

23 March 2023

Carly Holdings Limited

Finance facility quadruples potential fleet size

Carly Holdings Limited (ASX:CL8) operates a vehicle subscription business, which it launched in March 2019. 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 H1 FY23 result showed continued cost discipline and strong operational results with fleet size increasing as forecast and utilisation rate maintained. Carly has now announced a material increase in finance capacity with a \$10m facility from the alternative asset manager iPartners. The facility brings the ability to purchase approximately 450 additional vehicles for Carly's subscription vehicle fleet. If Carly can maintain the current high operational leverage and utilisation rate the full expansion could generate an additional \$4.7m revenue p.a.

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).

Vehicle deliveries now determine revenue growth

Carly's current asset-heavy fleet consists of 146 vehicles, 87% utilised, with strong customer loyalty and growth (in H1 FY23). This new facility provides capacity for an additional 450 vehicles with deliveries expected from March 2023 and 100 orders in place for delivery by August 2023. Carly has so far managed growth well, showing scale benefits with falling costs per vehicle and customer. With this delivery profile the company will finish FY23 with an asset-heavy fleet size of 246 vehicles, in addition to the current asset light fleet of over 125 vehicles. While this will bring significant growth, delays in arranging the finance facility mean CL8 will likely not reach our revenue estimate for FY23. However, if operational leverage is maintained the company will finish the year with gross profit much closer to our estimate.

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

We again leave our valuation unchanged until operational leverage to increased fleet size becomes clearer. The 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 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. Further growth in financing to enable vehicle purchases is the crucial factor in these valuations, together with ongoing growth in fleet size and stable vehicle utilisation rates.

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

Year end	Revenue	Gross profit	EBITDA rep.	NPAT rep.	EPS* (c)	EV/Sales (x)	Price/Book (x)
06/21a	1.0	0.5	(3.3)	(3.4)	(3.1)	n.a.	n.a.
06/22a	1.3	0.6	(2.8)	(3.0)	(2.1)	2.9	1.1
06/23f	5.0	3.3	(1.3)	(2.8)	(1.7)	3.3	3.1
06/24f	16.5	11.3	5.9	(1.1)	(0.5)	2.0	6.1

Source: Company data; RaaS Advisory estimates for FY23f and FY24f; *EPS normalised for one-time items

Share Details

ASX code	CL8
Share price (22-Mar)	\$0.025
Market capitalisation	\$5.1M
Shares on issue	204.4M
Net cash 31-Dec-2022	\$1.6M
Free float	~52%

Share Price 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

Catalysts

- Increased monthly subscription revenue
- Additional finance confirmed
- Continued excellent operational performance
- Vehicle deliveries

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FINANCIAL SERVICES GUIDE

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

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