4finance FY 2024 unaudited results conference call

Tuesday, 4 March 2025

Participants:
Kieran Donnelly – CEO
James Etherington – CFO

Kieran Donnelly: Thank you everyone for dialling in and spending time to hear our story this afternoon. We had a very strong 2024, the performance, we're very satisfied with, net profits were up 19% year on year. Top line income growth was up 16%, EBITDA up 20%, a strong EBITDA margin of 35%. And we continue to stick to our knitting and do what we've said we've been doing, which is to take a step-by-step approach to new markets while working on efficiency and strong margins in our existing markets. So step-by-step, our UK joint venture is moving along nicely and we're looking to expand that as we go throughout the rest of 2025. Mexico is ongoing step-by-step. Frankly, we have some challenges there that we're working on and we're trying to fine tune that and adjust it. But because of our step-by-step approach, there's no great danger here. We've launched our pilot operations in Georgia in the auto loan sector. We've just started that. And again, slowly step-by-step so that we find a way to grow and expand and diversify in a strong risk-controlled environment.

TBI continues to perform very well. Its book value is now up to €282m. As I mentioned, our efficiency, our cost to income ratio is 41.9% and considering our growth rates and investments that we're making in expansion, in strengthening areas of our IT, I think this is a very strong ratio for us that we're producing at this point. Our cost of risk overall is improving, and our risk experience is improving. A lot of that is driven by our improved in-house debt collection. For those of you who have been following us for a number of years, you know that there was a point in time when our reliance on external debt collection and debt sales was too high, that market cooled off and it impacted our loss given default ratios, thus our provisioning. So even though we didn't have an increased risk experience, we had a decrease in the recoveries. And at that time we realised that we had become too dependent on external companies for debt sales and for collections, and we doubled our efforts on our collection side. And real great thanks to our collections team and its management for making a big difference here. And we see that coming right through in our provision calculations and thus in our cost of risk. We're just collecting more because we're more disciplined. Our balance sheet is very strong. High cash levels, solid liquidity, solid liability structure.

As I mentioned, TBI continues to grow very strongly. The book value is up to €282m, and again it's just a continuation of the same. Continuing to work every day on pushing out more digital product. A product that is more efficient, that reaches a younger consumer and continues to grow. So the bank is doing very well and that's something that has really backed up, as we say, the strength of our balance sheet.

On online loan issuance, you'll see that there isn't a huge growth in the amount of online loan issuance and I think this is a factor of more efficiency. So we've really gone through all of our issuance in each country and we've really tried to do more with less, so more profitability with less issuance by taking out those segments and really doing very strict segmentation of the loans we're making to make sure that we have the best unit profitability. Your best unit economics on the loans that we're making. So we are making fewer loans in some cases but we're making better loans and so the overall profitability improves on that basis.

Ondal, our UK joint venture, you could see that we've started to grow in the fourth quarter particularly and we're going to hopefully see more of that as we push forward throughout 2025.

In Mexico, as I mentioned, we are struggling a little bit there, to be frank. And we've dialled back a little bit and we are recalibrating and looking to find the right way before we put our foot down on the accelerator. So again, we're taking a step-by-step, slow approach. Make sure we get it right before we push out any volumes there. James, do you want to take it from here?

James Etherington: Yeah, sure. Thanks, Kieran. Hello, everyone. Good to be on the call with you. So the gross income for the quarter, we were up €4 million to €140 million. That's an increase both on online side and in the bank. With online we saw a really good demand in Spain and Czech Republic in particular. We're also growing in Lithuania again where we've started doing our own kind of business there, and within TBI it was more on Bulgaria and Greece side this quarter. So we remain very diversified picture by country. And as we said, that's really important to maintain that, so we continue to find these areas to grow at the right pace. We've made good progress, as Kieran said, since the last call, in the UK in particular. We've got to that stage in Georgia now of kind of the first sort of pilot loans being issued, which is good. Some areas do take more time, I would say in India, that has been slower than we might have hoped. But that comes with the territory. It's almost as one of the barriers to entry to that market, there's a certain degree of patience, so we're continuing with the regulatory discussion there.

If we look at the cost picture, again just to reiterate that cost discipline approach we have, we've seen the results of that. We've had another good improvement of the cost to income ratio, improved by 150 basis points down to 41.9% for the full year. It does get harder to keep improving that ratio from here, but I think w/e still feel we're able to move it in the right direction. Within online, certainly you see that kind of discipline about not chasing volume in the fourth quarter. So we've benefited from reduction in acquisition costs there. We have had increased spending at TBI, some of that is on marketing expense. But also given the scale of the business and the growth that we've seen, it's kind of investing across their platform. And again, just to reiterate that ongoing focus of continually asking ourselves, if we can do things in a smarter way or even if we need to do them at all for some of our processes. So we're kind of trying to encourage that mindset really across the business. And really asking all staff to think about that to bring the ideas to help us keep moving in the right direction.

That obviously feeds straight into profit. So if you have a look at the profit trend record, we've delivered €52.5 million net profit for the year. We had a strong fourth quarter for the online business in particular, we had €5 million profit there and €13 million of Adjusted EBITDA. So that brings on the online side €12 million net profit for the year and €43 million for Adjusted EBITDA. TBI again, as we've said, increased the profit year on year and we've maintained good, strong margin levels. And this slide shows very nicely that overall over those last kind of four years since the COVID period, we've really built a very good track record of profitability and EBITDA growth. We've done that at the same time as kind of growing and diversifying the business and strengthening the balance sheet as well.

If we look at the credit ratios, they've remained very resilient, despite that balance sheet growth. So the interest coverage is maintained and we're actually ticking up a bit on the equity to assets and receivables ratios. So from a covenant perspective, we're at very comfortable level on both interest coverage and capitalisation. If you look on the bank side, the move to higher interest rates a few years ago, that is well in the numbers now over the last couple of years, and we see room to optimise that in the future and improve it. And on the capital ratio side, the bank remains very well capitalised at over 22% capital adequacy and that's even without the second-half profit from last year, which will come in when we have the audited numbers. So overall remaining very well capitalised and very well-funded on the balance sheet side.

Then if we look at the loan portfolio, we're up to €1.3 billion now in net loans. So that's up around 5% on the quarter. Within online, that's pretty stable. As we've said, we saw that from the issuance ratios, again some portfolios where we're de-emphasising, but some we have obviously grown alongside that. TBI continues to grow at a very good pace. They've had another good issuance quarter. And alongside the portfolio, it's just worth reminding that we have that strong cash balance, that we have the ability to deploy that in the growth markets that we've talked about, either directly or through providing funding to other areas above the cost of capital. Having that cash, it does have a cost in P&L terms, that does increase our interest expense, but that's a strategic decision we've taken to have that flexibility and it means we're in a position to take advantage of any opportunities as they come along. So portfolio growing nicely, but I'll pass back to Kieran to talk about the quality there.

Kieran Donnelly: Thanks James. So here I think we see that we're maintaining our risk profile, both on the 30 and 90 day past due, coming through. What we will see different as we go forward because of the improvement in collections is the shape of that curve and how it comes down in the later days when you get to six months on book, eight months, ten months on book, how the curve, the shape of that curve and how it flattens out with our improvement in collections, we will see there. And actually that improvement in collections gives us scope to open up on the front end. So on those segments that we still want to lend to. So we've taken out certain segments, reduced our risk there. That gives us scope to open up our approval rates on other segments. And that collections also supports that opening up and again the curve then flattens out more than perhaps it did before when we weren't as focused on our collection side. So we'll see some changing in the shape of that curve. And it also gives us opportunity to focus more and do more in those segments where we see greater lifetime value of the customers.

And in terms of impairment charges, you'll see that we're keeping our impairment charges well within the scope of the size of our balance sheet. Our cost of risk, you see the recoveries that we have, the over provisioning numbers, which is what I always like to focus on, which is strong evidence of the fact that we are very well provisioned. That we're not cutting corners and those last two bars underneath there 'over provisioning on debt sales' and 'recoveries from written off loans', these are signs that are provisioning policies are truly conservative.

James Etherington: Yeah, thanks. If we look at the EBITDA side, we've delivered another strong quarterly EBITDA overall of €41 million. That brings the total for the year to nearly €160 million. We had a very good increase on the online side in Q4 up to €13 million and again finishing year with €43million total. It's just really important to emphasise it, alone the online business gives us very good coverage of the interest expense in the bonds. Again, despite having a very high cash level over the last kind of couple of quarters in the region of €70 million. Overall, the credit metrics continue to improve and we hope to build further on those levels as we go through 2025.

But if we look specifically at the bonds. Which is a really interesting bit. The book value of TBI on the left-hand side there that continues to grow. So over €280 million. And even if we take a very conservative approach to cash levels and take sort of half of our cash level basically off of the bonds to get to a net debt, the loan to value ratio has improved further to 55%. So really a very low level when you look at that type of coverage. And then on the right-hand side for the bond maturities, it's a very manageable size for both of the maturities. They're nicely spaced out in time and we've done that obviously very deliberately. We've worked to achieve that so that we can have a smooth refinancing process each time. And I think we've been encouraged to see the markets recognise that over the last couple of quarters, there's been a sustained improvement in trading of the bonds. They're both solidly above par now in the 2026 and 2028 bonds with yield of around about 10%. And it was no surprise that we didn't get any requests to repurchase or put the bonds at par in the recent exercise for the 2028 bonds. So that's something that hopefully is a helpful backdrop to when we look at our refinancing plans for later in the year.

Kieran Donnelly: So to summarise, before we open up for questions, we've had a strong 2024. Net profit €53 million, up 19%. Adjusted EBITDA of €157 million, up 20%. Strong margin, cost-to-income ratio well down over the last few years; TBI continues to have strong performance. We have a very strong and well positioned balance sheet, as James just mentioned, the spread of our bonds; and we're well positioned for refinancing later this year. And in our new markets, we continue that step-a-step approach in the UK, launching Georgia. We don't mention here India, but as James did mention, we're continuing our process of application in India. It is a totally different world of bureaucracy. But we're working our way through it. So with that, I'd like to open up for any questions.

Melisa Larsen: Hi, congratulations on the results and thanks for taking my question. I understand what you mentioned regarding the vintages, but can you provide more granularity on what are the products and markets leading to the curve change?

Kieran Donnelly: Hi, Melissa. Thank you for your question. Yes, we can provide for you more granularity. I also have difficulty with this word. So the team can provide more details for you on that granularity. That is a composite that you're looking at and the risk varies from country to country as do the interest rates and the fees and why and what we charge. So we can provide you with more detail separately here because those are composite numbers to be fair.

Moderator: Thank you so much, Melissa. And the room is open for some more questions. In our chat box, what are your plans towards 2026 bond maturity?

James Etherington: It's obviously still a little bit early in that process. But as we've tried to signal here, that's very much something that is on our mind and plan for later this year. If you look at how we issued the bond back in 2021, it was about a year ahead of time on a maturity and we would expect very much to go through that as our kind of base case to come after the summer and talk to investors in the market and look at a refinancing at that stage. We've had a good experience and track record in the bond markets in various currencies and forms over the last what, 12 years or something. I mentioned about the bond trading levels where we are in terms of yields. I didn't mention actually, that we've seen a lot of our peers' paper trade also up in a similar direction. Some of them are actually out with some new issues at the moment. So we see a decent appetite across the sector. But from our side, the normal course would be to come back to the market about a year ahead of the maturity in the autumn of this year. Clearly if we see opportunities to do something in advance or something different, we can always do that. We have a good range of options of how to approach it. But certainly base case would be to come back to capital markets with that kind of time frame.

Kieran Donnelly: Just to say thank you everyone for dialling in and we're very happy to field any questions or enquiries you may have afterwards. So contact our Investor Relations, James or contact myself. We enjoy the engagement, it helps us gauge how we're doing, and investor questions come up with good ideas. We often get very good input from investor questions which help us in managing our business. So thank you for your support and have a great day.

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