

The right operational model

Carly Holdings Limited (ASX:CL8) operates a vehicle subscription business, which it launched in March 2019, leveraging the existing DriveMyCar operations and technology. Car subscription allows business and retail customers to pay a single monthly fee to access a car for 30 days or more and is an alternative to purchasing or financing a vehicle. Carly has attracted larger automotive industry businesses as shareholders, with a model that facilitates sales volumes of new vehicles and delivers a new recurring revenue stream for automotive manufacturers and dealers. The company has developed the model on similar lines to business launches in Europe and proved over the past three years that the model works in Australia. Carly is now ramping up fleet size through vehicle purchases and leases. The Q3 FY23 result shows continued adherence to cost discipline and an asset-heavy fleet approach as the key to increasing returns and market share. Customer cash receipts increased 17% fiscal YTD and operating costs declined 3% FYTD. The March 2023 quarter performance again supports Carly's move to own more of the vehicle fleet, maintaining a trend of improving returns and high vehicle utilisation rates. The company gained \$10m in vehicle finance facilities in the quarter ensuring further fleet expansion.

Business model

Carly provides vehicles to business and retail customers for periods exceeding 30 days under a subscription model. The subscriber pays a flat monthly subscription fee which includes exclusive use of the vehicle, insurance, registration, and servicing, otherwise they are responsible for fuel and tolls. Vehicles are sourced by Carly via two models: an external owner provides a vehicle in return for a share of receipts (asset light); or the vehicle is secured through a vehicle finance lease or purchase of the vehicle by Carly (asset heavy).

Revenue up, utilisation up, margin maintained

Carly's March quarter update showed 175% growth in owned fleet size, positive impacts from new finance facilities and maintenance of a strong focus on operational practices which together have allowed minimal change in costs while subscription revenue grew by 76%. The company is focused on a disciplined drawdown of the new \$10m vehicle finance facility, intending to maintain a high fleet utilisation rate (currently 88%, target above 85%) and maintaining cost discipline and cash returns per subscription. Management was also clear that the company will continue to manage vehicles using both an owned and an "asset-light" model as vehicle availability improves. Nevertheless, our expectations for FY23 and FY24 revenues have necessarily reduced given past delays in securing vehicle finance, now resolved with the signing of the \$10m facility.

Valuation base case at \$27.1m (\$0.132/share)

We leave our valuation unchanged and will update for the changed vehicle acquisition profile and likely fleet composition shortly. Our valuation is based on the discounted cash-flow methodology using a discount rate of 16.5% (beta 2.0, risk-free rate 3.5%). We have modelled three cases differentiated by available finance for vehicles, subscription levels and vehicle-related costs. Our base case values Carly at \$27.1m or \$0.132/share, the downside case values CL8 at \$5.6m (\$0.027/share), while we can estimate upside to \$90.3m (\$0.442/share) using a range of factors.

Historical earnings and RaaS' estimates (in A\$m unless otherwise stated)

Year end	Revenue	Gross profit	EBITDA	NPAT	EPS (c)	EV/Sales (x)	Price / Book (x)
06/21a	1.0	0.5	(3.1)	(3.4)	(5.7)	0.7	0.17
06/22a	1.3	0.6	(2.7)	(3.0)	(2.7)	3.4	1.04
06/23f	2.8	1.9	(2.8)	(3.3)	(1.9)	3.8	1.71
06/24f	7.2	5.2	(0.2)	(2.7)	(1.3)	2.6	3.08

Source: Company data; RaaS estimates for FY23f and FY24f

Vehicle Subscription Services

30 April 2023

Share Details

ASX code	CL8
Share price (28-Apr)	\$0.031
Market capitalisation	\$6.3M
Shares on issue	204.4M
Net cash 31-Mar-2023	\$0.96M
Free float	~57%

Share Performance (12 months)



Upside Case

- CL8 is successful in raising additional vehicle finance
- Competitors remain less committed to growth due to business-related distractions
- Subscription rates remain attractive relative to car purchase values

Downside Case

- Limited finance is available for car purchases; CL8 relies on corporate owners of vehicles for supply
- Competitors strengthen their focus on subscription business
- Cost pressures reduce retained share of subscription transaction value

Latest Company Interview

[Carly Holdings \(ASX:CL8\) RaaS 2023 Outlook Interview 18 January 2023](#)

Board of Directors

Adrian Bunter	Non-Executive Chairman
Stephen Abolakian	Non-Executive Director
Robbie Blau	Non-Executive Director
Todd Hunter	Non-Executive Director
Michelle Vanzella	Non-Executive Director
Chris Noone	CEO / Executive Director

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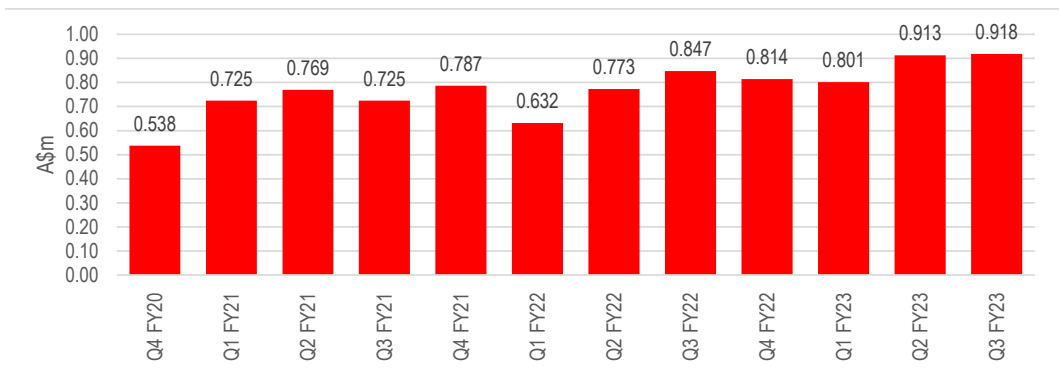
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Q3 FY23 Results Analysis

Wind down of Carly's non-subscription businesses, completed in February 2023, has disguised strong growth in subscription revenue in reported financials. Quarterly receipts were flat overall, however, subscription revenue rose 21% vs the December quarter. Receipts from customers have risen 17% FYTD and with continuing increases in subscription revenue and fleet size look likely to continue this trajectory. Despite rising activity levels and additional seasonal and sales-related costs, the company has managed cash outflows to reduce FYTD costs by 3% and maintain quarter-on-quarter costs flat. We expect these two themes to be maintained in FY24.

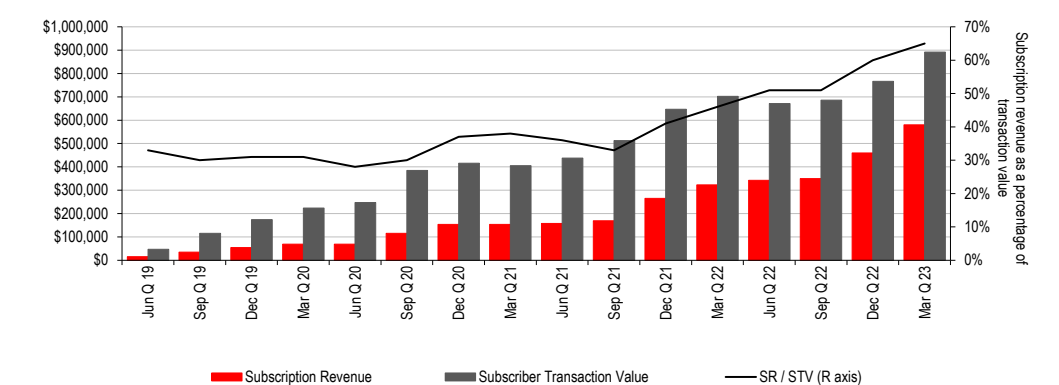
Exhibit 1: Quarterly receipts from customers



Source: Company reports

In the underlying car subscription business Carly's focus on gaining finance facilities to enable growth in owned and leased vehicles is successfully driving strong growth in revenue, subscriber take-up and gross profit. The company's strategy of adding to the owned and leased fleet via dedicated external finance facilities is clearly paying off, with revenue as a proportion of transaction value increasing to 65%, up from 46% in Mar Qtr 22. Additionally, Carly has maintained an efficient utilisation of fleet vehicles with utilisation rates over the past three quarters maintained, rising from 87% to 88% (despite fleet expansion), versus 76% in the September quarter 2021.

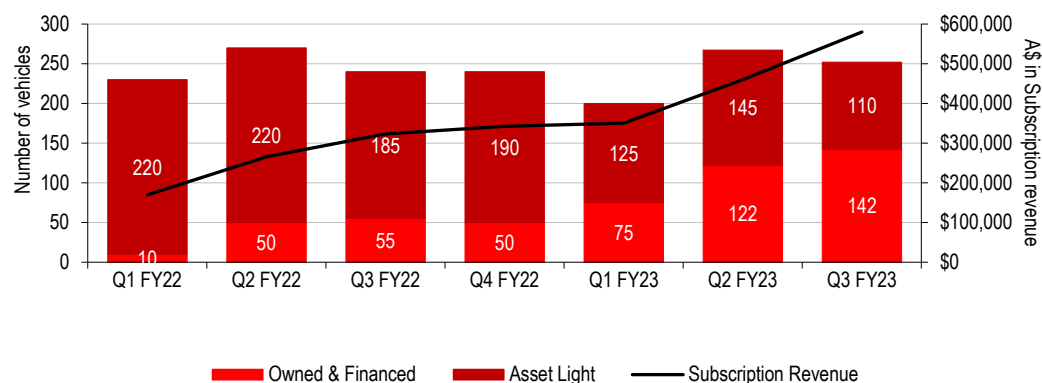
Exhibit 2: Subscription revenue vs subscriber transaction value



Source: Company reports, RaaS estimates

The acceleration in owned and leased fleet size clearly drives subscription revenue (Exhibit 3). Carly added 28 “asset-heavy” vehicles in April post finalising the latest (\$10m) finance facility. Total finance available now amounts to \$13.2m. A further 100 orders have been placed with the facility expected to enable purchase of up to an additional 450 vehicles, which the company projects could deliver \$4.7 million in annual revenue if utilised at 87%. The total fleet is currently 260 vehicles.

Exhibit 3: Subscription revenue vs fleet size



Source: Company reports, RaaS estimates

Operating cash burn has taken a step down in FY23 thanks to management’s focus on cash management. However, Carly did spend an additional \$0.507m on property, plant and equipment (vehicles) in the quarter offset by \$0.700 drawn from finance facilities.

Exhibit 4: Q3 FY23 versus previous quarters (A\$m)

	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23
Cash receipts	0.63	0.77	0.85	0.81	0.80	0.91	0.92
Payments to suppliers	(1.34)	(1.20)	(1.03)	(1.25)	(1.15)	(1.12)	(1.14)
R&D	(0.33)	(0.23)	(0.22)	(0.28)	(0.25)	(0.28)	(0.27)
Other	-	-	-	-	-	-	-
Operating cashflow	(1.04)	(0.66)	(0.40)	(0.72)	(0.43)	(0.48)	(0.48)
Free cashflow	(1.24)	(0.72)	(0.40)	(0.72)	(0.43)	(0.48)	(0.48)
Net cash at the end of the period	2.45	2.10	1.61	0.81	0.28	1.62	0.96
Monthly operating cash burn	(0.41)	(0.24)	(0.13)	(0.24)	(0.14)	(0.16)	(0.16)
Quarters of cash on hand	2	3	4	1	3	3	2

Source: Company data

Note that quarters of cash on hand represents operating cash only and excludes vehicle finance facilities.

Key Events in The Quarter

Events in the quarter included:

- Secured asset financing from iPartners for up to \$10 million. Initial drawdown of \$700,000 enabled the delivery of 28 vehicles in April.
- 76% increase in subscription revenue vs March 2022 quarter 21% rise vs December 2022 quarter.
- Average monthly subscription revenue reached a record \$189,000 per month in the quarter - an annualised run rate up from \$2 million to \$2.5 million.
- Subscription vehicle utilisation increased from 87% across the December 2022 quarter to 88% across the March quarter.
- The owned and financed vehicle fleet reached 146 vehicles at the end of March, up 175% over March 2022.
- Continued cost control resulting in a 19% decrease in advertising and marketing vs March 2022 quarter, and a 17% decline vs December 2022 quarter.
- 16% decrease in product manufacturing and operating costs vs March 2022 quarter, and a 17% decline vs December 2022 quarter.
- No change in net cash used in operating activities vs December 2022 quarter despite increased activity, sales performance incentives and statutory costs paid in March quarter.

Subscription Sales Performance

A company presentation released post the result added further performance data. The tables again confirm Carly is improving returns per transaction, subscriber and vehicle as fleet size grows. Exhibit 5 shows growth in average monthly returns over the past year (comparing reported periods, ignoring seasonality). Transaction revenue rose 4.8% vs Dec-22, and Carly revenue grew 17.7% as share of Transaction Value increased to 69.3% (47.7% in Dec 2021). Average gross profit per subscription in March 2023 was 44% higher than in December 2021 and grew 17.9% vs December 2022.

Exhibit 5: Average subscription returns, change on previous reported period				
Quarter	Dec-21	Mar-22	Dec-22	Mar-23
Average monthly subscription per vehicle				
Transaction value \$	1,030	1,004	1,107	1,160
Carly revenue \$	491	516	683	804
Gross profit \$	192	216	234	276
Gross margin %	39.1	41.9	34.3	34.3
Share of TV %	47.7	51.4	61.7	69.3
Percentage changes in averages				
Transaction value %		(2.5)	10.3	4.8
Carly revenue %		5.1	32.4	17.7
Gross profit %		12.5	8.3	17.9
Gross margin (pct pts)		2.8	(7.6)	0.1
Share of TV (pct pts)		3.7	10.3	7.6

Source: Company data, RaaS estimates

When extrapolated over the average subscription life Carly revenue increases 53% since December 2021 and 16% vs December 2022. Customer acquisition costs remain low but rose slightly vs December 2022. Gross margin was stable and share of Transaction Value improved by 7.7 percentage points vs December 2022.

Exhibit 5: Lifetime subscription returns, change on previous reported period				
Quarter	Dec-21	Mar-22	Dec-22	Mar-23
"Lifetime" return per vehicle over average subscription life				
Subscription life	5.7 mths	n.a.	5.39 mths	n.a.
Transaction value \$	5,871	5,731	5,968	6,160
Revenue \$	2,798	2,947	3,681	4,271
Gross profit \$	1,094	1,234	1,263	1,463
Customer acquisition cost \$	758	312	123	159
Gross margin %	39.1	41.9	34.3	34.3
Share of TV %	47.7	51.4	61.7	69.3
Percentage changes in lifetime return				
Transaction value %		(2.4)	4.1	3.2
Revenue %		5.3	24.9	16.0
Gross profit %		12.8	2.4	15.8
Customer acquisition cost %		(58.8)	(60.6)	29.3
Gross margin (pct pts)		2.8	(7.6)	(0.1)
Share of TV (pct pts)		3.8	10.3	7.7

Source: Company data, RaaS estimates

Exhibit 6: Financial Summary

Carly Holdings Ltd						Share price (Date)		27/04/2023				A\$	0.030
Profit and Loss (A\$m)						Interim (A\$m)		1H22 A	2H22 A	1H23 A	2H23 F	1H24 F	2H24 F
Y/E 30 June	FY20A	FY21A	FY22A	FY23F	FY24F	Revenue	0.5	0.7	0.9	1.9	3.0	4.3	
Sales Revenue	1.2	1.0	1.3	2.8	7.2	EBITDA	(1.5)	(1.2)	(1.6)	(1.2)	(0.6)	0.4	
Gross Profit	0.6	0.5	0.6	1.9	5.2	EBIT	(1.7)	(1.4)	(1.6)	(1.5)	(1.3)	(0.7)	
EBITDA	(3.2)	(3.1)	(2.7)	(2.8)	(0.2)	NPAT (normalised)	(1.7)	(1.3)	(1.6)	(1.7)	(1.6)	(1.1)	
Depn	(0.2)	(0.2)	(0.4)	(0.4)	(1.8)	Minorities	-	-	-	-	-	-	
Amort	(2.1)	(0.0)	0.0	0.0	0.0	NPAT (reported)	(1.7)	(1.3)	(1.6)	(1.7)	(1.6)	(1.1)	
EBIT	(5.5)	(3.3)	(3.1)	(3.1)	(2.0)	EPS (normalised)	(1.34)	(1.15)	(0.80)	(0.99)	(0.77)	(0.54)	
Interest	(0.1)	(0.0)	(0.1)	(0.2)	(1.0)	EPS (reported)	(1.27)	(0.97)	(0.79)	(0.82)	(0.77)	(0.54)	
Tax	(0.1)	0.0	(0.2)	0.1	0.3	Dividend (cps)	0.00	-	-	-	-	-	
Minorities	0.0	0.0	0.0	0.0	0.0	Imputation	30	30	30	30	30	30	
Equity accounted assoc	0.0	0.0	0.0	0.0	0.0	Operating cash flow	(1.65)	(1.1)	(0.9)	(2.5)	(1.1)	(0.4)	
NPAT pre significant item	(5.4)	(3.4)	(3.0)	(3.3)	(2.7)	Free Cash flow	(1.92)	(1.1)	(0.9)	(2.5)	(1.1)	(0.4)	
Significant items	0.0	0.0	0.0	0.0	0.0	Divisions	1H22 A	2H22 A	1H23 A	2H23 F	1H24 F	2H24 F	
NPAT (reported)	(5.4)	(3.4)	(3.0)	(3.3)	(2.7)	Car Subs	0.52	0.73	1.71	1.89	2.95	4.25	
Cash flow (A\$m)						Licence Revenue	0.00	0.00	0.01	0.02	0.02	0.02	
Y/E 30 June	FY20A	FY21A	FY22A	FY23F	FY24F	Other Revenue	0.03	0.01	0.00	0.00	0.00	0.00	
EBITDA	(3.2)	(3.1)	(2.7)	(2.8)	(0.2)	COGS	(0.39)	(0.22)	(0.39)	(0.54)	(0.85)	(1.23)	
Interest	0.0	(0.0)	(0.1)	(0.2)	(1.0)	Employment	(0.82)	(0.71)	(1.90)	(0.73)	(0.87)	(0.75)	
Tax	0.0	0.0	0.0	0.0	0.0	Technology, licence fees	(0.55)	(0.50)	(0.53)	(1.10)	(1.13)	(1.16)	
Working capital changes	0.1	0.4	0.0	(0.4)	(0.3)	Other costs	(0.29)	(0.53)	0.34	(0.70)	(0.72)	(0.75)	
Operating cash flow	(3.1)	(2.8)	(2.8)	(3.4)	(1.5)	EBITDA	(1.53)	(1.23)	(1.60)	(1.16)	(0.60)	0.39	
Mtce capex	0.0	(0.1)	(0.3)	0.0	0.0	Margins, Leverage, Returns		FY20A	FY21A	FY22A	FY23F	FY24F	
Free cash flow	(3.1)	(2.8)	(3.0)	(3.4)	(1.5)	EBITDA	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Growth capex	0.0	0.0	0.0	(1.2)	(6.9)	EBIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0	NPAT pre significant items	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Other	0.0	0.0	(0.2)	0.0	0.0	Net Debt (Cash)	0.5	3.4	(0.2)	(4.3)	(12.7)		
Cash flow pre financing	(3.1)	(2.8)	(3.2)	(4.6)	(8.4)	Net debt/EBITDA (x)	(x)	n/a	n/a	n/a	n/a	n/a	
Equity	3.7	5.6	0.7	2.1	0.0	ND/ND+Equity (%)	(%)	80%	609%	23%	122%	137.1%	
Debt	(0.2)	(0.2)	(0.3)	1.0	6.9	EBIT interest cover (x)	(x)	n/a	n/a	n/a	n/a	n/a	
Dividends paid	n.a.	n.a.	n.a.	0.0	0.0	ROA	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Net cash flow for year	0.5	2.6	(2.9)	(1.5)	(1.5)	ROE	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Balance sheet (A\$m)						ROIC	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Y/E 30 June	FY20A	FY21A	FY22A	FY23F	FY24F	NTA (per share)	n.a.	0.02	0.00	n.a.	n.a.	n.a.	
Cash	1.4	3.7	0.8	(0.9)	(2.4)	Working capital	(0.6)	(0.9)	(0.6)	0.2	0.5		
Accounts receivable	0.1	0.0	0.3	0.3	0.7	WC/Sales (%)	(53%)	(85%)	(48%)	9%	7%		
Inventory	0.0	0.0	0.0	0.0	0.0	Revenue growth	n.a.	(17%)	25%	123%	160%		
Other current assets	0.1	0.1	0.1	0.2	0.2	EBIT growth pa	n.a.	n/a	n/a	n/a	n/a		
Total current assets	1.6	3.8	1.1	(0.4)	(1.5)	Pricing		FY20A	FY21A	FY22A	FY23F	FY24F	
PPE	0.1	0.4	1.2	3.1	8.3	No of shares (y/e)	(m)	70	135	135	204	204	
Intangibles and Goodwill	0.0	0.0	0.0	0.0	0.0	Weighted Av Dil Shares	(m)	62	59	113	170	204	
Investments	0.0	0.0	0.0	0.0	0.0	EPS Reported	cps	(7.6)	(2.5)	(2.2)	(1.6)	(1.3)	
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	EPS Normalised/Diluted	cps	(8.7)	(5.7)	(2.7)	(1.9)	(1.3)	
Other non current assets	0.0	0.0	0.2	0.2	0.5	EPS growth (norm/dil)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Total non current assets	0.1	0.5	1.4	3.3	8.8	DPS	cps	-	-	-	-	-	
Total Assets	1.6	4.3	2.6	3.0	7.3	DPS Growth	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Accounts payable	0.7	0.9	0.9	0.1	0.2	Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%		
Short term debt	0.9	0.2	0.4	0.7	0.7	Dividend imputation	30	30	30	30	30		
Tax payable	0.0	0.0	0.0	0.0	0.0	PE (x)	n.a.	n.a.	n.a.	n.a.	n.a.		
Other current liabilities	0.1	0.2	0.2	0.2	0.2	PE market	15.3	15.3	15.3	15.3	15.3		
Total current liabilities	1.7	1.3	1.4	0.9	1.0	Premium/(discount)	n.a.	n.a.	n.a.	n.a.	n.a.		
Long term debt	0.0	0.2	0.6	2.8	9.7	EV/EBITDA	n.a.	n.a.	n.a.	n.a.	n.a.		
Other non current liab	0.0	0.0	0.0	0.0	0.0	FCF/Share	cps	-4.3	-2.0	-1.9	-1.7	-0.7	
Total long term liabilities	0.0	0.3	0.6	2.8	9.7	Price/FCF share	n.a.	n.a.	n.a.	n.a.	n.a.		
Total Liabilities	1.8	1.5	2.0	3.7	10.7	Free Cash flow Yield	n.a.	n.a.	n.a.	n.a.	n.a.		
Net Assets	(0.1)	2.8	0.5	(0.8)	(3.4)								
Share capital	16.8	22.9	23.5	25.5	25.5								
Accumulated profits/losse	(16.9)	(20.1)	(23.0)	(27.2)	(29.9)								
Reserves	n.a.	n.a.	n.a.	1.0	1.0								
Minorities	n.a.	n.a.	n.a.	0.0	0.0								
Total Shareholder func	(0.1)	2.8	0.5	(0.8)	(3.4)								

Source: Company data for actuals; RaaS analysis

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

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Effective Date: 6th May 2021

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