

4finance 6M 2023 unaudited results conference call

Thursday, 31st August 2023

Participants:

Kieran Donnelly – CEO

James Etherington – CFO

Kieran Donnelly: Thank you very much. Thank you everyone for dialing in and for taking time to follow our story. If we can move on to the next slide. Just to remind, those of you who have been following our story for quite a number of years, our business consolidates two very separate businesses, actually, our online lending business and our fully-licensed bank that operates in Bulgaria, Romania and Greece. And we'll go through our story, we'll be talking about those two businesses separately, even though they are consolidated together and the bondholders have the advantage of both separate businesses. And one of the highlights we'd like to say on the online business is important milestone we passed in July was our over €10 billion in online issuance, so just on the online side of the business, over €10 billion, it's taken us 15 years to get there. I think we'll get to the 20 billion mark much faster than that and you'll see why as we go throughout the presentation.

So for the first six months, I think we had a very strong second quarter of the year and the €30.7 million EBITDA is some of the highest we've seen since the pandemic. The quarterly gross income of €109 million is the highest level we had over three years. The interest income is up 30% year on year, and this growth is really in our existing businesses as well as new. So in the Czech Republic, in Latvia and in the Philippines, we've had exceptional growth driving these numbers. We're very pleased that our cost income ratio is down to 44.7%. That's something that is, yes, a function of the growth of our income, but also we've continued to have a very strong culture of cost efficiency. And we don't go through cost cutting cycles, it's a continuous process of cost efficiency that we've implemented here and I'd like to thank the whole staff because everybody seems to have taken this on board and suggestions for savings come from all corners of our organisation, and I'm quite grateful for that. The bank, which we'll go into a little more detail in the next slide, had another great quarter of origination and the portfolio growth. This is as TBI continues to take market share in its markets and in particularly its growth in Greece. Risk situation is stable overall and we'll have a couple of slides to talk about that. And yes, we do have a growth in provisions, but it's proportional to our growth in our portfolio. So I think we're actually in a very good position on that side.

So TBI Bank, whose book value is now up to €203 million... think about that in terms of the fact that our net debt, which James will talk about later, is down to around €250 million or so, book value of the bank at €203 million. I think that shows that our balance sheet is in good position and the bonds are well supported by the assets that we have. They've had very strong growth at TBI side up 35% year on year. The deposit base is very diversified, granular. I think that's one of the very important strengths of TBI, is its ability to attract retail deposits and to fund its business through those. The progress in Greece has been consistent. And it's going months from month, strength to strength, the launch of the banking app, the lending volume is growing. So we're very happy with what's happening in Greece and we're actually

finding that, you know, some competitors are following us and waking up to the opportunity that Greece provides. The bank continues to become more and more digitalised, and you can see that we've onboarded customers through the banking app. The banking app is up to 47% versus 29% a year ago. So the bank continues to become more and more digital. So the investments we've made and continue to make in that digitalisation process are bearing fruit and we expect to see that give us more opportunities as we go forward on the cost income ratio side. The Neon card is out there, it's doing well, so that's hitting the numbers that we hoped for and we're happy there as well. And you know, we always get questions about dividends, but we really look at versus the opportunity for growth. And you know we have a bank here that has a return of equity of 20%. It's growing, it's doing very well. So I think the most important thing is to use the capital that's available the most productive way to support the earnings and the asset growth of the consolidated 4finance. Next slide.

On the online side of the business, I like to look at our 'like to like' online, so look what our business has done in our old countries. And you know in the first half we're talking about a 7% growth in online issuance... that number is at 7%. I think that we've actually cut back on some of the lending opportunities because we're looking at optimising our profit margin and some of the less profitable, still profitable, less profitable as we've been cutting back and looking to redeploy that capital. And redeploy that capital into new market opportunities. So in the UK, where we have our joint venture and the brand name Ondal. Please feel free to go online ondal.co.uk and apply for a loan and you can see our customer experience in the customer journey. We've put about £2 million out so far and we're about to put out another million over the course of the next month or so. And again, as we've said in the past, we're taking small steps. Yes, we've recently taken a slightly larger step than we have as you see the issuance in August stepping up there, but that's because we've collected data. We've been able to make some adjustments. We've been able to confirm our initial assumptions and so yes, we're stepping up and the market opportunity there continues to be very promising. The Philippines. So below, we've had year on year growth of 51%. Again, there, we're also taking a more cautious approach to make sure that we're not just grabbing the market but grabbing the right piece of the market, the right share of the market. So, you know we could have, we actually could have grown more, but again it's quality, not just quantity that we're after. James, take it from there please.

James Etherington: Thanks, Kieran. Good afternoon, everyone. So on Slide 7, here we see the overall issuance and income generation. Q2 there – that's basically the highest quarterly issuance we've had. That's obviously feeding into the revenue generation for the income and the fees. So TBI continuing to grow strongly and online, that's pretty stable overall in recent quarters, but that's not a bad performance actually, given that the second-half is usually seasonally bit stronger already for in August for example, we've issued just over €20 million out in Spain, but that's probably going to be one of our highest on record there. And for overall P&L point of view, as Kieran said, we've made some good improvements in a number of the products. So I think we feel good about the kind of quality and unit economics we're generating on that issuance. And we'll see that in the vintage analysis coming up.

On slide 8, we move forward. I think no surprises here. We continue to have a broad diversification of that interest income by country. So that's kind of split 50/50 now as well with the bank. You've got that good contribution from Philippines coming in, we can see Greece growing there and Czech Republic doing very well. And again for the future, we've got the UK JV which is picking up. And we want to bring Mexico into the picture in current in coming quarters as well. So again, slowly, nothing too sudden, but still we want to build that up overtime, and that investment now to continue that we ensure that we've got a diversified

picture in the future. That's always been part of the resilience of the business. And I think it's important we keep investing to do that.

So on slide 9, that cost income ratio has really improved further this quarter and it says 44% there, but that's 43.5%. So we're edging it down and we want to make progress into the low 40s there and it's the lowest it's been for a number of years. As we've said, it's not about cost cutting *per se*, it's about cost efficiency. We're investing to support business growth in a number of areas, but in order to do that, we have to be really honest with ourselves about the costs that we have kind of across the business. So even if that figure is stable, bearing in mind inflation is still quite elevated. You know, we're doing an awful lot behind the scenes to make things more efficient. For example, we're reviewing all the systems that we use, kind of the external systems that we have. You know what level of licenses, whether we really we need those, at what level we need them, are there better solutions available. And we've identified some important savings for the future there, and that's a several million a year spend in total. So an important opportunity for us there and as the team know well, the cost efficiency is a big focus going into the budget process as well for next year.

On slide 10, I think we've delivered another very strong quarterly net profit €11.2 million. That's the highest actually in the last four quarters. Again, Adjusted EBITDA of €30 million was another good result. And while the margin is slightly lower than last year, that reflects that different business mix but the actual amount of EBITDA is up and the debt levels are down as well as we know. The interest coverage ratio that's reflecting the increased interest expense we have at TBI given the different kind of rate environment we're in for deposits, but we still have very good profitability there. So it's not something that concerns us. Again, equity to assets ratio that's stable from year end, that's even picked up slightly on the quarter. And just to reinforce that the bank has a lot of cash and treasury bonds on the balance sheet. So that's actually a very conservative balance sheet, I think, that applies to both the different parts of the business and the business overall. And of course, we're growing the net receivable still, you see that in the ratio, but our equity base continues to build. So we've got, you know, book value on consolidated basis, some €217 million now at Q2.

On slide 11, we can see that receivables growth in a bit more detail here reaching over a billion euros now in net receivables. So strong growth at TBI, that's basically all products are growing, including Greece and the brokerage model with Lithuania. And online, even though that's flat quarter on quarter, remember we're selling some of those loans over to TBI, so we're issuing more than that, and as Kieran has mentioned, we've actually chosen to reduce the issuance in some of the products, particularly some of the more balance sheet intensive ones to focus on optimising that issuance in online and not just growing it. So I think that's important obviously for the asset quality side. So I'll hand back to Kieran to cover that.

Kieran Donnelly: You've heard a lot about growth in the markets in TBI Bank, and in the online business, in Spain, in the Philippines, in the UK. The obvious question, well, what does this mean vis-a-vis risk? And as we entered, you know, if we go back a few quarters, year when inflation started to kick up, there was a lot of concern, rightfully so, about asset quality. So we want to focus here and we've said a few times that the risk experience that we have has been rather stable and in line either being driven by the mix in our portfolio changing, for example, the Philippines is going to have a higher risk profile than what we have in Europe, and also by what's happening in the debt sale market. And now we have an update versus the first quarter, and first I would like to draw your attention to the graph on the right hand side which is the 30 days past due vintages. So this is shorter data, the one on the left is 90 days. So let's start with the

30 days. And you can see the very light line which is the lower one there and the longest one that is an average of quarters through a third quarter of 2021 through the second quarter of 2022. So that's where the risk experience was back then. Then you see the third quarter of 2022, the light blue line, the highest line showing the most risk. That was our experience back then, in the third quarter of 2022. Kind of when the inflation period started to pick up, the debt sale market started to ease off and we saw that impact there. Then you see the next line coming in, the fourth quarter of 2022. And now you see the first quarter of 2023 is basically back in line which where we were back in late 2021. And so the risk experience that we're seeing has definitely drawn in and this is across all our markets. And if you look on the left on the 90 day side, you also see the confirmation in this case more on the fourth quarter 2022 numbers that we've come inside where we were in the third quarter of 2022. The first quarter, it's very hard to see, but it's in line with the beginning part and this is where it starts to curve in. So the risk experience that we have has very much stabilised and, in fact, has definitely improved over where it was just before. It was never out of control or a concerning level, but it definitely has come in which of course is helpful with our results if we look at our first quarter, you know and, to compare, second quarter to first quarter, we see this improvement in our results on that side.

If we go on to slide 13. And what that means. So that was the risk look and the vintage analysis of it, this is what it means in accounting terms. And you see that the provisions for the second quarter were €36.1 million. Again, you have to look at this in terms of our portfolio growth and our portfolio size. And if you compare, if you look back to 2022. Quarter one to quarter two, we went from €15.3 to €20.4. It's a 33% jump in the provision level. And now you see the curve stabilising and flattening out. And if you compare that to our asset growth €33.5 to €36.1, you know this is very much in line and I think a sign of a very healthy risk experience and risk appetite on our part. You could also see on the bottom, if you compare the first quarter of 2023 to second quarter of 2023, you'll see that the over-provisioning on debt sales was at the bottom part, it was missing in Q1. It's back in Q2, and one of the drivers we have for improvements in our provisioning is that the debt sale market has rebounded. We talked about this in our last call that this was one of the reasons for increased impairment charges in the past. The debt sale market started to show signs of recovery. Again, we did discuss this in our last call, but now it's gaining momentum. It's still not 100% back to where it was, but it's certainly much stronger and we see that improvement going forward. And also, I think as we mentioned last time, we've increased our own efforts. So we're less dependent on the sales market, but we're very happy to see the debt sale market rebound and we take advantage of that when we can. Overall, risk is at a very good position. James?

James Etherington: Yeah, sure. So the quarterly EBITDA generation, we've updated this to focus on the results just generated by the current business footprint recently. I think that's the right focus. So again, that €30.7 million of EBITDA for the quarter for Q2, that's another good quarterly figure and that's the highest since the start of last year. TBI, you know, that's been a very strong contribution. Again, obviously with online we've made some adjustments to that split between TBI and online, and the graph, but the trend there is the same. And the online side is lighter in the first half of this year, that's clear. But I think there's a few factors to highlight there. One, is the related party loan repayment that we had at year end. That's taken away, actually, one and a half million of income and EBITDA for the six months, but that also allowed us to reduce debt and interest expense. So we definitely think that's a good thing. On the impairment side, we talked about it and that should be leveling off going forward and we had anyway budgeted a slightly lower contribution for the first half. You know, for example, the Philippines investment in new brand. That's always lost making at first, but we see that picking up for the second-half which is

seasonally stronger anyway. So even with the €45 million of EBITDA on the online side, we're still covering that interest expense by 1.5 times, and we have the TBI you know as well as a major asset. So overall, those leverage metrics, I think we're maintaining them at a good level; EBITDA to the bond debt just over 2 times and that's being pretty conservative, on net debt actually we have more cash than that. That's assuming we deploy the cash and don't use it to deleverage. And that ratio, it's still a big improvement from two to three years ago. So I think that puts us in a very good position actually as we kind of look ahead to as we've said, the bond maturity in February 2025. That's still a year and a half away, but it's something that we wanted to flag that we're aware of, obviously something we'll plan for carefully, you know, not leave to the last minute, but still a year and a half to run there. Kieran, I'll pass back for the summary.

Kieran Donnelly: Thanks James. We have a solid six-months results. I think we've set us up very well for the second-half of the year, as James has mentioned, you know a couple of times there is a seasonality to our business and stronger in the second-half. So we're quite well positioned to take advantage of that. We're pleased with our €10 billion online loan issuance and all the data, the information, the knowledge that we've gathered from that over the years is something that is a great value to us and something that we use in our decisioning process on a daily basis. The cost to income ratio continues to improve. We'd like to continue that trend, I think James would like to continue that trend, I think down to the low 40s. We have good growth both in our old businesses and in our new businesses. So that's good balance there. The balance sheet is probably in some of its best shape it's been in a long time as far as not just you know the numbers, the ratios but the quality of it with the related party loan down, very strong cash levels. So I think our balance sheet is quite strong. The bank, which is an important part of our consolidated balance sheet, obviously is going well. I think on all fronts, on growth, on income, on digitalisation, on strategic investments for growth into new markets, new products. So we're very pleased with how TBI Bank is performing and again it also benefits, I think from a seasonality and a stronger potential for a stronger second-half of the year. And we do continue to look for new opportunities for growth, whether that's in the Philippines, the UK and we're hoping to get started once again in Mexico. And we're also exploring opportunities in India. In all of these aspects of new, we are taking a granular approach, a step-by-step, a careful, carefully considered approach, so this is something I think we've learned from the past. We've discussed that in the past that you know where we've made mistakes and learned from them. We'll make new mistakes, but I think one of those won't be rushing into markets. So we'll go so that when we do have the mistake, when we do make a misstep, it won't be anything dramatic and it'll be something that we can learn from and push forward. So I think we're well placed for how we're going into say, Mexico, especially where we've learned in the Philippines and a lot of those lessons are applicable to Mexico and we will be applying those as we move forward. Now, we'd love to answer questions that you have and we'll open up the floor, please.

Frank Oliver Lehmann: Hi, it's Frank Oliver here. Hello, James, and hello, Kieran. First thing I want to say is you, you guys are very modest. These are not solid results these are very good results, I'd like to say. So not having any questions really on your quarterly results. The one thing that I asked myself is would the bank growing its balance sheet fast and entering new markets or growing also in new markets originally with the opportunities you have in your online business, how do you allocate capital? You did say earlier here, well, I get these questions, we all know we allocate capital to the optimisation of the group. But how do you handle the question for example of upstreaming dividends from TBI to the online business? In the past that has been of course a source of cash that you used on the online business to buy back the bonds

that you have outstanding to some degree. And you know, if that's not happening anymore, you still want to grow on the online business, maybe the opportunities for the bank would also be better if you, and I'm not sure you can answer that if you might consider taking in an outside shareholder who maybe improves the capital of the bank and gives it a real push and also shows you how to crystallize the value of the bank. Can you just elaborate a little bit on these challenges on the on the management level between you, James and Kieran, how you solve that, how you approach that and maybe how it looks like this year, 2023. Specifically with upstreaming dividends. Thank you.

Kieran Donnelly: Thank you. Thank you for the question, Frank. Thank you for the kind words. I think the first instance is the question about the dividends and I think you know, as the shareholder of the bank, 4finance, 4finance Holding looks at this: OK, the bank is doing extremely well. It's growing well. If we dividend out earnings, that is going to limit the growth opportunity of the bank. So I think the first thing right now, the way it's going in, so you know we're best served, all of us, all stakeholders are best served by leaving the bank is generating good capital itself to fund its own growth. So that's like the first step to the answer, the second step is if we look at the balance sheet. As James mentioned, we have €47 million in cash on the balance sheet outside the bank, that's quite a bit of firepower for us to fund growth opportunities that we're looking at within our business. And remember, our existing businesses, our old businesses are cash generative. So yeah, we're in a pretty strong position on that side. We don't have to sacrifice growth opportunity, particularly when we want that growth to be in, you know, incremental, not explosive. So right now we're a bit spoiled and we don't have to choose growth one or the other. Longer term or medium term or you know at the point if the growth opportunity for the bank becomes more and demands more capital...would we consider doing something differently? Sure, we would. Again that analysis would be what's in the best interest of all stakeholders. And maybe it's better to have a smaller piece of a larger pie and, you know, bring in more capital as the opportunity is there. So yeah, that's how you analyze those things going forward. Immediately we're not faced with that challenge. You know, this month, this quarter, right before us, but we are always open to opportunity and we're looking and analyzing and trying to think forward as to what's the best move to make. I hope that's answered your question.

Operator: Thank you very much. If there is a follow up question, I kindly ask you to raise your hand again. I received a few questions via the chat and I will start with the first one from Chiyat. What was the rationale of selling your bonds to TBI bank?

James Etherington: So that one, I think, again we talked about that, the cash levels and what works best actually the bank has related party limits that are available across the group and given again the funding cost and the rate we pay externally on the bonds, we thought that's the right balance of using that amount that we can. It's a pretty finite amount, so it's not a huge volume, but that's one way of accessing funding and making the funding more efficient overall as a group and getting the cash that Kieran talked about in the online space. So we think that makes sense, it gives us the flexibility to invest in the online side either in the new opportunities or even just buying back externally. We keep that interest expense you know within the consolidated group, if they're owned by TBI.

Operator: OK. And received a few questions from Nacho. First, congrats on your earnings. What are you working on with respect to the 25s bond and how much capital are you going to allocate to Mexico and India?

Kieran Donnelly: So the first question about the 2025 bonds. In the last quarterly call, I was actually frankly a bit surprised people started to ask about what we were thinking about the 2025 bonds. And thinking you know, it's quite early in the process. But we have started, James and I, to put our heads together and think, OK, what is the best strategy? What should we do, going forward? So we wanted to highlight to the investors that we are thinking about it. We're quite aware of the upcoming maturity and we're exploring what would be the best option going forward. So there's nothing more concrete than that to it.

Operator: How much capital are you going to allocate to Mexico and India? And regarding to that, will you be working with locals in those markets?

Kieran Donnelly: We are not working with locals as far as JV consideration, no, we hire local people from that point of view. We work with locals, but we're not entering a joint venture or have any strategic partnership in either country. As far as how much capital we're allocating, so Mexico would be about €3 to €4 million to start, and that's more immediate. That's something that we'll start doing in the next couple of months. India is much more exploratory at this point. And so the amount of capital.. but again it would start with the figure of about €3-ish million. And we will do exactly what we've been doing in the UK, start slowly, test. Test the market from every aspect, from our underwriting to our marketing, to our procedures, to how our whole funnel works. So we will be testing slowly as we go with initial capital of €3 to €4 million in either country.

Operator: Thank you very much. And there's just a hand that got up from David Bowman. Please go ahead. You can unmute yourself now, Mr. Bowman. Mr. Bowman, unfortunately, we cannot hear you, so I would kindly ask you to try it later again with raising your hand and I will move forward with the question that we also received via chat from Nik Dimitrov. Can you comment on the consumer regulatory environment in Greece? The Greek banks are telling me that the local legislation is very much skewed in favour of consumers and they (the banks) don't find consumer lending apart from mortgages, particularly attractive.

Kieran Donnelly: That's music to my ears. Is it skewed in favour? I don't think it's any more onerous than what we see in Bulgaria, Romania or in other markets. And when we're talking about the legislation and consumers, most of this is about disclosure, information, transparency. And all these facts, that's something that we pride ourselves on that we're very clear with our consumers and customers. What we're offering, what they're paying, how it's happening. And our lead product in Greece is point of sales. And this point of sales is a very straightforward product and we're using that as our entry into the marketplace, our consumer, our client acquisition strategy, and then we're cross selling/upselling to them a standard instalment loan. It's in some ways very straightforward. The trick is always in the execution on it. So the strategy is really a tried and true strategy and then the execution is about a lot of hard work and we have a very good team there that's leading the way on that. So I think the attitude of the local banks is something that's created the opportunity and a lot of that is skewed back, you know, just the scars they bear from the 2008, 2009 crisis and this is what actually opened up quite a large space in the Greek market, which we're experiencing at this moment. We're taking advantage of at this moment.

Operator: OK. Thank you very much. Just a quick reminder, if you do have questions left, you can ask them via audio line. Please click for this to raise your hand button or place your question in our chat box and I don't know if it already has been answered, but we received a question from Tom. What was the logic for TBI bank to buy some Holdco bonds?

Kieran Donnelly: I believe James answered that. It was just basically a way of moving funding from the bank to the holding.

James Etherington: And it's not something totally new there, just to add, they've always owned, you know, some proportion. Pretty small because those limits are quite tight. But yeah, to optimise our funding.

Operator: OK. Thank you very much. Well, in the meantime, we have received no further questions. We therefore come to the end of today's earnings call. A big thank you to the management for your presentation, the time you took to answer the questions. Should further questions arise at a later time, please feel free to contact the Investor Relations Department or us. Thanks for listening. And I wish you all a lovely week.

Kieran Donnelly: Thank you very much.

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