28th January 2025

SHAREHOLDER LETTER - FY24

Dear fellow shareholders,

Marmalade was incorporated on 27 November 2019 and began operations with its first customer on 1 October 2020, yet over five years on and this is the first time I have written to shareholders. Why is that?

Marmalade's early life was quite unique, having been formed within the investment vehicle Blue Stamp Trust (Blue Stamp) that I established in 2010 - rather than being owned by myself, which would be the typical route followed by a start-up. Despite the insight for starting Marmalade, having a background in financial services generally and capital allocation specifically, meant I did not possess the skills to develop the technology that would form the product. After turning over rocks and scouring around for some months to identify who could build the product that was in my head, I was fortunate to come across the venture studio, Paloma (formerly Dovetail). Meeting the Founders of Paloma, Nick Frandsen and Ash Fogelberg in Sydney in November 2019, I not only pitched the idea to the pair, but also sized them up to gauge their way of thinking and operating. Pleasingly, Nick and Ash resonated with the opportunity, whilst also showing preparedness to put their money where their mouth was and invest hard-won, after-tax dollars into the business, and in doing so, crystalise between Marmalade's first two shareholders, the same tenets that have always underpinned Blue Stamp - Patience, Performance and Alignment.

That is, Paloma's investment into Marmalade aligned their interest with that of Marmalade's (and by extension, Blue Stamp), in a manner that ensured whatever technology was developed, would be right-sized and performant, positioning the business for the opportunity ahead.

Shortly after, following many overtures via X (formerly Twitter), on the eve of COVID in March 2020 I had the opportunity to meet with David Whiteman in Elsternwick, Melbourne. Knowing David's experience with helping to build Afterpay out of the ground and into a global-force that had defined a new product category, I sensed he could be a strong contributor for Marmalade. Only a matter of weeks into his time with Marmalade and in what proved to be a profound insight for the business, David introduced me to Richard Johnson in late-March 2020. With the pair having worked together at Afterpay - Richard helping to build Afterpay's Data and Risk capability, while David oversaw Product and Marketing - David's insight, that Marmalade would need a large dollop (pun intended) of Richard's skills and experience, was company-defining. With joint commitment amongst the three of us, Richard, David and I formed Marmalade's Co-Founders, tasked with the responsibility to lead the business.

Up until now (following the completion of Marmalade's Round 4 equity raise), with a previously cloistered share register, the need for formal, external shareholder communication - over and above what was being communicated via the quarterly letters to Blue Stamp Unitholders - was not evident.

Instead, attention was diverted to Marmalade's nascent and heavily cross-functional business, operating in an environment of complexity and risk that seemed to exponentially increase in difficulty, month-on-month for a period of two years. During this time, the business grew and the product was shaped through data and learnings - allowing unknown unknowns to become known unknowns, until reaching a point of 'peak ambiguity' (coined by Richard) in mid-FY23 - after which, our attention could turn to building and hardening everything Marmalade needed for profitable growth and scale.

While this overview contextualises why I have been silent for a number of years and the key people that have been involved along the way, it nonetheless overlooks the contribution from many other individuals who have been formative to the business - both from an early stage, through to today. As trite as it is to say, "there are too many to name", that statement reflects the truth. Though it would be remiss if I weren't to mention two of my fellow directors Mick Dempsey and Rick Anstey, both of whom have been helping to oversee the business from its earliest days, and continue to do so today. Additionally, Sue Mullins, who initially joined me in Blue Stamp, repeatedly demonstrated over the years a work-ethic and loyalty that saw her pushed and pulled between Marmalade and Blue Stamp as both businesses strived to achieve the most, with the least.

What follows in this letter is a summary of our operational performance for FY24, along with a copy of our audited financial statements. Also included is a 'walk through' of everything we have learned about the business and the opportunity and why we think Marmalade is one of those once-in-a-lifetime waves you may get to catch if you're at the right place at the right time.

Looking ahead, as we settle into a new reporting rhythm, my communication will be more timely and concise, less like a tome released each Olympiad.

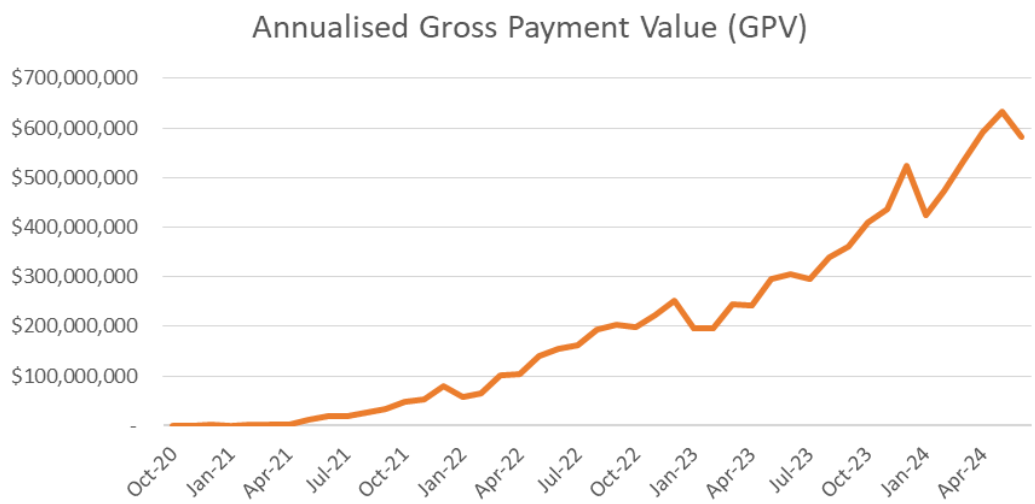
Finally, I am grateful to co-own Marmalade with you. B2B payments is a very large market opportunity and we're excited with what lies ahead. We will continue building this technology-driven financial product into one that not only empowers its customers - those small and medium-sized businesses - but does so in a manner that produces value for all parties by ensuring alignment of outcomes between those using Marmalade with those owning Marmalade.

With alignment, we will end up with a business, a product and an impact that we can all be proud of.

Luke Trickett
CEO

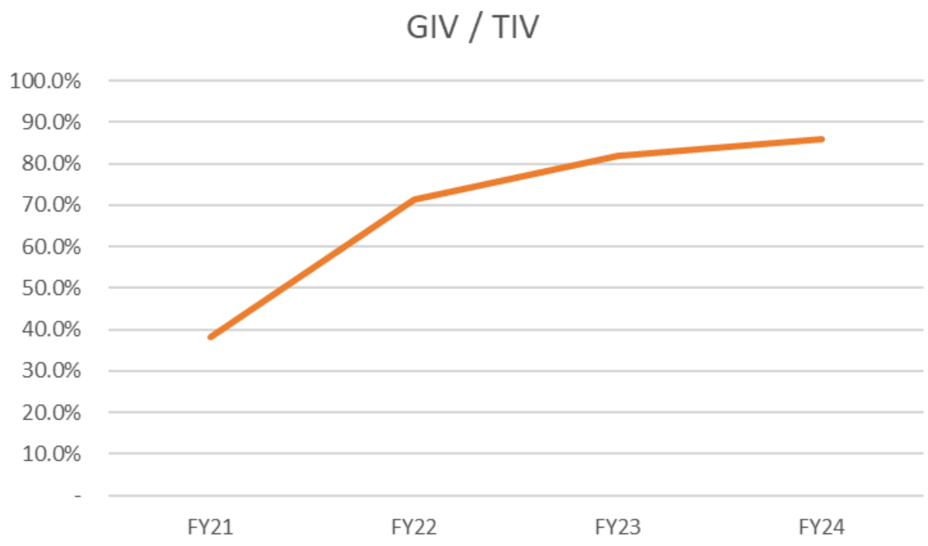
FY24 OPERATIONAL PERFORMANCE

The 2024 financial year saw Supplier numbers increase by 43.3% year-on-year, to 192 Active Suppliers[1], driving a 90.9% increase in Total Invoice Value (TIV)[2] to $705.0m, a 100.5% increase in Gross Invoice Value (GIV)[3] to $606.2m and a 106.7% increase in the Gross Payment Value (GPV)[4] to $467.2m. The annualised value of GPV is shown in the chart below.



Pleasingly, with greater Supplier numbers and more value being processed through our platform, we have seen engagement - measured by GIV / TIV - increase over the past four years, reaching its highest point of 86.0% in FY24 - shown in the chart below. This ratio measures the proportion of invoices (voluntarily) issued with Marmalade as the nominated payment service relative to the total value of invoices issued. While our target for this metric will always be 100%, in practice that will be difficult to achieve as newly onboarded Suppliers take time to migrate their Payers to Marmalade, along with various other operational reasons a Supplier might have to not issue all of their invoices with Marmalade.

[1] Active Supplier is a Supplier who in the last 30 days has issued an invoice with Marmalade as the payment service.
[2] Total Invoice Value (TIV) is the total value of invoices issued by an Active Supplier.
[3] Gross Invoice Value (GIV) is the total value of invoices issued with Marmalade as the payment service, by an Active Suppl.
[4] Gross Payment Value (GPV) is the total value paid-out to Suppliers, including cashed-in invoices.



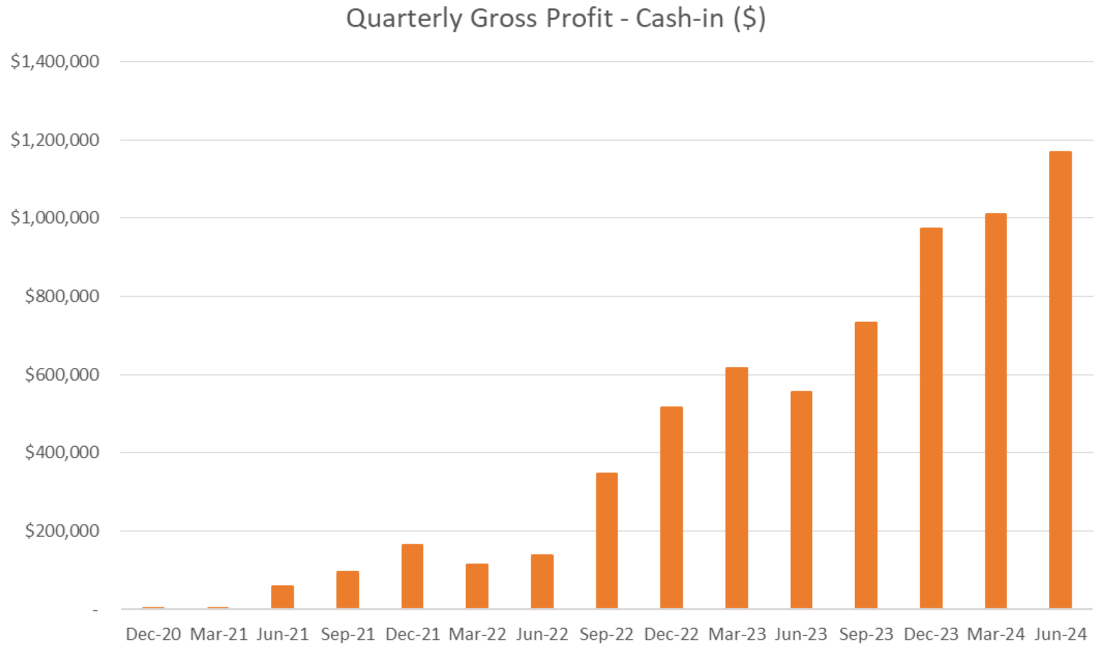
From FY24's volume growth, the business also achieved a 58.0% increase in Gross Cashed-in Value (GCV)[5] to $135.8m. Measuring another form of Supplier's engagement with the product, the ratio of GCV / TIV showed a strong result of 19.3% in FY24 - meaning, if $100 of invoice value was issued by a Supplier (irrespective of whether those invoices had Marmalade specified as the payment service or not), $19.30 was cashed-in. While this metric is down from 23.3% in FY23, it still indicates cash-in is accounting for a large portion of a Supplier's total 'check out' (borrowing a term from e-commerce).

With the average cash-in fee during FY24 increasing to 4.03%, up from 3.40% in FY23, combined with greater volumes, the Group's revenue from cash-in increased by 87.6%, to $5.5m. After the direct costs of revenue share, provision for bad debts and financing costs, gross profit from cash-in increased 90.8%, to $3.9m for FY24.

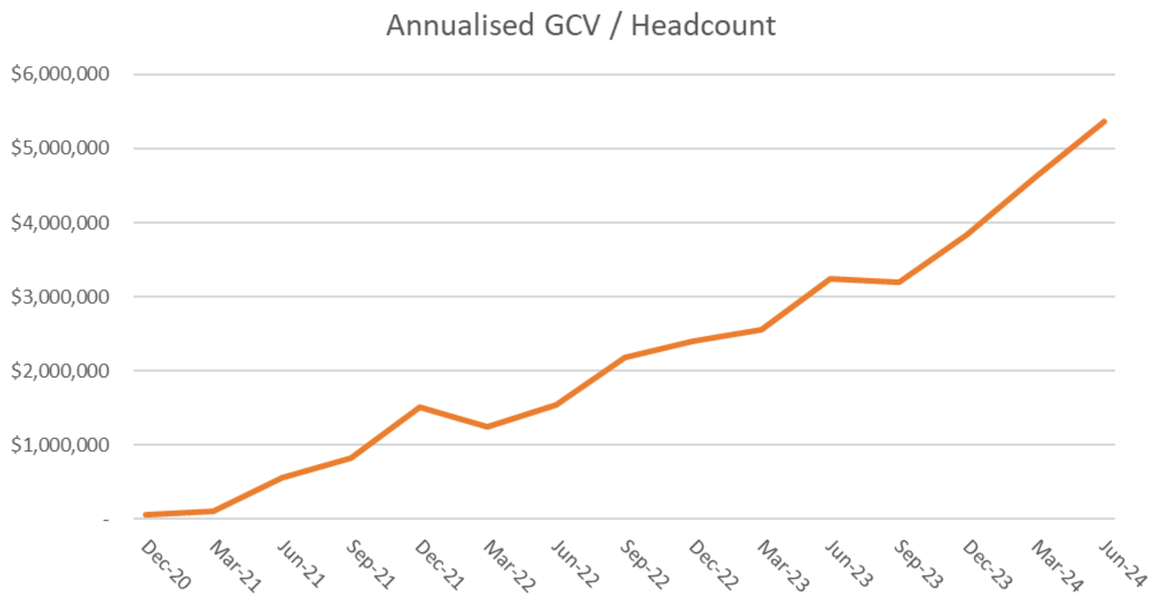
Having invested in the team to build and operate the product, our largest expense item is salaries and wages. Since commencement, Marmalade has taken a conservative stance of fully expensing this cost, and in doing so, not recognise any intangible asset for product development. The benefit of this approach is a clean and simple balance sheet (with less noise from capitalised costs) along with a more simple income statement (with less areas of subjectivity and estimation when determining profitability).

Key for this business will be to develop technology that can handle increasing amounts of payment and cash-in volume while protecting margin, in order to leverage a growing amount of gross profit over an operational cost base that is not increasing at the same rate. On this front, Marmalade made progress over the year - firstly, with the following chart showing Marmalade's gross profit result on a quarterly basis, since operations commenced in October 2020.

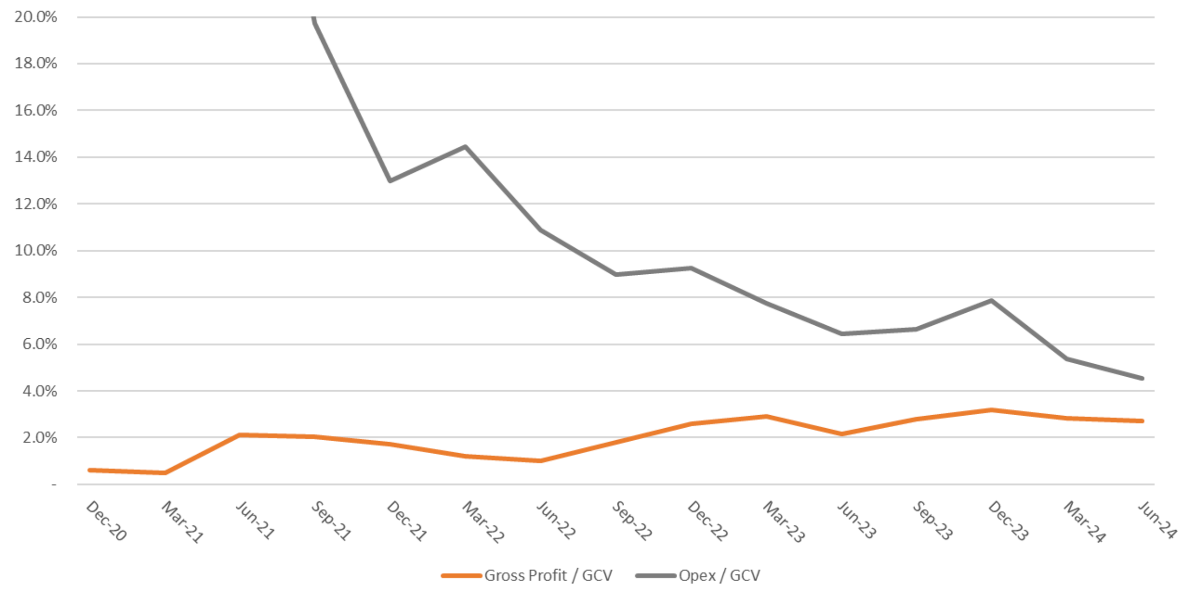
[5] Gross Cashed-in Value (GCV) is the total value of invoices cashed-in (including the cash-in fee), by Active Suppliers



Facilitated by the risk technology that has been developed, Marmalade has been experiencing strong operating efficiencies and scale over its payment volume, as the Group ended FY24 with the average amount of annualised GCV facilitated by an employee, rising to $5.4m in the June-24 quarter, up from $3.2m in the June-23 quarter - all while FY24's gross profit from cash-in increased to 2.86% of total GCV, up from 2.37% in FY23.



Put differently, during FY24 Marmalade generated more gross profit from each dollar that was cashed-in, while needing fewer resources to handle the same dollar of cashed-in value. This trend is a continuation of what has been occurring for a number of years, shown in the chart below - when the two lines intersect, Marmalade will have delivered its first profit.



Since its commencement in November 2019, shareholders have invested $33.7m of equity over four rounds of funding. This investment has allowed us to not only build the product and operate the business for almost five years, but it has also facilitated $262.5m of invoices being cashed-in.

FY24 was a significant year for the development of Marmalade's capital structure, as in addition to seeing the business complete its fourth round of raising equity - with new and existing shareholders investing $17.96m - but also, in April Marmalade drew on its first debt funding. While the business had previously received shareholder loans from time to time, this newly established receivables funding facility marked the first time Marmalade had formally introduced debt into its capital structure.

At 30 June 2024, Marmalade had 41,483,413 fully paid ordinary shares on issue, with no other classes of shares available. With $4.5m of debt funding having been drawn, the total amount of debt and equity capital that had been invested, amounted to $38.2m. While we're not profitable yet, these are important numbers for us to track, as they form the basis in determining the returns being achieved by the business.

We will also closely measure the change in our net tangible assets on a per share basis. Currently, this stands at $0.81 per share and will be impacted in the future, not only by the profit or loss result of any given period, but also by the share price at which Marmalade may raise equity at. As stewards of shareholder capital, whenever Marmalade may issue new shares and raise equity, the board and senior management will always have regard for the return expected to be achieved by existing shareholders and any newly joining shareholders, aiming to balance the interests of both cohorts of shareholders, so that Marmalade may continue to benefit from a stable and aligned register.

Together with our team, the confluence of capital and labour that is unique to Marmalade has allowed us to build new value to solve old problems. In 2025 we will be driving to continue that build, delivering more value to customers and shareholders alike.

WALKING THROUGH MARMALADE

Contents

Background

Marmalade is a payment service. A payment service designed for invoices. A payment service specifically for invoices with net terms. A payment service built for business-to-business (B2B) transactions.

These are weird statements. To-date, there has been no such thing as an ‘invoice payment company’. Reflecting on the payment industry and its history helps to shed some light on why this is so.

Initially (think mid-20th Century and earlier), the concept of any type of ‘payment company’ was foreign. When a consumer wanted to purchase, say a bottle of milk from the corner store (after the time when milk was delivered to homes every morning), they would pay the merchant with cash, which would then be stored in the till before being taken to the bank at the end of the day. At this time, the consumer and merchant had a direct relationship and there was no need for the transfer of funds to be intermediated by a third-party, by a payment service. There were slight iterations on this over time, as the consumer chose to use different methods of transferring value, such as paying via cheque instead of cash, but the direct relationship between the consumer and merchant was not compromised.

As part of the evolution of the trading relationship, merchants began offering their customers the ability to purchase ‘on account’, allowing the consumer to settle their purchases with the merchant at the end of the week (or some other period of time) rather than at the time of acquiring the goods - again though, payment was by way of cheque or cash. The provision of this interest-free form of credit was a clear value-add for the consumer, helping their cash flow and reducing the need to carry cash on-hand at all times, whilst for the merchant it drove customer loyalty and increased purchases. However, offering accounts was not all upside for the merchant, as they then had to manage the recordkeeping (facilitated with a notebook and pen by whichever clerk was on the checkout that day) and collection of those customer accounts, as well as their own cash flow in the interim.

Then, on 18 September 1958 in Fresno, California, Bank of America (BofA) launched the first successful consumer credit card program in the U.S. (later becoming Visa), to mitigate the messiness of a merchant providing a consumer with credit (which ultimately was a distraction from the merchant's core business) and instead, facilitate payment. To deliver this service, both sides of the transaction needed to be provided with a 'ramp' to the 'rail' that the payment ran over. That is, the consumer was issued a card, whilst the merchant was provided point-of-sale (POS) capability to take payment from the card. This suited BofA nicely, as it enabled them to establish and build a deeper relationship with both sides of the transaction. On the consumer side, BofA could make assessments on how much credit a consumer should be provided to spend across any of the merchants on BofA's network. And on the merchant side, providing the POS capability to acquire a card payment enabled BofA to form and deepen banking relationships with these businesses.

Notably, the value proposition that BofA was offering to both sides of the transaction (consumer and merchant) was essentially the same - credit - and it was facilitated through a transaction. That is, BofA gave the consumer credit to spend more widely than the consumer had previously experienced (which was on a merchant-by-merchant basis), and because of this, the merchant was no longer required to offer their customers credit, and was subsequently free from the admin overhead of maintaining customer credit accounts, along with the cash flow issues and credit risk this created - instead the merchant simply received their payment, less a one-time fee.

Starting with a bang, BofA blanketed Fresno with unsolicited offerings of credit cards and in little more than a year, they expanded this blanket to the entire state of California. By mailing millions of credit cards pre-authorised with $300 to $500 of credit, BofA's network of consumers and merchants mushroomed. In these early years, and necessarily so, BofA owned the three core components of this new, burgeoning 'payment service' - the on-ramp for the consumer (cards and provision of credit), the off-ramp for the merchant (POS terminal and absence of credit) and the rail that the payment ran over - that is, BofA would provide the credit, not the Merchant, as long as the payment ran over their rail. Someone had finally cut through to create **network driven growth of a payment rail.**

The advent of this credit card program began to mature the provision of consumer credit from an extremely fragmented and inefficient process, delivered by entities that weren't equipped to make underwriting decisions or resourced to collect payments, to one that was centralised, specialised and efficient - fusing together the transfer of value (aka the payment) with the provision of credit. While there were some false starts, the payment industry took root in a few short years as consumers had one card 'to rule them all' and merchants were all too happy to toss their notebooks recording Johnny's and Mary's trading account in the trash, mitigate credit risk, get paid almost immediately and not have to carry so much cash on premise. Contemporaneously customer loyalty started to dissipate due to the third-party intermediating the payment.

Over time, the payment industry grew so rapidly and so profitably that it attracted thousands of other companies to build additional or competing services - to improve or otherwise facilitate the core task of transferring value from the consumer to the merchant, including:

- Decoupling the three core elements of BofA's initial payment service:
    - Provision of credit came to be managed by the bank providing the bank account and issuing the card;
    - The rail that the payment ran over became the core focus of Visa (and Mastercard); and
    - POS terminals were more capably provided by companies that could build the best hardware and software experience for merchants;
- Allowing a payment to be initiated by the merchant and 'pulled' from a consumer's bank account or card (via direct debit);
- Enabling the payment to occur in a new medium, online (pioneered by PayPal);
- Improvement in the design and development of merchant terminals for in-person transactions, catering to the idiosyncrasies of the merchant's size and industry (led more recently by Square);
- Improvement in the design and development of consumer experiences for in-person transactions (led by Apple);
- Unbundling credit from the payment (with the introduction of the debit card);
- Redesigning how consumer credit is monetised (with the advent of BNPL, led by Afterpay).

B2B versus B2C

Starting from effectively nothing in 1958, the payment industry has now grown to encompass thousands of companies, collectively worth an estimated US$1.5 trillion! However, there are two glaring points to contextualise these numbers:

1. 80% (US$1.2 trillion) of the collective value of 'payment service companies', is attributed to just two - Visa and Mastercard - demonstrating there is little value in owning the 'ramps' (i.e. ramps are modular and commodifiable) and almost all the value is in owning the rail (i.e. the rail is an integrated and differentiated component of the payment).

2. Almost all the companies that comprise the US$1.5 trillion of value are focused on facilitating payments from consumers to businesses - hence why having a payment service built specifically for invoices with net terms, intermediating a B2B transaction is still 'weird' today, as was generally a 'payment service' in the mid-1900s.

If reading (or recalling…) the experience of consumers and merchants in the 1950s sounded familiar, then it should have. That is, the situation that businesses find themselves in today, when trading with other businesses, almost perfectly mirrors what was occurring for a business to consumer (B2C) transaction in the mid-1900s. Specifically, this involves Suppliers (analogous to 'merchants' in a B2C setting) providing interest-free credit to their Customer or Payer (the equivalent being a 'consumer' for B2C), then waiting to be paid, while managing the record-keeping and cash flow in the interim - all of which are neither the speciality or focus of the business providing the credit.

Unsurprisingly, all of this comes at a significant cost… shown by ASIC's yearly reports, repeatedly the leading cause of business failure in Australia is **cash flow**.

Despite B2B transactions suffering today from the same challenges experienced by merchants and consumers almost 70 years ago and the mountains of gold - US$1.5 trillion dollars high - that have risen out of the ground since 1958, why is the present-day B2B payment terrain still barren of services and of value?

Three powerful forces form the 'laws of the universe' of B2B transactions, keeping them locked in the Dark Ages:

1. *Suppliers will always need to give credit to their customer / Payer*
   Perversely this is a given in B2B transactions, often stemming from the undifferentiated nature of the goods or service that are being sold by Suppliers and the imbalance of size and bargaining power between the Supplier (often a small or medium sized business, SMB) and Payer (often a larger business).

2. *Payers don't need a financial product to get credit*
   A corollary of the first point. While a consumer in the 1950s may have had a credit account at their local butcher, baker and candlestick maker, they nonetheless could not rely on an account being available wherever they went - unlike Payers in a B2B transaction.

3. *Payers pay with bank transfer*
   Bank transfer is the method of payment available to Payers that is the lowest cost (i.e. free - unlike card payments which can incur a surcharge of up to 2%), has the most internal controls around how funds are paid out and ultimately gives the Payer complete control over their own cash outflow (at the expense of the Supplier's cash inflow).

Condensed down, this means the value proposition for either side of a B2B transaction (being, what's important for the Supplier and the Payer) is very different - unlike B2C where the value proposition that BofA brought to market in 1958 was complementary and reinforcing from a consumer's and merchant's perspective.

These three forces break the ability for a B2B payment rail to form in the way that occurred in Fresno, California for B2C transactions that saw both ramps and the rail (initially) integrated into one system that delivered a simple product to solve two complementary problems. And it is why present-day B2B payments look like the mid-1900s for B2C.

So why have I spent over 1,500 words describing a dead end - i.e. the formation of a payment rail that cannot be replicated?

Historical context builds an understanding of why things are the way they are, which in turn helps to inform what the next steps should be.

While we can't violate the three laws that govern the physics of B2B payments, two idiosyncrasies create an opportunity for a rail to emerge in a new way.

1. *The interchangeability of an SMB to be either a Payer or Supplier*
   Unlike in a B2C setting where it is not common for a consumer and merchant to switch their positions in the transaction at different points in time, in B2B situations, an SMB may find itself swapping on a daily basis, between being a Supplier (receiving payment) and a Payer (making a payment).

   This interchangeability creates the opportunity to sell both ramps (on and off) to one customer, reducing the customer acquisition that needs to occur to scale the 'payment rail' - unlike BofA, who had to sell their ramps to the respective side of the transaction, separately.

   However, as discussed previously, what is important for a Supplier is disconnected to what is important to a Payer - so these two products (or ramps), must have distinct value propositions that solve a painful problem and / or deliver significant new value - unlike B2C which offered the same proposition to both sides of the transaction, credit.

2. *Bank transfer as the Payer's chosen payment rail*
   This is a 'law' that has locked the Payer and Supplier into having a direct payment relationship - preventing a payment service from intermediating the transaction.

   With bank transfer being more of a protocol adopted by various participants than a proprietary payment rail being monetised, the group that will be able to shape it into the latter and away from the (barren) former will be the group that can gain the widest adoption of its ramps. That is, the on-ramp for the Payer and the off-ramp for the Supplier that have the most compelling value propositions will gain the widest adoption - which means not only winning and defending from competitive products, but most significantly, winning customers away from the status quo.

Given bank transfer is the payment rail for B2B transactions, if one group is providing the ramps for **both sides** of a B2B transaction, then by de facto, that group has integrated and is monetising an otherwise open-network, modular protocol - bank transfer. With almost no one operating in this space (unlike B2C payments…), the field is wide open for someone to build these ramps and take market share in a similar fashion to Visa and Mastercard - winner takes (almost) all.

Put differently (at risk of belabouring the point), the payment network for B2B transactions **must remain as an aggregation of the three components** (mirroring the early life of Visa - or BankAmericard as it was originally known). Ubiquity of the on-ramp and off-ramp effectively 'integrates' the third component - the rail - and in so doing, commercialises in a defendable manner, a payment service specific for businesses in a market that dwarfs consumer payments.

It's interesting to note, the creation of value for a B2B payment service is built from the on and off ramps, not the rail - which is the inverse of B2C transactions, where the creation of value has been built from the rail, not the ramps.

This brings us back to the beginning of Marmalade and of this letter - why we started as a payment company.

Solving a problem (Supplier off-ramp)

While 'cash flow' is the leading cause of business failure, it is a **generic term** that has historically drawn out **generic products** - being loans, packaged up, secured against, marketed and sold in all sorts of different ways. However, fundamentally these products (and there are hundreds of them) all amount to exactly the same thing - credit.

Understanding the cash flow problem from first principles, highlights the cause of the problem and why all these different loan products fail SMBs - as they not only do nothing to address the problem at its root, but they leave SMBs in an even riskier financial position.

So, what is the root cause of this pervasive, entrenched and existential 'cash flow' problem amongst SMBs? I would say it's hiding in plain sight, but it's not even hiding… The villain is the timing difference between when the goods or service are delivered to when payment is ultimately received - it is the net terms or trade credit provided by Suppliers to their customers.

We don't actually need to go any further to understand that more credit will not solve structural cash flow problems created by trade credit. Loans are a superficial response that suffer from a disconnect between the problem (invoices with net terms) and the solution (a one-time injection of money that must be repaid), amplifying the operating and financial risk inherent in an SMB, as they take on the loan and then budget to pay interest, repay the principal as well as collect unpaid invoices - carrying the risk that they are paid late or not at all.

Because invoices with net terms represent a **delayed payment obligation**, they need a **payment service** to solve the age-old 'cash flow' problem created by them - rather than an inorganic injection of risky capital. An SMB getting a loan against unpaid invoices does not make them paid invoices and does not serve the SMB.

Marmalade's invoice payment service empowers and strengthens the financial position of SMBs by enabling the payment of invoices, on-demand. If the Supplier needs to be paid, with Marmalade, they can cash-in their eligible, unpaid invoices for a one-time fee (clearly displayed at the time of cash-in), and a receivable is converted to cash, with no corresponding liability - this product is what we call **Payments-on-Demand**. If the Payer's financial position causes them to pay late or not at all, it is Marmalade that bears the cost, with no fee, penalty, claw back or other charges levied against the Supplier. Even if the Supplier is required to issue a credit note on the cashed-in invoice, while they must 'make good' to Marmalade the amount credited, it does not carry any financial penalty for the Supplier - though the Supplier will fall down in their 'Marmalade-status' level for repeated instances, potentially causing their invoice eligibility to fall and their cash-in fee to rise.

At the time an SMB may find themselves short of money, by using Payments-on-Demand they will be able to convert receivables to cash in their bank account, in real-time, as fast and as frequent as they issue their invoices, with no corresponding liability - providing repeat, structural support, removing risk and improving the financial strength of the SMB - letting them get back to what they do best.

While we may come across as fanatical around Marmalade's distinction as a payment service, this obsessiveness and intensity is borne out of our philosophical position in solving the 'cash flow' problem, at its root cause. Reproduced from our website, there are three primary reasons why unpaid invoices are not an asset that should be borrowed against and which underscore why Marmalade will never lend money and only ever pay invoices.

1. Operational Expenses (Opex)

Invoices are used to support certain types of loans, however the proceeds from these loans are often used to pay opex. This is poor use of a loan, as opex should be paid from operating cash flows. The challenge that a small or medium business is dealing with and which causes them to look for these (traditional) financial products is a mismatch in the timing of when they pay for inventory and when they receive payment.

With this being the case, the cost to bridge the timing gap should be known and fixed (something which loans cannot offer, due to the invoice's undefined tenor and depreciating nature). If the need to bridge the time gap is a structural requirement of the SMB, then it's all the more important that the cost to bridge this gap is fixed, known in advance and built into the Supplier's price, so they can 'complete' the sales cycle (quote through to payment).

Using debt to bridge this timing gap means the SMB will not only struggle to complete a sales cycle, but they will also never have their balance sheet reflecting the strength of their operating performance, as it will consistently show unpaid sales and the presence of debt, compromising its financial stability.

2. Non-Productive and Depreciating Nature of an Invoice

Not only are invoices *non-productive* assets, they are also *depreciating* assets. So to borrow against this asset is a mismatch of the characteristics of the asset and the liability.

Why is there a mismatch? Well on the 'productive-side', there is no intrinsic income being produced by the invoice to support the cost of the debt (the only thing invoices can do is convert to cash). On the 'depreciation-side', the value of the asset used to borrow against, will on average, reduce over time (given an SMB almost never increases the value of an invoice after it is sent to their customer, but they may find themselves reducing it or not being paid at all), while the value of the debt (principal and accrued interest) will only grow over time - putting an undefined squeeze on the SMB's profit margins.

3. Mercurial Collateral

The potential for the collateral (unpaid invoice) supporting the loan to immediately evaporate (because the invoice ages past a certain delinquency or because the Payer defaults), injects a significant amount of unplanned risk into the SMB, as the value of the debt will not likewise reduce in tandem with the collateral's value. This leaves the SMB scrambling to make up for the lost collateral by redirecting funds away from other expected sales and toward the repayment of the loan - playing havoc with the SMB's cash flow planning.

Put another way, this dynamic is like a stock that supports a margin loan immediately falling to zero, causing the investor to receive a 'margin call' to come up with some new value to ensure the loan does not have a deficiency of collateral supporting it.

Borrowing against this mercurial asset (invoices), drastically amplifies the risk for an SMB and reduces their ability to respond to unexpected events (which ironically, always occur), or to seize opportunities for growth when they present themselves.

* * *

It's worth noting that debt is not a dirty word and it is not a tool that should be thrown out with the bath water. Though when the form of capital is misaligned with what the capital is used for, then on average that capital will destroy value.

While Marmalade is in the business of underwriting capital, it will never lend money - even for purposes unrelated to invoices and 'cash flow' - because there is no lending product that could expand and reinforce Marmalade's payment service. Also recognising that there is no mass-market lending product that is not modular and commoditised, reinforces our disinterest in lending money - as by extension, no lending product could offer the rates of return that are generated through Payments-on-Demand. Accordingly, with the current market opportunity so large, expanding into lending products would dilute Marmalade's return on capital and destroy shareholder value.

Releasing our Supplier-side product - Payments-on-Demand - in October 2020, Marmalade delivered the first component of its B2B payment rail, the **off-ramp** - designed and built for those SMBs wanting to empower and strengthen their financial position, mitigating the root cause of their otherwise structural cash flow problem and be **paid**, when they want.

Delivering new value (Payer on-ramp)

Invoices are almost ephemeral objects, being raised and sent on largely arbitrary schedules and then subject to change by the Supplier at any point in time and in any manner possible - a dynamic that is only amplified by the frictionless experience that cloud-accounting offers. On the Payer-side, the contact who receives and approves the invoice is often decoupled from the people and process of paying the invoice.

Compounding all of this, is a market characterised by heterogeneity - in terms of the profile of businesses generally and B2B transactions specifically. Focusing on the profile of those transactions, we see they are frequently influenced by the presence of close (often related-party) relationships between the Payer and the Supplier, that is the culmination of a long trading history with each other that underpins, on average, a much higher transaction value as compared to say, a B2C transaction. Along with a subjective assessment of the 'due and payable' nature of an invoice, it is painfully obvious that Marmalade's invoice payment service does not exist in the same world as the thousands of B2C payment companies, where few of these idiosyncrasies and ambiguities are present.

This has meant all of our time and attention over the past four years has been laser-focused on building the necessary risk-technology and processes to form Marmalade's off-ramp that can profitably scale into the large market opportunity of B2B payments and SMB 'cash flow'.

And while this off-ramp will never be 'finished' and the risk problem will never be 'solved', Marmalade is at a point where it can begin to turn its attention to the second component of its payment rail - the on-ramp for those SMBs that are **paying** invoices.

A quid pro quo of this letter being published late is the ability to mention that the first version of our Payer product - called **Points-on-Payments** - was released on 8 January 2025. Signing up and using Marmalade as an **on-ramp** for making a payment via bank transfer, card, direct debit, PayTo etc., an SMB will be rewarded with **M-points** - a Marmalade currency that can be converted into different forms of real-world value, such as airline points.

Combined with our existing Supplier off-ramp (which already facilitates over $600 million of annual payments from Payers, without those Payers receiving any direct benefit), Marmalade is in a unique position to have both sides of its rail - the Payer on-ramp and Supplier off-ramp - reinforce each other's growth and financial performance. And given the proprietary value, margin and opportunity is on the Supplier-side of the transaction with our Payments-on-Demand product, we will use Points-on-Payments as a strategic initiative to underpin Payments-on-Demand. To achieve this, M-points will be free-to-earn for Payers (much like a consumer experiences when using their credit card), encouraging those Payers to adopt Marmalade's on-ramp for as much of their payables as they desire - hopefully all!

Though on a cautionary note, given Points-on-Payments is so nascent, we do not know how its proposition will be received by the market and whether it is strong enough to motivate a Payer to change their behaviour from the status quo (often our most formidable opponent) or migrate from a competitive offering. If the proposition of earning M-points is compelling enough to acquire SMBs onto this ramp, the next question becomes, can our two ramps lead to **network driven growth of Marmalade's payment service?**

The table below shows these two payment products, side-by-side.

Marmalade's Payment Products

	POINTS-ON-PAYMENTS	PAYMENTS-ON-DEMAND
CUSTOMER	Payer	Supplier
CUSTOMER'S ROLE	Accounts Payable	Accounts Receivable
VALUE PROPOSITION	Converts payables to points	Converts receivables to cash
VALUE	M-points	Cash-in
MOVEMENT OF FUNDS	On-ramp	Off-ramp

With proven performance of each payment product, there is a longer term opportunity to broaden and thicken the product offering around each. That is, Points-on-Payments may be how Marmalade initially acquires a customer into its Payer product, but there are other value propositions we think we can offer to a Payer, once in the product.

Likewise, on the accounts receivable side of the transaction, Payments-on-Demand is the tip of the spear, making way for other components to be vertically integrated in the future. For example, while being paid-on-demand addresses the most prevalent and severe problem for SMBs, there are many other accounts receivable 'jobs to be done' that Marmalade's proprietary data and integrated position in an SMB's operations, allows us to fold into the off-ramp. Again though, our licence to build these additional features in the future, depends on how we perform today.

Building risk technology

Marmalade was fortunate to begin life within Blue Stamp Trust and to have Paloma as a technology partner to help build the first version of the product and co-own the business. With this backing, our focus from the beginning was to develop a payment product that solves the insidious 'cash flow' problem for those businesses that are underserved by traditional financial institutions and are left dealing with a fragmented landscape of brokers, intermediaries and underwhelming financial services.

It's impossible to talk about building financial technology that underwrites risk without also talking about the capital structure of the business. The two aspects are inextricably linked. How you fund the business determines whether you optimise for managing risk and margin or the development of product and user experience. Understanding how to allocate capital, together with the associated short and long term tradeoffs is a point that's lost on almost every fintech venture and almost every venture investor. I know this from experience.

In the past we've received raised eyebrows when asked about our capital position and how we've funded the business to date. Deciding to invest such significant amounts of equity into Marmalade - funding every single dollar of operating expenses and every single cashed-in invoice entirely with equity, for three and a half years - was an intentional decision we made at the outset.

A financial product only gets one chance to make this decision in its life without material negative consequences for shareholders. Choosing this path for Marmalade in 2019 afforded us the valuable opportunity to determine that we will be led by our product, not our capital structure. Having an understanding of the returns on capital that were possible if we were to successfully prove out Marmalade's Payments-on-Demand, combined with the integrated nature the product has with its SMB customers, meant we were in the fortunate position of being able to fund Marmalade with equity for extended periods of time, knowing that shareholders will still receive a very attractive return on their capital.

Powerfully, this equity capital reinforced our chances of success, as we then had the freedom to build a product that makes the complex, simple and the risky, scalable - without the constraints of managing our risk appetite within a tight envelope because debt has been used (and is required) to support shareholder's return.

At a lower, more practical level, the freedom to be led by our product and optimise the user experience, allowed us to start light with our risk controls and through data and growth, learn what technology needed to be developed in the product to manage the risk that was emerging. This pattern continued, with growth creating data which informed the product's roadmap, including how and where the risk framework must be tightened. Defending margin while protecting and optimising the user experience are often in direct conflict with each other for those businesses that underwrite risk, and it has undoubtedly been a challenge for us to 'thread the needle'. For example, removing all friction from the product and flow of funds, whilst ensuring complete transparency makes the product easier, more enjoyable and more valuable to use for the Supplier, however it also removes controls, making it more difficult for Marmalade to mitigate undesirable behaviour and outcomes in a timely manner. Repeating this process of data driven product development and risk management for four years has now forged a proprietary piece of financial infrastructure that is capable of mitigating the root cause of cash flow problems for the largest segment of the economy - by number of businesses and share of employment.

Owner's Manual

The approach we took toward allocating capital was one we could only make if we were focused on the long term - prioritising decisions that result in the creation of durable value, over a time scale that few recognise. With this time horizon in mind, paradoxically, decisions become easier to make as noise in the operating environment subsides and the business's objective becomes stable and absolute - giving us the ability to solve problems and build value that is impossible with a short term mindset.

However this long term thinking by itself is not enough, it must also be coupled with a community that is aligned. For us to build Marmalade into the opportunity ahead, we will need long-term minded shareholders that are passionate about empowering SMBs with an integrated capability to manage their financial and operational needs.

This provides a natural segue into how we will operate the business, what our priority will be and what we expect of those that co-own Marmalade with us. I've taken the time to set these expectations, because as co-owners, it's important that we are aligned, to ensure that ownership of Marmalade offers an opportunity that is consistent with your own values and objectives.

From our website:

> *We will allocate capital in a manner that aims to build, defend and strengthen the durability of Marmalade's competitive position over the long term - which is a prerequisite for being able to deliver attractive returns on that capital, sustainably over the long term.*
>
> *We act this way because we have every reason to expect that over time, Marmalade's intrinsic value will reflect the compounded growth that has been achieved and the business's potential earning power in the years ahead.*
>
> *However, in the short term our share price will at best be a point-in-time proxy for this intrinsic value - a proxy that will no doubt move around according to short term events, likely driving a departure from our intrinsic value.*

As custodians of Marmalade's assets, operations and future earning power, the board and senior executives will ensure the business looks through transient events and maintains a stable eye on the long term opportunity, because over time the two variables of share price and intrinsic value will converge, while the noise of short term events will fall away.

Being so tightly integrated into our customer's operations, many businesses have come to rely on Marmalade to meet and manage their day-to-day financial requirements. This dynamic underscores, with sobering importance, why shareholders must know that we will prioritise the long term strength of Marmalade over everything else, including our short term performance and capital efficiency. As you may infer, we will hold ourselves to a standard that we think is commensurate with the trust placed in us. This standard will rarely be set by external bodies, as we see the requirements of outsiders as the lowest bar for Marmalade to clear. No one will hold us to a higher standard than that which we hold ourselves to. I expect our shareholders to require nothing less as we ensure Marmalade remains unquestionably strong in every respect, today and tomorrow.

Subject to that important qualification, our aim is to maximise Marmalade's long term average annual rate of gain in its net asset value, on a per-share basis, which over the years, will be the clearest measure of our effectiveness and success in developing and monetising financial technology.

Though as we progress along this path, we will frequently make mistakes and falter. We recognise our shortcomings and will always remain accountable to our decisions and actions, whether those consequences remain visible or not. Importantly, this is not the disposition of one person, but represents the way Marmalade operates, which is best captured by the pithy aphorism 'from the inside out'. Not only does this describe our sense of accountability, but it summarises how we think about risk and pricing, how we develop and expand the product, how we report and communicate, how we nurture our team and ultimately the result we may deliver for shareholders. We believe this is the only way to build a company (especially one delivering a financial service) that is aligned through all its layers of stakeholders.

For financial service companies, reputations and brand strength are disproportionately valuable and disproportionately difficult to build. Without being anchored into company values and culture that help to shape and guide actions and behaviour, these intangible assets can evaporate almost instantly with careless conduct or they may simply degrade and erode over time as the company loses its way. We will always do our best to protect and build our reputation and brand, aiming to create a product that we can all be proud of.

Underpinned by this approach, we will communicate with shareholders in a manner that ensures a comprehensible summary of our performance, with updates provided at the same time, with the same material to all Shareholders. Where estimates are required to be made (a natural byproduct of any business, especially one engaged in underwriting activities), we will ensure these are made *on a consistent and conservative basis, with any changes to the methodology supporting these estimates, disclosed in a clear and timely manner. There will be no do-overs or accounting sleight of hand. And finally, as the business hasn't acquired a crystal ball, Marmalade will not provide guidance around expected operating performance.*

The tenets described above should enable our shareholders to self-select themselves, whereby those who join us share a similar enthusiasm for the long term opportunity ahead and are aligned with how Marmalade operates, communicates and ultimately allocates capital. While we recognise that life happens and events may necessitate a premature sale of shares, Marmalade's nirvana state of co-ownership is an individual shareholder with an investment horizon that matches the tenure of the long-term opportunities the business is pursuing - provided Marmalade's prospective returns remain attractive and management's capabilities to execute, remain sharp. Any shareholder that co-owns Marmalade on these terms is allowing themselves and the business the potential for the most successful partnership possible.

Expanding on the paragraph above regarding reputations, brand, culture and values, the financial services industry is one that has a rocky history. These troubles have occurred from an absence of alignment, resulting in a reputation of prioritising its own ROI at the expense of the customer, irrespective of whether that's a business or individual - a dynamic and problem writ large in global politics today.

This thinking seems to stem from the belief that being empathetic and considerate, demonstrates a meek or even weak mindset. That to advance and succeed - whether personally or professionally, at an individual's financial level or a government's economic level - the world around must be reduced to inputs, stepping on or over people without regard, to get what the individual or collective ego desires.

The structural alignment that is intrinsic in Marmalade's product is amplified by our values and culture, where we laude those that are capable of not only asking why things are the way they are, but also how they can be better. Those that prioritise what is valuable, not what is easy. Those that can amplify others and embrace diversity. Those that have a thirst to constantly learn, seek feedback and improve. Those that see every single day as an opportunity to take a step toward the long term, with the people and environment around them in mind.

Marmalade is unreservedly an empathetic and considerate organisation, with structure, values and culture that foster clear-minded independent thought, decisive action that takes an assertive posture when required, in order to drive valuable change.

These aren't special qualities, reserved only for those with privilege or intellect. These are qualities that are accessible to and resonate with anyone. Consistently living our values and culture, despite their non-specialness, allows a reputation and brand strength to emerge, from the inside out. In a world that seems to be talking louder and moving faster than ever yet with so little value being created, these qualities separate Marmalade from 'the rest'.

Looking Ahead

During the summer holidays, I was on a road trip with the family, making our way back to Brisbane from Melbourne when we stayed overnight in Balmain, Sydney. Having grown up in Sydney, I thought I'd take the kids on a ferry ride into the city, to show them around. While waiting for the ferry at Balmain East, I came across a plaque that explained how William Balmain, Principal Surgeon to the Colony, was granted in 1800, 550 acres of land located on the peninsula I was standing at - now the suburbs of Balmain and Rozelle.

The plaque went on to say that in 1801, Mr Balmain sold that entire parcel of land for five shillings. Having over two square kilometres of some of Sydney's best waterfront land, offering gunbarrel views of the Sydney Harbour Bridge (albeit 130 years before its time), which would now be worth many tens of billions[6], sell for little more than $30[7] in today's value, beggars belief.

Granted, at the time of selling the land the colony was still nascent, as it strained and struggled to establish order and develop sufficient supplies and produce to ensure sustenance and survival. I'm sure it felt to Balmain that land in an untouched, natural state, thick with vegetation, was in abundant supply (we'll leave the appropriation of Aboriginal land out of the discussion at this point). Without seeing the long term potential and future growth of the colony, this land would no doubt have seemed barren of value - despite the proximity of this land to the harbour and to the initial settlement, despite how central the harbour was for the colony's trade and despite how beautiful the waterways were, even at that time (as commented by the convict, Francis Morgan, who was hanged in 1796 on Fort Denison, a small rocky island in the centre of Sydney Harbour, when records noted he said to the hangman, *the only thing worth mentioning was the superb view of the harbour from his high elevation, and that he was sure there were no waters the world over to compare with it for beauty*).

Over two hundred years later and surrounded by a bustling city, it's easy for me to see the folly in Balmain's decision, but even still, I struggled to understand how a single bird in the hand, could be worth tens of billion in the bush... and how Balmain could have come to the decision to sell the land for such a trivial amount - even in his day. I struggled to understand, until I realised human foibles have not changed over hundreds of years. That is, humans have a perverse tendency to fixate on short-term payoffs, at the expense of long-term growth. Naturally, this presents itself by projecting into the future what is present today - rather than taking the trendline and compounding that out hundreds of years and seeing a different world. This is the same dynamic that drives wild swings in stock markets today and why Balmain sold entire suburbs of what was to be Sydney's most expensive areas, for little more than a breakfast for one at a Sydney cafe.

All of this is strongly analogous to Marmalade, which occupies prime waterfront land in the significant opportunity of B2B payments. However, with B2B payments still completely undeveloped, reflecting the state of a fledgling colony, straining and striving to show its value, Marmalade's real estate has been completely underappreciated by those that cannot

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[6] My precise estimate includes public spaces, government land and infrastructure, but is not adjusted for capital invested over the years.

[7] As estimated by the Bank of England's inflation calculator (https://www.bankofengland.co.uk/monetary-policy/inflation/inflation-calculator), converted at today's exchange rate into Australian dollars.

see the forces at play and the trendlines being charted. However one day (not two hundred years from now), there will be a bustling industry surrounding the land Marmalade now occupies, complete with an iconic bridge (perhaps even with a rail) connecting either side and land that currently appears barren of value, will be anything such in years to come.

While I have mapped out a prospective and attractive opportunity for Marmalade, it will not be a smooth ride. We will make errors along the way - as we have already done - errors which cost the business time and money. Though we will always manage the business and develop the product from the basis of delivering the most value for our customer and shareholder, aiming for outcomes that drive long-term value for both. It would also be naive to think the path won't change from what we have described, though when it does, we will keep you, our co-owners, up-to-date.

Thank you for the opportunity to lead Marmalade on your behalf.

Luke Trickett
CEO