



4FINANCE Q2 2022 RESULTS CONFERENCE CALL

Thursday, 1st September 2022 15:00 London

Kieran Donnelly: Thank you, everyone, for dialling in for this call. We're quite happy with the results that we're going to be talking to you through today. I'm joined with James, CFO whom we've all met before and Marek, our chief risk officer, who you also know.

So if you have the presentation in front of you, I hope you do. We'll be starting off on slide number three, which is a quick summary of the six-month 22 results. Before I go into the results, I just want to comment that you see we still have on the left-hand side the colours of the Ukrainian flag.

So we still, unfortunately, that situation, conflict, war is still out there. The impact on our business, however, has not been an issue for us on that side. But we're still thinking of and trying to support people in that area who are directly impacted by the war.

So onto our business, we have very strong performance in the second quarter and following the sale of the Polish business and the integration of the Philippines, you see we have 31 million in EBITDA, which is the second highest since 2018, only surpassed by the first quarter of 2022. So you see there in the right-hand side on the bar chart, we have the number which was adjusted for taking out Poland and putting in the Philippines, to 25.8.

So that is the adjusted number for the first quarter. But you see therefore that we have recovered quite well in the second quarter. That's the Philippines has helped in that. But also a lot of that which we'll try to show you as we go is also very strong performance in our existing businesses.

Interest income growth has been strong in the continuing products, it's overall up 15% versus the first half of 2021. And it's nearly the same as the Q1 levels, again where we've really recouped a lot of what we lost with the Polish business. On a like-for-like business point of view, so taking the Philippines out of it and taking Poland out of it, the issuance year on year is up 25%.

So the core existing business has grown very well over the last year and it's even just over the first quarter, it's up by 10%. We've continued to chip away at our cost base. So we have higher sales, but we've also reduced our costs, which is helping with the cost income ratio and of course helping with profitability.

TBI Bank has had another extremely strong quarter and so we're very, very pleased with what's happening at TBI Bank, and their expansion into Greece is off to a very good start. Their portfolio growth. So things there are going very well. We have had an increase in cost of risk, which Marek will walk you through a bit later on in the second quarter. That is mostly due to a change in the mix of the portfolio.

For example, adding Philippines, which is a higher risk, higher income model than the lower risk, lower income model that we had in Poland, for one thing. And also, we have a lot of growth in new to bank customers. So our new to business, I should say, customers. And so as they come in, that's going to increase our risk until we convert them to returning customers.

Moving on to slide number four, I just wanted to emphasise this growth in the like-for-like business. So again, this is taking out the influences of Poland and of the Philippines. This also doesn't include TBI Bank. This is just the core online business that we have. And you can see here that we've had very strong growth in those core markets, which is helping to support the opportunities that we have to expand and to do things like we have done in the Philippines.

So with that, I'd like to hand over to James and take you through the next few slides. James.

James Etherington: Yeah. Thanks, Kieran. So on slide five, we can see the overall issuance picture that obviously shows the effect of Poland coming out there. That was quite a high-volume market given the short-term product we had. But already you see the Philippines contributing strongly and growing its issuance. Again, TBI doing very well on their products. That's the orange-yellow line there with volumes up strongly in all areas of TBI.

So for the interest income, those three growth areas we've talked about the core online business, the Philippines and growth in TBI that's brought us up to nearly 80 million for the quarter and already back pretty much to those levels that we had in Q1.

So on slide six, it's a familiar picture, I know there, but the interest income remains well diversified. You see the Philippines coming in from Q2 and that proportion will grow, and no market represents more than a quarter of the total there. And also just to highlight this is only including the income from our regular customer loans. In our total revenue, we've also got fee and commission income from the bank and that's growing, and we have additional income on the loan to Poland and some shared services there.

So whilst the interest income's up 15% year on year because we have some reduction in interest expense and the growth in those fees and the other income, the overall revenue line is actually up 25% year on year and Q2 was slightly higher than Q1. So I think it's a solid performance on the income generation side. And that obviously helps if we look at slide seven on the cost income ratio to balance that ratio as well.

So on costs, we've managed to bring the cost income ratio down below 50% in the second quarter. We've had some good reductions in online in particular. Of course, some of that is from Poland coming out and Philippines coming in. That's a reduction in absolute terms, but we continue to be very focused on efficiency.

And with TBI, yes, there's some growth there, but again, we're seeing that top line come through as well. So we're staying well on top of that ratio. We are seeing cost pressures given where inflation levels are across our markets. So that search for efficiency and optimising across the business is really important for the second half. And it has to really be a continual process for us.

Turning to slide eight, we've continued to build that financial track record through these results for the second quarter. So the margins remain very good. EBITDA margin at 40%. EBIT margin at 22% for the first half. So we're tracking well above last year on both those metrics. So EBITDA is up over 25% and profit before tax is up over 50%, and the interest coverage ratio has improved again. So the equity ratios also have kept pace again with the asset growth. And even after the dividend payment we've made in July, they're still very solid and with good headroom to the covenant levels.

So now I'll hand over to Marek to talk about the portfolio and the provisioning.

Marek Kujawa: Yeah. Thanks, James. Let's talk about the risk numbers. Starting from slide nine, we continue to observe growth of receivables that at the end of the second quarter, results reached 738 million, which means 7% increase quarter to quarter. 84% of those are consumer loans. We also observed improvement on NPL ratio to 9.6% from 11.3, that we observed in the end of 2021.

Now, let's move to slide ten. In Q2, we saw an increase of impairment charges that was like as expected. This is the Philippines get in. Poland, get out of the balance sheet. Actually, Q2 impairments charge are €20.4 million. We continue active, forward flow and spot debt sales transactions.

Moving to slide 11, we continue to keep a good quality of the loan portfolio. The changes that I just mentioned before are just purely caused by a switch or a change of the portfolio. Sure, slightly higher level is visible on Q2 as I said is because of the product change both on Poland and the Philippines, plus still increasing share of SPL, like the short-term loans versus the long-term loans. That portfolio we are slowly decreasing.

The graph on the right side presents the vintages excluding PL and including Philippines. It's quite interesting because it shows what will be in the future because basically that graph shows actual status, that shows what we can expect. Obviously, we switch, we change like Kieran mentioned before, we make a switch from Poland to get out, Philippines get in.

There's a big difference in risk numbers, but also big difference in the profit numbers. So basically, we changed very good business to very good business. Looking at the only pure line of risk, we can observe the assets increasing because the Philippines risk is higher. So again, from the revenues, we've got more benefits than the difference on the risk. That's why we decided this time also to show what we have forecast for the next months.

Well, that's more or less all on my side. Thank you. And I'm passing the voice to James.

James Etherington: Thanks, Marek. So on slide 12 then with the EBITDA breakdown, you see the Q2 result again bringing over 30 million in quarterly EBITDA for Q2 and credit to TBI team in particular for a very strong performance this quarter. But the online part as well, doing well it's at 16 million. That's consistent with what we were showing for Q1 with a bit of growth, and it basically represents two times coverage on the bond coupon expense we have there, again just from the online business, which is important.

We did buy back a further €5 million of the 2026 bonds just before the summer. So the bond notional has been trimmed down again to about to €80 million, net outstanding. So just roughly, if we take only 25 million pro forma from Q1 and 30 million from Q2, then that's an annual run rate, on a current business footprint, around €110 million of EBITDA. And that gives a net debt to EBITDA of around two and a half times.

So that's come down consistently. And if you compare it to the four times we had a couple of years ago, I think that's really quite a lot of deleveraging over that period. With that, I'll hand over to Kieran.

Kieran Donnelly: Thank you, James. Thank you, Marek. So to kind of wrap up and then open up the floor to your questions. It's been a very strong six months. And I would think that even if we give you there, if you look back on slide four, where we showed sales in the core business in July and August, you can see we're off to a good start even into the third quarter, that August sales number actually being the highest in the last two years. Not just this year, the last two years.

TBI is performing well, strong profitability, good book value growth. We do not stop on our drive for efficiency across the business and we continue to look for that while we made significant improvements in that during, I would say, particularly in 2021. You don't stop. And saving, you don't just look for a savings where you have an opportunity to save a million or even just save half a million. You get there by saving 10,000 here, 5,000 there and it all adds up.

So we're constantly looking for those opportunities to be more efficient in how we use our resources. The plan as James just mentioned on a run rate of the business, the footprint, and that's adjusted for the sale of Poland and the acquisition of the Philippines. We're at a run rate of about 110 EBITDA and the business continues to be well diversified.

And we have strong – for those of you who like to look at the asset coverage side, if you look at the online portfolio and the book value of TBI Bank, which is now some – James will correct me exactly. But it's roughly 175 million; or 100 million more than when we bought it is a nice way to look at it. So we have strong asset coverage ratio for the 280 million outstanding bonds that we have.

We're very much focused on the loan issuance in our existing business, the growth opportunities we have. We think we continue to have opportunities within our existing markets, both by optimising our customer experience, our customer journey, the funnel by continuously looking to improve our marketing methods and to not ever give up in this ever-changing environment.

And that macro environment that we're in now, it gives us both opportunities and challenges here, which we've discussed before and the increase in inflation. And now as we head into the winter and people's fuel prices again, that brings opportunity for us as well as some challenges. We'd like to remind everyone that the vast majority of our book are short term-loans.

So our customers are entering into loans with full knowledge of their current situation versus someone that took out a loan a year ago before this stress of the increase in fuel prices, electricity. So our customers are borrowing the money knowing what their capabilities are at that moment, and we are assessing them at that time based on the credit data available at that time for it, which is a significant reduction in the risk exposure versus an instalment loan business.

And it also as more difficult times come, customers that normally wouldn't need our service, come to us. So there is a growth opportunity in there. So managing that risk that comes with this environment alongside the opportunity that comes is what we're working on in a day-to-day basis.

So thank you for listening. Now, we would very much like to address your questions. So can you please open up the microphone to questions?

Edward Davis: Hi. Edward Davis from WiseAlpha. Could you just tell me, please, what the net consideration was for the sale of the Polish business unit and the acquisition for the Philippines business unit? Thank you very much.

Kieran Donnelly: James, would you like to answer that one, please?

James Etherington: Yeah, sure. So on the equity side for Poland, that purchase price is €18 million for the equity - there's a large component of loan there still in place - and that's payable in instalments. And then on the Philippines business, there was a price of I think 6.6 million there for the equity. And then we also purchased the loans to them for another five. So just under 12 million in total.

Edward Davis: Thank you.

Frank Oliver Lehmann: Yes. Hi. Good afternoon, James, Kieran and team. It's Frank Oliver here. Just, first of all, congratulations to the report. It looks much better than what I had expected. And two questions, one is on the dividend payments from the bank. What's your budget for the next year? What will you want to see the bank pay in dividends to the online business?

That's one of my questions. The other one was if you can maybe shed some light on the cost of risk of the Philippines business because it's kind of flagged on a few of your pages and it seems to be significantly different to what the existing online business assets cost of risks. Thank you.

Kieran Donnelly: Well, the first question on the dividends from TBI Bank, we're still waiting on the approval from the BNB for the dividend to be paid. To remind everyone, the dividend has been reserved. So it's not counted in the capital calculation for TBI Bank at this point in time. But we're not alone all of these dividends, so it's not a 4finance TBI issue. It's across the board in Bulgaria. We've been told that any week now, but we've been told that now for the last James, what is it, four, five weeks? We've been told any week now. So we'll see. And as far as budgeting for next year, we're about to do our budgeting process. So we haven't done a budget yet for 2023. So at this point in time, we don't have a budgeted outlook for the dividend payment from TBI Bank.

What I can tell you is that we will look at that in line with what's the best use of that capital for the good of the group and what is necessary or needed to be given it up. What cash needs there are versus the opportunity in the growing TBI Bank, which is a huge value as I said. Its book value has grown 100 million

since we purchased it and now 175 million book value in a high growing, well-capitalised institution with very high return on equity.

On the second part of your question, Marek, about the risk in the Philippines.

Marek Kujawa: Yes, I can say something. So, of course, this is just a matter of the business and the model of the business. So obviously, on Philippines, we observe the higher risk numbers like a higher number of NPL, but then the revenue is compensating much more this discourse. And I believe what we also showed last call and the previous calls, we are looking strongly at the benefits and the profitability.

So, if there a chance to even increase risk, but if we can increase revenues even more, that's opportunity for us. That's why we decided to go to Philippines. So, yes, answering the questions. Philippines has a higher cost of risk, but then revenues are overcoming this increase. So basically, this business is very profitable.

Kieran Donnelly: There's also the technical point that we have a shorter write-off period in the Philippines. So we're writing off the Philippines at 60 days versus 90 days. So that also adds to the accounting treatment that you see.

Marek Kujawa: From the accounting perspective, yes this is worth to mention. From the accounting perspective, we are doing the default at 60 DPD. Overall in long-term run, it does not change much.

Frank Oliver: And if you allow me just one follow-up question here. If I look at your page ten, Marek and I see the cost of risk on the online business go up from 16.4 to 27.8. A part of that is the takeout of the Polish business and the inclusion of the Philippines business. Has that driven that ten-point jump, or can you

maybe comment on that a little bit? What's the impact of the Philippines' business? Page ten, the online line. Yeah.

Marek Kujawa: Polish business is quite a low-risk business with a low yield. Like comparing in Polish, we were charging like 16-17% per month. Yes. That's why the risk levels were much lower. In Philippines, the yield is higher. That's why we can accept higher risk in this case.

Frank Oliver: All right. Thank you very much. And all the best for the fall and the next two quarters. Speak then. Bye-bye.

Kieran Donnelly: Thank you, Frank.

Marek Kujawa: Thanks.

Sam Atassi: Yes. Hi. Thank you for taking the call. Sam Atassi here. Quick question. You've had a pretty strong loan issuance in the quarter. Given the uncertain environment that we're in, do you plan to tighten the underwriting standards or what's your strategy regarding loan growth issuance going forward?

That's the first question. And the other question regarding your bond buyback. What's the strategy around that? Do you do it opportunistically or do you have a certain target in mind where you'd like to get to over the next say 12 months in terms of bond buybacks?

Kieran Donnelly: Okay. So on the first question, as I mentioned earlier, the macroeconomic environment gives us both opportunities and risks. And we are not specifically tightening up our underwriting criteria on our short-term 30-day product. On longer-term product, which exists both within the bank and we do have some longer-term product, which we originated fell to the bank in the Philippines. I'm sorry, I meant to say in Lithuania, and we also have some longer-term product in Latvia.

So on those products, we are tightening up. But on the 30-day product, it actually doesn't make sense because we are assessing them in a 30-day period at that time. So it's kind of already baked into – the current environment is already baked into that credit decision. But on the instalment loans, yes, we are. And we have actually already tightened up.

On your second question about the buying, we have been opportunistic in buying back debt. We've been looking at our opportunities to put cash to work in our businesses versus you all enjoy quite high coupon bonds, which we have to pay. So we're looking at well, if we have excess cash, it makes sense for us to reduce our interest expense and buy back those bonds.

So it's a constant analysis. Right now, I think we're in a good balance, a good position. We have good loan growth. But we will continue to be opportunistic. We will continue to be strategic in thinking about what's the best use for cash at that time that we see. So we do not have a specific target or goal.

Sam Atassi: Got it. Thank you very much.

Kieran Donnelly: You're welcome.

Kieran Donnelly: Okay. Well, again, I'd like to thank everybody for participating in the call. As always, we very much welcome any follow-up questions, please reach out. We'd love to hear from you and thank you for your support. And we will endeavour to do our best to continue to issue responsibly, to manage cost-effectively, and try to grow the portfolio and grow the value of 4finance. Thanks very much. Have a great day.