

4finance S.A.
Q4 Results Call
Moderator: Kieran Donnelly
02 March 2022
3:00 p.m. GMT

Kieran Donnelly: Good afternoon, good morning, everyone. Thank you for dialing in, particularly during this very difficult time with war going on in Ukraine. So it's, frankly a bit surreal to be making presentation about '21 results in these times but it is important that we do that and look back because it does set up where the company is, as we are in this difficult time for the -- for all of Europe, for the world.

So if you have the presentations in front of you, we'll be starting on slide 3, the summary of the full year 2021 results. And we'd like to move through relatively quickly so we can get to your questions at the end of the presentation. So for the quarter, we had 27.2 million in adjusted EBITDA, for a total of the year of 108 million, which was a very good result. It was above our expectations and we're quite pleased with that.

You see that the fourth quarter dipped down a bit from the third quarter. I think we previewed that for you when we when we had those third quarter results, which were very much a preview of what a post-COVID type result will be as there was a reduction in that third quarter of certain restrictions. In the fourth quarter, we saw some of those restrictions and some of the impact of COVID coming back in the winter months. But still a very solid performance where that is and very much in line with our debt levels.

Interest income was slightly up in the fourth quarter over the third as the book has grown and we're continuing to move forward on that side. And that trend, we would hope to be able to continue.

We have very strong cash position at the end of the year, the cash position was 80 million euro. That's just on the online side of the business. I'm not talking about cash that exists within TBI bank. And as James will bring in

later, we have used some of this cash to repurchase some more of our bonds, which historically has been one of the things we have always used our extra cash for.

We continue to monitor costs. We've had a stable cost base that has supported higher issuance, we have invested some additional money in the marketing side, which is going to bring us longer lifetime value and customers, and we'll go into that a little bit later on as well. The business within TBI continues to grow and its footprint continues to grow. We had another record quarter origination, portfolio size, risk is under control. So TBI Bank is doing quite well and we're quite pleased with their performance.

We did have an increase in the cost of risk in fourth quarter, which was something we anticipated, something we've spoken about in previous calls, but the quality indicators are good. Marek will bring us more information on that risk experience when we get to that part of the presentation.

But overall, everything is trending within our expectations, and in line with the growth of new customers into the business. We have a strong debt profile, our net debt, which again James will bring to, is now below 280 million, it's roughly 270 million net debt profile. So we're at a strong position and again, as you will remember we refinanced that and nothing is due until 2025.

Going on to the next slide, slide number 4, our operational progress. We continue to remain focused on our profitable markets and products. Our back-to-basics approach is something that we've continued to work on. As you'll see later on if we compare, for example, where we were in 2018 to 2021, our interest income is down around 37%, 38% but our profitability is the same. So we really worked on being much more efficient and much more profitable business and profit margin business.

So despite COVID restrictions, that credit appetite remained strong, and we passed the 9 billion number on the online side of the business during the fourth quarter. Cost efficiency: During '21, we took out 13 million year-on-

year savings on the online side of the business. We continue to look for more opportunities to do that as we move forward.

We made very good progress in sales of near-prime loans from the Lithuanian online business to the TBI balance sheet, over 20 million were sold in 2021. And again, that's a big part of the business plan in 2022. TBI, I spoke about, it continues to grow organically and also the geographic expansion into Greece has been approved, and we're moving forward on that front.

The bonds we've talked about. We have decided to cease lending in Denmark, and to focus on monetizing the portfolio that's there. Given the regulatory uncertainty in the market, some of the restrictions on marketing, and the fact that we were actually budgeting a loss for 2021 if we continued with the business there, to grow the portfolio. It just made sense to stop lending, and again, this focus on profitable business, and making sure that we're not just chasing volume, we're chasing profits and efficiency.

And the high cost of operation in Denmark also was one of the drivers in that decision. So that has now come out, we do have a portfolio there that we are working, and it's performing well, and we will monetize that portfolio over the course of 2022. The Ukraine situation, as far as it impacts our business directly, we do not have any operations in Russia or in the Ukraine. We do have operations in countries that are on the borders, so in Poland and Romania. And so they're on the border of the conflict.

There is no impact on our business, our business is operating normally in this situation. We're monitoring things very closely. And we as a company we're taking steps -- first of all, we have about 60 Ukrainian citizens on our staff, whether they're Ukrainians working in Romania, or in Bulgaria, Poland, Czech Republic, Lithuania, they work for us and some of them have family Ukraine.

So we've been doing all we can to help support our colleagues in this difficult time. We've also made substantial donations as a company to refugee relief agencies working and operating along the borders coming in to try to help in this very difficult time.

We can talk more about what we see going forward later on in the presentation. James, would you like to speak about some of the financial metrics and performance metrics, please?

James Etherington: Thank you, Kieran. Yes, and I hope everyone on the call is safe and well. If we turn over to slide 5, as this shows the loan issuance picture. So for Q4, we were encouraged to finish the year strongly despite some restrictions coming in in the winter. Certainly in Latvia we saw some sales impact but in certainly Poland, Spain and Czech, we saw still very good demand. So you can see those -- those bars that are at a good level.

On the TBI side, it was also a very solid quarter in Q4 and actually another record for the consumer business in particular. So good volumes, and that has driven a further increase in the quarterly topline. You can see another incremental improvement there for Q4 up 4% quarter-on-quarter in the interest income.

Actually the revenue line operating income, so after interest expense with the commission income was up slightly more, that's up 6% quarter-on-quarter. And obviously the full-year comparison, there's still the impact of that first quarter 2020. But if you look just for the last nine months of the year, we're up 7% at the interest income level and 14% at the revenue level. So we do have that organic growth here in the business.

Now if we turn over to slide 6, I think this is a familiar picture by now on the income by country. To reiterate, Poland, Spain, Bulgaria and Romania remain the four major markets. Denmark, unfortunately, as we mentioned we are running down there, but it's only 1.5% percent of interest income for 2021. It is still very much a focus for us in terms of important value to be unlocked from the portfolio. So we're very much focusing on that aspect for this year.

On the regulatory side, we continue to contribute very actively to the European level dialogue about the CCD2 revisions. Various committees have been giving their comments recently so that is quite active. But we hope that can be a constructive outcome, particularly in places like Spain, in due course. But I think it will take most of the rest of this year to finalize those

proposals. And Kieran will talk about that at the end, about our broader kind of growth initiatives and outlook.

So if I turn to slide 7, on costs, we've held cost income ratio flat in Q4 at 52%. And that's despite some increased investment on the marketing side across the business and in TBI in their various initiatives in Greece and elsewhere. Year-on-year reductions that we had in the online prospects were quite substantial so that's down 12%.

Then going forward, the focus is more about maintaining and improving efficiency there. Because we do see some cost pressures in various areas, just the general inflationary environment means that's inevitable, and that makes the efficiency aspect across all areas of the business even more important to help us keep costs sort of flat there while we grow the rest of the business.

On the marketing side, we did have additional spend or investment of some 2.5 million quarter-on-quarter, in particular, looking at bringing additional new customer business in because that's obviously the base for returning customers of the future, of tomorrow.

Q4 is obviously a seasonally important quarter as well. And when we're looking at doing that we're really analyzing the lifetime value benefit of that extra spend. So it's been quite targeted. We think that's a worthwhile investment.

And then turning to slide 8 to the overall financial summary. So with Q4 we've finished off the year strongly. We've got the 2021 PBT margin we can see there at 18% and adjusted EBITDA margin at 37%, being the highest of recent years.

We've delivered a PBT of some 52 million euros, they're a bit above the 2019 level pretty much 2018 level, despite the lower interest income footprint. So a much more economically efficient business overall. That's allowed us to restore a very solid level of interest coverage as well at 2.6 times, that's

actually higher than it was historically when we had a greater level of leverage. That's that the leveraging impact as well.

And the balance sheet capitalization remains very strong, with good headroom to covenants and the equity book value in the businesses that both online at the bank has continued to build. So with that I'll pass over to Marek to talk about the portfolio.

Marek Kujawa: Thank you, James. Good afternoon all. Let's talk about risk numbers now. Talking from slide 9, we continue to see growth of net receivables that by the end of 2021 reached 658 million euro, 87% of those are consumer loans. We also saw an improvement of NPL ratio, significant improvement to 11.3% at the end of December '21, from 17% at the end of 2020. Looking at the structure of loan issue, we continue with the trend observed over 2021.

Now let's move to slide 10. In Q4 we saw further increase of net impairment charges that was driven by rescheduling two significant spot debt sale transactions from 2021 to 2022. It's worth mentioning that one of those has been realized already in January '22. The next one is upcoming. Our actual Q4 net impairment charge equals 21.5 million euro.

Now moving to slide 11, we continue to keep the good quality of the loan portfolio and newly issued cohorts. Of the five months on the books, you can see the Q3 cohort is within expectations and positions between Q1 and Q2. That's all from my side. Thank you and over to James.

James Etherington: Thanks, Marek. So moving to slide 12, just to reinforce another solid quarter of EBITDA delivery there that 27.2 million, bringing as Kieran said, over 108 million for the full year. The online portion there does include about 3 million euros of premium from the loan sales to TBI that doesn't get included in the consolidated results. Perhaps that's an unfair picture on TBI in the graph, but it is still actual cash delivered into the online business, then the leverage we have continues to reduce. So we've had a fair amount of excess cash since the refinancing.

We had budgeted some buybacks in 2022 and actually, given some of the market dislocation we've seen recently, we had an opportunity to purchase some larger blocks of bonds recently, which we did. You can see the split there, roughly even between the two at 2025s and 2026s, so we have further deleveraged the business, and that will save us just on those purchases some 3 million euros of interest expense annually.

And we still maintain a good cash level of approximately 60 million euros even following those repurchases. And the leverage, as Kieran mentioned, on a net debt view that's come down even further from -- from last quarter, we're down pretty much to two and a half times now. So I think that's a pretty strong position to be in from an EBITDA and leverage perspective. So now I'll hand over to Kieran, on what our outlook looks like.

Kieran Donnelly: Thank you. So looking at what are our growth opportunities for 2022, what are our plans, what we were planning going into the year? So on the online side of the business, to continue to grow and optimize our existing business, there's still opportunity here for us to do both of those things; to grow them and to optimize the business.

And it's it really is about getting into the weeds, and the details of the customer journey, of the unit economics, of every piece of a business. And we think there's room for improvement. And that improvement will also mean growth for us, as we have a better customer offering going forward and continuously work on that.

The second is that we are developing new products. We've launched a three-month product in Spain, actually it's still in the early days, but the sales are very much exceeding our expectations and the risk is coming on in line with expectations.

So we're quite hopeful there. We're also looking at a three-month product in the Czech Republic. We're looking at a salary advance product and we're working on that primarily in Poland. And we're also looking at loans targeted for self-employed people who are registered, say as self-employed, or as entrepreneurs, for example, in Spain or Czech Republic.

One interesting thing here is, because we operate in a number of different countries, we have that ability to experiment with a product in a different country, we don't need to launch it across the whole network at the get go. So we're able to move ahead in a very prudent manner. And the third growth opportunity we are very carefully, which we've spoken about before, searching for high quality acquisition targets.

You may recall, we were very close to closing a transaction in the Philippines, which we postponed because of some regulatory uncertainty. We're working on clarity around that situation, it seems to be moving in the right direction. So we may be able to proceed with that transaction. But again, we're being very cautious, and very careful in that and we are looking for other acquisition opportunities as we move forward.

On the bank side, continued growth in their core markets, the entry into Greece and the TiBuy consumer ecosystem that they've been working on. Those are the drivers of growth on that side.

Our key challenge: Well, we actually did not update this slide except to show our solidarity with the coloration on the left hand side with Ukraine. But other than that, we didn't update it from a week ago, and obviously the key challenge for everyone right now is what's happened in Ukraine with this war. And so that's kind of added on to this key challenge.

But the development in the regulatory side, of course, is always something that is in front of us and we're working on. I think we have good traction and following of those of those issues and working constructively with -- with the organizations that are discussing these directly with the members of the credit directive committees in Brussels and moving forward there.

Of course, there's inflationary cost pressures, which do not seem to be abating and how those are going to impact on the personnel side, particularly on the bank. There are challenges around the requirements of MREL and the funding mix, although, I think we have a plan that can address

those and we have time to do it. And I think we have the resources to manage that.

And of course, with TBI Bank there's always, given the rate of growth, we are conscious of that rate of growth, and then that has to be managed. So again, all of this is there. It was a very good year for us in 2021 a year we kind of regained our traction, returned to profitability, returned to the focus on the business.

2022 was to grow from that success and now we're dealing as coming out of the pandemic, which -- which I think we're all hopeful about where things are going with COVID, that perhaps Omicron was the factor that was going to actually lead to getting out. Kind of getting worse before it gets better, now we're dealing with a war situation and how that's impacting and the uncertainty in there.

So while we are optimistic about our business, and where we stand in the business, it's all overshadowed by what's happening now. We would very much like to hear your questions and any discussion. So we'd like to open up to your questions and please feel free to address them to any one of us. Thank you.

Ezequiel Freylejer: Hello, thank you. Congratulations to the whole team for the performance.

This is Ezequiel from Altio, nice to talk to you again. I hope you're all right. Thank you. So I have three questions that I'm going to lay out the three and then you'll tell me if you want one by one. So the first question is in terms of profitability, the measure that I look most, and I'm glad to see a very healthy number, is post provision operating profit margin, which is stood up as 20%, which is amazing, and congratulation for that.

But of course, I'm seeing lower net interest margin compared to '19, which I don't mind as long as they see higher cost operating profit margin. So the question there is, are you not planning to go back to those margins in net interest margin 2019 because you believe that is better -- better manage the risk and lending a lower rate to better clients?

That's the question. If that's the trend that I'm seeing, or you intend to go back to that margin that you see in '19 and risking a little more portfolio? That's the first question.

The second question is regarding Poland. I'm trying to see the potential regulatory changes, but what I'm seeing, of course, this is relevant to your portfolio to the 22% of your interest income. But based on what I'm seeing the potential changes in regulations are more towards non-interest cost caps, not like interest caps, is that the case? Sorry, because as you know, I'm new to the name since 2021. I do not recall your product that there it is -- you charge more fees or you charge more interest rate, so how that will affect to you.

And in case you see that it affects your overall business there since you have been successful on deploying the TBI Bank in third country, maybe as you know, when there are some regulations over, say non-bank institutions, the better way to go is to have a regulatory bank to lower your cost of funding, and still be profitable taking advantage of the good origination that you have in that country. So that will be my three questions, if you don't mind.

Kieran Donnelly: Great. Well, thank you for that. Good questions. And Marek, perhaps you want to take the first question -- then I can add on with my own view.

Marek Kujawa: Sure, sure. You mean on the profitability and the coming back to the -- to the previous experience, and also the ratios experience from 2019. Well, we came through long road over the COVID. So what we are doing now is optimizing the profit. So if we found a way, or if we see the potential to increase the risk, increase also profitability, the fees, we will look at this direction as well.

So risk is very important help you -- quality of portfolio is very important, but it's not like ultimate measure or ultimate ratio. So again, once we found and we can get back to higher profitability, even increasing the risk, yes, we will definitely look for this option.

Kieran Donnelly: And just to add on to that, as Marek said, and as you yourself said, that the profitability margin after provisions is the one that counts. So, as Marek said, we're not managing to a risk number, we're managing to a profitability number on the business. So that's, I think, where we're looking at the same metric as being the most important one.

The mix of the business is something that we're constantly looking at, as far as you mentioned. Do we go back to some of the mix in 2019 or not? Well, that really depends on the opportunity as we see it developing. The second question about Poland and the change in regulation, discussions about the regulatory change, we're mostly focused on the non-interest rate portion of it and that's the discussion.

The discussion has been around levels, that we're going back to the levels that were during COVID, where we had a profitable business, and we were operating successfully, where some of our competitors were not. So yes, it's a switch mostly on the non-interest and our fee -- our fee is mostly on that side of the non-interest income portion. So the regulation will impact.

But again, it goes -- it all depends on the final analysis, where that number of the cap ends up. If it goes back to where it was, during COVID, we know we can operate profitably there. We are not now operating at the maximum amount. We operate within the cap quite profitably and we know we can operate at the cap that was in place during COVID properly.

So there is a debate going on, and where that debate is going to end and come out, this is something that is certainly not at the top of the agenda in today's -- in today's environment. So we don't know where that -- when that regulation is going to come into effect and what impact it may have. We do not anticipate anything happening in the first half of 2022.

And again, third part of your question, or the third thing was about using the bank. One of the reasons why we purchased the bank in the first part was to give us the optionality that you discussed.

So yes, that would be depending on what regulation changes were to happen in Poland or in any other market, where we would have the option of using the bank to provide either less expensive funding or as a regulated entity to perhaps be subject to different regulations. So yes, it's certainly something that we consider and look at.

Ezequiel Freylejer: Perfect, thank you. Maybe the last question, in Greece, do you have an estimate of the investment that you're entitled to do, especially since you're going to go through the regulated entity? I mean, in how much you intend to invest in 2022 or maybe 2023 to have the bank up and running until you are profitable?

Kieran Donnelly: So the budget for 2022, James, correct me if I'm wrong, but from memory it's 3 million euro.

James Etherington: Yes, that's right for the Greece investment.

Ezequiel Freylejer: Okay, and you're -- do you think that you are going to become profitable in Greece by when?

Kieran Donnelly: We should be profitable Greece in 2023. Just please remember that in Greece, we're not going in in the physical way. So it's an online, and we're leading with our merchant solutions product. And we are going in with existing merchant partners we have from Bulgaria into Greece.

So we're going in on a running start to certain extent, and with a low-cost online operation, so we don't have physical presence to drive up costs, and our marketing presence is point of sale, we don't have a high marketing spend to also weigh down the business as we go.

So we have a partner. We're going with the merchant solutions immediately and it's online. So those things is why we I think --

Ezequiel Freylejer: Oh, online.

Kieran Donnelly: -- profitability. Yes.

Ezequiel Freylejer: Okay. Okay. I thought it was TBI bank. Okay. So you're not going to become a regulated entity in Greece.

Kieran Donnelly: Well, we are regulated with a full branch of TBI bank.

Ezequiel Freylejer: Okay, branch. Okay. Got you.

Kieran Donnelly: It's a full branch. Yes.

Ezequiel Freylejer: Can you capture deposits in Greece or not, to your branch?

Kieran Donnelly: I believe we can, yes.

Ezequiel Freylejer: Okay. Okay. Thank you very much.

Kieran Donnelly: Not our main target because again, we're not putting branches and such in place. So no physical presence. So the collection of deposits isn't the strategic objective.

Ezequiel Freylejer: Okay, gotcha. Thank you very much. Congratulations and hopefully we can continue to see this trend.

Kieran Donnelly: We're working hard for it. So hopefully,

Ezequiel Freylejer: I know, I know. Okay, thank you very much.

Kieran Donnelly: Okay, first of all, thank you, everyone for dialing in. We appreciate your support. Many of you have been bondholders for many years, and we appreciate the support. We are working hard to continue moving the company forward. I think we are very, I'm very lucky to have a very strong team working with me and a lot of hardworking, dedicated people throughout the whole structure.

Hopefully, this war will come to an end soon and we can find a peaceful resolution to this. And then we can all carry on with our lives with businesses normal. And so we're all hopeful and we're very much supporting those that have been dislocated and victims of this war.

So hopefully, it will end soon. Thank you very much. And please don't hesitate to reach out with any other questions you may have. You can reach us by email, et cetera. We're always happy to answer your questions. Thank you very much. Take care. Bye.

END