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Ferratum Oyj: Ferratum Group reports H1 performance in line with revised fiscal guidance

DGAP-News: Ferratum Oyj / Key word(s): Half Year Results

16.08.2018 / 07:30

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Interim Report January - June 2018

Ferratum Group reports H1 performance in line with revised fiscal guidance

Helsinki, 16 August 2018 - Ferratum Oyj (ISIN: FI4000106299, WKN: A1W9NS) ("Ferratum" or the "Group") announces preliminary unaudited results for the 6 months ended 30 June 2018 ("H1 2018").

Financial Highlights

- Revenue of EUR 124.2 million - up 19.8% year-on-year

- Operating profit (EBIT) of EUR 18.1 million - up 21.4% year-on-year
- EBIT margin of 14.6%
- Profit before tax (EBT) of EUR 9.7 million - down 17.3% year-on-year due to increased finance costs
- Net finance costs of EUR 8.4 million (H1 2017: EUR 3.2 million). The increase is mainly due to both foreign exchange losses (H1 2018: EUR 2.8 million loss vs H1 2017 EUR 0.4 million gain) and interest on increased bond volumes
- EPS (basic and diluted) decreased 17.4% to EUR 0.38 per share
- Net book value of loan portfolio up 9.6% to EUR 282.2 million (31 December 2017: EUR 257.4 million)
- Successful placement of EUR 100 million senior unsecured bonds by Ferratum Capital Germany GmbH
- Deposits from customers as at 30 June 2018 increased by 8.1% to EUR 188.5 million vs 31 December 2017, but is 2.2% lower than the EUR 192.7 million as at 31 March 2018 as the Group reduced interest rates to maintain balanced sources of funding
- Active/former customer base increased by 281,052 to 2.01 million - up 16.3% year-on-year

Corporate developments post H1 2018

- Successful listing on Nasdaq Stockholm of EUR 100 million senior unsecured bonds by Ferratum Capital Germany GmbH

Key Figures

	6 months ended 30 June		
<i>EUR '000</i>	2018	2017	% change
<i>Revenue</i>	124,232	103,730	+19.8%
<i>Operating profit (EBIT)</i>	18,144	14,942	+21.4%
<i>Profit before tax</i>	9,728	11,763	-17.3%
<i>Profit before tax %</i>	7.8%	11.3%	-28.3%
<i>Net cash flows from operating activities before movements in portfolio and deposits received</i>	59,743	51,605	
<i>Net cash flows from operating activities</i>	(10,023)	(5,165)	
<i>Net cash flows from investing activities</i>	(6,698)	(4,164)	
<i>Net cash flows from financing activities</i>	56,255	14,653	
<i>Net increase/decrease in cash and cash equivalents</i>	39,535	5,323	
<i>Earnings per share, basic (EUR)</i>	0.38	0.46	-17.4%
<i>Earnings per share, diluted (EUR)</i>	0.38	0.46	-17.4%

<i>EUR '000</i>	30 June 2018	31 Dec 2017	% change
<i>Accounts receivable - consumer loans (net)</i>	282,209	257,406	+9.6%
<i>Deposits from customers</i>	188,474	174,301	+8.1%
<i>Cash and cash equivalents</i>	170,820	131,832	+29.6%
<i>Total assets</i>	503,178	436,595	15.3%
<i>Non-current liabilities</i>	137,709	64,167	114.6%
<i>Current liabilities</i>	262,406	267,185	-1.8%
<i>Equity</i>	103,064	105,243	-2.1%
<i>Equity ratio %</i>	20.5	24.1	
<i>Net debt to equity ratio</i>	2.22	1.90	

Key developments and progress

Ferratum Group delivered further growth in the first six months of 2018, building on the record performance of 2017, albeit that the relative pace of growth was moderated by a decline in approval rates for new loans as a result of changes to the Group's automated credit scoring processes.

Group revenues increased by 19.8% to EUR 124.2 million, with Ferratum's premium, higher value products such as Credit Limit and PlusLoan together representing 74.2% of this result, a marginal increase on the comparable period in H1 2017. Microloan revenues of EUR 21.2 million continued to represent a diminishing proportion of turnover, being 3.8% lower than Microloan revenue for H1 2017, but this ongoing marginal decline is reflective of the Group's successful strategy of positioning Microloans 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 10.4 million of revenue in the first six months, an 89.3% increase on SME revenues for H1 2017.

Ahead of the period end, 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 maintain 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.

Recent country launches in SME business lending (mainly UK and Australia) have required corrective actions 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.

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

As previously communicated, the Group expects modest contributions from the Mobile Bank and Partnerships while Ferratum continues to develop its suite of Mobile Bank services and assess the commercial potential for its pilot partnership project in Sweden with Thomas Cook Money.

Operating profit (EBIT) for H1 2018 increased by 21.4% year-on-year to EUR 18.1 million. The EBIT profitability margin remained near the midpoint of Ferratum's 2018 fiscal guidance range, with a marginal improvement to 14.6% for H1 2018, from 14.4% for H1 2017, as a result of lower realised credit losses (impairment on loans) and stable marketing costs compared with H1 2017. The gross impairment on loans ratio improved from 34.6% in H1 2017 to 32.7% for H1 2018.

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. Furthermore, Ferratum will be undertaking 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 all geographies with a view to potentially withdrawing from one or two non-performing countries.

Finance and treasury update

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 H1 2018. Overall, Group equity decreased marginally to EUR 103.4 million as at 30 June 2018 from EUR 105.2 million as of 31 December 2017. The net debt to equity ratio remains strong at 2.2x and comfortably below the limit of 3x as required by Ferratum's bond covenants.

The profit before tax (EBT) declined by 17.3% y-o-y to EUR 9.7 million, mainly as a result of unfavourable foreign exchange movements during H1 2018 attributable to the weakening of the Swedish Krona and the Polish Zloty, as illustrated in the following table:

EUR '000	Q2 2018	Q1 2018	H1 2018	H1 2017
AUD	0.045	-0.193	-0.148	-0.124
CZK	-0.381	0.049	-0.322	0.423
PLN	-0.964	-0.284	-1.248	0.197
GBP	-0.080	0.131	0.051	-0.061
SEK	-0.271	-0.900	-1.172	-0.044
Other currencies	0.046	0.043	0.089	0.005
FX impact on P&L	-1.605	-1.154	-2.759	0.396

The Group has substantial credit portfolios. Due to increasing foreign exchange volatility, Ferratum's intention is to further increase the proportion of its currency exposure that is hedged.

Net receivables from customers grew by 9.6% to EUR 282.2 million from EUR 257.4 million. Deposits from customers increased by 8.1% to EUR 188.5 million vs EUR 174.3 million as at 31 December 2017, but is 2.2% lower than the EUR 192.7 million as at 31 March 2018 as the Group reduced interest rates to maintain balanced sources of funding and capital adequacy ratios. The intention of management is to further reduce the inflow of deposits as appropriate to ensure that the Group optimizes its liquidity position.

During the second quarter, Ferratum Capital Germany GmbH, a subsidiary of Ferratum Oyj, successfully issued EUR 100 million of new senior unsecured bonds in order to refinance its outstanding EUR 45 million of bonds maturing in October 2018. The additional funds raised will be used to finance continued growth of the Group. The new senior unsecured bonds have a coupon of 3 months Euribor plus 5.50 per cent p.a. and a tenor of four years. The bonds have been listed on Frankfurt Stock Exchange Open Market and after the period end been listed on Nasdaq Stockholm with ISIN: SE0011167972. The Group intends to also list the bond on the Frankfurt Stock Exchange Prime Standard (best effort basis) in Q3 2018. The bond has a tap option which allows Ferratum to increase the volume by an additional EUR 50 million.

Ferratum's group rating of BBB+ was reconfirmed by Creditreform AG during March 2018 in its regular annual review.

During the Annual General Meeting held in Helsinki on 19 April 2018, shareholders approved the payment of a final dividend of EUR 0.18 per share for the financial year 2017.

Subsequent events

On 13 July 2018 Ferratum Bank p.l.c., a wholly owned subsidiary of Ferratum, announced that the EUR 40 million of senior unsecured bonds due March 2020 with ISIN FI400023283 ceased to be listed on the European Wholesale Securities Market (EWSM) with effect from 13 July 2018 as a result of the decision by Euronext N.V. to close the EWSM with effect from the same date.

Ferratum Bank p.l.c. has not sought to list the bonds on any other Maltese exchange, but bondholders should note that the bonds remain listed and tradable on Nasdaq Stockholm (regulated market) and Frankfurt Stock Exchange (Open Market).

2018 Outlook

The focus of management in H2 2018 is to ensure that the recently announced measures to restore historic trends in Group revenue growth are effective. Furthermore, Ferratum will be undertaking 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 all geographies with a view to potentially withdrawing from one or two non-performing countries.

The second quarter trends in product revenues provide some early indications that a recovery in credit approvals is underway, and management is continuing to prioritise growth in SME business lending and Primeloan to become increasingly significant segments enhancing the CLV of the Group's customer base. At the same time the Group continues to invest in its Mobile Bank, progress its pilot project with Thomas Cook Money and pursue broader opportunities to expand Ferratum's financial services platform model with other potential joint venture partners.

The Board of Directors of Ferratum Oyj reaffirms that revenues for the fiscal year 2018 are expected to be within the range of EUR 260 million and EUR 280 million, while the estimate for operating profit margin (EBIT margin) is reconfirmed to be within the range of 13% and 16%.

Ferratum Oyj bases this guidance on certain assumptions, including:

- Consumer credit volumes continue to grow, exceeding the market average, based on new customers, continued diversification of consumer lending products and growth in new markets
- Moderate expectations on the 2018 contribution of new revenue streams from partnerships, mobile bank innovations
- Ferratum Business (SME) continues to grow as market share in the 8 existing markets is small and expected to increase
- Ferratum Mobile Bank will generate new customers, increased customer loyalty, cross-selling opportunities, increased deposit volume and diversified deposit currencies
- No material negative changes in the consumer and business credit markets
- Stable capital market conditions
- No unexpected significant new regulatory challenges or changes

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 2 million active and former customers who have an account or have been granted one or more loans in the past (as at 30 June 2018), of which over 780,000 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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16.08.2018 Dissemination of a Corporate News, transmitted by DGAP - a service of EQS Group AG.
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Listed:	Regulated Market in Frankfurt (Prime Standard); Regulated Unofficial Market in Berlin, Dusseldorf, Hamburg, Hanover, Munich, Stuttgart, Tradegate Exchange

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