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Ferratum Oyj: Ferratum Group reports good operational progress in third quarter of 2018

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Nine Months Report January - September 2018

Ferratum Group reports good operational progress in third quarter of 2018

Helsinki, 15 November 2018 - Ferratum Oyj (ISIN: FI4000106299, WKN: A1W9NS) ("Ferratum" or the "Group") announces preliminary unaudited results for the 9 months ended 30 September 2018 ("9M 2018").

9M 2018 highlights

- Group revenue of EUR 190.2 million - up 18.1% year-on-year

- Operating profit (EBIT) of EUR 26.8 million - up 12.7% year-on-year
- EBIT margin of 14.1%
- Profit before tax (EBT) of EUR 15.1 million - down 14% due to unfavourable currency fluctuations
- Basic EPS decreased by 13.0% to EUR 0.60 per share
- Diluted EPS decreased by 14.5% to EUR 0.59 per share
- Balance sheet strengthened by successful placement of EUR 100 million bonds by Ferratum Capital Germany GmbH
- Net book value of loan portfolio grew by 19.0% to EUR 306.3 million (9M 2017: EUR 257.4 million)
- Deposits from customers increased by 10.3% to EUR 192.3 million
- Active customers increased 7.4% to 799,111

Key Figures

EUR '000	9 months ended 30 September		
	2018	2017	% change
Revenue	190,194	161,006	+18.1%
Operating profit (EBIT)	26,833	23,810	+12.7%
Profit before tax	15,110	17,575	-14.0%
Profit before tax %	7.9%	10.9%	-27.2%
Net cash flows from operating activities before movements in portfolio and deposits received	94,458	75,579	+24.7%
Net cash flows from operating activities	(18,982)	14,691	n/a
Net cash flows from investing activities	(10,284)	(6,862)	+49.9%
Net cash flows from financing activities	56,023	34,617	+61.8%
Net increase/decrease in cash and cash equivalents	26,757	43,928	-37.0%
Earnings per share, basic (EUR)	0.60	0.69	-13.0%
Earnings per share, diluted (EUR)	0.59	0.69	-14.5%

EUR '000	30 September 2018	31 December 2017	% change
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Accounts receivable - consumer loans (net)	306,314	257,406	+19.0%
Deposits from customers	192,291	174,301	+10.3%
Cash and cash equivalents	159,409	131,832	+20.9%
Total assets	517,386	436,595	+18.5%
Non-current liabilities	137,613	64,167	+114.5%
Current liabilities	271,835	267,185	+1.7%
Equity	107,937	105,243	+2.6%
Equity ratio %	20.9	24.1	
Net debt to equity ratio	2.03	1.90	

Financial and segmental performance

Ferratum Group delivered further growth in the first nine months of 2018, building on the record performance of 2017, and has made progress with implementing the management actions announced in the half year results, to restore revenue growth and improve Group performance.

Operating profit (EBIT) for the first nine months of 2018 increased by 12.7% year-on-year to EUR 26.8 million. The gross impairment on loans ratio improved to 33.6% for the first nine months of 2018, compared to 35% for the comparable 2017 period.

In view of heightened revenues of EUR 190.2 million compared to EUR 161.0 million (+18.1%) the EBIT margin slightly decreased from 14.8% to 14.1% within the nine-month period. Due to increases in finance costs of EUR 5.5 million to EUR 11.8 million within the nine-month period the profit before tax (EBT) reduced to EUR 15.1 million from EUR 17.6 million.

Group revenues increased by 18.1% to EUR 190.2 million, with Ferratum's premium, higher value products such as Credit Limit and PlusLoan together representing 74.8% of this result, a marginal increase on the comparable period in 2017. Microloan revenues of EUR 31.5 million continued to represent a diminishing proportion of turnover, being 3.6% lower than Microloan revenue for the first nine months of 2017. The ongoing decline is reflective of the Group's successful strategy of positioning Microloan as an initial 'beachhead' to understand customer behaviour while prioritising longer term lending as Ferratum's brand becomes more established in each country.

Business lending to Small-Medium Enterprises (SMEs) is becoming an increasingly material customer segment for the Group, generating EUR 15.5 million of revenue in the first nine months, a 73% increase on SME revenues for the first nine months in 2017.

In Q2 the Board of Ferratum acknowledged that recent changes to the Group's credit scoring processes were having a counterproductive impact on loan approval rates, and on 27 June 2018 the Board announced that Ferratum would be revising its risk assessment criteria to ensure that the Group does not reject credit risks that have in the past proven to be acceptable.

The objective is to ensure that Ferratum's automated credit assessment procedures remain tailored to the specific customer payment behaviour and hence risk tolerances that Ferratum has observed for each country of operation in order to restore the overall track record of growth that Ferratum has historically achieved across all geographies of operation.

As the table of quarterly product revenues below illustrates, despite the temporary impact on revenues of lower loan approval rates - especially in the PlusLoan segment - the quarter-on-quarter picture indicates that Credit Limit and

PlusLoan remain stable, core drivers for growth in line with Ferratum's product growth strategy.

Revenues per product per quarter

<i>EUR '000</i>						
Fiscal quarter	Microloan	PlusLoan	Credit Limit	SME	Mobile Bank / Other	Total
Q1 2016	13,426	5,458	13,823	476	30	33,213
Q2 2016	13,567	7,405	15,348	837	57	37,215
Q3 2016	11,942	7,913	17,010	1,227	126	38,218
Q4 2016	13,901	9,456	20,264	1,710	152	45,483
Q1 2017	13,975	11,294	22,329	2,390	21	50,009
Q2 2017	8,020	17,152	25,391	3,127	32	53,722
Q3 2017	10,729	15,456	27,574	3,483	33	57,276
Q4 2017	11,162	16,413	28,480	4,134	444	60,632
Q1 2018	11,058	15,852	28,901	5,508	123	61,442
Q2 2018	10,110	16,326	31,139	4,937	277	62,789
Q3 2018	10,370	15,579	34,479	5,095	430	65,953

While Credit Limit revenue growth improved in Q2 and in Q3 2018, and is now back to the growth levels of 2017, revenue growth for the PlusLoan segment indicates improving payment behaviour but has yet to fully recover in loan approval rates. Remedial action on PlusLoan approval rates remains a priority for management.

Recent country launches in SME business lending (mainly UK and Australia) have required corrective action on credit scoring in Q2 2018 due to suboptimal payment behaviour, but underlying SME lending growth across markets overall remains strong and is expected to continue its rapid growth path.

As previously communicated, the Group expects only modest contributions from the Mobile Bank and Partnerships for the time being, while Ferratum continues to develop its suite of Mobile Bank services.

The current pilot project in partnership with Thomas Cook Money is ongoing in Sweden until the end of February 2019, when we will evaluate the prospects for the pilot project and decide on next steps.

Operational developments

As announced at 27 June 2018, the Group is taking remedial action to ensure that the Group's automated credit assessment processes do not reject credit risks that have in the past proven to be acceptable. These measures are being rolled out and tailored to address the specific customer behaviour and risk profiles across all countries of operation and are expected to be completed by the end of 2018. Furthermore, Ferratum has taken a number of additional management actions to improve performance, including the strengthening of top management, staff streamlining, the rebalancing of resources to prioritise enhanced risk management and automation of lending processes in existing markets, and a review of the Groups performance across all geographies.

The new, enlarged Leadership Team was announced 19 September 2018 with a significant strengthening, promoting eight

members into senior leadership positions in addition to the six existing members. Effective 12 September 2018, the new members of the Leadership Team are: Adam Tønning, Head of Financial Planning & Analysis; Outi Ellilä, Head of Marketing and Customer Experience; Scott Donnelly, Business Unit Director SME Lending; Kristjan Kajakas, Business Unit Director for Revolving Loans; Antti Kumpulainen, Business Unit Director for Instalment Loans; Marius Solescu, Head of Human Resources; Sami Kalliola, Head of Strategic Partnerships; and Emmi Kyykkä Deputy Head of Investor Relations.

In addition, Dr. Clemens Krause, Chief Financial Officer, took on new responsibilities as Chief Risk Officer. He will continue serving as CFO until a new CFO has been appointed and shift his focus to the risk function. He continues to serve on the Directors Team along with the existing members Jorma Jokela, Founder and Chief Executive Officer of the Group; Lea Liigus, Head of Legal and Compliance; Ari Tiukkanen, Chief Operating Officer; Saku Timonen, Chief Commercial Officer and Jussi Mekkonen, Chief Executive Officer of Ferratum Bank p.l.c.

As part of the management actions announced with the H1 results to increase cost efficiency and streamline staffing, the overall headcount in the Group has been reduced by 5%. The biggest movements in personnel have been a 13% decrease in customer service and back office staff due to increase in automation in loan handling and pay-outs, while maintaining portfolio and service quality. A 9% increase in the personnel of the risk function and Dr Clemens Krause taking over the lead of the function supports the planned rebalancing and ensuring increased focus to be put on risk. A 68% decrease in country related, local organizations was enabled by the central functions taking over tasks that previously were handled locally. The Group is targeting to reduce its headcount to 900 in Q4 2018 and for the newly optimized cost structure, including staff costs to be during place in Q1 2019.

The Group has further centralized its operations in order to improve cost efficiency. Customer service operations for 21 countries and the collection operations for 18 countries have been centralized.

A new management model within Ferratum, the so called "five cylinder model", has been fully implemented. The cylinders are lead generation, conversion funnel, underwriting & collections, CRM and product & pricing. The model is enabled by the centralization of functions and ensures stronger internal controls over each part of the lending process due to designated teams and accountabilities for each cylinder with clear KPIs, which are being monitored on a daily basis.

The Group is conducting a thorough performance review of all geographies, which will last until the end of the year 2018, with the possibility of withdrawing from 1-2 countries, should it not see sufficient growth potential for the future or see that a higher level of profitability can be achieved by reallocating resources to other operations of the Group.

Since end of June 2018, there have been the following developments in the product segments. Microloan was discontinued in Canada and Sweden. This was a decision in line with Group strategy to decrease Microloan's presence, as higher customer lifetime value (CLV) can be achieved with other products. PlusLoan is now being offered in 10 countries with Canada the latest launch in July 2018. Primeloan was successfully launched in Germany in October, becoming the second country with this product.

The current Mobile Bank app has received some operational performance updates, which improve the usage and reduce loading times. Furthermore, Ferratum Bank is focused on the development of a new, enhanced Mobile Bank app, which is expected to go live in H1 2019.

Financial position

Due to the adoption of the new IFRS 9 accounting standard - with effect from 1 January 2018, the risk provisions of the Group had to be increased by EUR 9.2 million from this effective date. This one-time increase of the risk provision reduced the equity of the Group by EUR 7.5 million as the increased risk provisions were partially offset by deferred tax assets of EUR 1.7 million. The adjustment was booked directly to the Group's equity and did not affect the reported profit for nine months 2018. Overall, Group equity increased marginally to EUR 107.9 million as at 30 September 2018 from EUR 105.2 million as of 31 December 2017.

The net debt to equity ratio remains strong at 2.32 and comfortably below the limit of 3 as required by Ferratum's bond covenants.

The profit before tax (EBT) declined by 14.0% y-o-y to EUR 15.1 million, mainly as a result of unfavourable foreign exchange movements during the first nine months of 2018 attributable to the weakening of the Swedish Krona and the Polish Zloty, as illustrated in the table below, and increased finance costs of an additional EUR 3.2 million in the period compared to the prior year.

EUR '000	Q1 2018	Q2 2018	Q3 2018	YTD 2018	Q1-Q3 2017
AUD	-193	45	-48	-196	-237

CZK	49	-381	138	-194	523
PLN	-284	-964	156	-1,092	-183
GBP	131	-80	-149	-98	-92
SEK	-900	-271	366	-805	-111
Other currencies	43	46	-112	-23	-9
FX impact on P&L	-1,154	-1,605	351	-2,408	-109

The Group has substantial credit portfolios. Due to increasing foreign exchange volatility, Ferratum increased its hedging levels in Q3 - while recording a currency gain in Q3 of EUR 351,000 - and intends to further increase the proportion of its currency exposure that is hedged.

Net receivables from customers grew by 19.0% to EUR 306.3 million from EUR 257.4 million. Deposits from customers increased by 10.3% to EUR 192.3 million vs EUR 174.3 million as at 31 December 2017. The current deposit volume exceeds the requirements for 2018.

Subsequent Events

On 22 October 2018 Ferratum Capital Germany GmbH, a wholly owned subsidiary of Ferratum, announced that the EUR 20 million of senior unsecured bonds due October 2018 with ISIN: DE000A2GS104 and the EUR 25 million senior unsecured bonds due October 2018 with ISIN: DE000A1X3VZ3 have been repaid with proceeds from the EUR 100 million of senior unsecured bonds that Ferratum Capital Germany GmbH successfully placed in May 2018. The EUR 100 million of senior unsecured bonds have a coupon of 3 months Euribor plus 5.50 per cent p.a. and a tenor of four years and are listed on Nasdaq Stockholm with ISIN: SE0011167972. This EUR 100 million bond was admitted to the Prime Standard segment of the Frankfurt Stock Exchange on 9 November 2018 and has a tap option which allows Ferratum to increase the volume by an additional EUR 50 million.

In October a new milestone with IT development was reached, with the launch of a new IT platform. The first country on the new platform is New Zealand. The new platform is more automated, enables faster changes to products and scorecards, and accelerated launches in new markets, due to modular, scalable technology. The architecture also further supports future partnerships through flexible API connections. The new platform will be rolled out to all Ferratum markets over the medium-term and we expect a gradual decline in IT maintenance costs as a result.

2018 Outlook

With product revenues during the fourth quarter continuing to develop in line with third quarter performance, the Board expects that the Group will achieve the lower end of previously published revenue guidance for fiscal year 2018.

Accordingly, the Board now estimates revenues for the fiscal year 2018 will range between EUR 260 million and EUR 265 million (previously EUR 260 million to EUR 280 million), while the estimate for operating profit margin (EBIT margin) is reconfirmed within the range of 13% and 16%.

About Ferratum Group:

Ferratum Group is an international provider of mobile banking and digital consumer and small business loans, distributed and managed by mobile devices. Founded in 2005 and headquartered in Helsinki, Finland, Ferratum has expanded rapidly to operate in 25 countries across Europe, Africa, South and North America and the Asia-Pacific region.

As a pioneer in digital and mobile financial services technology, Ferratum is at the forefront of the digital banking revolution. Ferratum's mobile bank, launched in 2016, is an innovative mobile banking platform offering a range of banking services, including real time digital payments and transfers, within a single app. It is currently available in five European markets. Ferratum has approximately 1.9 million active and former customers who have an account or have been granted one or more loans in the past (as at 30 September 2018), of which over 799,000 customers have an open Mobile Bank account or an active loan balance in the last 12 months.

Ferratum Group is listed on the Prime Standard of Frankfurt Stock Exchange under symbol 'FRU.' For more information, visit www.ferratumgroup.com.

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