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Ferratum Oyj: Ferratum publishes 9M 2020 results

Ferratum Oyj / Key word(s): 9 Month figures

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Ferratum publishes 9M 2020 results

Helsinki, 16 November 2020 - Ferratum Oyj (ISIN: FI4000106299, WKN: A1W9NS) ("Ferratum", the "Company" or the "Group") announces unaudited results for the first nine months ended 30 September 2020 ("9M 2020").

Financial Highlights 9M 2020

- Revenue y-o-y down by -19.0% to EUR 176.7 million as a result of management actions related to the COVID-19 pandemic (including reduced lending and stricter scoring) and the decision to streamline the Group's countries of operations by suspending lending in selected markets
- Positive EBIT achieved by continued strict cost discipline as well as conservative and qualitative underwriting

Operational Highlights

- Investment in future growth: CapitalBox acquired SME lending business from Spotcap NL

	9 months ended	
	30 September	
Key Figures, EUR million	9M 2020	9M 2019
<i>Revenue</i>	176.7	218.1
<i>Operating profit (EBIT)</i>	19.3	33.5
<i>Profit before tax</i>	2.1	19.7
<i>Earnings per share, basic (EUR)</i>	0.03	0.78
<i>Earnings per share, diluted (EUR)</i>	0.03	0.78

Successful navigation through the COVID-19 pandemic by substantial cost reductions and lowered risk appetite

Revenue performance driven by substantial reduction of the Group's risk exposure

Ferratum's revenues reached during the first nine months of 2020 EUR 176.7 million, a decrease of 19% compared to the respective period last year (9M 2019: EUR 218.1 million). The reduction in revenues is caused by management actions related to the COVID-19 pandemic (including reduced lending and stricter scoring) and the decision to streamline the Group's countries of operations by suspending lending in Canada, New Zealand, Poland, Russia and Spain.

Operational cost base decreased by EUR 21.5 million - EBIT remained positive at EUR 19.3 million

The Operating profit (EBIT) came in at EUR 19.3 million for the first nine months of 2020 and decreased by EUR 14.2 million compared to the first nine months of 2019 (EUR 33.5 million).

The reduction in EBIT is a result of COVID-19 related decrease in revenues and impairment charges, especially during Q1 2020 where the Group faced an EUR 7.8 million (COVID-19 related) impairment charge. As a result of the Group's reduced lending and risk exposure, impairment levels decreased during the course of Q2 (Q2 2020: EUR 19.1 million; Q2 2019: EUR 25.7 million) and Q3 2020 (Q3 2020: EUR 18.6 million; Q3 2019 EUR 24.6 million), compared to Q1 2020 and the respective periods in 2019. Consequently, impairments decreased by 7.1% or EUR 5.6 million to EUR 73.3 million for the first nine months of 2020.

Management is however expecting impairments to increase in Q4 2020 compared to the levels in Q2 and Q3 2020 as Ferratum is increasing lending volumes.

Already early in Q1 2020, the Group's management implemented a COVID-19 action plan which includes a leaner and more efficient organization. This plan has been successfully executed in the first nine months of 2020.

The operational cost base decreased by -20.4% or EUR 21.5 million to EUR 84.1 million. Ferratum managed to reduce personnel expenses by -22.4% or EUR 7.4 million to EUR 25.7 million (9M 2019: EUR 33.2 million) and to cut marketing expenses by EUR 13.7 million to EUR 16.0 million compared to the corresponding period in 2019. Marketing expenses are expected to increase along with the Group's plan to reactivate lending in Q4 2020.

Profit after tax stood at EUR 0.6 million (9M 2019: EUR 16.7 million)

Comfortable equity ratio and improved liquidity

The Group's equity came slightly down by EUR 1.5 million and stood at EUR 127.7 million at the end of Q3 2020 compared to year end (December 31, 2019: EUR 129.1 million). The equity-ratio remained solid at 18.4% (December 31, 2019: 20.9%) providing the Group with high flexibility to further navigate through the COVID-19 pandemic.

Total assets stood at EUR 692.8 million and were up by 12.0% compared to December 31, 2019 (EUR 618.8 million). Net loans to customers stood at the end of Q3 2020 at EUR 345.8 million, down 10.4% compared to December 31, 2019 (EUR

386.2 million), resulting from the decision to decrease the Group's loan disbursement rate and risk appetite as well as from the COVID-19 related impairments. Cash and cash equivalents ("liquidity") increased substantially by EUR 111.4 million to EUR 266.9 million compared to December 31, 2019. The strong improvement of the Group's liquidity related to high deposits inflows of EUR 120.6 million which stood at EUR 362.7 million as of September 30, 2020 (December 31, 2019: EUR 242.2 million). Deposits peaked by the end of Q2 2020 at EUR 442.9 million resulting in excess liquidity. During the course of Q3 2020, Ferratum took actions to decrease the Group's deposit base by EUR 80.2 million.

As of September 30, 2020, Net debt to equity stood at 2.34, below the ratio as of December 31, 2019 (2.59).

Operational developments

Ferratum introduced in early 2020 a four-stage action plan as a reaction to the COVID-19 pandemic. This plan includes managing liquidity, controlling risk, reducing cost base and going for business opportunities.

The Group has during the first nine months of 2020 successfully executed on all four sections of the action plan and managed to strengthen the liquidity position with excess cash at hand. Ferratum decreased its risk appetite significantly in early March 2020 due to which the net credit volume at the end of Q3 2020 is below December 31, 2019 levels (EUR 345.8 million vs EUR 386.2 million).

The pandemic strengthened management's earlier decisions to continue to streamline and increase automatization within in the Group. This has resulted in a continued effort to reduce cost and further increase the centralization of functions. As a result, the operational cost base has decreased during the first nine months of 2020. The reduction during the first nine months 2020, vs. 2019 of EUR 21,5 million in operating expenses has been led by the decrease in marketing spending as loan disbursement rates have been kept at lower levels, especially during H1 2020. Ferratum has however during Q3 2020 started to moderately increase loan disbursement rates as the Group has not seen a deterioration in the underlying payment behavior of the lending portfolio. This increase also affected marketing expenditure in Q3 2020 as the Group increased lending, this trend is expected to continue in Q4 2020 as Ferratum continues to increase its loan portfolio. Ferratum, has in addition, managed to decrease its personnel expenses by 22.4% year on year (9M 2020: 25.7 million vs 9M 2019: 33.2 million) in a continued effort to create a leaner organization and thereby decreased the headcount by over 200 year on year.

Ferratum continued during the first nine months of 2020 to work on initiatives supporting its strategy in increased efforts within the SME, Prime lending and Mobile Wallet segments. The rebranding of the SME business was completed during Q2 2020 and has been renamed "CapitalBox". The Primeloan product was introduced to the Swedish market and the Mobile Wallet was launched to the public in Latvia.

Personnel

At the end of September 2020 Ferratum Group employed 654 persons compared with 888 persons at the end of September 2019. The decrease is a result of actions taken by the management in both 2019 and 2020 to improve operational efficiency, increase automation and streamline operations.

Daniel Kliem was appointed as Chief Risk Officer for the Group, succeeding Dr. Clemens Krause, who will continue to serve as a member of the Board of Directors of Ferratum. Daniel joined Ferratum on October 1, 2020 and was also appointed as a member of Ferratum's Leadership Team with effect on the same date.

Julie Chatterjee has been appointed as CCO & Deputy CEO of Ferratum Bank plc. and will join Ferratum on 1 December 2020. Julie will also be appointed as a member of Ferratum's Leadership Team with effect on the same date. Her prime focus will be on the development and rollout of the Mobile Wallet, a field in which she has a substantial background. Julie holds 16 years of experience within the retail & banking industry. She has hands-on experience from consumer lending, credit card and the insurance business with an exposure to e-banking and mobile banking, while holding numerous positions at OKQ8, including CEO for OKQ8 Bank.

Risk factors and management

Ferratum decided, in the early stages of the COVID-19 pandemic, to limit lending activities to higher risk customers in both consumer and SME lending segments. After having revised its loan policies and scoring algorithms in Q2 to improve underwriting in times of such high volatility, Ferratum found itself in Q3 in a healthy position to actively target customers that were in a stable financial situation despite the pandemic.

The adjusted algorithms and scoring policies helped Ferratum maintain and even improve payment behavior in certain countries during Q2, and this healthy payment behavior has been maintained during Q3 while increasing disbursements as demand has returned to most markets.

The Group continues to tightly monitor its underwriting performance for any early indications of deteriorating payment behavior and properly judge the impact of additional governmental measures as COVID-19 cases continue to increase while Europe prepares for a second COVID-19 wave.

Due to this combination of tighter monitoring and a better understanding of the economic impacts of COVID-19 lockdowns, Ferratum has maintained healthy portfolio quality and sales through October, and to date, has not seen any significant impact on materialized credit losses. However, the performance of the remainder of Q4 will depend on the development of the second wave and the various governmental responses.

Ferratum manages its risk provisioning in accordance with IFRS 9, that relies on a forward oriented methodology. Based on future macroeconomic indicators and previously recorded correlations, the reserving model is adjusted in accordance with the macroeconomic outlook. Ferratum has, based on this rigorous reserving model, increased its credit loss provisioning by EUR 7.8 million in Q1 2020, which remains unchanged as of Q3 2020 notwithstanding a less deteriorating macroeconomic outlook for 2020 issued in Q3 2020 and that Ferratum strongly suppressed its lending during Q2 2020 by establishing stricter requirements for new clients which resulted in an increase of the average quality of the client base. Ferratum retained its current provisioning unchanged after having taking cognizance of the following 12-months economic forecasts for 2021, thereby assessing the impact of COVID-19 outlook for 2020 and 2021 macroeconomic forecasts. Accordingly, the Expected Credit Loss model inputs utilized during Q1 2020 were deemed adequate to determine its Expected Credit Losses based on management judgement and Management will continue to closely monitor the economic forecasts releases and adjust the model inputs and assess its outcomes in the light of revised macroeconomic data and other quantitative and qualitative information.

Subsequent Events

Acquisition of SpotCap NL

Ferratum announced in October the acquisition of the business operations of Spotcap Netherlands B.V. by Capitalbox. Spotcap NL is a Dutch SME lending business by which CapitalBox expands its business activities in the SME lending space further. The acquisition gives CapitalBox deeper access to the Netherlands, home to more than 1.1 million small and medium-sized enterprises.

While the acquisition will not have a material effect on the 2020 results of Ferratum Group, the parties involved agreed not to disclose the purchase price of the acquisition.

Spotcap NL has been active as an online SME lender in the Dutch market since 2015 and has since originated close to EUR 150 million in credit lines. Spotcap NL has in addition developed a strong partner network across the Netherlands involving many specialized SME advisory firms, including accountants and tax advisors which connects the business to high-quality SMEs looking for tailored and flexible financing. CapitalBox will, with the acquisition, gain access to Spotcap NL's market knowledge, existing network and its underwriting expertise.

One of Spotcap NL's core strengths is its SME underwriting capabilities resulting in annual credit write-offs at low single digit levels. The loan book performance has also remained strong throughout the COVID-19 pandemic with no notable changes in borrower behaviour or default rates.

The existing Spotcap NL distribution channels will allow CapitalBox to increase its average loan size at low customer acquisition costs. Ferratum plans to merge Spotcap NL to the Dutch business of CapitalBox, subsequently also rebrand the business CapitalBox.

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 20 countries across Europe, Africa, South and North America, Australia and Asia.

As a pioneer in digital and mobile financial services technology, Ferratum is at the forefront of the digital banking revolution. Ferratum has approximately 560,000 active customers that have an open Mobile Bank account or an active loan balance in the last 12 months (as at 30 September 2020).

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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Additional features:

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End of News

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