4finance FY 2023 unaudited results conference call

Tuesday, 5th March 2024

Participants:

Kieran Donnelly – CEO

James Etherington – CFO

Kieran Donnelly: Thank you to everyone for joining the call. Good afternoon. Why don't we go on then to the first slide? And here we have a summary of the 2023 full year results. We're very happy with these results. We had a total profit for the year €44 million, which is up 27% year on year. Interest income is also up strongly, up 24% to €386 million. There was record profit at TBI Bank, and, particularly, you'll notice in the fourth quarter we had a very strong fourth quarter and that was driven by some things, like debt sales that took place in the fourth quarter that pushed that up. You know the fourth quarter is usually our strongest quarter, but we did have some extra items in there that helped push it a little bit further. We continue to have nice gross income growth up 5% quarter on quarter to €122 million in the fourth quarter and the online contribution of that, so the difference between the bank and the core business, it's roughly you know it's around 55% for the bank, 45% for the online business. Adjusted EBITDA €131 million. So that's up 16% over 2022 with a nice margin of 34%. On the online side of the business, growth is still coming from the Czech Republic, Spain, the Philippines. We're happy we launched in Mexico in mid-October of last year and it's showing some good signs of growth. We are going deliberately step by step, to make sure that we understand the operational and credit risks in the marketplace, so we're growing that nice and slowly, in a very controlled fashion. Our cost to income ratio is down to 43%, and we've worked on this. Yes, it's been helped by the growth in income of course, but we've also worked very hard on the efficiencies, which is something that we do on a regular basis and we'll continue to work on. Cost of risk overall is stable. And of course, as we grow our portfolio, the provisions themselves grow, but on a ratio basis, we're very pleased where we are on the risk side of things. With a lot of support from some of the people on this call, we were able to refinance our debt in the fourth quarter and that's given us very balanced debt profile. I would say we probably have the most comfortable debt profile for 4finance that we've had since we've been issuing bonds back in 2013.

As I mentioned, the bank had a very strong year. In fact, it was, I think, a record year with profits. They also had strong growth with loan issuance up 28%. The book value of the bank is up to €230 million and just a reminder, we bought it at roughly about an €80 million book value. And the return on equity is strong, 20.9%. It's well capitalised, it's more and more customers, it's more digital. In December 2023 alone, for example, coming through the banking app and the digital channels, 59% of new onboarded customers. So the bank continues in its digitalisation on the front end, but also through the whole processes of the bank, so the front end and the back end is being more and more digitalised, more and more efficient and more and more able to serve the needs of our customers, especially the new young customers that are coming to the bank.

On the online side of the business, this slide you've seen before if you've participated in earlier calls, where we have our like for like online loan issuance. Here we like to focus on the core historic markets that we've had here in Europe; and you see we had 4% year on year growth. And I think what's important to notice in that 4% is that that includes purposefully slowing down growth in some markets, as we shift and trying to get.. it's not just about growth of issuance, but it's about maximising the profit and return on investment. So we've slowed down in certain areas to give us room to grow in others. In the UK, you could see in the last quarter that there was a bit of a slowdown in issuance there. That was part of our strategy of getting some money out with customers through the process to now pause, analyse and then make adjustments to go forward. We're quite encouraged about what we've seen so far, we are making some adjustments to optimise and we'll be growing that more throughout the rest of this year. So things in the UK are looking promising. The Philippines, you can see the growth levels that we have there. We track it still separately, even though it's now starting to become kind of part of the core business rather than new. But for a while longer, I think we'll still track it in the new markets category. Why not? Why not hang them out there? And so we keep a spotlight on them. James?

James Etherington: Yeah, thanks, Kieran, and good to be on the call with everyone. So yeah, this brings the total loan issuance across the business, TBI and all the online markets together. And then the gross income that we've generated from those, it's been a very good continuation of the kind of quarterly growth we've had throughout 2023 and in Q4. So we've finished the year strongly there. In particular, it's nice to see both the online business and the bank adding about €3 million each to that top line in the fourth quarter. And as we'll see later, we've managed to hold the costs fairly flat and both of those things take effort to do, but that's really what's improved that cost to income ratio overall and driven the improved profitability in Q4. So it's a nice, good trend through the topline.

And then if we look on the next slide, even with that growth, we've managed to maintain the diversification, which continues to be very important part of the story. We're not dominated by any one kind of market or country. Within TBI, you see that Greece is coming in now, that's starting to be more visible. Within online, it was pretty solid kind of across the board in the fourth quarter, but particularly Spain really picked up into year end. There was a lot of very hard work done by the team during the year and we're starting to see the results of that hard work paying off, which is good. For Mexico, we don't register anything here quite yet. But as we go through 2024, then we'll start to see a contribution from Mexico as well into the interest income.

And if we go to Slide 8, the full year cost to income ratio, we've improved that down to 43%. You can see that's a very nice trajectory over the last few years. It's nearly a 5% point improvement on last year. And a particularly good result in the fourth quarter really getting down to 41% close to that kind of 40% level. That's again a combination of both the revenue pickup but also keeping the costs stable. We are still investing for growth in a number of areas. For example, in TBI, but we're getting already the top line showing through from Greece, from the app, from the Neon card. So we're seeing the top line. Within online again held things pretty stable, which we have to fight hard to do and then a lot of the extra in Q4 was start up costs for Mexico, for example, where we'll see that coming through obviously on the top line through next year. We're also continuing to see benefits of the systems review I mentioned last year, even, for example, the software we used to produce the quarterly reporting, we've actually changed our approach there and saved you know something like €100k annually, even on that one. So we found a lot of savings, a lot of different areas and a very robust budgeting process for this year. So we're doing our best to be disciplined across the business on the cost front.

Then if we look at the Slide 9 at what that all kind of adds up to, that's the full year profit of €44 million, up 27% as Kieran said on a continuing basis and it's with over €17 million profit in Q4. The adjusted EBITDA for the year also up over €10 million to over €130 million annual rate. That's increased even more on a pro forma basis if you take out the small bit of Poland from last year. So very good performance on profitability and on EBITDA, and we've held the margins pretty constant on a pre tax basis and still very good level on the EBITDA margin. The balance sheet ratios, they are obviously heavily influenced by the bank, that's come to be the majority of the balance sheet. But still the profitability means that we're generating equity at a rate that keeps pace basically for equity to assets and equity to net receivables ratios. So we're very comfortable with how those are developing. We're well capitalised on both the bank level and in online, and on the interest expense side, we again have seen this trend over the last few quarters, but as interest expense has increased at the bank, that ratio has gone down a bit, but, frankly, you wouldn't typically use interest expense to EBITDA for a bank anyway. That increasingly dominates that ratio. Everything is very well covered, it doesn't influence how we run the business, and with online as we'll see later, we have a very good level of interest coverage. So good interest coverage and good capitalisation.

But if we look just a bit more, the portfolio continued to grow as we said, particularly within the TBI side, already €50 million of net portfolio at the year end is from Greece in that number, and within online it's been pretty stable. But bear in mind we have been selling loans to TBI. So we originate out of Lithuania, and also we've been running down one or two of the longer term books or longer duration books we have in the online business focusing more on the shorter term portfolios. And the level of those is very healthy. That's what's generated the increased interest income in Q4. So I think portfolio levels are good and then I'll let Kieran talk about the provisioning aspect.

Kieran Donnelly: So looking at our vintages on the risk, you see that the numbers are tracking in line with our expectations. There is a bit of a change in the form of the curve because of the growth in the Philippines business. Their initial product is a 10 day loan. So the first loan you take in the Philippines for a new customer is 10 days. So this changes the dynamics of the curve a bit, but it is trending. And if we look at our most recent numbers here, we see that they are conforming back to the mean that we are budgeting and targeting for. So these numbers are in line. And they are tracking as expected. We think they will stay in this kind of level. We don't expect any major decrease in the risk nor increase. We're more or less where we would like to be where we think we are optimising the profit for the business.

On the provisions side, see that we've had a drop in provisions in the fourth quarter. And this is largely kind of the reverse of why we had an increase of provisions in the past. And if you look back at the first quarter of 2023, you see where we didn't have the debt sales supporting us there and we've spoken about that in the past and how the lack of debt sales was leading us to a higher loss given default calculation. And with the debt sale market recovering, both for forward flow sales and for spot sales, we've seen that improvement and you can see it here in the blue numbers on the below the fourth quarter €4.7 million you see there from debt sales where we had a higher provision or when we sold it, we were able to reverse €4.7 million of provisioning there. So that's brought it down to €37.9 million. So this is giving us a much more in line with our expectations. We see that the debt sale market is continuing to hold up. We've noticed that a number of the companies that we sell debt to, these debt collection companies, have been active in the debt markets and have had good access to funding. So that bodes well for the rest of this year. James?

James Etherington: Yeah. Thanks, Kieran. So if you look at the slide 13, that really kind of sums up the performance and you can see the strong quarter that we've had across all the other metrics, means we've delivered €39 million of adjusted EBITDA for Q4. There's a combination of a good improvement in core up to just over €12 million. So we're kind of delivering that sort of €50 million annual run rate for the online business. And then a very strong quarter at TBI. So yes, a bit of help from debt sales as we've said, but it's very strong operating results overall for what is a seasonally quite strong quarter for us, usually in Q4. I think if we kind of look ahead to Q1 for a moment, as you probably would expect, that's not the result we necessarily expect to just kind of copy and repeat for Q1. That's often seasonally a little bit of a dip there even just with fewer days. And with Easter being very early this year, again it's sort of small thing, but something we were talking about within the team this morning that we'll even adjust some of our collections practises and focus to make sure we manage how the quarter ends to make sure we have as good a result as possible, but still we feel very good about the momentum we have and the financial results going into to 2024. And the credit metrics overall - so the interest coverage on the online basis that one and three quarter times I think is a very good level of interest. Servicing ability even without anything from the bank and then on a consolidated basis, the net debt now is really starting to get quite a bit below 2 times EBITDA, which is a very comfortable level.

And if we move on to the next slide, you can really kind of see what that means. We've got both the loan to value illustration here that I think we started to show last quarter. So if you just look at the online receivables, we have of €170 million and about €230 million of book value at the bank. That gives you €400 million just of that. Just those isolating assets against a net bond debt of €250 million, that's a loan to value of only 63%. So very low, very conservative level. And then to put the maturity profile in perspective, as you know we've termed out the retail bonds due to 2028, you can kind of see graphically there that basically we have kind of one turn of EBITDA in each bond, the earliest maturity being October 2026, quite some while away and effectively one more turn of EBITDA in 2028. So we really think that's a very well balanced and conservative maturity profile and probably the best kind of leverage position we've been in for the balance sheet for really quite some time. Kieran, let me pass it back to you.

Kieran Donnelly: Thanks, James. So just to summarise before we get to your questions, we had a strong year in 2023 with the EBITDA up, you know yes, the fourth quarter was very strong. But overall for the whole year it was up 16%. Quarterly gross income was up 5%. So just for the quarter, which gave us €122 million for that period. And, we continue to have improvement in our cost to income ratio. The bank is performing well. The book value €230 million, it's performing very well. It's digitalising, it's becoming more efficient. So you know a lot of positive things at TBI Bank. We have a very comfortable debt structure at this point with strong coverage both on cash and asset we look at it. And again with the support of the bondholders, we were able to refinance and term out that bond. And that's really helped and I think it's improved the credit. And you know, it's kind of a win-win situation. The company's better off, the investors are better off. We are focusing on new businesses. So this year we really hope to get Mexico up and running. And our target this year is to get Mexico to be profitable on a month by month basis, not for the whole year but towards the end. The UK, we also hope to do the same to prove this way, they'll be in position to be scaled in 2025. So for 2024, we're looking to get that their unit economics are positive, they're on stable footing. And then in 2025, we'll be able to scale those businesses. We are working on getting the legal structure and infrastructure in place for India. I think that will be something that will hopefully be able to start testing with product at the end of this year. Again, we will be going slowly and going step by step as we have been doing in both Mexico and the UK. So we're interested in growth and we're interested in expansion diversification, but we want to make sure that we do it carefully and deliberately. So with that, I think we can open up for questions. Sarah?

Moderator: So we have a question in our chat box, how much money do you plan to invest in Mexico?

Kieran Donnelly: Well, as I said, we're going step by step and the biggest part of the investment will be the book that you build because the operational expenses aren't extraordinary. To put that in context, I would say this year we'll probably wind up between what we spend in terms of payroll, losses and actual book, it all come to about €3 million investment and I think as far as a loss, it probably be something close to a million euro. James, is that about right?

James Etherington: Yeah, I think that the initial investment, that's right, it's a very short term book. So you don't actually need a huge amount of money in absolute terms to get a good amount of learning and understanding. And then as Kieran said before, to understand the positive unit economics, we want to see and then to scale afterwards.

Moderator: All right. Thank you for answering. So then we have another question in our chat box. So it's a little bit longer: when we see the quarterly figures, there was some sequential deterioration in the net interest income figure, which is more than offset by a sustainable increase in fees and commissions income. Could you please comment on those dynamics?

James Etherington: Yeah, I can take that. We have seen in a couple of areas now more of our top line generation comes in the form of the kind of the fee & commission or other operating income areas. The two main sources for that are around the fees within the bank internally, although it's not in the consolidated results when we're selling loans from Lithuania to TBI, but also in the Philippines we've changed the fee structure this year. So more of it, we technically have to account under IFRS 15. So it comes in a different line to interest income. But overall in terms of I think how the customer perceives the product and how we look at it for our kind of economics and things, it doesn't matter so much. You know, we're not so focused on which line in the IFRS P&L the income is coming in. We just want to make sure we have positive unit economics and a profitable product overall.

Moderator: All right. Thank you, James, for answering. So and then a further question from the chat box is why doesn't the company cancel all the bonds it holds.

James Etherington: We did actually cancel a significant amount at the end of last year. So part of the refinancing we had committed to and then obviously we did when that all went through successfully, €15 million of the now 2028 bonds and with another €15 million of put for investors in a few years' time. And so we hold not a significant amount of those bonds anymore and the overall issuance amount is reduced of the outstanding amount, it is reduced from what was €150 million all the way back in 2016 to €135 million now. We do hold a relatively large amount of the other bonds. And I guess we can look at the strategy for those going forward, but it makes no kind of practical difference to balance sheet reporting or interest expense whether those are cancelled or not.

Moderator: OK. Thank you so much. So then we will move on with another question from the chat box and just a reminder, if there are any open topics, just let us know that we can clarify. So if you strip out the Philippine loans, so on a more like for like basis are DPD ratios of most recent vintage also up?

Kieran Donnelly: The risks aren't up on a like for like basis, so it's in line. If anything perhaps there's been some slight improvement in it, but it's more or less the same I would say.

Moderator: OK, so we hope this answers the question from Tom, so we have another hand. Please ask your questions and tell us who you are.

Frank Oliver Lehmann: Yes, hi, Kieran and James. It's Frank Oliver. First of all, congratulations, a strong, strong result and you're going into that 2024 with the recent strong operation looking at few new markets, not too big. Everything is looking quite attractive for the bondholders. The one thing I always struggling, and people ask me about that and I just want to run the question by both of you or either one of you, if I look at the TBI bank right, I see a net profit of €44 million, and if I look at the total group, I also see roughly €44 million. Would that imply that the online business is not profitable? Or how do we have to deal with the two numbers, who kind of match up in your accounts for 2023?

James Etherington: Good to be in touch with you. Maybe if I take more from a sort of finance kind of reporting, update, you're right it is a fair question to ask, on the face of it. I think 1 aspect is let's remember our Lithuania business that sells loans from what we think of as the online business to TBI that generates some €7 million a year for example in FMV sort of value premium on that. All these transactions get consolidated out from the overall result, so you don't see, but if you look at the Lithuania you know standalone results which I think we did publish under the guarantors, you can see that very clearly in their results for example. I think the other thing we look at, when we look as management internally at how the online business is doing, because we manage the two areas of the business quite separately, we take a kind of cost of capital charge, if you like for that €80 million investment we had in TBI that roughly are kind of bond funding cost. So we look at the interest expense differently for just the core business than we have overall, so we tend to attribute some to TBI and the rest of them out where we attribute to on to the online business. So we did have a good profit in our own internal view, if you like, of online. We do report, I think, a good amount of that. So you can see the EBITDA for example, each quarter I think will be the most helpful way you know for bondholders to particularly to think about it. So you've got, you know €12 million a quarter or so of EBITDA generation. Actually, you can make your own assumption on interest expense, how we like everyone might have a different view, but D&A and you know and tax actually is pretty separable. So from that you can see what the online kind of P&L is from that perspective, but it is solidly profitable. And we continue to try and work on how we can communicate that. We spend a lot of time with rating agencies, for example this year or this last few months on that very, very topic.

Frank Oliver Lehmann: Yeah, and if you allow me to, because you mentioned the word rating agencies, any reaction from their side, any potential upgrade? Your business is working stable like Swiss clock, you're delivering quarter for quarter. The debt is not imminently due on the bond side. You have extended that.

Kieran Donnelly: Can we give you the phone number of the analyst at the rating agency, perhaps you can call directly...I think it's very natural that we have a different opinion from the rating agencies and the rating agencies usually take their time and they're slower to react because you know that's I guess you know if I'm going to have a mature moment, I guess I would say that's their job. That they're doing what they're supposed to do is, you know, make sure it's confirmed. You make sure it's there. But we obviously put a lot of effort into communicating with the rating agencies and James, and the team, we provide them exhaustive amount of material and information, we meet with them, we work hard to make sure that when they are ready, to recognise what we think is obvious, when they're ready, we want to make sure we've given them every, every bit of information they need to do it.

Frank Oliver Lehmann: Right, right. OK. I give them a buzz. Last question. Last question just on a on a more whole group wise, your receivables growth has been in excess of 20/25% last year and you seem to not have the necessity to tap the bond market for the time being. I also remember there was a discussion on the TBI level where TBI looked in, potentially issuing a certain bond, but that did not materialise. Can you grow at that pace without tapping the market, issuing a new bond? Maybe on the online or on the bank side? Is that possible so far for 2024, do you have anything in the in the hopper which might come out in the course of the year?

Kieran Donnelly: Well, Frank, I think you can see that most of that growth is in the bank, yes. And when you come to the bank you then you have ratios. They've just recently crossed the €1.1 billion deposit level. So from a liquidity point of view, the bank is very liquid actually. But there are ratios now with what are called MREL ratios with the amount of long term funding. To the extent and that's what you know, the bank has explored with thought to do some MREL issue. There was some exploratory meetings and discussions. It wasn't necessary to issue at the time. So why take on the extra cost? But depending on how the growth goes for the next, you know few months or so there might be a need to go to the market and try to raise an MREL issue, but that's not certain because there are other ways to address that. And you know there's different ways to have your asset growth and change things around. So we're really looking at it as a way to make sure we minimise our interest expense and optimise our balance sheet.

Frank Oliver Lehmann: Right. Right. OK, super. Well, all the best for the year and uh, Q1 is already two months old. UM, we will, we will speak again end of April or whenever the next call is sent. I'm quite sure you're on a on a very solid footing. Thank you very much for the report. Bye bye.

Moderator: Maybe you can in the meantime tell us a little bit more about what in your opinion are the key changes in the market environment? So from your point of view, what is currently the key issue or challenge the market has to face?

James Etherington: I think we don't see a huge difference of market attitude this quarter say to last quarter, I think that in general our customer base has dealt kind of very well actually with the kind of Inflation concerns and cost of living, sort of issues if you like of maybe a year ago. And I think if you look at kind of macro indicators across a lot of our markets, they're actually, you know, kind of normalising or kind of in a slightly more stable direction. So I think the macro backdrop seems reasonably benign for most of our markets, but I don't, if there's anything specific you'd highlight, Kieran for general outlook.

Kieran Donnelly: I think you've touched on one of the most important points was you know that you know how we faced the rise in inflation and now it's subsided that risk has come in. But I think we demonstrate as we said at the time the short term nature of our products helps us very much ride through cycles and you know there will be, well right on the immediate horizon we don't see any specific macroeconomic challenges, yet, they will come. And that short term nature of our products, our experience, you know that being in the market for many years dealing with many different changes so. It looks benign for the, you know, foreseeable future, but we remain vigilant and prepared, that's I think an important part of our jobs and the way we approach the market. I think having the debt profile that we have gives us that flexibility as well. And the strong base to our business. We're not reliant on something magical happening in the next six months, quarter, year and it's we are sticking to our knitting. We are growing and expanding but in a very measured way and you know we are adaptable and resilient.

Kieran Donnelly: We just want to say thank you to everyone for dialling in, for your support, you know, we take our responsibilities to the bondholders very seriously and hopefully you're satisfied with the level of information that we're sharing with you. We're happy to get feedback. So please reach out through the Investor Relations team or James, or me directly, you know with what else we can do or what more information or if you had some questions that you think of after the call that you want to ask, please feel free to contact us. Have a great day everyone. Thanks very much.

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