Qred - enabling small businesses

Interim Report Q1 2020

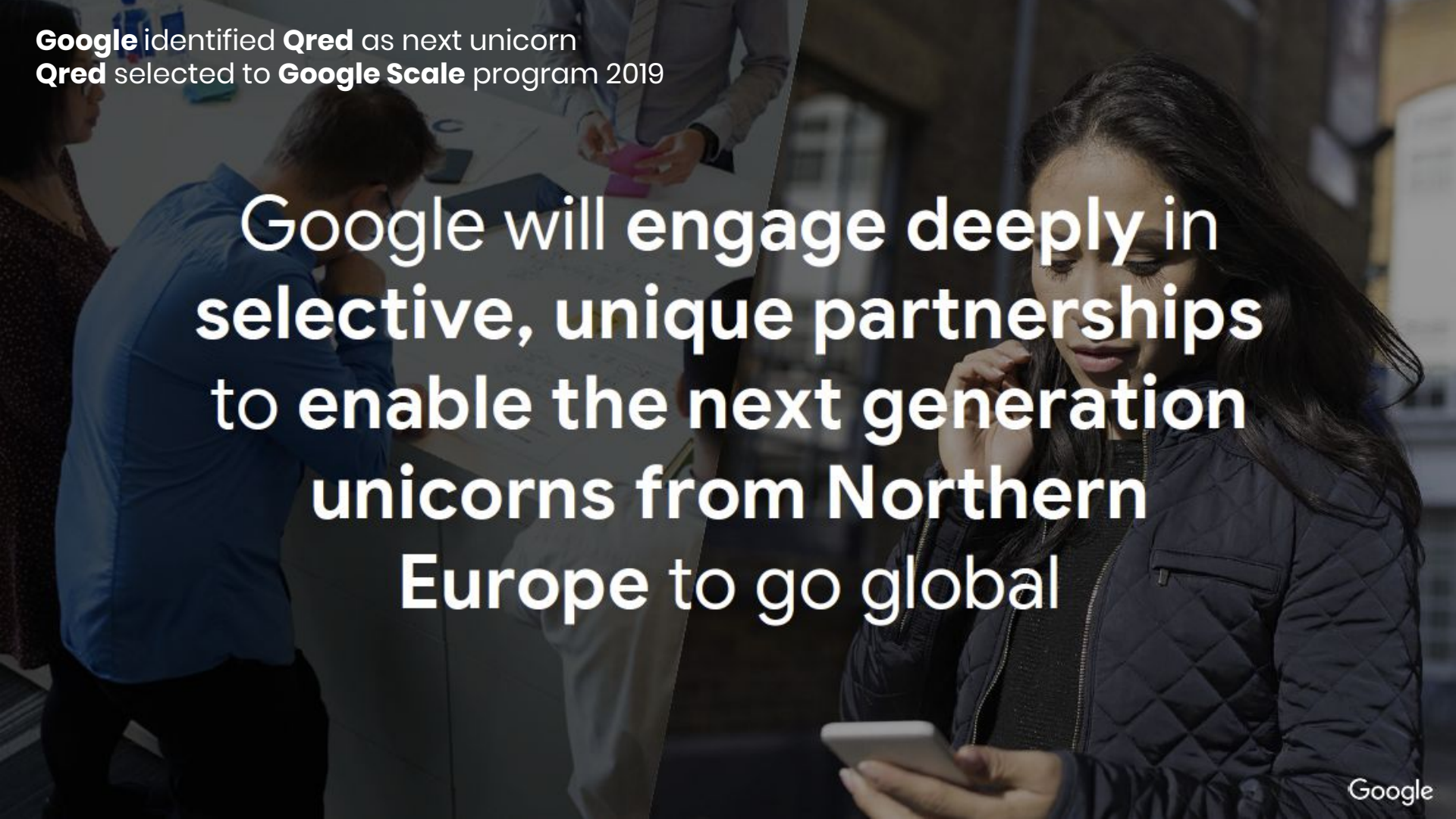
Sweden's fastest growing company

Financial Times FT 1000 annual list of Europe's **fastest-growing companies 2020:**

- Qred is **#1 in Sweden**
- Qred is **#8 in Europe**

Rank	Name	in 2019 ranking	in 2018 ranking	Country	FT Category	Absolute Growth Rate [in %]
1	OakNorth Bank	no	no	United Kingdom	Fintech	37,462.5%
2	Wolt Enterprises	no	no	Finland	Technology	15,641.9%
3	Bolt Technology	yes	no	Estonia	Technology	12,959.7%
4	Elements Global Services	no	no	Spain	Support Services	10,233.3%
5	Les Eco-Isolateurs	yes	no	France	Construction	10,077.5%
6	Gismart	no	no	United Kingdom	Games industry	8,788.3%
7	Enens	no	no	France	Energy	8,602.8%
8	Qred Företagslån*	no	no	Sweden	Fintech	7,300.[illegible]%
9	Mamma 2.0	no	no	Italy	Ecommerce	7,110.0%
10	In Touch Networks	no	yes	United Kingdom	Technology	6,324.8%
11	farmermobil	no	no	Germany	Industrial Goods	6,055.8%
12	Holidu	no	no	Germany	Technology	6,030.5%
13	Feiniko Handelsgesellschaft	yes	no	Germany	Sales & Marketing	5,853.5%
14	Franco Fresco	no	no	Germany	Food & Beverage	5,487.0%
15	MessengerPeople	no	no	Germany	Technology	5,378.2%
16	Foot District	no	no	Spain	Ecommerce	5,128.9%
17	Deelit Ventures	no	no	Netherlands	Travel & Leisure	5,115.5%
18	ID Finance Investments	no	yes	Spain	Fintech	5,018.5%
19	getAir	no	no	Germany	Industrial Goods	4,705.5%
20	PastBook	no	no	Netherlands	Ecommerce	4,622.7%
21	Supermercato24	no	no	Italy	Ecommerce	4,566.7%
22	Donatella	yes	no	Germany	Food & Beverage	4,494.6%
23	Futureplay*	no	no	Finland	Games industry	4,409.6%
24	Jobandtalent	no	no	Spain	Technology	4,092.7%
25	Jungle Creations	yes	no	United Kingdom	Media	3,900.0%
26	#sinob	no	no	Germany	Retail	3,614.1%
27	Global-e Online	no	no	United Kingdom	Ecommerce	3,566.6%
28	Rinah	no	no	Italy	Retail	3,424.6%
29	Domator24.com	yes	no	Poland	Personal & Household Goods	3,419.1%
30	UPLINK Network	no	no	Germany	Telecoms	3,416.7%
31	Trouva	no	no	United Kingdom	Technology	3,353.1%
32	STA PORTAGE (H2S)	no	no	France	Support Services	3,270.8%

Google identified **Qred** as next unicorn
Qred selected to **Google Scale** program 2019



Highlights 2020 Q1

+90%
operating income

+47%
active users

SEK 2.3m
norm op. profit

10 jobs
created per day

Qred
Factoring
expanding

Qred
Brazil
in pilot

SEK
32.6m
COVID-19 reserve

SEK
105.2m
cash

Qred has reinvented a hundred year old process

Easy to use experience for small business lending

Apply → **Approve** → **Pay**

qred

Online application
Automated data collection

Automated scoring
Instant result

Same day Payment
Customer satisfaction

Traditional lending

Offline application
Manual data submission

Manual review
Weeks or months

Low conversion
Most applications rejected

Highly satisfied and loyal customers

Loyalty is main profitability driver

Qred Företagslån AB
4,8 ★★★★★ 68 Google reviews
Loan agency in Stockholm
Website

Qred Yrityslaina
4,7 ★★★★½ 94 Google reviews
Loan agency in Helsinki, Finland

4.8
facebook
AVERAGE RATING

Qred
Reviews 61 • Excellent
Trustpilot

Qred has helped me grow my business and given me peace of mind
- Faizal

Great service and very helpful!
- Lotta

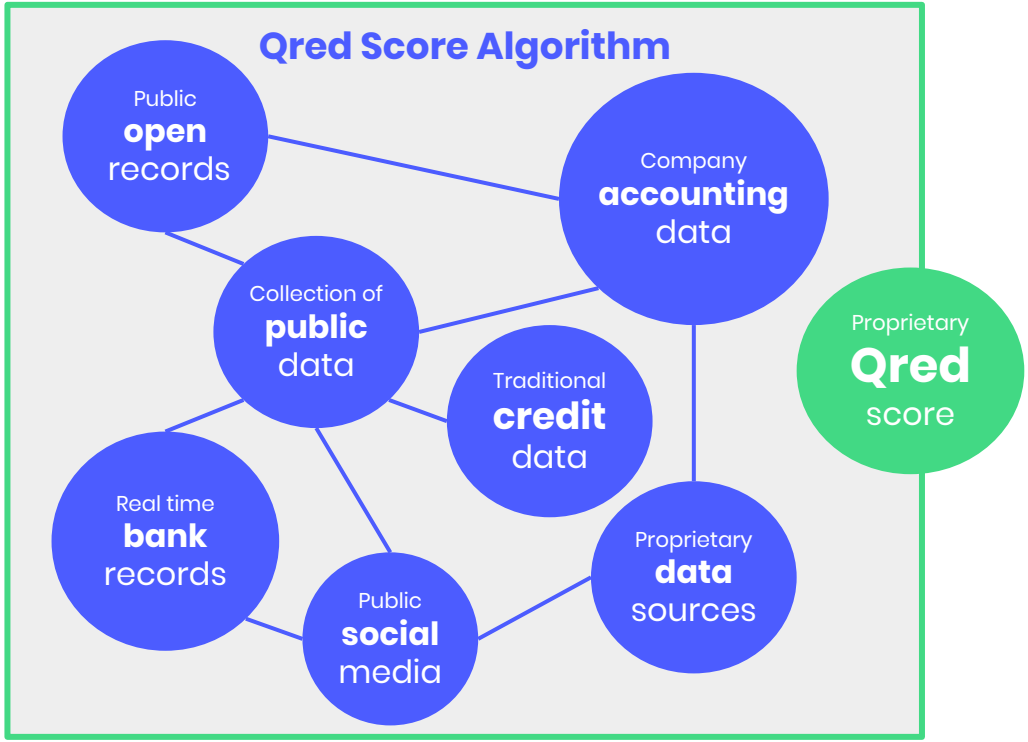
It was fast and easy, and I had my funds by the next day. Thanks for helping my business in a time of need
- Öner

Good service, simple and helpful in all situations. Very happy with the help I have received as a small business owner. Recommended!
- Veronika

Expanding off-balance setup
Asset light and scalable funding

- New **off-balance sheet funding** arrangement expanded during the quarter
- Qred is responsible for e.g. **customer acquisition** and **loan servicing**
- Qred's **scoring algorithm QSA** used to assess credit risk
- The arrangement allows Qred to continue **grow without increasing balance sheet**
- New income class: **Commission income**
- New direct cost: **Commission cost**

Automated credit scoring system is the secret sauce



- **Automated scoring**
  A 100-year old process automated using machine learning
- **Large dataset**
  Leading SME lender in the Nordics
- **+ 3,000 MSEK**
  Issued loans
- **+150,000 sets of data**
  Data is king in machine learning

Navigating the pandemy
Cloud based and digital model

- A **fully digital business model** has allowed our business to continue without interruptions
- Credit losses **expected to increase** during 2020
- Extra credit loss reserve of SEK 32.6 m for **expected, not yet confirmed**, credit losses
- Increased number of request for **reduced amortization**
- **Moderate increase in latency** of payment
- **Government support** programs are helping customers manage through the pandemy
- **Stricter underwriting** criteria in combination with **reduced demand** resulting in lower growth during the pandemy
- **Growth on hold** until situation normalises

Technical and management capabilities underpin the business

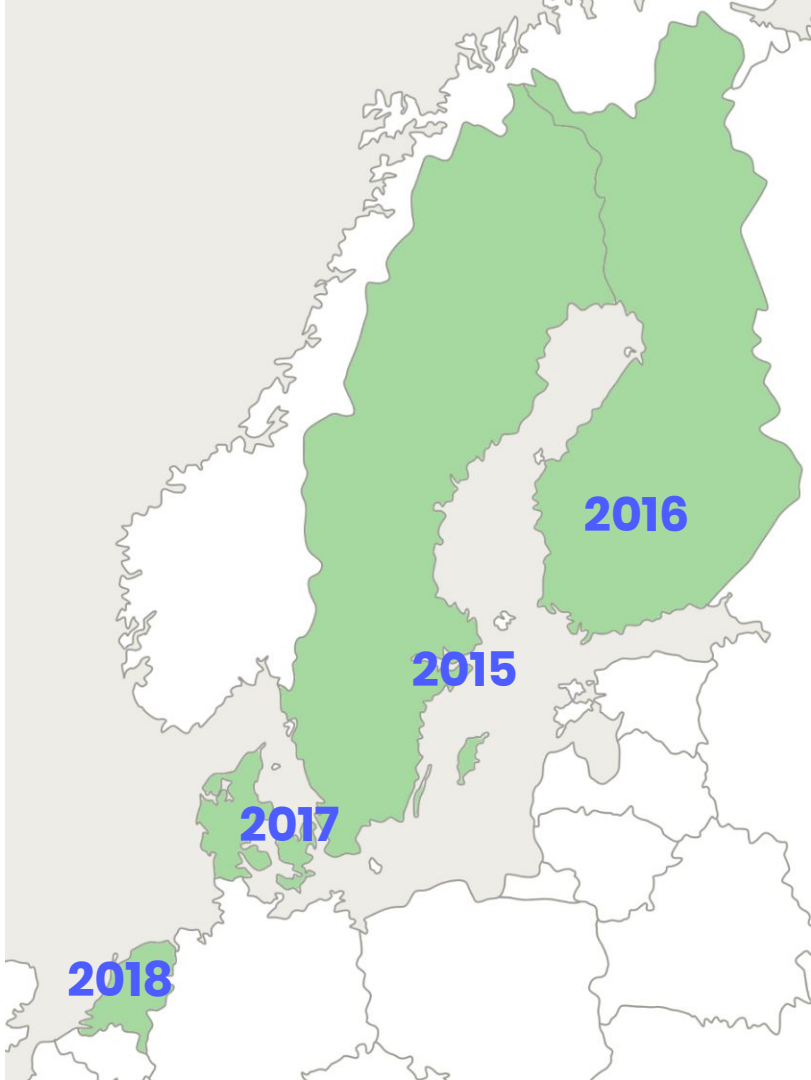
- Proven ability to attract/retain **senior competence** to quickly develop and launch new ventures & markets
- 100% **measurable and trackable marketing** capabilities using sophisticated algorithmic bidding
- Digital and integrated **channel management** backed by highly efficient and aligned customer success
- Machine learning **credit algorithm** based on millions of data points, scores of causal factors, across all markets
- Proprietary, scalable, API-integrated **technical platform** supported by own global development resources
- Efficient setup of **accountabilities and operational policies**, financial control, and legal compliance

Risk and compliance
A core part of operations

- **Inhouse compliance and legal functions** with a seasoned team complimented by external specialists
- AML and fraud prevention based on **automated processes**
- **Real time access** to companies' bank transactions with advanced risk transaction detection
- Extended KYC (Know Your Customer) processes to **prevent money laundry and terrorism financing**
- Advanced **AML screening system** to find and prevent money laundry

Successful expansion
Business model proven scalable

- Qred exported and scaled to **new markets**
- **Profitability** in new markets gradually improving over time
- Loan book is **highly diversified**
  - Great distribution across **industries**
  - Low exposure to individual borrower (< 0.2%)
  - Diversification over several **geographies**
- **Additional geographies** can be added with limited fixed cost



Joint venture for Brazil
Preparing for launch

- The addressable market is estimated to **10 million small businesses**
- Qred has entered into a **joint venture** with Webrock and Atlant Fonder
- Operations in **Brazil starting in Q2-2020**
- **Qred owns 40%** of the outstanding shares in the Swedish holding company Qred Brazil AB
- Qred will mainly contribute with its unique **system for scoring** and small business loan management as well as industry **know-how**
- Pilot during Q2 2020 and **commercial launch Q3 2020**

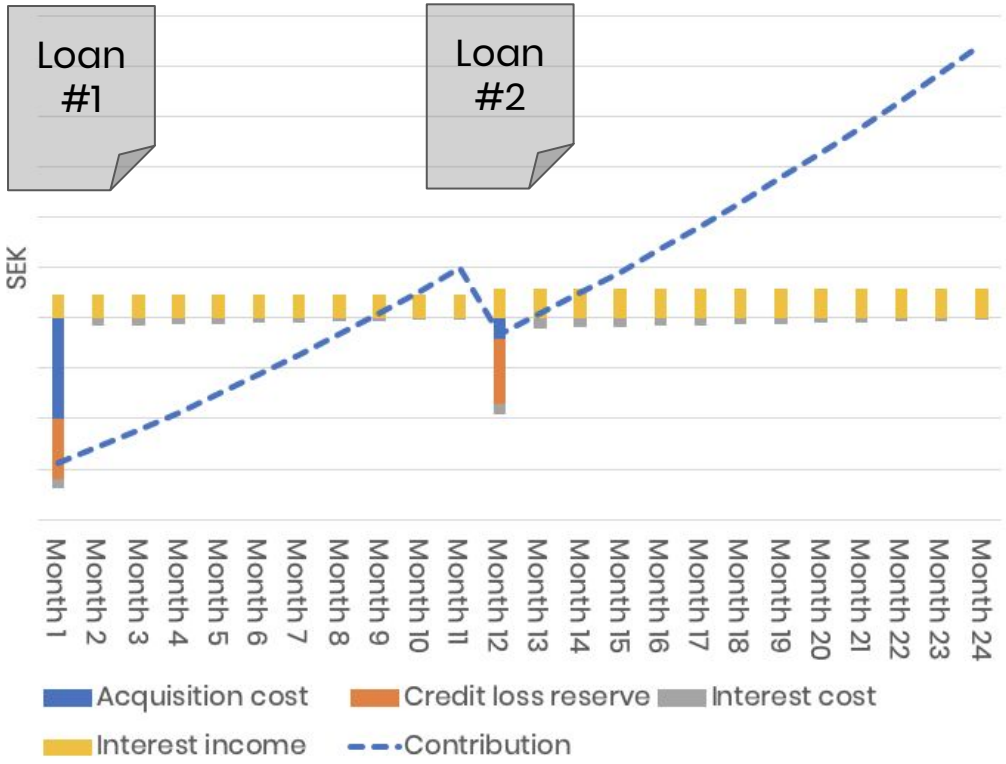
Qred reinvents factoring
Automation and integration

- **Factoring** services for small businesses supported by **digital platform** and digital processes
- **Automated** processes that can easily be scaled
- **Integrated** with the customers' accounting systems
- **Complementing product** to Qred's business loans with high customer demand
- Big **potential for cross selling** products
- Young, ambitious and **sales focused team** drives revenue

factoring.qred.com

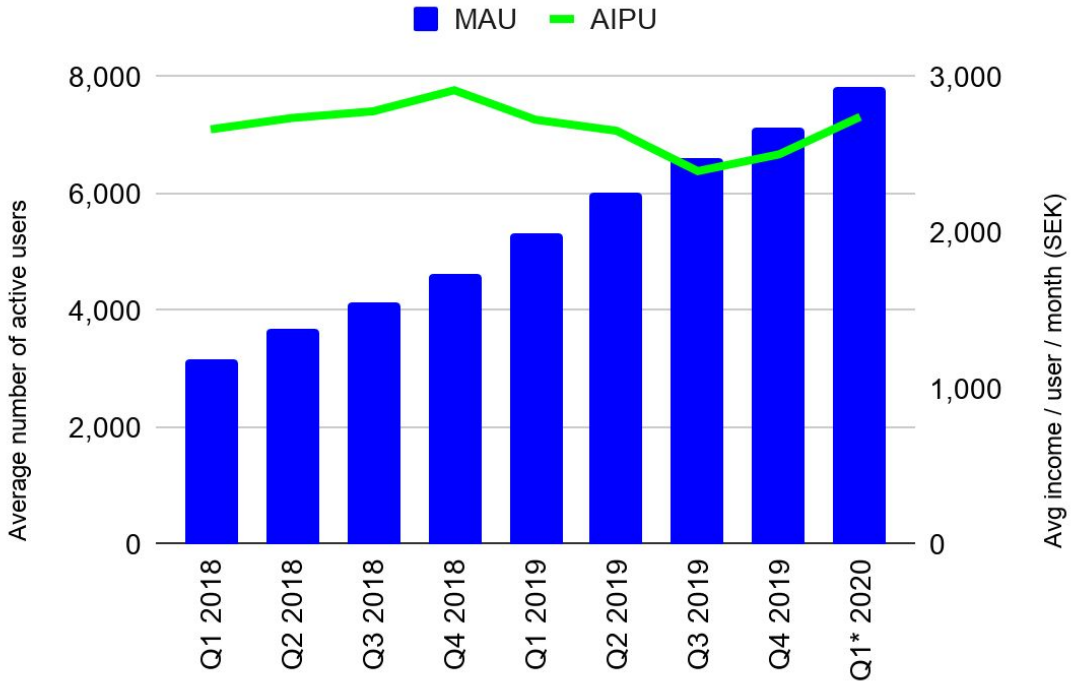
Cost of growth taken upfront and income over time

Cost and revenue recognition example



- **IFRS penalises growth**
  Cost are taken upfront and revenues are recognized during the loan term
- **Acquisition cost**
  Cost taken pre loan issue
- **Credit loss reserve**
  Reserves taken at loan issue
- **Interest cost**
  Cost related to outstanding amount
- **Interest income**
  Recognized over loan term

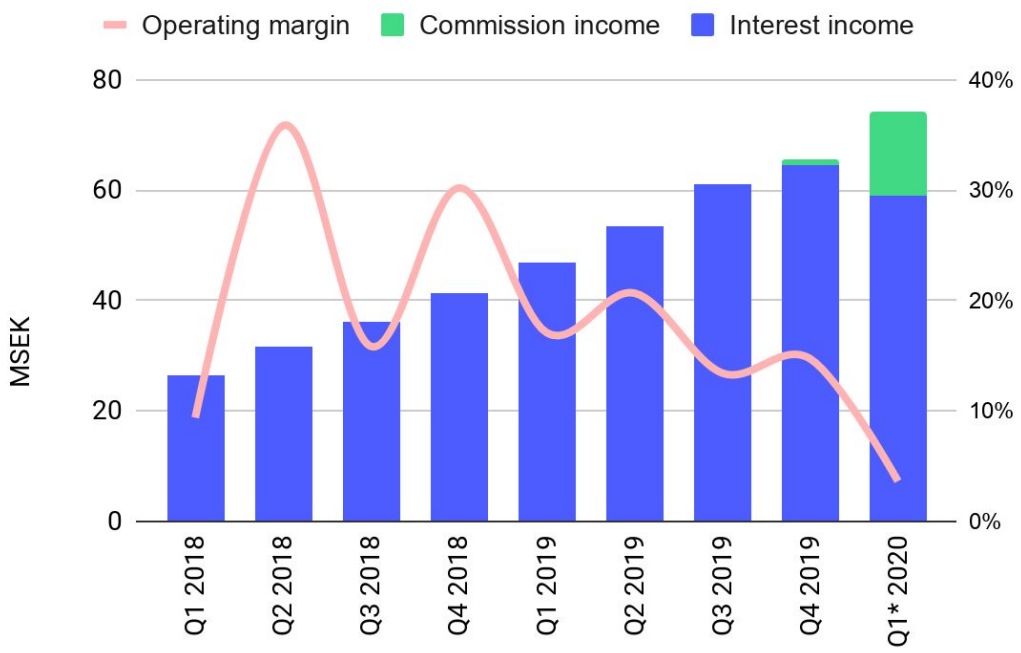
New intake fuel active customers growth



*) Q1 2020 normalized for extraordinary bond repurchase income

- The growth in **active customers accelerated** over the quarter with a large **intake of many new smaller customers**
- **MAU (Monthly Active Users)** increased with 47% to 7,811
- **AIPU (Average Income Per User)** amounted to SEK 2,743 per month (2,724)

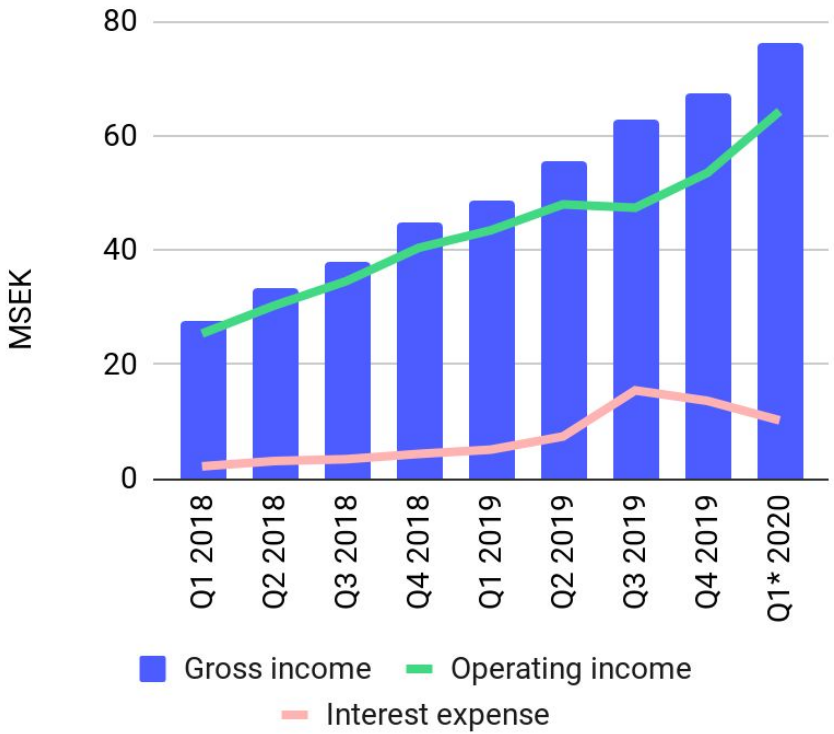
Fast top line growth on expense of profitability



- **Operating profit** decreased to SEK -12.3 m (7.4). Normalised operating profit was SEK 2.3m.
- **Operating margin** decreased to -15% (17%)
- **Extraordinary income** from bond repurchase of SEK 18.0 m
- **Extraordinary cost** from COVID-19 credit loss buffer of SEK 32.6 m

*) Q1 2020 normalized for extraordinary bond repurchase income and extra COVID-19 credit loss buffer

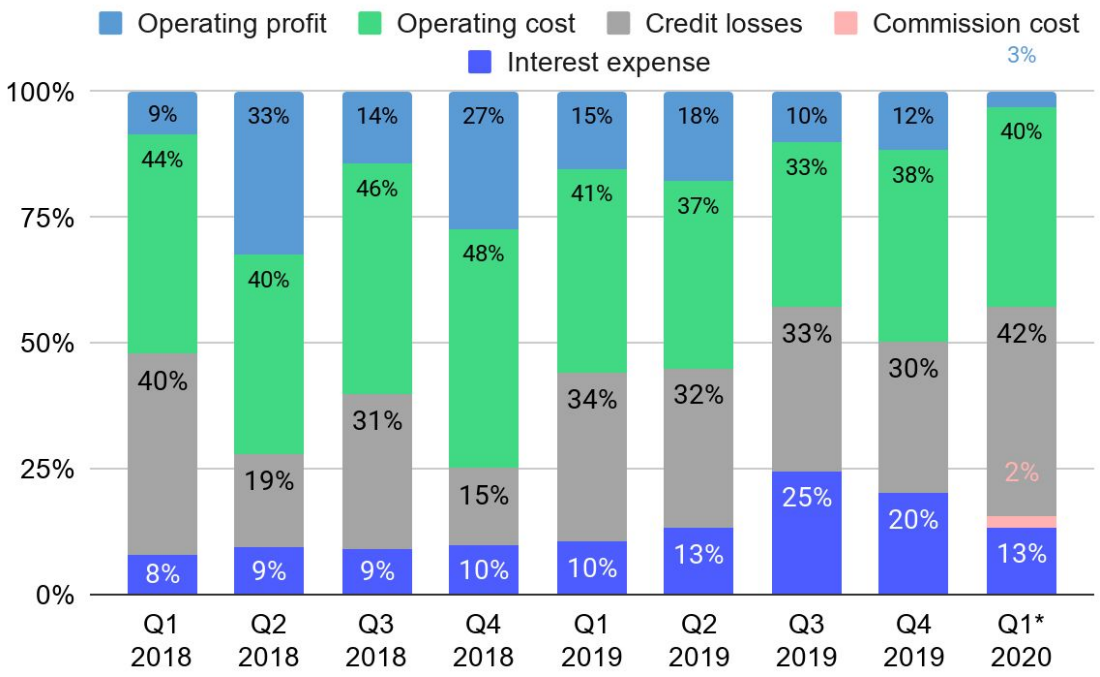
Continued growth in gross income



- **Gross income** for the quarter increased with 94% to SEK 94.0 m (48.5)
- **Operating income** increased with 89% to SEK 82.3 m (43.4)
- **Interest expense** and **commission cost** increased with 131% to SEK 11.8 m (5.1)
- **Extraordinary income** from bond repurchase of **SEK 18.0 m** in Q1 2020

*) Q1 2020 normalized for extraordinary bond repurchase income and extra COVID-19 credit loss buffer

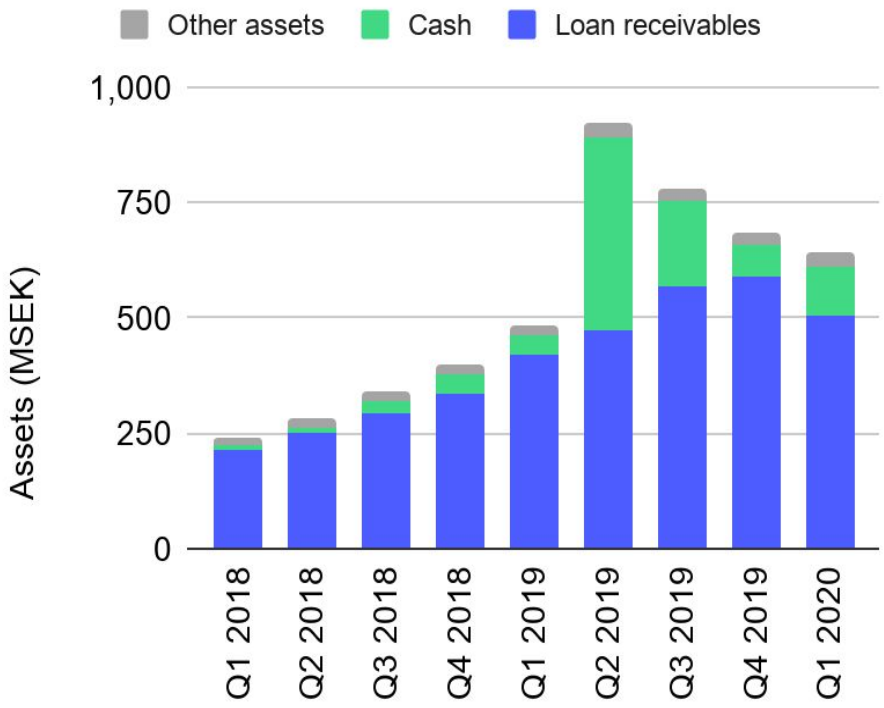
Credit loss and interest expense trending down



*) Q1 2020 normalized for extraordinary bond repurchase income and extra COVID-19 credit loss buffer

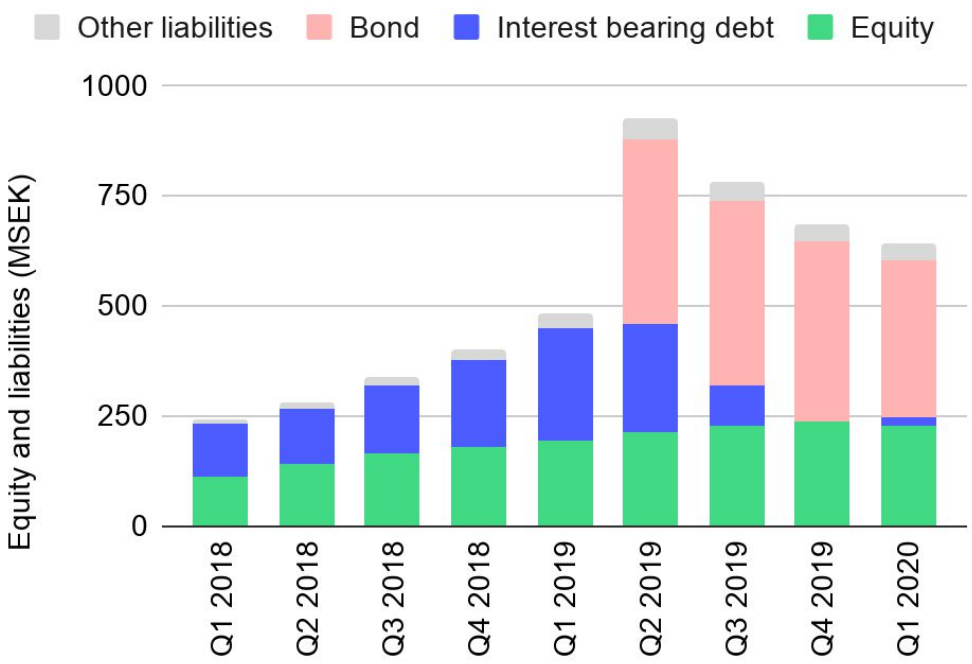
- **Operating cost** decreased to 40% (41%) of gross income
- **Credit losses** amounted to 42% (34%) of gross income (excluding extraordinary buffer related to COVID-19 effects of SEK 32.6 m)
- **Interest expense** increased to 13% (10%) of gross income

Clean balance sheet with declining loan book



- **Loan receivables** increased with 76% to SEK 589 m (333)
- **Cash** and receivables on credit institutions increased with 156% to SEK 105 m (41)
- **Balance sheet shrinking** due to off-balance arrangements
- Capacity for **continued growth**

Interest bearing debt paid back using bond proceeds



- Total **balance sheet** increased with 33% to SEK 641 m (481)
- **Equity** increased with 18% to SEK 226 m (191)
- **A bond** of EUR 40.0 m was issued in June 2019. EUR 7.3 m repurchased during Q1 2020.
- **Interest bearing debt** declined to SEK 5 m (256)

Board of directors

Contact

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