

4FINANCE S.A. Q1 2021 Results Call

**19 May 2021
3:00 p.m. GMT**

Kieran Donnelly: Good afternoon, good morning. Thank you for taking time out of your busy schedules for this presentation.

Today we're going to be talking about the first quarter results for 4finance Holding, and if you have the presentation in front of you, we will be starting with slide number 4 entitled Operational Progress. With me today is our CFO James Etherington and our Chief Risk Officer Marek who also will be speaking today. So let's get right to it.

So during the first quarter, we had good execution in our core online markets. So if we look at – I'm not talking about discontinued run-off things but the core – the things that were still running with, we will be running with in the future. Loan issuance is matching what we were doing prior to COVID and this is despite things staying locked down, so we're quite pleased with that result.

The customer behavior, the repayment behavior of customers has also been some of the best we've seen and that has been continuing now for not just the first quarter, but a continuation of what we saw in the fourth quarter now carrying onto the first quarter. So this is also very supportive of a good a margin towards the bottom line.

We've spent some time and we focused, and then we mentioned this in prior calls about focusing on some places where we thought there was opportunity to improve particularly in Spain and Sweden. We made some management changes and some product upgrades, and we're seeing results from those things so we're quite pleased that that is working.

We've continued our focus on efficiency and it has delivered very good results. I think the James will go into that, talking about financials. So we have a leaner HQ team, reflecting a leaner business overall, but that's important efficiency. We've also simplified the internal corporate structure,

again in line with the smaller base. So we're more focused and more efficient on that basis.

We've talked before about aligning what we we're doing on the near-prime sector to funding that was available from TBI. There's been a lot of work in the past of making sure that we are able to sell loans from our Lithuanian operation to TBI. We were able to get a passport into Lithuania and we have an automated process.

So we've sold EUR2.5 million of loans from the Lithuanian operation into TBI and we're selling now about – on a rate of about EUR2 million a month is where we're going to and this is bringing – we have a very strong cash position and this is only adding to that.

So we had – speaking of TBI, we had record quarterly loan issuance in TBI and a lot of this is – we've had significant growth in the ePOS side of the business, which is in line with online development growth in consumer activity during the lockdowns online and we've been well-positioned for that in both Bulgaria and Romania. So that's been very encouraging.

And also within TBI, we launched an effort called TiBUY which is a kind of coalition loyalty program building into a marketplace with this acquisition channel where we'll be offering funding through that. So this is a new initiative, something I think that really sets TBI out as we say a “next generation digital lender”. So this is real activity that's taking place on that side and putting TBI really in the forefront in the markets where it operates.

We talked in the past about kind of re-expanding our geographic footprint particularly into APAC and we've taken that first step. We've approved taking a 10 percent stake in the Philippines with the intention of moving that to a full acquisition of that company over time.

So that's kind of the operation of what we've been focused on. We've been very pleased with these results and I'll let James to go through some of the numbers in more detail. James?

James Etherington: Thank you, Kieran, and good afternoon, good morning to everyone on the call.

So Slide 5 is basically a summary of the results that we've published, so I won't go through all of the details here because we'll cover them on the following slides. But I think the main thing to highlight is really the positive EBITDA trend here. I think the EUR25 million we've delivered for the first quarter it's an increase again on Q4 and it really continues that positive trend that we've had since the second quarter of last year post COVID.

But importantly, it's also up year-on-year for the first time in really quite a while I think. And from kind of big picture perspective, I think that this quarter represents, if you like, the proper organic performance of the current size and shape of the business as a more focused business that we have; in the past that's perhaps been impacted and maybe extra impairments or wind-down costs and things from markets.

But this is I think a much cleaner set of numbers and I think that's important for people to see that, particularly the improved margins because we've delivered a slight increase in EBITDA but with a lower top-line from Q1 last year. Hopefully that shows that we have been essentially cutting out the right things and it's an encouraging overall P&L result for us.

So now to go through a few of the details on Slide 6, as we've shown before, the loan issuance in the online business and then the interest income. So you see that we have maintained a good solid level of loan issuance in Q1 and this is with an environment with lockdowns that I think has been actually tougher in most of our European markets than throughout the second half of last year.

So actually we see this as quite a good performance even though it looks kind of stable there, in particular Poland has been very strong and we started to see some improvement in March and April in Spain and also in Sweden. So we are matching basically the pre-COVID levels for these continuing products with – in what is still – and even April and early May in I think quite a difficult environment. So again we're quite happy with that level.

What that means on the top line is that we see another increase in the income from those continuing products as you can see in the graph. Overall, it's another relatively flat quarter at just under EUR70 million of top line. We've had a consistently strong contribution again from TBI and I think all of those themes you'll recognize from the previous call.

But if we turn to Slide 7 with the geographic breakdown of income, I think this does show actually a slightly different picture from the full year of 2020. And again, this is a clearer picture of the current business footprint we're operating. I think there's a nice balance here of this sort of bigger four areas with around 20 percent each and then the balance from Czech, Baltics and Nordics.

You see that actually the Nordics is already a relatively small part here. I think that reflects that we have effectively absorbed, if you like, the impacts of the rate change in Denmark that came in the middle of last year and obviously still some uncertainty in that market. We'll have to see how that develops. But we do have some upside for example in Sweden, again currently a bit of a small number, but something that we are working quite actively on.

And then on the kind of growth side at the bottom there, in addition to the sort of potential for a post-COVID recovery in the existing markets, Kieran has already talked about TBI. There are some good initiatives going on there. In the Philippines, we'll be taking the first steps.

Perhaps it's also worth mentioning some of the things we decided not to pursue here, actually. We have talked about some opportunities in, for example, the receivables management space which we felt wasn't the right opportunity at this stage, but we still did give that a close look. But, overall, I think we feel that there are growth prospects both within the existing estate and from beyond that perimeter too.

Moving into Slide 8 on the cost side, I think year-on-year it's very clear that we are in a better position now in terms of cost structure in the online business particularly. I think we're down to our fighting weight effectively, as Kieran would say, so we feel that we're in quite a reasonably good place there. And importantly in terms of later in the year, if volumes do pick up, we don't feel we would have to increase costs significantly to cope with that, if you like.

There would be some volume-related costs, but I think most of it would not pick up from the current level. And I think in terms of the cost income ratio on the top, I think that is likely to be how that gets addressed for later on in the year, that's how we think that will improve. That is not to say that we feel we are done on the cost side, I think the key thing is a mindset about how we approach kind of efficiency and look across the business. That's something that we're just kind of continually trying to improve.

Lastly, I think worth mentioning on TBI, again the business that has continued to grow and we have some initiatives later in the year. That is something where we are prepared to invest, but it still remains a very strong and profitable contribution to the bottom line.

If we move to Slide 9 just to look at what the kind of overall result of that is and the usual overview of the financial metrics with a bit of a longer perspective. I think that overall reflecting on 2020 and Q1, it's been quite a resilient performance for the business. I think the P&L numbers and EBITDA things we've gone through, I think the capitalization in particular remains very solid.

And of course, we don't show it here the tangible equity ratios in particular again have improved quite a lot the last couple of quarters and I think the quality that's in the balance sheet is very good. When we look at the other key covenant ratio on interest coverage, that already is back very close to 2 times.

And bear mind that that calculation, when you look at the last four quarters, it includes Q2 of last year with the very low ten million EBITDA level which is due to get kind of replaced, if you like, next quarter. So I think there is a good trend there as well.

So, overall, I think it's pretty resilient financial performance given everything that has gone on externally in the last year or so across the business. So with that, why don't I hand over to Marek for some more detail on the risk side.

Marek Kujawa: Thank you, James. Good afternoon, all.

Moving to Slide 10 about the loan portfolio, what I can say first quarter past and there is sign of slight increase – continued the trend of slight increase of loan issuance that support the net receivables growth. Partly, like we mention in here, that is also by a debt sales in the online business.

Overall, the net receivables now is EUR533 million, while 86 percent of those consumer loans. At the same time, NPL ratio that I refer in – I'll refer later on, improved to 14.9 percent end of March '21 from 17 percent at the end of 2020.

It's worth to mention like James said before that we managed to keep this slight but still growth despite the fact in most of our markets first quarter was quite – I'd say most tough under COVID times environment and most of the countries in which we operate were under the most severe restrictions that happened till now under the third wave. Also looking at the structure of loans issued, we continue the picture we had in Q3 and Q4, structured by product. This is very similar. That shows that we are going in our strategic way here.

Now, let's move to Slide 11. First quarter was the next one that faced the decreasing trend and improvement of net impairment. Reduction in Q1 is basically driven by two major factors. First of all, improvement in asset quality parameters and this is mainly because of the strong customer repayment dynamics.

Secondly, we are active on debt sales market especially forward flow so we were able to continue our strategy that is to sign forward flow contracts. Also signing some debt sales on the spot like an older DPD or written off ones.

And the very positive here is the information that we are able to set up the new forward flow deals on a market that before it was not possible or we could not achieve it. So here we are also observing constant improvement.

And then quarterly overall cost of risk decreased significantly. So, overall, cost of risk in Q1 was 7.6 percent, including TBI versus 17.4 percent quarter-to-quarter.

As you can also see the online cost of risk to both online and then TBI – online part and TBI part, we observed the improvement. That also is reflected in a ratio net improvement to interest income that dropped from 32.3 percent Q1 2020 to actual level 17.5 percent.

That's all from my side. Thank you and I'm passing the call to Kieran.

Kieran Donnelly: Thanks, Marek. Yes, it's been a very good risk environment so that's been quite supportive of the business.

If we go on to Slide 12, for those of you who have been in our last call, it might look very familiar because we decided to just copy it and use it again. Because when we were going through it, we saw that, well, actually this is showing consistency and we believe the consistency is important– that we are

executing on what we're talking about. We're executing on and putting in place things we talked about.

So we talked before about returning the online business to profitability. You see our profit for the first quarter is EUR9.7 million. We have solid performance at TBI Bank and the team there is doing a great job.

Optimizing our subprime businesses, we talked about Sweden and Spain where we're working on that. Developing on near-prime business in line with the funding availability from TBI Bank which we've been doing in Lithuania and those loan sales are happening which is a very positive development on that side, so that continues.

Yes, the operating environment remains challenging now. But what is encouraging is that the results we've had for this first quarter which kind of brings us back to pre-COVID is not – we're not in a post-COVID world. We're still in the COVID situation. Yes, things are starting to open up just now here. We're in the middle – late May, but this first quarter certainly was in a severe lockdown situation. So the operating environment continues to be challenging.

And I think what we're saying then about the Baltics being OK; Nordics and Czech all right; Poland better and Spain behind. But Spain has picked up. We've closed the gap in Spain. Sweden is doing better. So, more or less, everything we said to you in early March is consistently there.

Denmark remains uncertain, but I think it's important in Denmark – we're not dependent on Denmark at this point. It's not a contributor to our EBITDA at this point or profit. So that uncertainty is uncertainty on the upside. If things work out, we have an opportunity to grow our business there, that will be all to the upside.

Another upside, the – our forecast – our budgeting, we are assuming that the caps that were put in place for COVID remain in place for the entirety of this year. There is indication that that could be lifted in July of '21. But again we're running our business with those caps in place and profitably so, and so that's a potential upside for us.

And just general demand for loans as lockdowns are restraining – people can travel again, can go out to dinner, and then see other people, and throw parties

and have weddings, and do things like consumers do normally which create a demand for funding. So that for us is in the future and something we're looking forward to.

So our first quarter doesn't have any of that in there and yet we have this positive EUR25.1 million of EBITDA and then EUR9.7 million profit. I guess some of our competition has suffered more than we have, and so that also gives us an opportunity.

Our overall funding and liquidity position is very strong actually, and so our cash balances are high. We have further deleveraged as you see in the report. And I think our ability to recover throughout the COVID or during this COVID position as far as the cash generation, our focus, our efficiency and discipline has really put us in a good position as far as being able to service debt on that way.

So we thought repeating that slide was worth doing because we want to show consistency and we also want to show that we are delivering on what we talk about from quarter to quarter, or at least we're trying hard, that's for sure.

Last slide before we open up to questions which is actually what for us is the most important and most interesting part of the presentation. On Slide 13, we'd like to make the case that we've gone back to being a strong credit case. Our debt levels have come down – and then we've reduced the U.S. dollar amount of our debt by what we bought in Treasury. We now have \$116 million out of the \$325 million owned in Treasury.

We've been very conscious on cash and cash generation, and cash management of the businesses that were being liquidated and we shut down through the years. We were very careful and making sure we extracted maximum cash from these businesses.

We're matching the funding needs with TBI which I mentioned, which is at this point EUR2 million a month coming in from this. In TBI, we're still not allowed to make the dividend from TBI up to the holding. But we have reserved EUR15 million. It is – so we have put it aside. We've reported that at the bank that's put aside. It's not counted in the bank's ratios, capital ratios, et cetera.

So the EUR15 million is there – is available and we're just waiting for the European bank to allow banks to pay out dividends. But everything on TBI's balance sheet is prepared to make that payment. So it's reserved and there's no internal impediment to it.

Bond prices have been trading at/close to par on the euro side. The dollars side is trading right around 90 percent, so that's improved. A bit during the time, of course, we'd like to see those things improve further. But at the same time, I think we understand that people want to see the recovery and hopefully with our fourth quarter and now with first quarter result, people will start to see that we are back on track.

And with the run rate, we're running at and with the reduction on our debt, that's what the graph on the right-hand side of the page is showing you that we've reduced that kind of amount of dollar debt that's in the public market down. So we deleveraged, at the same time our EBITDA has grown. So we're basically at a run rate of having a 3 times debt to EBITDA level, which compares to just pre-COVID was at 4 times.

So we've really moved in a strong direction as far as our debt metrics and I think this is important. So we think we're off to a good start to the year, a lot of positive developments. Sure, there are still challenges. But I think the team is working hard to deliver.

And with that, I would like to open up for questions and we'll do the best to answer them between the three of us.

Ray Zucaro: Hi, Kieran. Thank you and group, for the presentation and congratulations on the good earnings. I just wanted to ask you that now the euro and now as of May, the dollar bonds are now all short-term debt, what are your capital market plans to address the upcoming maturities?

Kieran Donnelly: We didn't think anybody was going to ask this question, Ray... Sure, we – I think as we put on our announcement, we are very aware of the maturity schedule and we plan on starting the process of discussing options with the various stakeholders in the very near future.

So there's – we're very much aware of other transactions, what's happening in the marketplace. I think, as I said, we built back to a strong case with our EBITDA generation and our deleveraging. And so we will begin the process

of speaking to the relevant people and to all the stakeholders in the very near future.

Ray Zucaro: Your choice of language makes me imply like some type of tender and extension, or a new issue.

Kieran Donnelly: Well, I think we have to look at all the options and all the possibilities. So I would say that there are, on the table, any and all possibilities. What we're looking for is efficiency. We don't want to waste time and effort with that – that money could be kept in the company. And so we're looking for the most efficient, least risk, execution risk strategy, that goes through that, also matches our medium to long-term funding needs.

So I don't want to exclude anything from the table as far as our options going forward. But we are going to really focus the most efficient way to do it.

Ray Zucaro: OK, OK.

Operator: Sir, we got another question, it comes on the line of Ashraf Samir. Please go ahead. Your line is open.

Ashraf Samir: Hi, everyone. Thanks for the presentation. Congratulations, James, for being the CFO. I just want to know in the presentation, there are things that you have US dollar callable at 100 - is it an option for 4finance that if anyone wants to sell it at 100, you can offer from 4finance?

James Etherington: Hey, Ashraf. Thank you for the comment there. Yes, on the call on the dollars, that's an issuer call option, if you like. So that's from our side if we wanted to call, ie if we have the cash to repay the bonds actually in whole or in part, then that's an option that we have to do that at par. The pricing stepped down to par from I think it was 1st of May this year. It was a small premium in the previous year.

Ashraf Samir: Yes. So I didn't get you – if I want to use this option, is the option available? I have to email you or tell the bank, or how can I use it, or is it valid option?

James Etherington: It's an option from our side actually. Sorry to disappoint, but it's not a put option from investor side. Actually, the old bonds did have that. It's a call option from the company side. So it's for us in terms of facilitating how we manage the debt.

Ashraf Samir: Is there any plan to extend the maturity for the U.S. dollars, or is it – because the two maturities are very near, is there any plan like you've done last year, the euro bond, the dollar bonds would be extended, or what's your plan?

James Etherington: I think Kieran sort of talked through some of the broader range of things we would look at on the bonds. In practice, on the U.S. dollar bonds actually, it is very difficult to do those types of things.

We put actually a slide in the back, Slide 21, just with that kind of side-by-side with some of the characteristics of the bonds and I think the dollar bonds treat such processes quite differently to the euro bonds. So I think with the 90 percent threshold, that's not perhaps something that's so practical on the dollar bond side.

Kieran Donnelly: I would just add in whatever technical form, the idea would be to refinance in a way that would, of course, extend, right, so not necessarily extend that existing bond, but to – perhaps to exchange it– to do a new transaction which existing holders would have the opportunity to exchange into, or just because the bond is callable as your question earlier at par. So we have a number of options.

But, yes, the idea is that we are going to be looking to extend our debt profile so that we can continue to grow the business, and rebound the business, and continue to pay investors a very nice return on their support for the company.

Ashraf Samir: Thanks.

Operator: Once again, if you would like to ask question, just press the “star,” “1.” Sir, we got another question. It comes from the line of Frank Lehmann. Please go ahead. Your line is open.

Frank Lehmann: Yes, good afternoon and thank you for the presentation, gentlemen. Just a small question which kind of came up when we were looking at the Page 21, is there a FX hedge attached to the total bond issue into euros, or are there any derivatives attached to it? Maybe that will be good to know. Thank you.

James Etherington: Hey, Frank Oliver, thanks for dialing in as always.

Frank Lehmann: Hey, yes.

James Etherington: There is nothing attached to the bond, if you like. So there's no sort of structural thing attached there. But internally, obviously, we do look to – we have hedged that position, but it's something we do separate to the bond instrument itself. I would say we are actually fully hedged on the U.S. dollar side. Currently that's something we do through a combination of swaps and other instruments from our Treasury.

Frank Lehmann: And would these hedges – James, would there be an impediment or would they be actually the slight help maybe in reorganizing the issue in an upcoming capital market transaction?

James Etherington: I don't see it actually as a ...

Frank Lehmann: Because you – sorry, I mean to say – yes, sorry, I mean to say because you might do that before the final maturity.

James Etherington: You're right, it's something that certainly we'd have to think about and some of those hedges are currently designed to go to the maturity date. But I think we're getting quite close to that anyway and we do have a sort of range of instruments, we mark them to market.

So I think in practice, it's something we would obviously have to manage internally. But I don't see that as any practical obstacle to anything we would do, timing or structure, or anything else wise on the dollars.

Frank Lehmann: So within mark to market, it is not something like a pot of gold or a liability sitting there in case you ...

James Etherington: I wish there was but no.

Frank Lehmann: You wish there was. OK, no, no, I understand, OK, this is mark to market of course than it's at market then you might benefit from a short deviation. For example, right now everyone is observing, of course, that the dollar has given way to the euro. It's 1.22 now and the hedges might have been locked in, et cetera, et cetera. But that's sometimes an extraordinary gain available to reorganize the whole structure. OK, thank you very much for that, gentlemen.

Kieran Donnelly: I would just add that we're careful – we're not currency traders. It's not our business.

Frank Lehmann: Yes, OK.

Kieran Donnelly: Yes, and that's why there is not a pot of gold because we can – we didn't bet that there would be one at the end of the rainbow. So we don't trade currencies. We're not playing that. We look to be hedged efficiently and as much coverage as possible. And so in the Eurodollar, it's easy to fully hedge so that's what we do.

James Etherington: Right.

Frank Lehmann: OK, thank you very much for that and best of luck.

Kieran Donnelly: Thank you.

James Etherington: Thanks Frank.

Kieran Donnelly: Well, I'd like to thank everyone for their questions. I'd like to thank everyone for the time listening and for their support. We try to communicate as openly as we can with everyone given market regulations today.

So please if you didn't get your question answered, or you think of some questions afterwards, please reach out, we're happy to talk to you and we're happy to have the opportunity to be working moving forward in this kind of unprecedented times, but moving in the right direction. Thanks again. Have a great day.

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