4finance FY 2022 unaudited results conference call

Thursday, 2nd March 2023

Participants:

Kieran Donnelly – CEO

James Etherington – CFO

[Operator instructions]

Kieran Donnelly: Thank you very much. Welcome, everyone. Thank you for taking the time and having the interest in our company. I think we're quite proud of the results for 2022, and we look forward to your questions at the end of the presentation. So, as I said, the 2022... we're quite proud of the results, but I think as you can see, we continue to have banner on our presentation of the Ukrainian flag. So it's been a year that this war has continued. And so we, you know, hope that we will not, you know, be continuing this practice next year. So hopefully that the war can end but it's there still.

But despite that, we had a strong, very strong 2022: profits were up 32%, EBITDA was strong at €122 million, with a nice margin of 37%. Interest income was up, strong loan issuance, the cost/income ratio was down to 45%. TBI Bank continues to grow with another strong, actually record quarter and particular growth in Greece.

Asset quality is stable and it is in line with our expectations, particularly reflecting the change in our portfolio, which we'll talk about a little bit more later on.

Our balance sheet has been improved during this year, not just because of the earnings, but also because the related party loan that we have has been reduced by €30 million and we've repurchased €19 million in bonds, and that was just in the fourth quarter.

If you look up at the bar chart on the upper right-hand quadrant of the slide, you'll see that we present in the different colour blue, the more grayish blue €25.8 million for the first quarter. That is the pro-forma taking out Poland and including the Philippines. So you can see we have recovered, and if you look at our Q4 of 2021 EBITDA and compared to the Q4 of 2022, you see that we have overall on our business recovered our EBITDA levels and have replaced what we've lost when we sold Poland.

Next slide please. As I mentioned, TBI Bank continues to grow quite profitably. It's at a very strong year with issuance growth up over 35%. A lot of that is due to the fact that there's been an increase in the digitalisation, something we've been working on for the past number of years, the positive launch in Greece, which is exceeding our expectations. The launch of our app, the launch of the Neon card. All of these initiatives are supporting this growth in a responsible way. They have purchased from the online side of the business or the old core business €28 million in loans. So that process, which has been a number of years in the making, is working very well. And we've received up at the Holding a €10 million dividend from TBI.

Next slide please. One thing that I think is important for us as a business to focus on and would like to highlight it to our investors is the 'like for like' loan issuance in the online side of the business. So, excluding Poland, excluding the Philippines, just our old core business, excluding TBI, we see that it's 16% growth. We think an important part of our strategy is to continue to focus on our core, to optimise our core, to grow the core. Yes, we are trying to grow through acquisitions like in the Philippines, TBI Bank is growing this, but it's very important that we have a focus and do not ignore our core and continue to work to optimise that and I'm very happy with the 16% growth we've had and we look forward to more growth in 2023. As you can see, in January, we're off to quite a good start.

Next slide please. Speaking about the acquisition in the Philippines. This is also something that has worked quite well, so we purchased it in the beginning of the second quarter of last year. Growth rates overall, if we're looking kind of the growth trend, is on the 50-60% level in loan issuance, there was a stable period during 2022 when new legislation and regulation was being implemented. During that time, our app was not being used because everything was being reviewed. That was reviewed, passed all regulatory scrutiny, was relaunched, and now we're seeing more growth for the app again. And, given the size of the market and the size of the opportunity, we launched a second brand there, Peso Redee on top of Online Loans Pilipinas. So we have two brands operating in this market of 110 million people, and we're seeing very good growth in the second brand already and we're very optimistic about our prospects in this country going forward. It's contributed for the nine months €4.2 million in profit.

James, you want to take over, please?

James Etherington: Sure, thanks Kieran. And hello to everyone. So yeah, slide 7, we have the overall issuance and income that we're generating across the business, and that brings the picture together. So Q4 overall, it's been a strong quarter as Kieran said. So up again in TBI and maintaining that good Q3 level in the online business, which I would say is actually ahead of our expectations, as we went into the winter, so that's good.

We've also updated the right-hand side here to show the total income, so it's both the interest and non-interest income, including all fees. And you see this has grown nicely, so it's up 10% in Q4. And in Online, that's actually the first quarterly increase overall in 2022 where literally every market contributing to that growth. So Spain was the biggest one, but it's great to see the growth coming across the business.

On the technical side, we've also reclassified a few items like corporate loan income into interest income, and where we have non-interest income like in Philippines and Lithuania for some products, we reflect that in the appropriate line, but I think the total is what's important and we have a nice increase for Q4.

So if we look at Slide 8. The interest income remains well diversified – I know that's a very familiar picture by now, but we did want to show the breakdown of the full year result because that doesn't include Poland because we report that separately now as a discontinued operation. So it has its separate line on the P&L. And even with that we still don't have any markets you know more than a quarter of the total, so the diversification's still very much an important feature for the business.

Looking forward, we'll start having income for some new areas, so Greece for TBI and then on the online side at very early stage, but we've started a joint-venture in the UK. So that would come in. And the Philippines contribution, obviously it's growing anyway, but it was only into three quarters of the year in 2022. So that will also pick up as we go through this year.

Now if we move to slide 9 on the costs: cost/income ratio, as we've said, improved to 45% in Q4, costs held pretty flat in online – particularly we're being very targeted with our marketing spend there, particularly in the broader areas like TV. And at TBI, we had some additional investment, things like the Neon card launch there, but with the increase in revenue base it was very substantial. So overall that ratio has continued to come down. Being efficient across all areas of the business and how we manage the costs obviously is very important because there are still, you know, inflationary pressures around across the markets, but that's something we remain obviously very, very focused on.

We turn to slide 10. You see the result of that overall, and we've delivered the highest profit in recent years to 2022 at €41 million. So continuing to build that solid financial track record. The margins also remaining very solid, and on the EBITDA side we've increased that again at the same time as decreasing the leverage during the year. We'll have a look at that more later on in the presentation, but that's continued that story and the interest coverage ratio is very solid as well.

I think the equity to assets ratio has decreased slightly as we've had that strong loan growth at TBI and it becomes a greater proportion of the overall balance sheet -- you'll see that in the portfolio -- but they obviously have their own capital requirements that are the relevant ones, and and I think effectively the ratio of the online business is higher, and we're building our equity base still. So the overall book value is nearly €200 million now.

So on slide 11, you see that good loan growth in Q4 with 10% increase at TBI. We've also had an increase in online, and bearing in mind that we are selling Lithuanian loans there to TBI faster than originating them, the growth in the rest of the book actually was a couple of million euros higher than you see here. The NPL ratios as well have continued to improve across the business because we're managing that NPL portfolio very actively through sales and things in both online and TBI.

Let me hand over to Kieran to have a look at the vintages and asset quality.

Kieran Donnelly: Of course, this growth rate in this environment over the past year, both from the impact of the war and the impact on inflationary pressures across our markets, obviously there's been concern and questions about portfolio asset quality.

And our asset quality has held up very well. You can see on the left-hand side of this slide the vintage 90+ DPD for the quarters going back and you can see that it is very much in line with our past experience. So we're not seeing any deterioration in that risk. If we look at a shorter-term period if we look at 30+ DPD. So you know this way we can get more recent data to look at. You can see there is a little bit in that part there, that dark from the third quarter of 2022. And that also, we must keep in mind that our portfolio makeup has changed as far as we have swapped out Poland for the Philippines. The Philippines has a higher risk structure and that's where the profitability,we do not manage to a risk number, we manage to a profitability number, an operating profit number -- and so in the case of the Philippines, the higher risk brings us a higher profit versus the model in Poland, where a lower risk was better. So this is within our expectations and we believe is a way for us to optimise the performance of the business.

If we go on to the next slide. You can see that the net impairment charge in the quarter is growing, that's growing in line with the size of the portfolio, which is also growing, and as I've pointed out in the past with investor meetings, if we look at the bar chart, the part that is below the dark blue. This is what we've recovered and it is essentially our over-provisioning. I like to monitor this number, this statistic as a sign that our provisioning is conservative, that we are careful in what we're doing and that we'll bring back. So I think our provisioning continues to be prudent. And you could argue too conservative or maybe shareholders could argue it's too conservative, but we believe it's prudent and comfortable where that is.

Cost of risk at the bank... If you look at the cost of risk number, which a lot of people that follow banks do like to look at, you can see that for 2022 was actually better than 2021 5.1% versus 5.5%. We do not track and we do not believe it's applicable to look at the cost of risk number for a short-term product business (online) and our vintage analysis is what we use there, which we've talked about before and which we monitor very closely, actually watching and reports on a weekly basis for all our portfolios and all our products.

James Etherington: Thanks, Kieran. So slide 14, as we've said, we've delivered another solid quarter of EBITDA, both in online and TBI, and were particularly pleased to complete a significant reduction in the related party loan in Q4. So that's reduced by more than half and that's given us €13 million in cash and a significant reduction again in the bonds outstanding.

So that total notional down to around €260 million. And that's an important, you know, improvement again I think in the leverage metrics for the business. So you know maybe they're listening now. We hope that that's something that our rating agencies will be taking note of. That's, you know, been a big change as you can see from start of last year to this year, it's nearly a half actually, the overall leverage multiple down at just over two times in terms of the bond debt, overall EBITDA, and we also covered that interest expense still on the bond side twice with just what we generate from the online business that interest expense you know is some way below €30 million now with these latest reductions. So I think there's good progress financially made in 2022, particularly on those credit metrics. So I pass back to Kieran.

Kieran Donnelly: Thanks, James. To sum up, so we can quickly get to your questions:

2022 was strong performance and, you know, and challenging times. We sold the Polish business in a very difficult time under very tight time constraints. We've closed the Philippines acquisition, which was done over a long period of time after careful due diligence and consideration. The coincidence was that they happened one after the other, which actually was fortunate that we were able to replace the Polish performance with the Philippines and with the growth in the rest of our businesses.

So that 32% growth rate, EBITDA growing, the interest income growth, which of course is important along with the growth of the portfolio which will support further growth as we move forward in our interest income and in our profits.

TBI's new initiatives in Greece with the consumer app, this orange Neon card, all setting us up well for 2023 performance.

I think our balance sheet is in some of the best shape it has ever been, not only because of the debt reductions that James spoke about, but also the quality of the balance sheet with our related party loan reduced by €30 million.

So these strong credit metrics you know with our strong asset coverage, I think puts us in a very strong position to weather, you know everyone asked me and we just celebrated our 15 year anniversary, as a business...and people ask you, what's the secret? You know, how did you last 15 years? And I think the key is that, you know, we have a culture that adapts and embraces change. And we have gone through, you know, many different financial cycles: pandemic, now war, regulatory changes and you know competitive changes. And through all those changes, 4finance has found a way to adapt, to change and to keep moving forward. So this resilient track record I think is something that we're proud of and something that you know, we understand that having a strong balance sheet and a culture that embraces change and finds solutions is what's going to keep us moving forward in the years to come. So thank you very much for your attention and please ask whatever questions you may have.

[Operator instructions]

Frank Oliver Lehmann: Good afternoon. First of all, congratulations, Kieran and James, a reasonably good quarter. I have just three questions left. One, to my surprise, you want to enter the UK market and in a joint venture. Maybe you can shed a little bit of light on what the benefits are and what the prospects are, what are you seeing there in a few years, what that asset base could be in the UK? My second question would be on debt sales. It has been observed that some of the buyers of defaulted reference claims have shut down now. Are you feeling that in the market? Are you seeing a less supply or sorry, less demand and maybe supply that can be matched by demand from the debt purchases of defaulted reference claims? And my very last question is when I look at your balance sheet and I see that the net loans to related parties have been reduced by €30 million, that's very, very surprising positive move I must say. But then on the next line, I see net loans to other parties. What is that net loans to other parties? Is that your line of credit you've given to the former Polish operations? That's it. Thank you very much.

Kieran Donnelly: Thanks, Frank. Good to hear you. Thank you for dialling in. James, I'll take the first and second question or half of the second one. And you can pick up on the rest. On the UK. Yes, I would say it's our third venture into the UK. The first one was way back before the UK came out with its regulation and we decided to exit because of the uncertainty and we were small then. At that time in the UK there was regulation being discussed, and because of the great uncertainty about that, we decided not to invest anymore, closed down, see what happened with the regulation and then potentially re-enter the market. We did re-enter the market in 2015, if I remember correctly. And at that time, we went into a new regulatory environment. Frankly, I think we went in too hard, too fast. And we stumbled. We cut our losses. And 'licked our wounds' and got out. So why go back a third time? What we've done this time is that the demand and the need for this product exists for short-term loan products in the UK. It is a clearly regulated market. The competition and most of the players left the market, leaving a large opportunity for those who could figure out how to operate effectively in this environment. Instead of going in on our own, we found a local partner who has been operating successfully, has a very strong compliance and regulatory culture that is, you know, completely and fully compliant with the new regulations. And they have found a very cost effective way to lend within the regulations within acceptable risk levels in the UK market. So we have entered a joint venture with them. And we are, as I said, the mistake we made in 2015 was we went in fast and hard, this time we're going in slow and easy. So we've started off, we've put in a million pounds to start slowly and we will see how this works and again step by step very slowly. So in this year, you asked about what size of, I would say in this year we'll probably try to build up a portfolio of close to £5 or £6 million and see how it works. If it's working, I think the potential for the future, 2024-2025, is in the order of between probably £20 to £50 million. So if it's working, it's a large opportunity, but we are going in slowly, carefully and with a proven partner who has proven the ability to operate in this environment.

Your second question about debt sales. There have been some people pulled out of the debt market, but for our side we find that there's sufficient demand. Some of the pricing, you know, hasn't kept pace for certain product segments. Particularly, say the larger-ticket loans, we've seen more softness in demand for the larger-ticket loans, the more installment loans. For our traditional short-term loans the market has held up well and I don't see particular challenges for us on that part of the market.

James, I don't know if you'd like to elaborate more on that, and then could you please answer the question on the other loans?

James Etherington: Yeah, sure. Look, I think that's fair on the debt sales, we still have, you know, forward flow agreements in place and and working and essentially all of them, I think I can only think of one provider where we kind of stopped last year and we replaced that fairly quickly. As Kieran says, the larger-tickets we have seen some pressure on prices, but we're also I think looking again at what we can do internally and with external collections to make sure we get best value there. So we, you know, we're not in a position where we just have to take whatever price is offered. We have, you know, alternatives that we can develop, you know in-house as well. I think we're in a good place there.

And then yeah, on the other loan, Frank, I think you you're quite right, that is the loan we have to the Polish business. There's no change in the outstanding there. That's still a €30 million equivalent. It just wasn't on the balance sheet at year end last year because it was consolidated out at that stage. So no change in the Polish exposure, they pay us you know nearly €1 million of interest every quarter which is useful income for us.

Operator: OK. Thank you very much, Mr. Lehmann, if you have a follow up question, please raise your virtual hand again, we will now move forward with the person Ezequiel Freylejer. Please unmute yourself.

Ezequiel Freylejer: Hello, can you hear me?

All: Yes, hi.

Ezequiel Freylejer: Hi, how are you? Well, congratulations again, very impressed by the result and especially where you mentioned you have been adapting very well to changes. So that's very nice to see. So my question is, again and also very happily surprised about Philippines and be profitable only the first nine months of acquiring the company it's very, very impressive. So, in your view, in terms especially in those markets which are big, you know and so, how you see your funding going forward to support the business? So in TBI of course you have the ability to raise deposits. But then in the rest of the markets, I mean it's more difficult to raise funds, especially under current environment. So do you think that you have sufficient funding to support Philippines? You will need more? And then the second question is when you make a decision to purchase bonds. So how you analyse the use of excess cash on purchased bond vs deploying in the portfolio.

Kieran Donnelly: Thanks for the questions, Ezequiel. Going to say we weren't surprised that Philippines was profitable, that was the plan. But yeah, of course we're happy that, you know, the team was able to execute, but remember that was an acquisition of an existing business and that was an important part of the strategy there, and I think one of the reasons why we took such a long time in making that acquisition and doing our due diligence. Very happy with the local team and the way they operate.

As for funding that business and, in fact, all of our business... the Philippines business particularly has a short-term lending business, so it's positive right now, generating cash. So actually during the course of this year, James will correct me, but you know, particularly in the fourth quarter they were returning funding to us that that we had provided from HQ to Philippines, so they had returned funding because of their positive cash flow given the short-term nature of the business. We plan that the growth will accelerate and we will probably have to put in, but it's not the same as funding an installment loan business or, you know, a term lending business. So that's about the funding. Also we've been approached locally to be provided funding from a local financial institution in PHP. So we're looking at that of course, in line with the bond covenants about other funding, but I think the opportunities in the Philippines will grow with the business growth. So as we continue to grow and it generates its own cash and it gets a larger size, I think we will have opportunities to fund that business locally as we go forward.

For funding the rest of the business, and the question about do we buyback bonds or do we deploy capital? You know, we do have bonds on our balance sheet that we bought and to the extent we see opportunities to invest that money in portfolio or portfolio growth in a return, we're looking at the yield on the bond versus the yield on the business, and we're just deploying the capital on that basis. So I think we have a strong balance sheet, we have good cash reserves and I think we're in a strong position to fund our business throughout 2023.

Ezequiel Freylejer: Thank you very much.

Kieran Donnelly: Thank you.

Operator: Thank you very much. It seems that there are no further questions. Therefore, I would say thank you very much, Mr. Donnelly and Mr. Etherington for the detailed presentation and your time answering all those questions. I will hand over for some final remarks to Mr. Donnelly.

Kieran Donnelly: Once again, to thank all the investors for your support. You know, we work hard to be good custodians of your investment of your capital and I hope we can continue to do that going forward, but thank you and have a good day or evening depending on your time zone.

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