

4FINANCE S.A.

Moderator: Kieran Donnelly
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Operator: Good day and welcome to today's 4finance Q3 2021 Results Conference Call...

...I would now like to hand the conference over to your first speaker today, Kieran Donnelly, thank you. Please go ahead, sir.

Kieran Donnelly: Thank you John. Welcome everyone. Good afternoon, or good morning, and thank you for taking the time out of your busy schedules to attend this call. And as we said, this is the third quarter results presentation for the period that ended September 30th.

We had a very nice quarter. We ended with just about 30 million in adjusted EBITDA, which matches where we were before COVID. So we've recouped quite a significant amount over the time. And you can see on the chart, we have consistently had quarter-on-quarter growth. A lot of that improvement was over the first couple of quarters of that improvement was risk, was cost, but what's very important what we're seeing now in this third quarter is that we're having an increase in the interest income line. So the portfolio, the receivables are growing, and the income is growing as well. So this isn't just about taking care of the middle to get a better bottom line. It's also top line growth that we have.

We have a very robust cash position where it's roughly right now, we're at 85 million euros. And the cost base that we have can continue to support further growth. We've had very strong growth this quarter in TBI Bank. It's actually been another record quarter of origination as we continue to grow market share as the economies and consumer activity has picked up.

Asset quality has remained solid as we go through. And Marek will bring us through that a little bit later on.

And our debt profile has been improved as hopefully you all know. And rather than facing two maturities very close together, we've now spread them out so that we have a nice space between our two bonds, the 175 and 150 million euros.

Going on from there, for the operational progress – and if you have the presentation before you, I'm on slide four. We continue to have a disciplined execution on our business. A focused approach to our business that we're really concentrating on the higher margin parts of the business, keeping our costs under control.

This third quarter has been a glimpse of the 'almost open' world we hope to get in post-COVID. And as you probably all are seeing, that is something that is coming back right at the moment as restrictions are being reintroduced, so we'll kind of go back towards where we were, say in the second quarter on the back of that, although we might be pleasantly surprised seeing how Christmas impacts this year. So there are some things there.

But at least we've seen what an almost all open market can look like for us going forward even if we're not there on a consistent basis yet – not with ourselves -- but with what's happening with COVID.

During this time, we had very good news to get our license in Denmark from the FSA. This is a requirement that was put in place well over a year ago, probably a year and a half ago. It was a long process. And we were one of the first to get approved, so we're very happy about that. And we're able to now move forward with our Danish business.

We continue to work on our efficiency. And I think James will show you some numbers in the future where our cost income ratio has improved. We have made more sales from our Lithuanian near prime portfolio to TBI. So, realizing this kind of long strategic plan that we've been working on.

Strong organic growth across TBI. We've had progress. We talked about the Philippines in the past. We've made progress. We're actually hoping to agree that transaction perhaps as early as this week to agree that acquisition which is something that we've put a lot of work and a lot of due diligence into.

And as I mentioned before, it was an important quarter because we completed the bond refinancing, which we started with our whole buying back and cancelling bonds, extending the 150 million, and now the new 175 million deal. And thank you for your support in that transaction.

James, would you like to focus on some of the core financial numbers, please?

James Etherington: Thank you Kieran, and thanks everyone for joining the call.

On slide five, we show our loan issuance and interest income. On the online side, we've sustained high levels of loan issuance from over the summer. Q3 was up 13 percent on Q2. We had another record quarter at TBI as Kieran mentioned. That's driven good receivables growth from both sides of the business.

And we've shown some of that issuance track record before really in the last quarter, in September, and on the recent roadshows. What we can do now is share the impact on interest income in Q3. TBI has been building nicely quarter by quarter, but it's the online business where you can see that real increase on the graph there in Q3 in blue.

Slide six shows the interest income contribution by market. And the pie chart here reinforces the point that we have a diversified income generation by market and product. And yes, we saw a good performance in the bigger markets in Q3 from say, Poland, Spain, and TBI. But it was also across the board, so it was in the others as well.

Latvia for example had its strongest income quarter since the current regulations came in in Q3 2019, so well before COVID, and a good example of how we've adapted. In Sweden, it's the highest income for our Vivus products in second quarter 2019. That's still small numbers there of course, but it's trending in the right direction.

And looking forward, whilst that COVID environment obviously remains hard to predict, particularly in the winter, we believe we've got good growth opportunities in that existing footprint and some interesting possibilities as we said beyond that.

Turning to slide seven on costs. Cost income ratio has improved in Q3 to 52 percent there from 59 percent in the prior two quarters. And I think we've indicated before that it's that increased revenue generation that that was going to be the key driver there. It's mainly from interest income, but also the greater fee income in the bank has contributed to revenue growth of 16 percent quarter on quarter.

And on the cost themselves, we're very much continuing that disciplined approach we've had all year, obviously bringing that into our budget discussions for the 2022 as well. And you can see we've held cost steady on the online side in Q3 from Q2 even slightly down a bit there.

Again, as we look forward strategically, we are looking at some investment in IT over the next couple of years in the online side. That could be up to additional 10 percent spend in that area, but with the goal of getting greater efficiency from our platform later on.

Also, the general level of inflation in our markets is quite high. So that may feed into some of our costs next year. But we are limiting that impact as best we can.

And turning to slide eight, here we see the higher margins the business is generating this year. And this is something we emphasized in the recent roadshow meetings, and we're pleased to show that story continuing with the third quarter figures.

So the EBITDA margin up at 38 percent. I think it was 37 percent at the half year. It's now substantially higher than in 2018 and 2019. Profit before tax does have some accounting one-offs from the bond refinancing. There's a 3 million gain there from euro extension in Q3. And on the flipside, we'll have

a 1.5 million expense in Q4. But still, it's a very healthy increase in the PBT margin from the 2018-2019 levels.

And I'd say we have that 50 million figure from 2019 - we have that in our sights for the full year this year.

And then finally on the covenant side, the level of capitalization remains very strong, with equity to net receivables of 28 percent. And that's even after the strong receivables growth we've had this quarter. And the interest coverage is also back to a very comfortable 2.5 times.

Before finishing up from the investor relations side, I just wanted to welcome new bond holders to 4finance. I'd encourage anyone who hasn't signed up for the email distribution list on our website to do that. That's on 4finance.com in contacts and investors. That way, you can stay in touch with all our results – information and any other news we have.

And with that, let me hand over to Marek for the risk section.

Marek Kujawa: Thank you, James. Good afternoon all. Let's talk about risk numbers now.

Coming from slide nine, we notice substantial growth in most of the product groups; both net receivables and loan issued. Net receivables now equals 627 million euro, while 86 percent of those are consumer loans.

At the same time, NPL ratio improved to 13.9 percent as of September '21, from 17 percent at the end of 2020.

Looking at structure of the loan issue, we continue the trend starting in Q1, Q2, so substantial growth in most of the products.

Now let's move to slide 10. After several consecutive quarters when we face the improvements over the impairment, in Q3, we observed slight rebound effect which was expected, and mentioned on the previous results call.

It is driven mainly by increased sales, as well as higher share of new customers in our loan portfolio. Of course it's a good effect because more

new customers means more repeated ones next period, so more income.
Actual Q3 impairment charge equals 16.9 million euro.

It's worth a mention as we keep conservative provision methodology which is reflected in positive results of debt sale transactions you can see on the chart.

Moving to slide 11. As mentioned before, we can observe rebound effect of net impairment that raises the cost of risk for online business. Still overall cost of risk decreased –significantly decreased year over year to 8 percent at the end of third quarter this year versus 15.2 percent after nine months of 2020. While in online business, it's 13.5 percent versus 26.6 percent in the adequate period.

Additionally, to reflect more adequately portfolio quality, we would like to introduce for the first time, the vintage analysis which gives more precise view on our loan behavior. That can be seen since Q1 2020 which gives significant increase of portfolio quality. It was driven by constant improvement of risk policies in all markets, and closing of some less profitable IL products.

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

Kieran Donnelly: Thank you, Marek.

So the improvement in EBITDA that we're talking about here, we see that's been growing in the blue part of the bar chart on the online business, and the gold color is TBI. So the EBITDA has been growing on both segments of the business, bringing us up to where we have. And at the same time, we've reduced the amount of indebtedness of the company.

So where we started early in 2020, we had basically a debt EBITDA number of four times. And now as we're here in the fourth quarter now in 2021, that number is now more like three times. So we've effectively deleveraged the business throughout the COVID time using the available cash we had to do that in the meantime.

We're also demonstrating in here the flexibility of the business to adjust and to rebound in a pretty short period of time.

And on slide 13, finally, I think we would like to sum up our position before we open up to questions, which for us is always the most important part of these calls. But we've demonstrated, and we continue to demonstrate the business' ability to generate cash with adjusted EBITDA for the nine months on a consolidated basis of about 81 million euro, 52 million of that coming from the online business itself. We have a strong asset backing.

One way we like to look at it is if we look at our online cash, which is, as I mentioned earlier, around 85 million, you add the online receivables, which are now growing again at 185, and you – to those two, add the book value of TBI, you come to 430 million of assets. And against that, we have 325 million of debt.

So that's a loan to value basically of 76 percent. And of course, we're not including – we have other assets, which we believe have value. But just for the simplicity of the presentation, we focus on those three main points when we do this calculation. And we think that demonstrates that the bondholders do have strong assets backing the borrowing.

The business, as James has mentioned, is geographically diverse. The bank is doing very well, profitable. And we have a much better debt profile than we did just six months ago, with the February '25 and October '26 maturities on our bonds.

So, with that I'd like to get to, as I said, more important part of the presentation is to get to your questions. So please, John open the lines so that the callers can ask their questions.

Operator: Thank you. We will now begin the question and answer session.

Frankoliver

Lehmann: Yes, hi and good afternoon, Kieran and James.

First of all, thank you for the report. And I can see you have added a couple of informations that we didn't have up until now. I find that quite helpful.

I want to make it quite short. The first question is pretty much on that page 11 chart where we see that the cost of risk has snapped up a little bit. Where will we see that – where will we see that balance out in the next couple of quarters? Can you give us a feel on that? That will be my first.

And the second is on regulatory question. I see you got that license in Denmark. And congratulations to that. That is hard work and that should open the business now. Can you give us about a feel how much that business will grow from here, and because I can see that the Nordic region is not such a huge portion when it comes down to interest rate income.

And let me add two other regions, two other countries to that. One would be Poland. I read about this draft law. If you can comment on that. And last but not least, and I had previously asked that question about Spain, about this supreme court, or high court decision in Spain on the usury, usury rate, whether that has materialized and any complaints? What's going on there? If you have seen any implications to your business. Thank you very much.

Kieran Donnelly: OK. So I counted four questions. But in case I miss in answering, please prompt to make sure

Marek, do you want to answer the first one

Marek Kujawa: Yes, sure. Of course. Yes, indeed we observed this rebound, which I mentioned during my presentation. Now because of this should be stabilized, but also the reason why we show the vintages is you know from the previous calls that our portfolio is changing, OK.

Frank: Yes.

Marek Kujawa: The proportion between the ILs and the SPLs is slightly changing to have more SPL as a core business. And the cost of risk itself as a measure is not the best measure for the SPL portfolio. As you know, the cost of risk is a measure that comes – the impairment versus the net portfolio.

With SPL type of product, you get very fast turnover with a good portfolio. So the very fast repayments, very fast disbursements, but fast repayments. Therefore, looking purely in SPLs, the cost of risk number does not reflect properly or adequately the real risk behind the portfolio – this is why we present the vintages.

So again, to answer your question, it should be stabilized, but the increase does not mean that we are deteriorating in the risk. And this is purely visible in the vintages. That's why we decided to show is precisely and directly.

Frank: OK. Thank you very much for the explanation.

Marek Kujawa: OK. You're welcome.

Kieran Donnelly: OK, your second question, Frank, was about Denmark and what we see.

The new legislation and the requirement for licensing, and the fact that we're in the few, actually we're seeing quite strong demand for our product now. So it's growing. So the question really is how much market share do we want to take, what's the best return on our capital; whether deploying more capital on Denmark versus some of the other markets.

So yes, it's certainly going to be growing over, particularly over what we've done in the last year in Denmark. But to be precise, I think we'd probably be in a better position to give you more precise answer in the next two to three months as we see how it's moving along.

Frank: OK.

Kieran Donnelly: Because it's kind of a new world, we have a license and other people don't. So we're getting more demand right now without even marketing.

So it's quite an interesting situation. I think there is a good opportunity there. But we want to make sure what the profit margin is, and compare that to our other investment opportunities. So we could easily just grow it, but we want to be prudent about how we're using the capital on that side.

James, I think right now, we're easily writing 2 to 3 million a month at this point. So ...

James Etherington: Yes, that's right. We've been doing middle 2s and it will be over 3 this month. So yes.

Kieran Donnelly: Yes, OK. So that kind of gives you an idea of where we are at the moment, but we're checking to see. Because again, we actually think the risk experience should be better given what we see. So we want to confirm that before we push any harder on the accelerator.

Your third point was about Poland. Yes, there is a draft. We believe the most likely scenario is that Poland will probably return to the COVID kind of regulations which you may recall, we were – for a good long time, we were operating under – during that time, we gained market share, we were profitable and it kind of worked well for us. In fact, we did not, after the cap was raised, we did not raise our rates to the full extent. So we're well poised for the change.

I think the bigger question in Poland right now is if – with other more important things going on on their border, whether – when they'll get around to it. But we'll see how that happens. But we're prepared.

And your fourth question was about Spain. And you see no real developments there. We've kind of trend at the same 100, 120 or so cases a month versus the 30 some odd thousand loans we make. So it continues at the same kind of low level in our case.

And this is something where we are hopeful that as we go forward, and we can get clarity in the legislation and regulations in Spain, that it will play out in our favor, because it is the biggest player in the market. Again, it will create a situation where we can pick up market share and bring it down. So it's kind of stable, steady as she goes there.

Frank: That's good to hear. Kieran, it's your impression that the Spanish discussion about the usury rates is very much focused on credit cards? Is that where the action or the consumer finance discussions are happening?

Kieran Donnelly: Well, I wish there was more discussion, like constructive conversation going on. There isn't. I mean, so these cases that are going to court, but there's no framework. And that's what we would like there to be.

And I think it didn't seem – unfortunately, it doesn't seem to be anybody in a rush to bring that to bear. And with the European Union, the CCD moving forward over the next year, 18 months. So we're hopeful that we'll have a clearer regulatory framework in Spain, say two, two and a half years from now. And that will help the situation for everyone.

Frank: Yes, that's a long time.

Kieran Donnelly: It's going to take time. Yes, which, I mean, in one way, you can say that's good, but in other ways, it's not. So it's a bit of swings and roundabouts.

Frank: All right. Thank you very much, gentlemen, and all the best for Q4. And speak again in February and March when you report the full year. Thank you for answering.

Kieran Donnelly: Yes. Thank you very much.

Frank: Bye-bye.

James Etherington: Yes, thanks, Frank.

Operator: And we will now take the next question. And your line is now open. Please go ahead and ask your question.

Ezequiel Freylejer: Hello, this is Ezequiel from Altio Capital.

Kieran Donnelly: Hello. Nice to hear you.

Ezequiel: Hello. How are you doing? Hi guys. Good to talk to you again. Congratulations for the strong quarter.

Sorry, I came a little late. I knew you touched on the impairment charges increase and the cost of risk 3Q. And I assume is, of course, since you start to

initiate more. But where do you see that will be stabilized, the cost of risk, close to 20 percent on the online segment, and is that attributed to a particular country, or over all you see the same level across the markets that you operate?

Kieran Donnelly: These are blended numbers that we're showing. So we think number will trend down a little bit. It won't go back down to the 10 percent level we had. And I think we were all saying that it kind of – the number will move around. We'd like to see that it would – should, over a course of a year average out somewhere around 15 percent, 16 percent, which is where it looks like we're going.

But – now, this cost of risk isn't – that's why we introduced this vintage analysis to see how we're doing. Because as we move this – part of this moving up is because we've had a lot as we've rebuilt the business in Spain, because in the second quarter of 2020 we've basically stopped lending. And we had to rebuild and we have a lot of new to bank customers. New to bank customers have higher risks.

So as those – as the portfolio now starts bringing back in, those new to bank customers become returning customers, the risk comes down. And that's why Marek introduced these vintage analyses that are on slide seven. And you can see on the vintage basis, which doesn't have the portfolio changes that creates some noise there. You see much more stability there. So we'll continue to show both of these graphs over time, and then you'll come to see how they work together on that.

But yes, this was expected, this increase, because of the cost of risk that's just – there's more – it's a larger portfolio. Receivables are growing, which is a good thing where we have top line growth, income growth. And – yes, we're going to have a larger amount of provisions, more new to bank, higher level of provisions as well.

But on a vintage basis, you see our risk level as being stable. And that's – the vintage is just the online side of the business. And you see where those curves are flattening out now at around – well, somewhere between the – just under

the 6 percent level for the most recent kind of level. So, somewhere between 4 and 6 percent, those are starting to flatten out.

Ezequiel: Perfect. That's a good explanation. You know there was new clients.

And then these new clients that – I agree with you, it makes sense that once they become more recurring, you know the more it might decrease. So the need of the financing was to consume – for consumption, or was refinancing of debt? I assume they were all employed people, or not necessarily?

Kieran Donnelly: Marek, do you want to answer that part of the question?

Marek Kujawa: The profile of the customer does not change too much. We're just gaining a new market. It happens in Poland, within Spain now. Of course, the COVID time is also some impact on it. But for the profile perspective and purely risk perspective, we haven't noticed any deviation, any abbreviation from the previous experience.

It's just a matter – OK, the risk is higher because the amount or number of the new customers is increasing. And so it's not like now that people unemployed or employed is coming. It's exactly the same profile that we observed before.

Ezequiel: OK. Thank you so much. So congratulations again for the strong quarter.

Kieran Donnelly: Thank you very much to everyone for dialing in. We'll be happy to entertain any questions that come afterwards. And as James mentioned, all this information is on our website, 4finance.com. And please sign up to the investor relations as well because then you'll get all the announcements and all the news as we publish it on that site. So thanks once again and we look forward to talking to you again in the new year.

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