

## Looking for signs of growth pick-up

Fellow Finance will report H2/19 results on February 14<sup>th</sup>. Revenue growth will based on company guidance have been around 10% during H2 despite a minor decline in intermediated loan volumes. We expect the slower growth and increased competition in Finland to have had a negative impact on margins. We expect a dividend proposal of EUR 0.04 per share. We retain our HOLD-rating and lower our target price to EUR 4.2 (5.0) ahead of H2 results.

### Slower loan volume growth puts pressure on margins

Company guidance for 2019 puts full-year revenue growth at around 19% and the implied H2/19 growth will be around 10%. Intermediated loan volumes during H2 have seen minor declines compared with H2/18, affected by the increased competition within consumer lending in Finland. Revenue growth is as such expected to be driven by higher interest income. We expect margins to have continued to decline with the slower revenue growth and the impact of the increased competition on broker commissions. We expect a dividend proposal of EUR 0.04 per share (2018: 0.04).

### 2020 expected to remain a ramp-up year

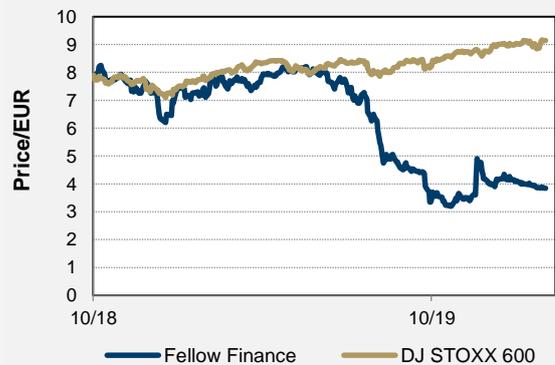
We expect 2020 to continue to be challenging for Fellow Finance. Fellow Finance's growth story was heavily dented by the stalling intermediated loan volume development and profitability has declined. We expect 2020 to continue to be a ramp-up year for international operations but do not expect the growth to materialize significantly before 2021. Growth investments are also expected to have an impact on margins, and we expect a minor decline in operating profit in 2020.

### HOLD with a target price of EUR 4.2 (5.0)

Without any clear signs of growth pick-up, we find it hard to identify clear near-term upside potential. The 2020 guidance should hopefully provide more light on the matter. We lower our target price to EUR 4.2 (5.0) and retain our HOLD-rating.

Rating

HOLD



Share price, EUR (Last trading day's closing price) 3.84

Target price, EUR 4.2

Latest change in recommendation 19-Aug-19

Latest report on company 26-Aug-19

Research paid by issuer: YES

No. of shares outstanding, '000's 7,129

No. of shares fully diluted, '000's 7,129

Market cap, EURm 27

Free float, % 0.0

Exchange rate 0.000

Reuters code FELLOW.HE

Bloomberg code FELLOW HE

Average daily volume, EURm 0.07

Next interim report 14-Feb-20

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BUY HOLD SELL

## KEY FIGURES

	Sales EURm	EBIT EURm	EBIT %	FCF EURm	EPS EUR	P/E (x)	EV/Sales (x)	EV/EBIT (x)	FCF yield %	DPS EUR
2017	8.7	2.5	28.8%	2.0	0.19	0.0	1.7	5.9	0.0	0.09
2018	12.0	3.4	28.3%	0.6	0.12	55.1	4.6	16.1	1.2	0.04
2019E	14.3	2.4	16.9%	-5.1	0.10	39.9	2.9	17.1	-18.8	0.04
2020E	15.1	2.1	13.8%	-0.5	0.08	50.3	2.8	20.1	-1.7	0.05
2021E	19.3	3.3	17.1%	0.0	0.21	18.5	2.2	12.8	-0.1	0.06

Market cap, EURm	27	Gearing 2019E, %	92.1	CAGR EPS 2018-21, %	20.7
Net debt 2019E, EURm	14	Price/book 2019E	1.8	CAGR sales 2018-21, %	17.2
Enterprise value, EURm	41	Dividend yield 2019E, %	1.0	ROE 2019E, %	4.7
Total assets 2019E, EURm	37	Tax rate 2019E, %	29.4	ROCE 2019E, %	7.1
Goodwill 2019E, EURm	0	Equity ratio 2019E, %	40.1	PEG, P/E 19/CAGR	0.6

All the important disclosures can be found on the last pages of this report.

Fellow Finance	2017	H1/'18	H2/'18	2018	H1/'19	H2/'19E	2019E	2020E	2021E
Net sales	8.7	5.6	6.4	12.0	7.2	7.0	14.3	15.1	19.3
<i>sales growth, %</i>	<i>55%</i>	<i>43%</i>	<i>34%</i>	<i>38%</i>	<i>30%</i>	<i>10%</i>	<i>19%</i>	<i>6%</i>	<i>28%</i>
Fee income	6.0	4.1	4.8	9.0	5.3	5.0	10.4	11.2	15.4
Interest income	2.7	1.4	1.5	3.0	1.9	2.0	3.9	3.9	3.9
Facilitated loans	99	76	96	172	109	92	201	220	315
<i>change, %</i>	<i>120%</i>	<i>74%</i>	<i>74%</i>	<i>74%</i>	<i>43%</i>	<i>-4%</i>	<i>17%</i>	<i>10%</i>	<i>43%</i>
<b>Expenses</b>									
Materials and services	-3.0	-1.8	-1.9	-3.8	-2.3	-2.2	-4.5	-4.8	-6.9
<i>as % of facilitated loans</i>	<i>3.0%</i>	<i>2.4%</i>	<i>2.0%</i>	<i>2.2%</i>	<i>2.1%</i>	<i>2.4%</i>	<i>2.2%</i>	<i>2.2%</i>	<i>2.2%</i>
Personnel expenses	-1.0	-0.7	-1.0	-1.7	-1.0	-1.3	-2.3	-2.9	-3.6
Other op. expenses	-1.8	-1.2	-1.5	-2.7	-2.3	-2.3	-4.6	-4.8	-5.0
D&A	-0.4	-0.2	-0.2	-0.4	-0.2	-0.2	-0.4	-0.5	-0.5
EBIT	2.5	1.7	1.7	3.4	1.4	1.0	2.4	2.1	3.3
<i>EBIT margin</i>	<i>28.8%</i>	<i>30.0%</i>	<i>26.4%</i>	<i>28.1%</i>	<i>19.0%</i>	<i>14.7%</i>	<i>16.9%</i>	<i>13.8%</i>	<i>17.1%</i>
Adj. EBIT	2.5	1.7	1.9	3.5	1.4	1.0	2.4	2.1	3.3
<i>Adj. EBIT margin</i>	<i>28.8%</i>	<i>30.0%</i>	<i>29.1%</i>	<i>29.5%</i>	<i>19.0%</i>	<i>14.7%</i>	<i>16.9%</i>	<i>13.8%</i>	<i>17.1%</i>

## INTERIM FIGURES

EVLI ESTIMATES, EURm	2018Q1	2018Q2	2018Q3	2018Q4	2018	2019Q1	2019Q2	2019Q3E	2019Q4E	2019E	2020E	2021E
Net sales	0.0	5.6	0.0	6.4	12.0	0.0	7.2	0.0	7.0	14.3	15.1	19.3
EBITDA	0.0	1.9	0.0	2.0	3.8	0.0	1.6	0.0	1.2	2.8	2.4	3.7
<i>EBITDA margin (%)</i>	<i>0.0</i>	<i>33.3</i>	<i>0.0</i>	<i>30.6</i>	<i>31.9</i>	<i>0.0</i>	<i>21.7</i>	<i>1,673.0</i>	<i>17.5</i>	<i>19.7</i>	<i>16.0</i>	<i>18.9</i>
EBIT	0.0	1.7	0.0	1.7	3.4	0.0	1.4	0.0	1.0	2.4	2.1	3.3
<i>EBIT margin (%)</i>	<i>0.0</i>	<i>30.0</i>	<i>0.0</i>	<i>26.9</i>	<i>28.3</i>	<i>0.0</i>	<i>19.0</i>	<i>0.0</i>	<i>14.7</i>	<i>16.9</i>	<i>13.8</i>	<i>17.1</i>
Net financial items	0.0	-0.7	0.0	-1.6	-2.3	0.0	-0.7	0.0	-0.7	-1.4	-1.4	-1.5
Pre-tax profit	0.0	1.0	0.0	0.1	1.1	0.0	0.6	0.0	0.3	1.0	0.7	1.8
Tax	0.0	-0.2	0.0	0.0	-0.3	0.0	-0.2	0.0	-0.1	-0.3	-0.1	-0.4
<i>Tax rate (%)</i>	<i>0.0</i>	<i>21.8</i>	<i>0.0</i>	<i>39.8</i>	<i>23.3</i>	<i>0.0</i>	<i>34.3</i>	<i>0.0</i>	<i>20.0</i>	<i>29.4</i>	<i>20.0</i>	<i>20.0</i>
Net profit	0.0	0.8	0.0	0.1	0.8	0.0	0.4	0.0	0.3	0.7	0.5	1.5
EPS	0.00	0.11	0.00	0.01	0.12	0.00	0.06	0.00	0.04	0.10	0.08	0.21
EPS adjusted (diluted no. of shares)	0.00	0.11	0.00	0.01	0.12	0.00	0.06	0.00	0.04	0.10	0.08	0.21
Dividend per share	0.00	0.00	0.00	0.00	0.04	0.00	0.00	0.00	0.00	0.04	0.05	0.06
<b>SALES, EURm</b>												
Fellow Finance	0.0	5.6	0.0	6.4	12.0	0.0	7.2	0.0	7.0	14.3	15.1	19.3
Total	0.0	5.6	0.0	6.4	12.0	0.0	7.2	0.0	7.0	14.3	15.1	19.3
<b>SALES GROWTH, Y/Y %</b>												
<i>Fellow Finance</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>-25.9</i>	<i>38.5</i>	<i>0.0</i>	<i>29.6</i>	<i>0.0</i>	<i>9.5</i>	<i>18.9</i>	<i>6.0</i>	<i>27.9</i>
<i>Total</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>-26.0</i>	<i>38.5</i>	<i>0.0</i>	<i>29.6</i>	<i>0.0</i>	<i>9.6</i>	<i>18.9</i>	<i>6.0</i>	<i>27.9</i>
<b>EBIT, EURm</b>												
Fellow Finance	0.0	1.7	0.0	1.7	3.4	0.0	1.4	0.0	1.0	2.4	2.1	3.3
Total	0.0	1.7	0.0	1.7	3.4	0.0	1.4	0.0	1.0	2.4	2.1	3.3
<b>EBIT margin, %</b>												
<i>Fellow Finance</i>	<i>0.0</i>	<i>30.0</i>	<i>0.0</i>	<i>26.9</i>	<i>28.3</i>	<i>0.0</i>	<i>19.0</i>	<i>0.0</i>	<i>14.7</i>	<i>16.9</i>	<i>13.8</i>	<i>17.1</i>
<i>Total</i>	<i>0.0</i>	<i>30.0</i>	<i>0.0</i>	<i>26.9</i>	<i>28.3</i>	<i>0.0</i>	<i>19.0</i>	<i>0.0</i>	<i>14.7</i>	<i>16.9</i>	<i>13.8</i>	<i>17.1</i>

INCOME STATEMENT, EURm	2014	2015	2016	2017	2018	2019E	2020E	2021E
Sales	0.0	4.0	5.6	8.7	12.0	14.3	15.1	19.3
<i>Sales growth (%)</i>	<i>0.0</i>	<i>0.0</i>	<i>39.6</i>	<i>55.0</i>	<i>38.5</i>	<i>18.9</i>	<i>6.0</i>	<i>27.9</i>
EBITDA	0.0	1.6	1.3	2.9	3.8	2.8	2.4	3.7
<i>EBITDA margin (%)</i>	<i>0.0</i>	<i>40.7</i>	<i>22.5</i>	<i>33.1</i>	<i>31.9</i>	<i>19.7</i>	<i>16.0</i>	<i>18.9</i>
Depreciation	0.0	-0.3	-0.3	-0.4	-0.4	-0.4	-0.3	-0.4
EBITA	0.0	1.3	0.9	2.5	3.4	2.4	2.1	3.3
Goodwill amortization / writedown	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	0.0	1.3	0.9	2.5	3.4	2.4	2.1	3.3
<i>EBIT margin (%)</i>	<i>0.0</i>	<i>32.2</i>	<i>16.4</i>	<i>28.8</i>	<i>28.3</i>	<i>16.9</i>	<i>13.8</i>	<i>17.1</i>
Reported EBIT	0.0	1.3	0.9	2.5	3.4	2.4	2.1	3.3
<i>EBIT margin (reported) (%)</i>	<i>0.0</i>	<i>32.2</i>	<i>16.4</i>	<i>28.8</i>	<i>28.3</i>	<i>16.9</i>	<i>13.8</i>	<i>17.1</i>
Net financials	0.0	-1.3	-0.8	-1.3	-2.3	-1.4	-1.4	-1.5
Pre-tax profit	0.0	0.0	0.1	1.2	1.1	1.0	0.7	1.8
Taxes	0.0	-0.1	-0.1	-0.1	-0.3	-0.3	-0.1	-0.4
Minority shares	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	0.0	-0.3	0.1	1.1	0.8	0.7	0.5	1.5
Cash NRIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-cash NRIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>BALANCE SHEET, EURm</b>								
<b>Assets</b>								
Fixed assets	0	11	10	14	17	22	22	22
Goodwill	0	0	0	0	0	0	0	0
Right of use assets	0	0	0	0	0	0	0	0
Inventory	0	0	0	0	0	0	0	0
Receivables	0	3	5	6	7	8	9	11
Liquid funds	0	2	2	2	9	7	5	4
Total assets	0	16	17	22	32	37	36	37
<b>Liabilities</b>								
Shareholder's equity	0	3	3	4	15	15	15	16
Minority interest	0	0	0	0	0	0	0	0
Convertibles	0	0	0	0	0	0	0	0
Lease liabilities	0	0	0	0	0	0	0	0
Deferred taxes	0	0	0	0	0	0	0	0
Interest bearing debt	0	11	13	17	17	21	20	19
Non-interest bearing current liabilities	0	2	1	1	1	1	2	2
Other interest-free debt	0	0	0	0	0	0	0	0
Total liabilities	0	16	17	22	32	37	36	37
<b>CASH FLOW, EURm</b>								
+ EBITDA	0	2	1	3	4	3	2	4
- Net financial items	0	-1	-1	-1	-2	-1	-1	-1
- Taxes	0	0	0	0	0	0	0	0
- Increase in Net Working Capital	0	-2	-1	1	0	-1	-1	-1
+/- Other	0	0	0	0	0	0	0	0
= Cash flow from operations	0	-2	-1	2	1	1	0	1
- Capex	0	-11	0	0	-1	-6	0	-1
- Acquisitions	0	0	0	0	0	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Free cash flow	0	-13	-1	2	1	-5	0	0
+/- New issues/buybacks	0	3	0	0	10	0	0	0
- Paid dividend	0	0	0	0	-1	0	0	0
+/- Other	0	11	2	-2	-3	4	-1	-1
Change in cash	0	2	1	0	7	-2	-2	-1

KEY FIGURES	2015	2016	2017	2018	2019E	2020E	2021E
M-cap	0	0	0	46	27	27	27
Net debt (excl. convertibles)	9	11	15	8	14	15	15
Enterprise value	9	11	15	55	41	42	42
Sales	4	6	9	12	14	15	19
EBITDA	2	1	3	4	3	2	4
EBIT	1	1	2	3	2	2	3
Pre-tax	0	0	1	1	1	1	2
Earnings	0	0	1	1	1	1	1
Equity book value (excl. minorities)	3	3	4	15	15	15	16
<b>Valuation multiples</b>							
EV/sales	2.4	2.0	1.7	4.6	2.9	2.8	2.2
EV/EBITDA	5.8	8.8	5.2	14.3	14.6	17.3	11.5
EV/EBITA	7.3	12.1	5.9	16.1	17.1	20.1	12.8
EV/EBIT	7.3	12.1	5.9	16.1	17.1	20.1	12.8
EV/OCF	-5.6	-13.8	7.0	41.5	71.6	-504.0	68.2
EV/FCFF	-0.8	-34.5	-5.0	-65.4	-10.0	65.0	36.9
P/FCFE	0.0	0.0	0.0	81.8	-5.3	-57.6	-1,331.0
P/E	0.0	0.0	0.0	55.1	39.9	50.3	18.5
P/B	0.0	0.0	0.0	3.2	1.8	1.8	1.7
Target EV/EBITDA	0.0	0.0	0.0	0.0	15.5	18.4	12.2
Target EV/EBIT	0.0	0.0	0.0	0.0	18.2	21.4	13.6
Target EV/FCF	0.0	0.0	0.0	0.0	-8.5	-93.5	-2,179.5
Target P/B	0.0	0.0	0.0	0.0	2.0	2.0	1.8
Target P/E	0.0	0.0	0.0	0.0	43.7	55.0	20.3
<b>Per share measures</b>							
Number of shares	5,818	5,818	5,818	7,129	7,129	7,129	7,129
Number of shares (diluted)	5,818	5,818	5,818	7,129	7,129	7,129	7,129
EPS	-0.04	0.01	0.19	0.12	0.10	0.08	0.21
Operating cash flow per share	-0.29	-0.14	0.36	0.18	0.08	-0.01	0.09
Free cash flow per share	-2.19	-0.17	0.34	0.08	-0.72	-0.07	0.00
Book value per share	0.52	0.53	0.72	2.04	2.09	2.13	2.29
Dividend per share	0.00	0.00	0.09	0.04	0.04	0.05	0.06
Dividend payout ratio, %	0.0	0.0	47.2	33.9	41.6	65.5	30.0
Dividend yield, %	0.0	0.0	0.0	0.6	1.0	1.3	1.6
FCF yield, %	0.0	0.0	0.0	1.2	-18.8	-1.7	-0.1
<b>Efficiency measures</b>							
ROE	0.0	2.4	29.8	9.0	4.7	3.6	9.4
ROCE	18.3	6.0	13.4	13.0	7.1	5.9	9.4
<b>Financial ratios</b>							
Inventories as % of sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Receivables as % of sales	82.3	93.6	71.3	58.4	57.0	60.7	55.9
Non-interest bearing liabilities as % of sales	37.5	12.1	13.5	6.9	10.0	10.0	10.0
NWC/sales, %	44.7	81.5	57.8	51.5	47.0	50.7	45.9
Operative CAPEX/sales, %	275.0	3.0	1.9	6.3	40.1	2.6	3.3
CAPEX/sales (incl. acquisitions), %	275.0	3.0	1.9	6.3	40.1	2.6	3.3
FCFF/EBITDA	-7.1	-0.3	-1.0	-0.2	-1.5	0.3	0.3
Net debt/EBITDA, book-weighted	5.8	8.8	5.2	2.2	4.9	6.0	4.1
Debt/equity, market-weighted	0.0	0.0	0.0	0.4	0.8	0.7	0.7
Equity ratio, book-weighted	19.4	18.1	19.1	44.8	40.1	41.6	44.1
Gearing, %	313.1	358.8	354.2	57.4	92.1	95.5	91.3

**COMPANY DESCRIPTION:** Fellow Finance operates a lending platform for debt-based consumer and business financing. The company operates in Finland, Sweden, Germany, Poland, and Denmark. The company began its operations in 2014 and listed on the Nasdaq First North Finland -marketplace in 2018. Over EUR 500m worth of loans have been intermediated through the company's platform since inception.

**INVESTMENT CASE:** The alternative finance markets in Europe have been growing rapidly and Fellow Finance should seek to capitalize on the growth. A key for success in our view lies in expansion abroad given the limited size and competition in the domestic market, with the international operations still in ramp-up. The scalability of its technology offers solid margin potential although growth investments will affect upside potential in the coming years.

OWNERSHIP STRUCTURE	SHARES	EURm	%
Taaleri Oyj	1,847,163	7.093	25.9%
Margin Investments Oy	836,721	3.213	11.7%
TN Ventures Oy	830,843	3.190	11.7%
Oy T&T Nordcap Ab	656,436	2.521	9.2%
OP-Finland Small Cap	266,642	1.024	3.7%
OP-Finland Micro Cap	265,000	1.018	3.7%
Avensis Capital Oy	263,090	1.010	3.7%
Fennia Life Insurance Company	156,512	0.601	2.2%
Säästöpankki Small Cap mutual fund	128,841	0.495	1.8%
Swiss Life (Luxembourg) S.A.	77,392	0.297	1.1%
Ten largest	5,328,640	20.462	75%
Residual	1,799,985	6.912	25%
Total	7,128,625	27.374	100%

**EARNINGS CALENDAR**

February 14, 2020 FY 2019 Results  
August 28, 2020 Q2 report

**OTHER EVENTS**

April 03, 2020 AGM

**COMPANY MISCELLANEOUS**

CEO: Jouni Hintikka Pursimiehenkatu 4 A, FIN-00150 Helsinki  
CFO: Niko Stark Tel: 0203, 80,101  
IR:

## DEFINITIONS

P/E	$\frac{\text{Price per share}}{\text{Earnings per share}}$	EPS	$\frac{\text{Profit before extraord. items and taxes} - \text{income taxes} + \text{minority interest}}{\text{Number of shares}}$
P/BV	$\frac{\text{Price per share}}{\text{Shareholders' equity} + \text{taxed provisions per share}}$	DPS	Dividend for the financial period per share
Market cap	Price per share * Number of shares	OCF (Operating cash flow)	EBITDA – Net financial items – Taxes – Increase in working capital – Cash NRIs ± Other adjustments
EV (Enterprise value)	Market cap + net debt + minority interest at market value – share of associated companies at market value	FCF (Free cash flow)	Operating cash flow – operative CAPEX – acquisitions + divestments
EV/Sales	$\frac{\text{Enterprise value}}{\text{Sales}}$	FCF yield, %	$\frac{\text{Free cash flow}}{\text{Market cap}}$
EV/EBITDA	$\frac{\text{Enterprise value}}{\text{Earnings before interest, tax, depreciation and amortization}}$	Operative CAPEX/sales	$\frac{\text{Capital expenditure} - \text{divestments} - \text{acquisitions}}{\text{Sales}}$
EV/EBIT	$\frac{\text{Enterprise value}}{\text{Operating profit}}$	Net working capital	Current assets – current liabilities
Net debt	Interest bearing debt – financial assets	Capital employed/Share	$\frac{\text{Total assets} - \text{non-interest bearing debt}}{\text{Number of shares}}$
Total assets	Balance sheet total	Gearing	$\frac{\text{Net debt}}{\text{Equity}}$
Div yield, %	$\frac{\text{Dividend per share}}{\text{Price per share}}$	Debt/Equity, %	$\frac{\text{Interest bearing debt}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}$
Payout ratio, %	$\frac{\text{Total dividends}}{\text{Earnings before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}$	Equity ratio, %	$\frac{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}{\text{Total assets} - \text{interest-free loans}}$
ROCE, %	$\frac{\text{Profit before extraordinary items} + \text{interest expenses} + \text{other financial costs}}{\text{Balance sheet total} - \text{non-interest bearing debt (average)}}$	CAGR, %	Cumulative annual growth rate = Average growth per year
ROE, %	$\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes}}{\text{Shareholder's equity} + \text{minority interest} + \text{taxed provisions (average)}}$		

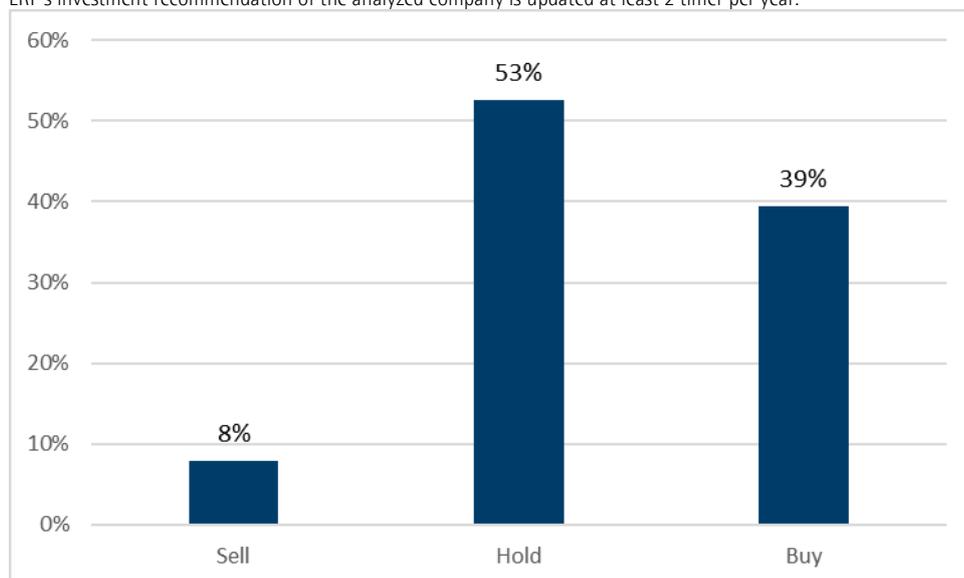
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Investment recommendations are defined as follows:

Target price compared to share price	Recommendation
< -10 %	SELL
-10 – (+10) %	HOLD
> 10 %	BUY

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Name(s) of the analyst(s): Salokivi

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