(3.5)	3.6	7.1	EBIT margin %		-102.8%	-62.5%	-26.6%	15.0%	34.4%					
Equity	0.0	4.2	0.0	0.0	0.0	NPAT margin (pre significant items)		-46.8%	-22.2%	-1.6%	25.8%	34.4%					
Borrowings	0.6	0.1	0.0	0.0	0.0	Net Debt (Cash)	-	0.81	-3.37	0.42	-2.52	-9.23					
Net Dividends paid	0.0	0.0	0.0	0.0	0.0	Net debt/EBITDA (x)	(x)	0.4	2.5	-9.6	-0.5	-0.9					
Change in cash	(1.5)	4.0	(3.5)	3.6	7.1	ND/ND+Equity (%)	(%)	(5.0%)	(22.5%)	(51.6%)	(19.4%)	(55.1%)					
Balance sheet (A\$m)							EBITDA interest cover (x)	(x)	-703.3	-13.8	-0.5	69.3	-171.2				
Y/E 30 Jun	FY22A	FY23A	FY24F	FY25F	FY26F	ROA		nm	(22.4%)	(16.0%)	14.9%	35.0%					
Cash	1.3	4.1	0.6	4.2	11.3	ROE		nm	(33.5%)	(41.8%)	9.9%	24.0%					
Accounts receivable	0.3	0.6	0.8	1.4	1.8	NTA (per share)		0.00	0.00	0.00	0.00	0.01					
Other receivables	1.8	0.9	0.6	0.6	0.6	Working capital		2.0	1.4	1.3	1.9	2.3					
Other current assets	0.0	0.0	0.0	0.0	0.0	WC/Sales (%)		43.7%	21.2%	13.0%	11.2%	10.8%					
Total current assets	3.4	5.6	2.1	6.2	13.7	Revenue growth		126.5%	43.0%	55.3%	64.3%	25.7%					
PPE	0.0	0.1	0.1	0.2	0.3	EBIT growth pa		n/a	n/a	n/a	(192.6%)	188.0%					
Intangibles	15.0	12.6	12.4	11.4	9.4	Pricing		FY22A	FY23A	FY24F	FY25F	FY26F					
Other	0.0	0.0	1.2	0.2	0.0	No of shares (y/e)	(m)	1,223	1,272	1,272	1,385	1,385					
Total non current assets	15.0	12.7	13.7	11.8	9.6	Weighted Av Dil Shares	(m)	1,223	1,256	1,271	1,309	1,385					
Total Assets	18.4	18.3	15.7	18.0	23.3	EPS Reported	A\$ cps	(0.0036)	(0.0033)	(0.0029)	0.0010	0.0031					
Trade payables	0.1	0.1	0.1	0.2	0.1	EPS Normalised/Diluted	A\$ cps	(0.0018)	(0.0012)	(0.0001)	0.0033	0.0052					
Other Payables	0.5	0.8	0.8	0.8	0.8	EPS growth (norm/dil)		na	-34%	-89%	-2658%	58%					
Contract Liabilities	0.4	0.7	0.9	1.6	1.9	DPS	cps	0.000	0.000	0.000	0.000	0.000					
Borrowings	0.6	0.2	0.2	0.2	0.2	DPS Growth		na	na	na	na	na					
Employee benefits	0.6	0.8	0.9	1.0	1.1	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%					
Other	0.4	0.1	0.0	0.0	0.3	Dividend imputation		0	0	0	0	0					
Total current liabilities	2.6	2.6	2.9	3.7	4.4	PE (x)		-	18.8	-	255.3	10.0	6.3				
Employee benefits	0.0	0.1	0.1	0.1	0.1	PE market			15.0		15.0	15.0	15.0				
Convertible Note	0.0	2.6	3.4	0.0	0.0	Premium/(discount)			(225.1%)	(289.7%)	(1801.7%)	(33.5%)	(58.0%)				
Other	0.1	0.5	0.5	0.8	1.2	EV/EBITDA (x)			(20.4)	(31.0)	(948.8)	7.3	0.0				
Total long term liabilities	0.1	3.2	4.0	0.9	1.2	FCF/Share	A cps		(0.002)	(0.000)	(0.003)	0.003	0.005				
Total Liabilities	2.7	5.8	6.9	4.6	5.7	Price/FCF share			(20.0)	(123.3)	(11.9)	12.1	6.4				
Net Assets	15.7	12.5	8.8	13.4	17.7	Free Cash flow Yield			(4.9%)	(0.8%)	(8.5%)	8.6%	17.1%				
Share capital	44.0	44.9	44.9	48.2	48.2												
Reserves	0.2	0.2	0.2	0.2	0.2												
Accumulated losses	(28.6)	(32.7)	(36.3)	(35.0)	(30.8)												
Total Shareholder funds	15.7	12.5	8.8	13.4	17.7												

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

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Effective Date: 6th May 2021

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Website: www.afca.org.au; Email: info@afca.org.au; Telephone: 1800931678 (free call)

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

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