

AS DelfinGroup report summary

Taking consumer credit to the next level

AS DelfinGroup (together with subsidiaries hereinafter referred to as 'DelfinGroup' or the 'Group', as a parent company referred to as 'AS DelfinGroup' or the 'Company') is a licensed non-bank financial services company founded in 2009 and operates under the brand names Banknote, VIZIA, and Rīgas pilsētas lombards (Riga City Pawnshop). The Group's core services are consumer loans, pawn loans, and the sale of pre-owned goods, while the services are provided through two channels, i.e. online and the Group's extensive branch network across Latvia. The Group operates more than 90 branches in 38 cities of Latvia and employs over 270 professionals. DelfinGroup issues approximately 35,000 loans every month and has a total of over 400,000 registered customers. DelfinGroup has been known on the Nasdaq Riga Stock Exchange as a bond issuer, and, currently, it has two bond issues listed on the Nasdaq Riga First North bond list. Although the majority stake in AS DelfinGroup was sold to a new strategic investor in April 2021, the founder of the Group, Mr Agris Evertovskis, still holds over 31% of the shares through two of his investment entities, with over 65% of the Group being indirectly controlled by the Kesenfelds family and 3.5% is held by the members of the management board. DelfinGroup has made good progress in developing its sustainability features, focusing on corporate governance, fintech innovation, responsible lending, financial inclusion, and facilitating the circular economy.

The Group is by far the largest player in the Latvian pawn loan market, controlling over one-third of this credit segment, while it is currently the second-largest non-bank consumer lender with approximately 10% market share as of 2020. Latvia's non-bank consumer lending sector is a relatively new segment and started to develop only in 2007. Since 2011, the sector has been licenced and supervised by the Consumer Rights Protection Centre (CRPC), while the regulations have been considerably tightened and licencing fees increased over the past five years, lifting the barriers of entry and initiating faster consolidation of the sector, but also building consumer trust towards the market participants. Primarily based on the historical market trends and recent developments, we anticipate Latvia's non-bank consumer lending sector to grow about 8% annually over the next three years, with relatively steady volumes predicted for the pawn loan segment. Backed by the expected additional capital from the IPO, further development of the product portfolio and both online and offline sales channels, we project DelfinGroup to approximately double its net loan portfolio during the period from 2020 until 2024, expanding its market share in the consumer loan segment to c.a. 16%.

Our financial projections and equity valuation of DelfinGroup are prepared on a post-money basis, assuming the Group manages to attract at least EUR 12.5m of new equity capital in the IPO process which presents the mid-range of the indicated IPO volume of EUR 10-15m. We have approached the valuation of DelfinGroup using a combination of the income and market approaches. For the income approach, we used three different models: 1) Discounted Cash Flow, 2) the Residual Income Model, and 3) the modified Gordon Growth Model (GGM), which essentially identifies the fair P/B ratio based valuation for the company. For the market approach, we used a peer group valuation, which considers several peer group trading multiples for 2021-2023E. We see the income approach as more suited for the valuation of DelfinGroup and assigned a combined weight of 80% to different income approach metrics in the total value. Overall, we decided to set our fair value range (FVR) for the Group's total equity at EUR 80-90m. Using the mid-point of our FVR and our forecasts for 2022, the Group would be valued at the following 2022E multiples: P/E – 12.1x, P/B – 3.3x, and EV/EBITDA – 8.7x, with the respective ratios declining to 9.5x, 2.8x, and 7.5x by 2023E. We believe that the core attraction of DelfinGroup is its leading market position in the Latvian competitive non-bank consumer credit market,

enabling to utilise sufficient economies of scale, while the expected additional equity from the IPO strengthens the capital base, helping to bring down the average cost of debt financing and providing funds for investments into IT and new product developments. In sum, we believe that profitable growth along with appealing dividend yields would be the core of the investment case while taking flexible consumer credit solutions to the next level. The key risk factors to our valuation include slower than projected growth in consumer lending volumes and potential deterioration of the credit quality.