FELLOW FINANCE

Diversified Financial Services/Finland, November 22, 2018
Company report

Initiating coverage with HOLD

Fellow Finance is a P2P lending platform with high scalability at the core of its business model, seeking rapid organic and profitable growth domestically and internationally, with a proven track of growth and profitability. We initiate coverage with HOLD and a target price of EUR 8.0.

Seeking rapid and profitable growth

Fellow Finance is a P2P consumer and business lending platform aiming at rapid organic and profitable growth domestically and internationally. The company has during its rather short existence been able to achieve solid growth while retaining good profitability. The financial targets by the end of 2023 are net sales of over EUR 80m, an EBIT-margin of over 25 per cent, annual loan facilitations of EUR 1.5 billion, and to facilitate loans in ten countries in Europe. The alternative financing market generally still accounts for only a small share of total lending but companies like Fellow Finance are seeking to challenge the traditional financial markets through innovation and technology.

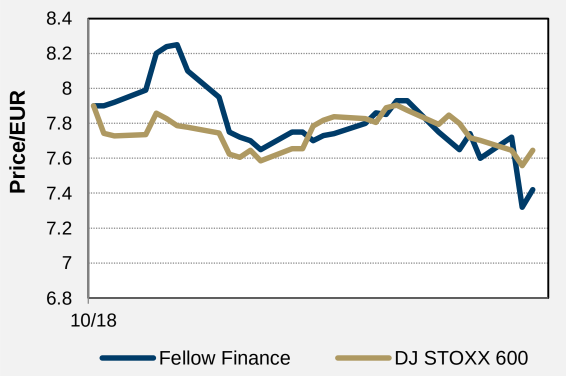
Business model relies on highly scalable platform

Fellow Finance's business model relies on its self-developed platform, which enables high scalability. The platform further enables expansion into new markets and launching of new products with little investment. Fellow Finance's subsidiary Lainaamo functions as a financing company and acts as a market maker when entering new markets.

Initiate coverage with HOLD and target price of EUR 8.0

We initiate coverage of Fellow Finance with a HOLD rating and target price of EUR 8.0. Our valuation is based mainly on payment processing and financing platform peer multiples, emphasizing 2019E P/E ratios. Our target 2019E P/E of 21.9x values Fellow Finance above the lending platform peers, that on average have a lower expected growth rate and profitability. The internationalization plans offer significant upside but in our view Fellow Finance still needs to show proof of international success.

Rating — HOLD



Share price, EUR (Last trading day's closing price)	7.42
Target price, EUR	8.0
Latest change in recommendation	22-Nov-18
Latest report on company	22-Nov-18
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	53
Free float, %	-
Exchange rate	0.000
Reuters code	FELLOW.HE
Bloomberg code	FELLOW HE
Average daily volume, EURm	0.06
Next interim report	-
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BUY HOLD SELL

KEY FIGURES

	Sales EURm	EBIT EURm	EBIT %	Ptx profit EURm	EPS EUR	P/E (x)	EV/Sales (x)	P/CF (x)	EV/EBIT (x)	DPS EUR
2016	6	1	16.4%	0	0.01	0.0	2.0	0.0	12.1	0.00
2017	9	2	28.8%	1	0.19	0.0	1.7	0.0	5.9	0.09
2018E	12	3	27.5%	1	0.11	67.3	4.9	42.9	17.9	0.10
2019E	17	5	26.7%	3	0.37	20.3	3.5	29.5	13.2	0.11
2020E	25	7	26.2%	5	0.59	12.7	2.4	20.0	9.3	0.18

Market cap, EURm	53	BV per share 2018E, EUR	1.9	CAGR EPS 2017-20, %	46.5
Net debt 2018E, EURm	7	Price/book 2018E	3.9	CAGR sales 2017-20, %	42.2
Enterprise value, EURm	60	Dividend yield 2018E, %	1.3	ROE 2018E, %	8.9
Total assets 2018E, EURm	32	Tax rate 2018E, %	21.8	ROCE 2018E, %	13.2
Goodwill 2018E, EURm	0	Equity ratio 2018E, %	41.9	PEG, P/E 18/CAGR	0.7

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

Investment summary

Leading P2P lending platform in the Nordics

Fellow Finance is a P2P consumer and business lending platform operating in Finland, Sweden, Germany, and Poland. With over EUR 330 million worth of loans issued and EUR 8.7m nets sales (2017), the company is a leading P2P marketplace lender in the Nordics. Fellow Finance's platform connects investors looking for attractive risk-adjusted returns and borrowers in need of funds. The company was founded in 2013 and began operations in 2014 and employs 29 people (6/2018).

Annual loan issuance grown over 4x since 2015

Loan issuance through the platform was EUR 99m in 2017 and annual loan issuance has grown over 4x since 2015. Loan issuance during 1-10/2018 amounted to EUR 136m. The platform had around 460 000 borrower applicants and 10 000 investors at 10/2018.

Scalable platform enables profitable growth

Fellow Finance's business model distinctly relies on its highly scalable technology platform combined with a prudent spend on variable user acquisition costs. The scalable platform enables growing the business, launching of new products or entering new markets with little investments. The purpose of the company's financing subsidiary Lainaamo, with a net loan book of EUR 17.9 million 6/2018, is to facilitate launching of new markets or products.

Large addressable market with disruptive growth potential

Alternative finance, including P2P, have just scratched the surface of the large consumer and business lending markets, that historically have been dominated by incumbents. Despite the vigorous growth in Finland, P2P lending was only 2% of the total EUR 5.4 billion consumer loan market. In our view, there is plenty of head room for growth in both consumer and business lending for P2P platforms that can offer attractive services and competitive interest rates.

Strong track record – rapid growth while maintaining sound profitability

Fellow Finance has been able to achieve solid growth while still maintaining sound margins. The group's net sales grew 55% to EUR 8.7m (5.6m) in 2017 and 43% to EUR 5.6m (3.9m) during H1/18. The operating profit in 2017 and H1/18 amounted to EUR 2.5m (0.9m) and EUR 1.7m (1.0m), equaling 29% and 30 % of net sales, respectively.

2018 guidance: Net sales over EUR 12m and EBIT between EUR 3.1-3.6m

The company expects 2018 net sales to be over EUR 12 million (EUR 8.7m in 2017) and EBIT to be between EUR 3.1-3.6 million (2017: EUR 2.5m). The company estimates its growth outlook to be good due to the growth in the Finnish business loan issuance and invoice funding, and the company's internationalization. The company's financial targets by the end of 2023 are: 1) To issue loans worth EUR 1.5 billion annually in 2023. 2) Net sales over EUR 80 million and an EBIT-margin of at least 25 per cent. 3) To issue loans in ten European countries.

2018E-2020E Evli: sales CAGR of 42 % and average EBIT-margin of 26.8 %

We expect 2018E net sales of EUR 12.3m and an EBIT of EUR 3.4m, at an EBIT-margin of 27.4 %. We expect a sales CAGR of 42 % during 2018E-2020E, driven mainly by business loans in Finland and the company's internationalization plan. We expect an average EBIT-margin of 26.8 % during the period.

Initiate coverage with HOLD and a target price of EUR 8.0

We initiate coverage of Fellow Finance with a HOLD rating and target price of EUR 8.0. Our primary valuation measure is peer P/E multiples for 2019E. Our target price values Fellow Finance at a target P/E '19E of 21.9x. On our target P/E '20E of 13.7x valuation looks more attractive but with our estimates relying on international expansion, we see that Fellow Finance still needs to show proof of international success to justify a higher valuation.

Main risks to investment case

The main risks in our view include 1) competitive pressure from new entrants or other established players with larger resources, 2) turn of the credit cycle leading to wave of defaults, 3) reputational and operational risk, and 4) adverse regulatory decisions.

Company overview

Leading P2P lending platform in the Nordics

Fellow Finance is a Finnish company offering a Peer-to-Peer (P2P) lending platform which connects investors and borrowers. Fellow Finance is a FinTech (abbrev. Financial Technology) company applying digital technology to challenge incumbents in the financial sector. The company was founded in 2013 and began operations in 2014 and employs 29 people (6/2018). During its rather short lifetime, Fellow Finance has facilitated financing for over EUR 330 million worth of loans and has according to the company become the market leader in in P2P lending in the Nordics by loan volume. Fellow finance has facilitated financing to customers in Finland, Sweden, Poland and Germany. Fellow Finance completed its IPO in October 2018, with gross proceeds of EUR 10 million. The company's shares are listed on Nasdaq's First North Finland.

Intermediary pursuing superior user experience

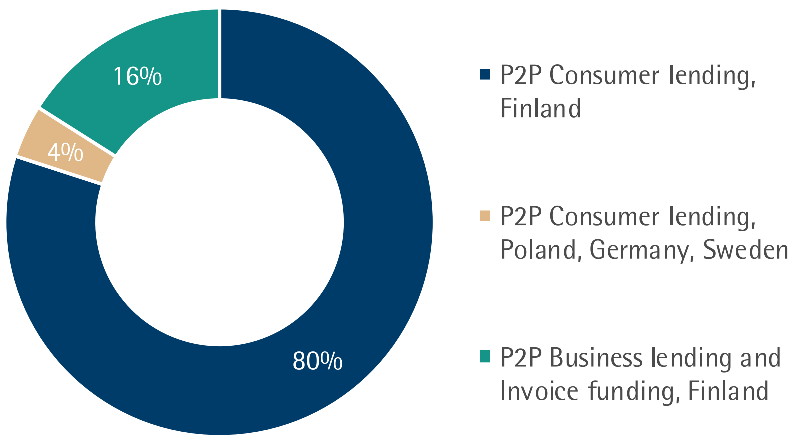
Fellow Finance acts as an intermediary between investors and borrowers in need of funds. The company strives to offer both attractive yields to investors and reasonable rates to borrowers. A fast and effortless user experience is central to the services offered. Fellow Finance competes with lenders, lending platforms and traditional financial institutions, such as banks and consumer finance companies, to attract borrowers. With respect to investors, Fellow Finance offers an investment alternative to fixed income securities, bonds and equities.

Fellow Finance currently offers the following loan products to its borrower customers:

- Consumer loans
- Business loans
- Invoice funding

P2P consumer loans are the backbone of Fellow Finance's business and they account for some 90% of loans facilitated via the platform. SME business loans were introduced in 2016 and the offering to companies was extended to invoice funding in 2017. The business finance products are currently only available in Finland. According to management Fellow Finance is the only provider of different P2P lending products in multiple currencies on the same platform. Consumer loans were introduced in Poland, Germany and Sweden in 2016, 2017 and 2018 respectively.

Figure 1: Split of facilitated loans during 1.1.2018 to 31.8.2018 based on volume in EUR

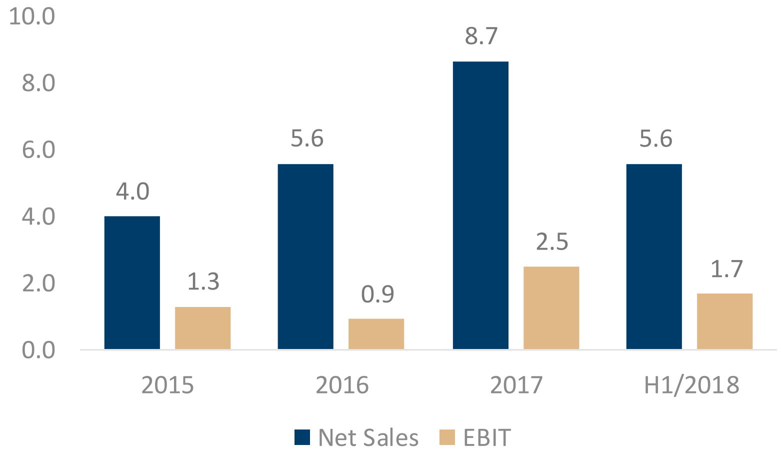


Source: Fellow Finance

Growing sales and improved profitability

The group's net sales grew 55% to EUR 8.7m (5.6m) in 2017 and 43% to EUR 5.6m (3.9m) during H1/18. The operating profit in 2017 and H1/18 amounted to EUR 2.5m (0.9m) and EUR 1.7m (1.0m), equaling 29% and 30 % of net sales, respectively. Management expects the positive development to continue and the company is targeting to grow aggressively in both in Finland and abroad. The company's target is to grow its business lending and invoice funding in Finland, as well as grow through international expansion.

Figure 2: Fellow Finance net sales and EBIT 2015-H1/2018 (EURm)



Source: Fellow Finance

Strong start but race is still on

Fellow Finance has built a competitive platform and established a strong local position in a rapidly growing disruptive market which is fueled by powerful trends such as desires for instant online services and disintermediation. While the dawning of a new kind of market offers possibilities, it takes time until the true winners stand out. The company has proven to have a scalable platform offering competitive services while managing credit risk, but due to its limited resources and small customer base, it is susceptible to the emergence of new players or changes in the regulatory environment. The company's success and future growth depends on its successful marketing efforts and increasing its brand awareness, and its ability to attract new borrowers through direct and indirect channels.

Figure 3: Fellow Finance SWOT analysis

Strengths
- Strong market position
- Scalable business model
- Technology
- Growing underlying market

Weaknesses
- Awareness
- Dependency on Finland
- Small player
- Short track record

Opportunities
- Expansion to new markets
- Introducing new products
- Collaboration
- Payment Services Directive

Threats
- Foreign competitors
- Credit cycle
- Adverse regulation
- New disruptors

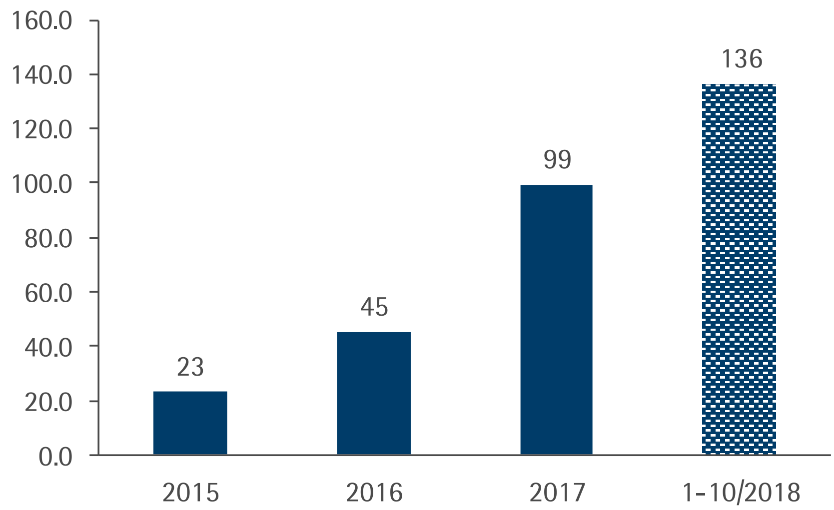
Source: Evli Research

Business overview

Scalable fee-based volume business

Fellow Finance provides an online marketplace lending platform to channel funding to individuals and companies from investors. The company's platform acts as a matchmaker between investors and borrowers but does not utilize its balance sheet as banks. The lending arranged is peer-to-peer. The business model is based on fees from borrowers for arranging these loans. Thus, the company must offer an attractive investment product to secure funds from investors, as well as make sure that the products are attractive to a pool of lenders to make a match. Fellow Finance's business is purely volume based where the most relevant driver is the volume of facilitated loans.

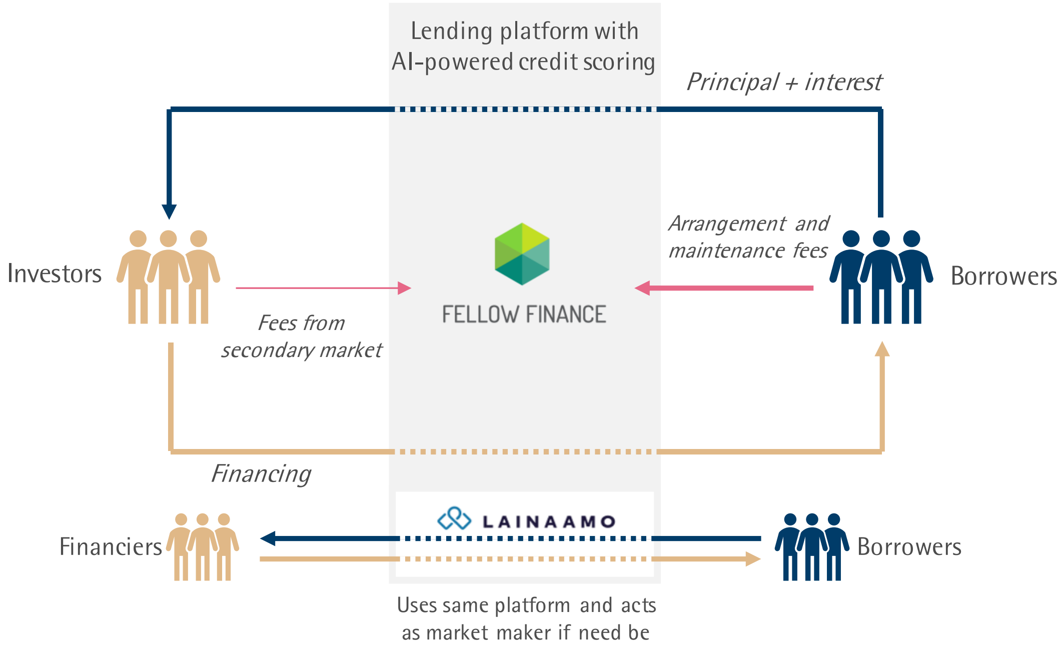
Figure 4: Fellow Finance loans facilitated annually 2015-10/2018 (EURm)



Source: Fellow Finance

The business model of Fellow Finance is illustrated in figure 5. The platform enables the transactions, but the principal and interest are paid directly to the investors through the platform, so Fellow Finance is not a counterparty in the transactions. The company only charges the borrower for arranging the transaction, plus a monthly account maintenance fee. Investing in the loans is primarily free of charge unless the investor wishes to buy or sell loans in the platform's secondary market where a 1% fee is charged. The company emphasizes that the core of their business model is their credit scoring model based on artificial intelligence and an auction-based pricing system that allows efficient pricing and allocation of loans.

Figure 5: Simplified illustration of Fellow Finance's business model

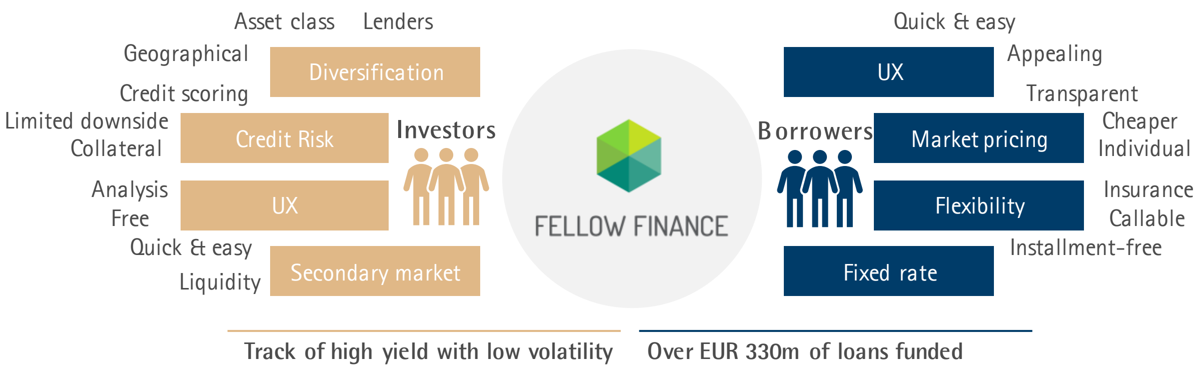


Source: Fellow Finance, Evli Research

Lainaamo as cash buffer and market maker

In addition to running the platform, the company has a subsidiary called Lainaamo, which was added to the group as part of the arrangement with Taaleri in 2015. Taaleri paid for its share with EUR 2 million cash and the stock of Lainaamo. Lainaamo is a finance company that lends to investors and companies from its balance sheet. The company acts as an investor in Fellow Finance's lending platform. Lainaamo serves a key purpose for Fellow Finance, especially in initiating operations in new markets, by enabling the creation of an efficient market for Fellow Finance's products, until the local investor presence has grown sufficiently to support a self-sustaining efficient market. Lainaamo contributes to group profits through the spread earned between its financing and received interest. Lainaamo's net loan book was EUR 17.8 million in 6/2018. Before Lainaamo became part of the Fellow Finance group the company had originated loans of some EUR 24m (6/2013-5/2015) through their own system

Figure 6: Attributes of Fellow Finance's offering to attract lenders and borrowers



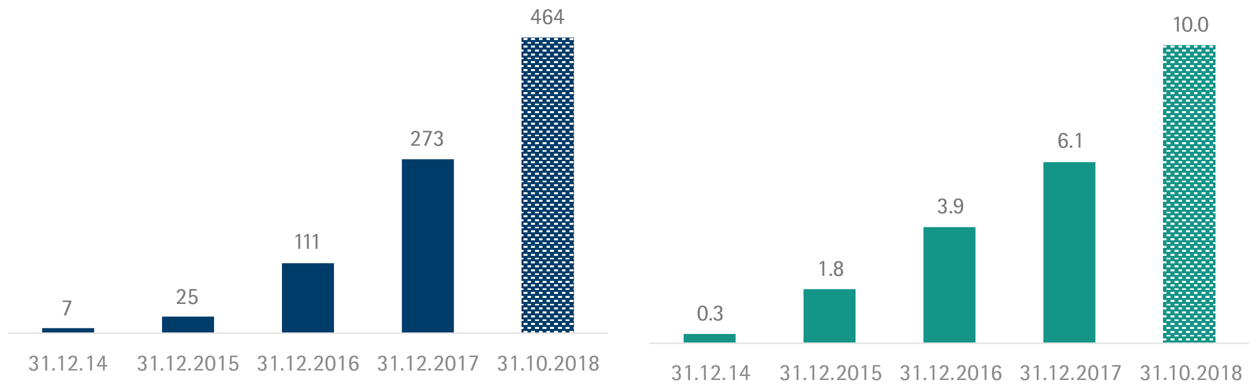
Source: Fellow Finance, Evli Research

Investors

Lucrative asset class

In Fellow Finance's business model, services to investors are a means of financing the loans, and thus they are offered for free (apart from the secondary market fees). To attract funds, Fellow Finance offers an asset class to investors that has previously been monopolized by financial institutions and strives to do so in an efficient and user-friendly fashion whilst delivering sound risk-adjusted returns. The company has been able to draw more than 10,000 investors since its inception and they have, on average, received an annual return of over 10% after adjusting for defaults. Key elements of the investment products are diversification, credit risk modeling, downside protection, low volatility and customizability.

Figure 7: Number of financing applicants (left) and investors (right) at the end of the period (thousands)



Source: Fellow Finance

Customizability, diversification and market-based pricing

Investors in the platform can choose their investment preferences regarding e.g. rating, loan amount, pricing and maturity. An automatic allocator based on specifications can be used (majority of investors) or individual loans can be picked. Credit risk exposure is reduced when investor funds are pooled, and individuals typically have partial claims on hundreds of loans. Investors can further diversify across asset classes (consumer, business, invoice funding) and countries. The pricing of the loans is based on bids by investors. Each investor can insert their minimum required rate for each risk class and funds are allocated according to the lowest bids. This is all done in Fellow Finance's online interface. Liquidity is further improved by the secondary market, which however has had fairly low volumes so far. To limit some of the downside risk for investors Fellow Finance can under certain conditions sell loans forward to debt collection companies.

API for institutional investors

To attract institutional funds to their platform, Fellow Finance has an open Application Programming Interface (API). Through the API institutional investors can access loan data to make analyses to suit investment needs. The API allows integrating the platform to the institutions' own system. The first European bank, Banco BNI Europa from Portugal, invested through the platform in 2018. In our view, partnerships like this are a potential way to improve the platform's funding.

Borrowers

More rapid and wider access to capital

To borrowers, the platform offers a means to access financing in an according to management more flexible and rapid way, compared to some of the more established financial institutions. Borrowers are through the interface able to define the sought for loan terms and loan amounts. Fellow Finance's software automatically reviews the loan application and evaluates the credit worthiness of the applicant through credit details and other information regarding for instance the applicant's income and indebtedness. Further evaluation of applicants credit worthiness is done through a model based on machine-learning, based on which applicants are placed in one of five groups based on the probability of faultless repayment. The model is believed to continuously improve as data cumulates. The application screening process serves to offer investors only loans to sufficiently creditworthy individuals and only some 17% of applications are approved and 2.5% ultimately funded. If an applicant's loan application is accepted, the loan application will be presented on the platform. The criteria of the loan applicant are then sought to be matched with investor's loan funding criteria. If a sufficient number of investors meet the loan applicant's criteria a loan offer is made to the application that he or she may choose to accept or decline. Potential borrowers receive a decision regarding the loan application instantly.

The typical Finnish consumer borrower is an employed middle-aged person with a second-degree education and a gross salary income of EUR 2000-3000 per month. The typical business loan borrower is a Finnish SME-company that is seeking financing for working capital needs, equipment investments and funding of receivables.

Competitive interest rates

By 8/2018 the average rates offered to each risk class 1-5 in consumer loans range between 7.9% for the highest quality and 15.9% for the lowest. This is a competitive range when looking at other consumer loan providers. Fellow Finance currently only offers consumer loans of up to EUR 15,000 in Finland (up to around EUR 50,000 in Sweden). The effective interest rate for the borrower is higher, as Fellow Finance charges an origination fee of 2.3-6% as well as a monthly maintenance fee of 0.4-1%. Business loans of up to EUR 1 million are offered, with an origination fee of 4.6% along with am administration fee of 0.084 %.

User acquisition costs

User acquisition costs to a large extent variable

Fellow Finance has a team of around 12 salespeople that are responsible for consumer and business user acquisition and additional sales to existing users. Fellow Finance uses a mix of marketing channels, such as social media, search engines and various loan comparison websites and services. The company has not disclosed its direct user acquisition costs. The company's materials and services costs, which include user acquisitions costs and other mainly variable onboarding related costs, were EUR 3.0m in 2017 (35% of net sales or 2.8% of loans issued).

Comparison websites playing key part in consumer lending go-to-market strategy

According to management, loan comparison websites and services play a key role in consumer go-to-market strategy. To our understanding, the advantage of this channel is that the user acquisition costs are dominantly variable, and the company only pays for onboarded clients, which means that the user acquisition cost can also scale downwards. Some of Fellow Finance's current comparison website partners, already have presence in other countries, which makes it easier to enter new markets.

Go-to-market strategy for business lending relies on direct sales

Regarding user acquisition for business loans and invoice funding, the model is more traditional, i.e. direct sales to clients. The company currently has around 5 employees working in direct business sales and a few employees supporting the sales team with financial due diligence. Fellow Finance aims to grow the Finnish business lending business, in particular invoice funding, and we estimate that the company will grow its business sales team to around 10 people in the short term.

Scalability

Scalable platform enabling profitable growth

The greatest potential in Fellow Finance's business model lies in the scalability of their platform. The platform in place has been proven to be functional and it can be leveraged for further growth. According to management a much larger loan volume than currently could be handled by the company's software and systems without a need for larger recruitments or investment. The company's platform is further designed to be able to function in different countries with different languages and currencies. The platform is internally developed, and the company could according to management swiftly make changes to the platform in response to shifting needs.

The share of fixed costs (measured as costs excluding variable credit intermediation expenses) of facilitated financing has decreased from 11% to 3% during 2015-2017, demonstrating the scalability of the platform. Customer acquisition costs account for a large share of variable costs. According to management an increase in the share of recurring customers could further improve profitability, as the proportional share of user acquisition costs in the form of marketing expenses would decrease. According to Fellow Finance around 90 % of investors reinvest their proceeds back in the platform.

Financial targets and strategy

Aims at rapid organic and profitable growth domestically and internationally

Fellow Finance's strategy is aimed at rapid organic and profitable growth domestically and internationally, revolving around the company's self-developed lending platform. The company's strategy focuses on expanding the loan facilitation business and the company does not plan to actively expand the financing business of Lainaamo, thus the company expects the fee income from loan origination to increase in proportion to that of interest income from the financing business.

The company aims to grow profitably by scaling up its business through expansions to new markets, introducing new products, and investing in marketing. The company sees growing the investment funds from institutional investors as a key element to achieve growth. By increasing institutional investment volumes, management expects interest rates on its platform to decrease which will enable even more competitive and attractive financing products to borrowers. Fellow Finance intends to improve its profitability by focusing on efforts that increase existing borrowers returning to the platform and experimenting with new marketing channels.

Financial targets

The company's financial targets by the end of 2023 are:

- Facilitate loans worth EUR 1.5 billion annually in 2023
- Net sales over EUR 80 million and an EBIT-margin of at least 25 per cent
- To facilitate financing in ten European countries

2018 guidance: Net sales over EUR 12m and EBIT between EUR 3.1-3.6m

The company expects 2018 net sales to be over EUR 12 million (EUR 8.7m in 2017) and EBIT to be between EUR 3.1-3.6 million (2017: EUR 2.5m). The company estimates its growth outlook to be good due to the growth in the Finnish business loan issuance and invoice funding, and the company's internationalization.

Strives to distribute 30 per cent of net income as dividends

The board of Fellow Finance confirmed the company's dividend policy the 31.7.2018. According to the dividend policy Fellow Finance strives to distribute 30 per cent of the company's net income, taking into consideration the company's financial and financing situation.

Figure 8: Fellow Finance's vision, mission, and values

Source: Fellow Finance

Market Overview

New digital platforms emerging in financial services

Fellow Finance operates in what is known as the alternative finance market. Alternative finance refers to the recently emerged platforms intermediating capital outside the traditional financial markets. Alternative finance should not be equated with alternative investments such as private equity and real assets. Alternative finance channels apply modern digital technology to allocate funds from surplus to deficit. Examples of such are crowdfunding and peer-to-peer lending, which have seen impressive growth over the past years and often have easily accessible and easy-to-use online marketplaces. Key attributes differentiating alternative finance platforms from the traditional financial system are speed of delivery and a convenient user experience.

Developments in the financial sector making room for disruption

Alternative finance is riding the wave of the prevailing disruption in the financial services sector. Since the recent financial crisis, there have been significant changes in the financial sector. Banks are strained by increased regulation and tightened capital requirements while trust in the financial markets has been deuterating. These factors coupled with innovative technology and sharing economy trends have paved way for new agile players to fill in the gaps. Further, millennials have increasing expectations of customer experience. Disintermediation and platform economies have proven efficient in several sectors where digital matchmakers such as Amazon, Airbnb and Uber have thrived. This development is hitting payment services as well as lending. In addition, the low-rate environment has led to capital being allocated to new asset classes in search of yield.

Impressive growth figures in the global alternative finance market

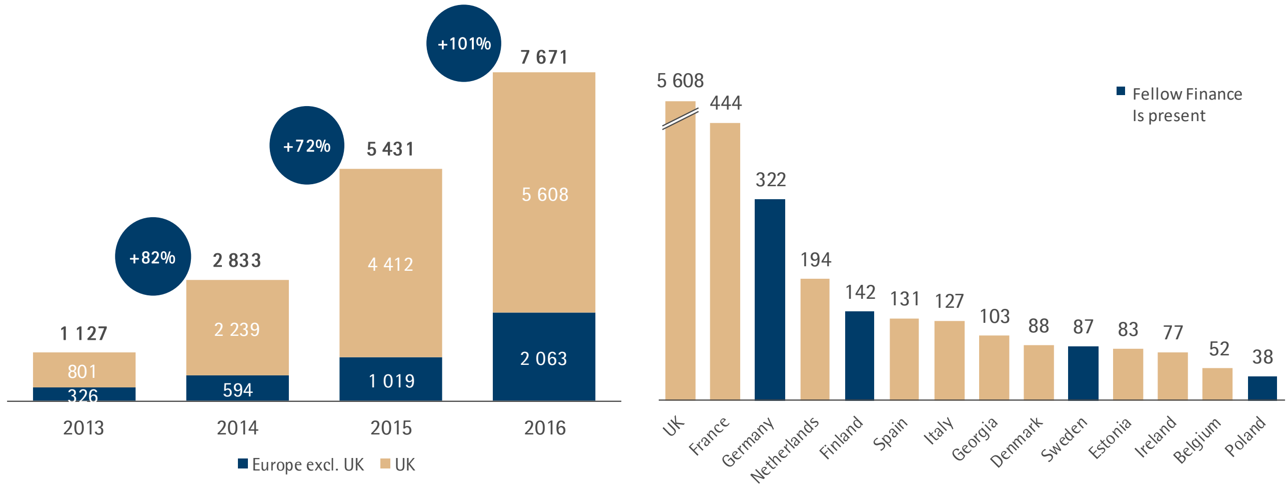
The global alternative finance volumes have grown impressively in the past years. The combined volume of Europe, Americas and APAC surpassed EUR 200 billion in 2016 and was EUR 261 billion. The CAGR over the past three years has been a staggering 213%. This can imply that there has been unaddressed supply and demand of funds. Most of this growth however is attributed to the booming market in China. The APAC region amounts to 85% of the figure. (Source: University of Cambridge. The 3rd European Alternative Finance Industry Report 2018)

European market had a volume of EUR 7.7. billion in 2016

The European market has developed favorably, and total volume reached EUR 7.7 billion in 2016 amounting to a CAGR of 89% from 2013. The market in the UK is the most mature with a volume of EUR 5.6 billion. UK has a handful of established players with strong market positions. The rest of Europe is catching up with the market doubling in

2016 to a total volume of EUR 2.1 billion. (Source: University of Cambridge. The 3rd European Alternative Finance Industry Report 2018)

Figure 9: Alternative finance volume in Europe and European alternative finance volume by Country (EURm)



Source: University of Cambridge. The 3rd European Alternative Finance Industry Report 2018

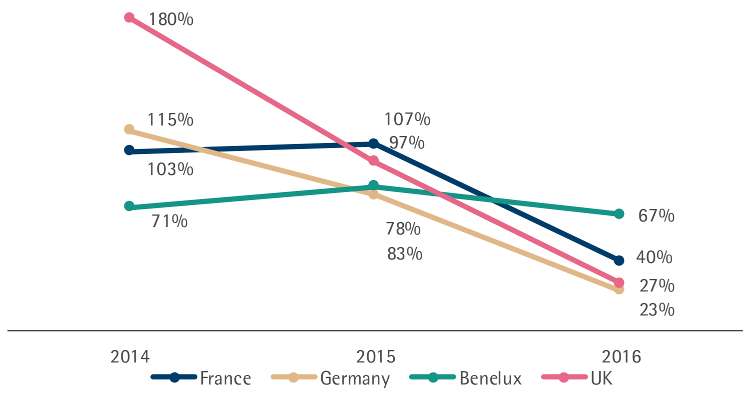
Volume in target countries amounted to EUR 589 billion in 2016

The largest markets in Europe behind the UK are France, Germany, Netherlands and Finland, which had volumes of EUR 444, 322, 194 and 142 million respectively in 2016. However, Estonia ranks second on per capita basis. 3 out of 4 of Fellow Finance's target countries reach the top 10 in Europe. The combined volume of the four target countries amounted to EUR 589 million which is approximately 19% of the total non-UK market. (Source: University of Cambridge. The 3rd European Alternative Finance Industry Report 2018)

Diminishing growth in large markets while smaller surge

The development of the alternative finance market in Europe is rather asymmetrical. The growth rates in the largest and most established markets diminished in 2016. A similar development can be assumed to take place in the rest of Europe after the delayed initial boom. The triple-digit figures should not be expected to be projected indefinitely. According to the University of Cambridge study, The Baltics, Eastern Europe and the Nordics reported growth of over 200% in 2016 as platforms are only just emerging and gaining wide-scale awareness. The recent growth rates of the largest markets can be assumed to better depict a longer-term development.

Figure 10: Market volume growth rates in largest European alternative finance markets

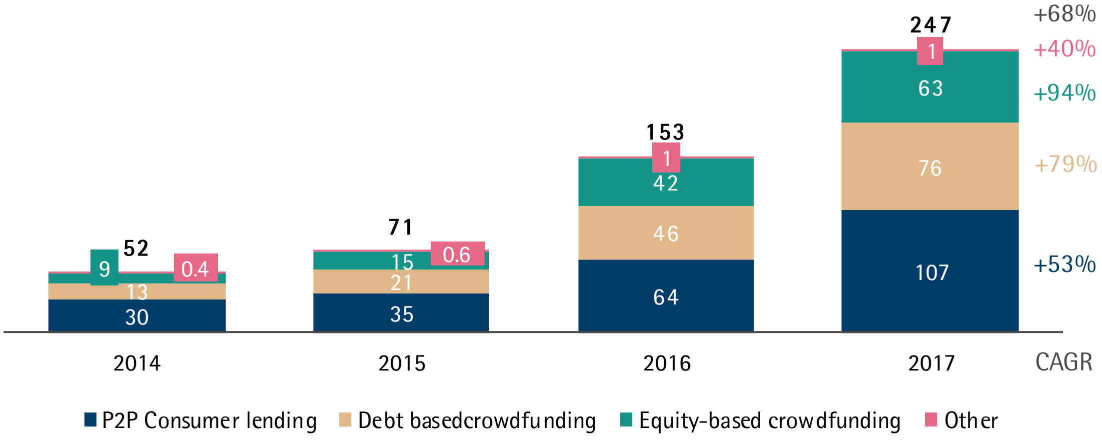


Source: University of Cambridge. The 3rd European Alternative Finance Industry Report 2018

Healthy home market with further potential

The Finnish market continued to perform strongly in 2017. In the Finnish market, which accounts for the majority of Fellow Finance's outstanding loans, volume grew 61% in 2017 to reach EUR 247 million. The Finnish market volume has grown on average 68% between 2013 and 2017. Debt instruments (consumer and business loans), which are offered by Fellow Finance, accounted for 74% of the alternative finance volumes in 2017 and grew 65%. Measured in loan issuance volume, Fellow Finance's market share in Finland was about 39% in 2017. The largest part of the 2017 alternative finance market volumes comes from P2P Consumer lending with EUR 107 million volume, followed by debt-based crowdfunding with EUR 76 million volume. Fellow Finance estimates its market share in P2P consumer lending to be around 81%. (Source: Bank of Finland, Finance Finland)

Figure 11: Alternative Finance volume in Finland (EURm) and CAGR 2014-2017



Source: Bank of Finland, Crowdfunding and peer-to-peer lending statistics 2018

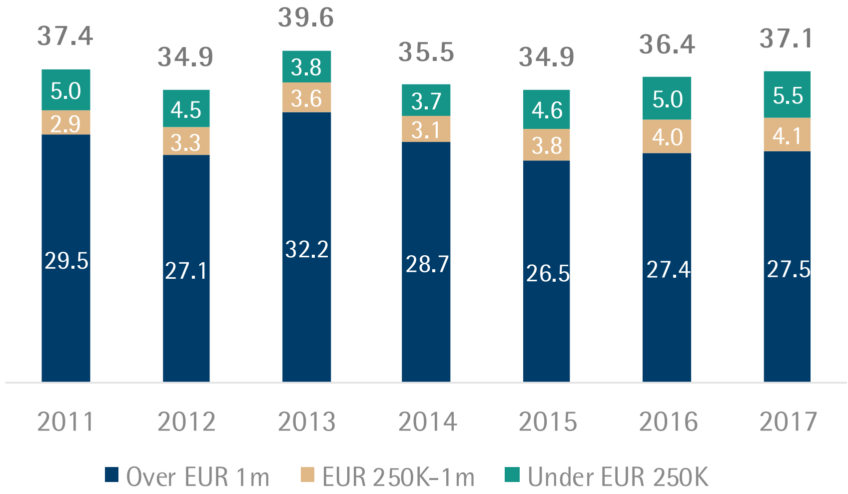
General P2P lending penetration in Finland still only 2%

Despite the vigorous growth, P2P lending was only 2% of the EUR 5.4 billion consumer loan market in Finland. Consumer loans have been on the rise as well, and they grew by 5.8% in Finland. Household indebtedness has been increasing gradually in the 2000s, which is keeping up demand, and in 2017 approximately 27% of Finns had a consumer loan. At the end of 2017, the outstanding loan base (excluding mortgages) among Finnish households was around EUR 32 billion. (Source: Bank of Finland, Finance Finland) In our view, there seems to be room for growth as long as P2P platforms are able to offer attractive services and competitive interest rates to gain market share.

Business loans a big opportunity, both domestic and abroad

Finnish financial institutions have issued approximately EUR 37.1 billion worth of loan agreements to companies in the Euro-region. Approximately 25% of the loan agreements are below EUR 1 million. Fellow Finance issues through its platform business loans for amounts as high as EUR 1 million. The total outstanding loan base for Finnish businesses at the end of 2017 was EUR 80.3 billion.

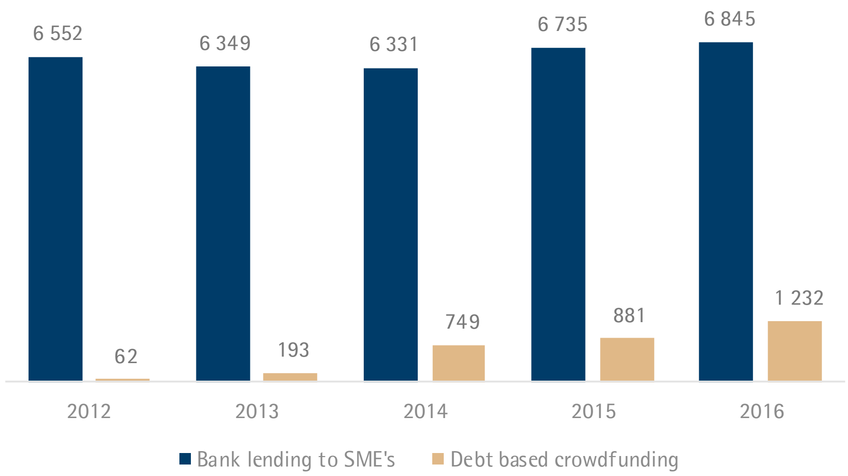
Figure 12: Loan agreements by Finnish financial institutions to companies in the Euro-region (EUR billion) *



Source: Bank of Finland, *Includes housing co-operatives

Looking at the UK market, P2P business lending to SME businesses was GBP 62m in 2012 compared to GBP 6.5 billion business loans issued by banks. In 2016, P2P business lending had grown to GBP 1.2 billion compared to GBP 6.8 billion issued by banks, representing a 18% relation of all SME business loans and a CAGR of over 100% while CAGR in bank financing has been around 1%.

Figure 13: New business loans in the UK (GBP millions)

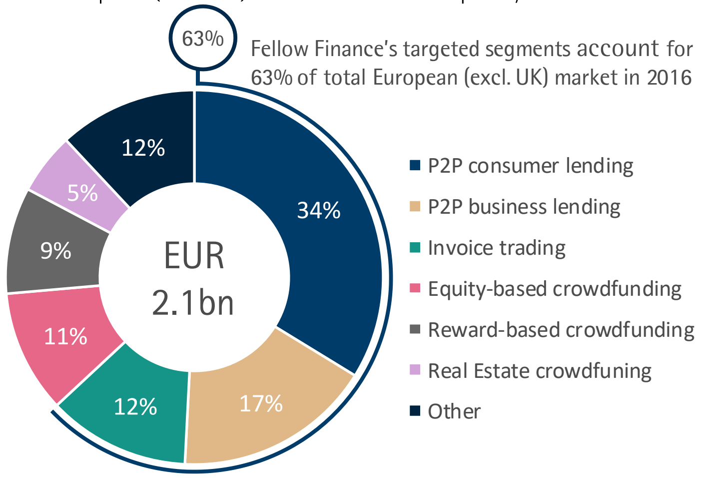


Source: UKFinance and University of Cambridge. The 3rd European Alternative Finance Industry Report 2018

Fellow Finance's offering covers 63% of targeted alternative finance market

Debt-based alternative finance models have proven to be the most popular in the recent years. Of the European market excluding the UK, P2P consumer lending, P2P business lending and invoice trading accounted for 34%, 17% and 12% respectively. Fellow Finance's offering encompasses these products which account to 63% of the total volume. Invoice trading has been gaining market share more recently.

Figure 14: European (excl. UK) alternative finance split by model 2016



Source: University of Cambridge. The 3rd European Alternative Finance Industry Report 2018

Harmonized EU-wide regulation in development

As in any nascent industry with disrupting elements, regulation can be a cause of concern as well as an opportunity. Increased regulation can heighten barriers of entry and thus support the established, credible and responsible players. The regulatory environment concerning P2P lending is fragmented. A law on crowdfunding was implemented in late 2016 in Finland, and the perception of regulation adequacy in Finland is high. On the other hand, according to the report by the University of Cambridge, in Poland the P2P specific regulation is next to none. Expanding operations is difficult as it requires navigating through local regimes. As a result, the EU has proposed a framework for alternative lending in 2018. The aim is to harmonize legislation to support financing of innovative companies in their growth phases. This would be a welcome development allowing operating union-wide under EU authorization. (Source: Clifford Chance, European Commission, Finnish Financial Supervisory Authority)

Payment Services Directive (PSD2) may summon competition from new directions

A major regulatory change also impacting P2P lending is the Payment Services Directive (PSD2) which kicked off in 2018 and will be fully implemented next year. The goal is to increase innovation and competition in payment services previously monopolized by banks, through improved transparency, security and access. Banks will be required to open their APIs to allow third-party payment services providers access to account information and initiate transactions. This allows agile FinTechs to penetrate the market. Threats of ecosystems, the likes of Facebook, further increasing their reach have been uttered, as has been seen in China with the emergence of mega platforms. The management of Fellow Finance believes that PSD2 is an opportunity to offer more integrated services and improve credit risk modeling with enhanced data availability. Fellow Finance already has local authorization from the Finnish Financial Supervisory Authority to act as a payment services provider.

Key drivers in the P2P lending market

We have listed below some of the key drivers in the global P2P lending market;

- **Disintermediation and the emergence of platforms**

  The advancements in technology and increasing digitalization of information has paved the way for the emergence of platform economies in various industries. The value proposition of new platforms compared to incumbent service providers are lower costs through scalability and disintermediation, and faster and more convenient service.

- **The aftermath of the financial crisis and tightening regulation on banks has had an adverse impact on SME lending**

  The increasing bank regulation, such as increased capital requirements under Basel III, as well as the traditional banking business model focusing on larger corporations, has led to SME company's financing needs often being underserved by traditional banks. This has led to market opportunities for smaller players.

- **Legacy IT infrastructure inhibiting traditional players to capture technological advances**

  Even though the digitalization trend has already been around for a longer time, a large part of banks still spend a major part of their IT budgets on maintaining current and, in many instances, local legacy systems, which inhibit them from investing in technological advances to significantly improve customer experience or compete on a global level.

- **Regulatory changes**

  Regulators and policymakers have shown support for ways of diversifying lending, increasing access to financing and reducing dependency on large banks. The PSD2 directive and the EU-wide harmonization of regulation being developed, are examples of this.

- **Demand for new alternative investment products and search for yield**

  Thanks to technological advancements, new alternative investment products that previously were only available to banks or large investors, have emerged.

Competitors

Competition between P2P platforms, banks and payday lenders

Fellow Finance competes with other marketplace lending platforms, banks, payday lenders and other financial institutions offering consumer and business financing. The recent growth in alternative finance has however demonstrated that there is demand for P2P lending services. Marketplace lenders are able to serve a broader range of borrowers with a more convenient and faster service. In addition, the pricing can be seen as being fairer with peers as the counterparty. Banks have not yet matched the user experience in consumer finance offered by P2P lenders. There is also a stigma smearing consumer finance, especially payday lenders charging immense rates. When looking at the most relevant P2P competitors, Fellow Finance seems to have the widest product offering and strongest profitability.

The table below shows a few competitors offering unsecured consumer finance in Finland. Marketplace lenders Fellow Finance and Bondora are able to provide financing at reasonable terms when comparing to the finance companies and banks listed. The lowest offered rate by Fellow Finance is 5%, which is lower than that of some of the banks. However, the P2P lenders are clearly behind in the maximum loan amount offered and maturity. P2P lenders combat this by providing a wider access and faster service.

Table 1: Selected competitors offering unsecured consumer credit in Finland

	Santander Consumer Finance	banknorwegian.fi	Nordax Bank	S-Pankki	Resurs Bank	collector bank	Bondora	FIXURA	FELLOW FINANCE
Max loan amount (EUR)	50,000	60,000	50,000	50,000	40,000	25,000	10,000	10,000	15,000
Max term (years)	10	15	15	12	12	15	5	5	10
Arrangement fee (EUR)	149	45/95	89	100-200	95	60	30-595	75-750	25-350
Monthly fee (EUR)	8	5	5	7	5	3	2-33	5,5	2-12
Min interest rate	3.7%	9.0%	7.9%	5.0%	7.9%	9.9%	9.3%	6.0%	5.0%
Max interest rate	9.7%	22.5%	18.9%	10.0%	21.9%	19.9%	N/A	27.0%	20.0%
Countries present	40+	NOR; SWE;FIN; DEN	SWE, FIN, NOR, DEN, GER	FIN	SWE, FIN, NOR, DEN	SWE, FIN, NOR	EST, FIN, SPA, SVK	FIN	FIN, POL, GER, SWE

P2P lenders

Source: Company websites via Fellow Finance (situation 6.8.2018)

Leader in Finnish P2P market with limited relevant local challengers

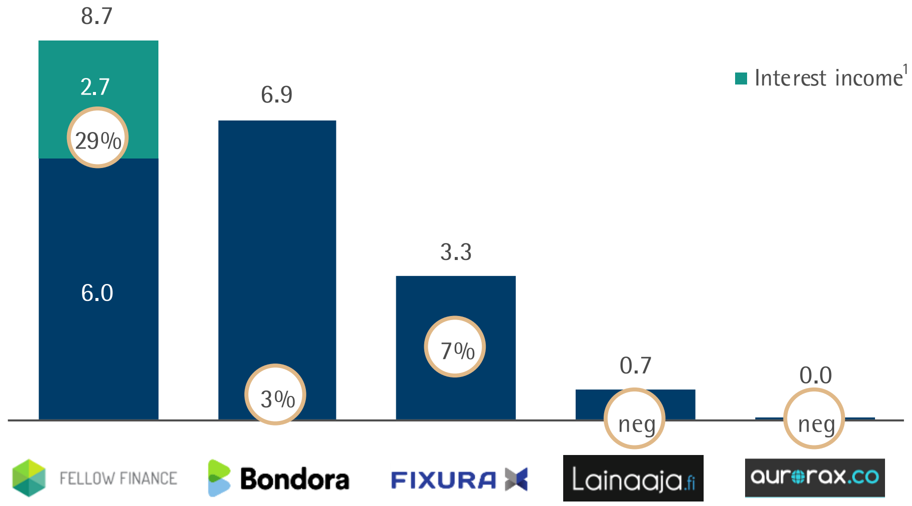
Fellow Finance is the market leader in the Finnish P2P lending market. The company estimates its market share in consumer lending to have been approximately 81% in 2017. The second largest player in Finland is Fixura which was founded in 2010. Fixura has issued a cumulative loan volume of over EUR 90 million and had a revenue of EUR 3.3 million in 2017, which was its first year to reach profitability. The company focuses solely on consumer loans, as does Lainaaja.fi (Vertaislaina Oy) which had sales of EUR 0.7 million in 2017 but was unprofitable at EBITDA level. Thus far, there are very little noteworthy players in Finland's rather premature market, which provides an opportunity to cement one's leading position. The situation is similar in the rest of the Nordics and the Baltics.

Fellow Finance's competitors in business loans and invoice funding are among others Intrum, Finance Link, as well as the local banks in Finland offering business financing.

Balance sheet business as buffer paying for development

To ensure comparability, the group's balance sheet lending business by Lainaamo should be accounted for. Lainaamo played a larger role for Fellow Finance's early stage results but has since 2015 been more used as a market maker than for maximizing financing business profits.

Figure 15: Sales and EBIT margin of P2P lenders operating in Finland (2017, EURm)



Note: [1]Included to adjust for Lainaamo

Source: Company filings and websites

Estonian peer Bondora expanding on home turf and reached profitability

Estonian marketplace lender Bondora entered the Finnish P2P consumer loan market in 2015. As the other platforms operating in Finland, Bondora only originates consumer loans. However, Bondora has a secondary market for loans. The company has marketed aggressively and gained a foothold in the Finnish market, which accounted for EUR 1.6 million (23%) of its 2017 sales. Bondora is in a strong growth trajectory, reporting sales of EUR 6.9m in 2017. The company was also barely able to generate a positive operating profit in 2017 with a 2.5% EBIT margin. In addition to Finland and Estonia, Bondora lends to consumers in Spain and Slovakia.

Lendify, the largest marketplace lender in Sweden

Lendify is a Swedish lending platform which has only recently shifted into growth gear. Its cumulative loans issued grew more than 10x in 2017. The company's net sales grew 460% to approximately EUR 2.5 million in the most recent 8-month stub fiscal year compared to the previous full year. Profitability is still weak with focus on IT investments leading to an operating loss of -204%. Lendify has been able to attract equity investments from local venture capitalists. According to Crunchbase, Lendify has raised a total of SEK 1.1B in funding (both equity and debt) from a total of 8 rounds. For now, Lendify's goals are in consumer loans and on the Swedish market, which limits the threat it poses to Fellow Finance. Unlike Fellow Finance, the role of balance sheet is more substantial for Lendify. An interesting move by Lendify has been to attract institutional funds by issuing bonds secured by loans issued via Lendify's platform. A total of SEK 700 million has been issued as bonds over 2017-2018.

Table 2: Selected competitors in current target markets and largest platforms in USA and UK

	LendingClub	Funding Circle	FELLOW FINANCE	Bondora	Lendify	FIXURA
Established	2006	2010	2013	2009	2014	2010
Loans originated (EURm)	>29,000	>5,000	280	137	111	88
Sales 2017 (EURm)	~500	~105	8.7	6.9	~2.5[1]	3
Growth 2017	15%	~86%	55%	64%	>200%[1]	12%
EBIT margin 2017	neg.	neg.	28.8%	2.5%	neg.	7.4%
Countries	USA	GBR, GER, NLD, USA	FIN, GER, POL, SWE	EST, FIN, ESP, SVK	SWE	FIN
Consumers loans	✓		✓	✓	✓	✓
Business loans	✓	✓	✓			
Invoice funding			✓			
Secondary market	✓	✓	✓	✓	✓	
Max consumer loan (EUR)	35,000	N/A	50,000	10,000	48,000	10,000
Investor returns	3-8%	5-7%	10%	11%	4-6%	8%

Note: [1]Evli estimate, based on management guidance and most recent interim figures

Source: Company filings and websites

UK's leader growing, diversifying funding and planning listing

UK's leading P2P business lender Funding Circle is a noteworthy case to examine, although it is not active in consumer lending, as it has expanded internationally both organically and through acquisitions and completed its IPO in October 2018. German platform Zencap was acquired in 2015 allowing entry to the German, Dutch and Spanish market. Funding circle was looking into an acquisition in Spain as well but backed out and has since cut its Spanish origination completely, which would suggest risk associated with the market. In addition to offering regular marketplace lending intermediation, Funding Circle has established a public fund investing through its platform, and even had a go at securitization with an issue of asset-backed securities with a pool of their loans. These differentiate it from competitors and are apt for drawing institutional funds. Funding circle promises rates starting from 1.9%, below the rates offered by Fellow Finance.

Bloated valuations fueled by market growth, yet things can go wrong

Funding Circle completed its IPO in October 2018. The pricing of the offer was at GBP 4.40 per share, with equity value on a fully diluted basis at approx. GBP 1.6 billion. The valuation implies a multiple of 13.7x LTM (7/17-6/18) sales. The company is still far from healthy profitability, with a H1/18 operating loss of GBP 27.3m on sales of GBP 63m. America's P2P business platform Lending Club was valued at a staggering market cap of over USD 9 billion after its IPO in late 2014 with LTM sales of USD 211 million. The story has not been as rosy, as its share is trading at below a third of its IPO price. Deterioration of credit quality, inability to sell off loans and conflicts of interest has harmed the business. This rather grim narrative should raise concern, despite the beautiful headwind promised in the burgeoning market. In our view, a problem with Lending Club's business model is that the company acts as a counterparty with obligations for its loans, unlike Fellow Finance.

Financial performance

Rapid sales growth while maintaining good profitability

The net sales of Fellow Finance has grown rapidly over the past three years with a CAGR of 46%. The net sales of the company was EUR 8.7 million in 2017, amounting to a 55% increase. Revenue comprises of two components: fee income and interest income from Lainaamo's balance sheet lending business. The share of fee income was 69% and we expect it to increase as the platform business grows. Fee income grew 66% in 2017 due to increased P2P loan volumes. Net sales in H1/18 grew to EUR 5.6m, an increase of 43 % compared to H1/17. The share of fee income in H1/18 increased to around 74 %.

Figure 16: Net sales (EURm) and EBIT margin

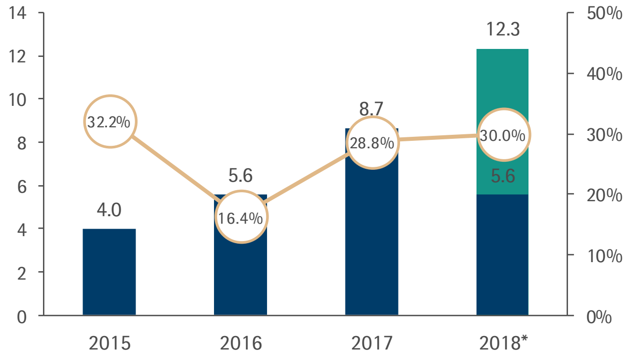
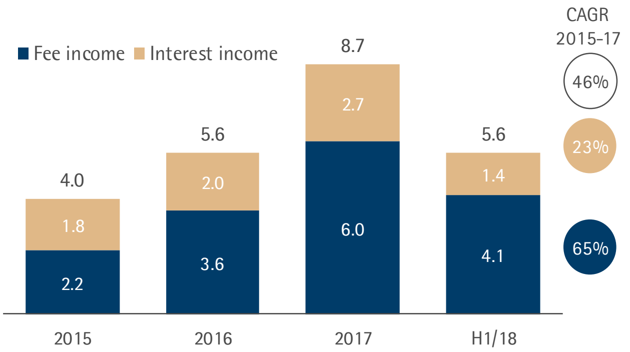


Figure 17: Net sales breakdown (EURm)

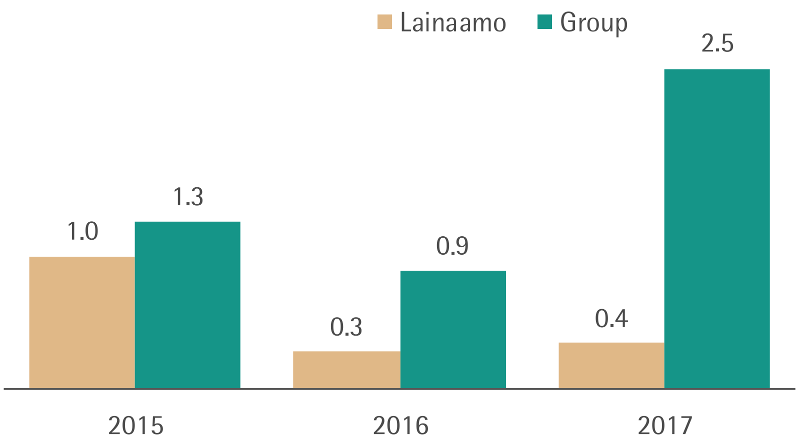


Source: Fellow Finance, Evli research. *Actual H1/18 net sales and EBIT margin, 2018 net sales Evli estimate. Company 2018 guidance: net sales >EUR 12m

Good profitability supported by balance sheet business

The company has been able to operate with an impressive profitability despite the rapid growth. When looking at other P2P lending platforms, an EBIT margin of 29%, that Fellow Finance achieved in 2017, is an outlier. Lainaamo's contribution is to be thanked for the reported high profitability figures, especially as the group has changed its accounting principles to include all interest expenses after EBIT. Before, Lainaamo's interest expenses were treated as operative expenses due to the nature of the business where money can be seen more as raw materials. Reported financial expenses amounted to 15% and 12 % of net sales in 2017 and H1/18 respectively and has amounted to approx. 7.5% and of interest-bearing debt. As the platform is gaining ground, the relevance of this decreases, as according to management Fellow Finance is not actively seeking to expand the financing business. The group's EBIT margin was 28.8% in 2017.

Figure 18: EBIT decomposition by company (EURm)*



Source: Fellow Finance, Lainaamo. Comparison of Lainaamo's result to the Fellow Finance group's result as a whole

Levered balance sheet due to Lainaamo

The balance sheet of Fellow Finance is peculiar as it has the extremely asset-light business of the parent company coupled with a subsidiary carrying a heavy debt load. At 6/2018, the non-current assets consist of a mere EUR 440 thousand of intangible assets (mostly software, EUR 50 thousand goodwill) and EUR 100 thousand of PP&E. The largest individual balance sheet items are some EUR 18 million in loan receivables paired with some EUR 17.5 million in interest-bearing debt. This structure led to a rather low equity ratio of on average around 19 % during recent years. However, this should not be taken at face value as Lainaamo is a finance company.

Figure 19: Balance sheet at the end of H1/18

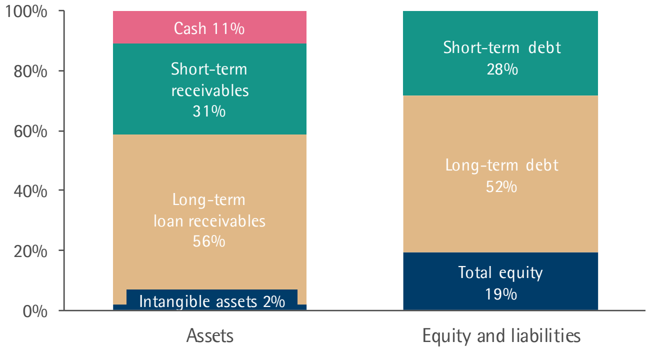
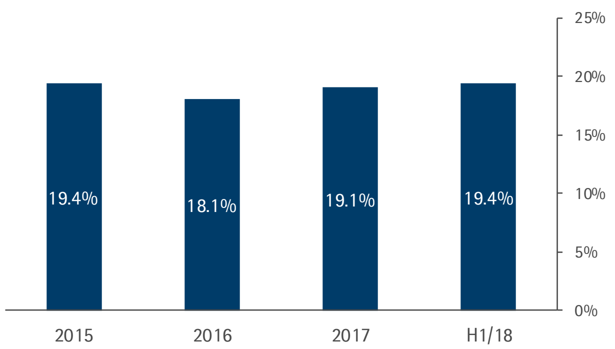


Figure 20: Equity ratio 2015-H1/18



Source: Fellow Finance

Fellow Finance's cost structure consists of materials and services, personnel expenses, depreciation and amortizations, and other operating expenses. Materials and services include user acquisition related expenses such as advertising, broker commissions and credit assessment. Other operating expenses include among others IT expenses and credit losses.

Scalability visible in cost structure

Due to the asset-light business, depreciation accounts for a marginal share of operating expenses and D&A was EUR 0.37m in 2017 and EUR 0.19m during H1/18. Amortization of goodwill accounted for some 7 % of D&A. The relative change in reported material & services costs and other operating expenses is due to some variable costs related to loan origination being previously booked as other expenses. Otherwise there have been little deviations in the cost structure. The scalability of the business model can be seen in the share of operating expenses compared to loan issuance, which has gradually decreased from 14.2% in 2015 to 5.7% in 2017.

Figure 21: Cost structure 2015-H1/18 (EURm)

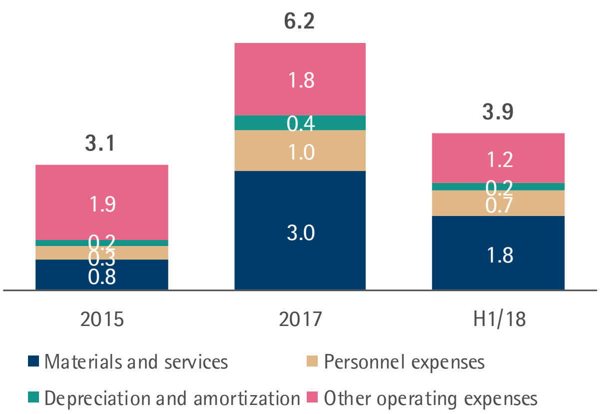
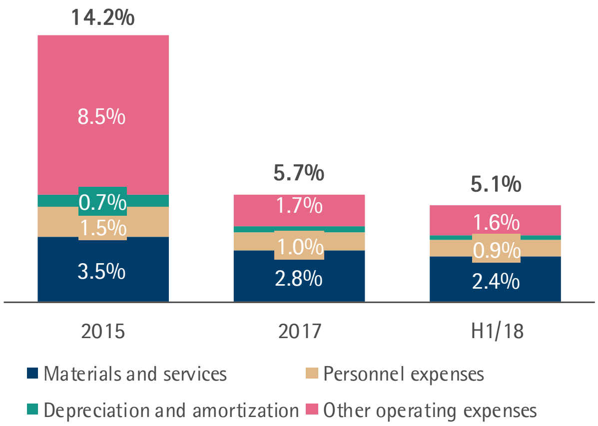


Figure 22: Cost structure 2015-H1/18 (as % of loans issued)



Source: Fellow Finance

Estimates

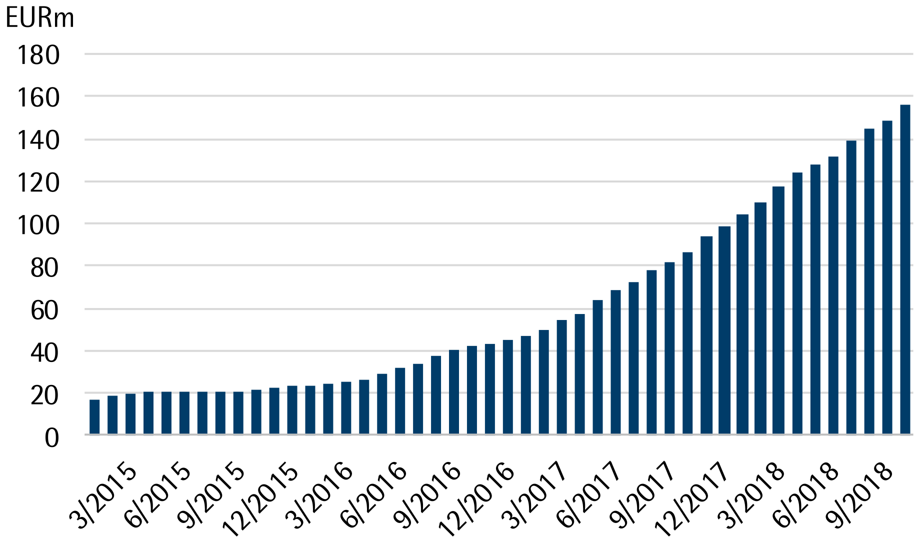
H1/18: 43 % sales growth y/y and EBIT-margin of 30 %

During H1/18 Fellow Finance's net sales grew some 43 % y/y and amounted to EUR 5.6 million, of which roughly three quarters came from fee income. The fee income saw solid growth at around 50 %, driven by the 74 % increase in facilitated loans to EUR 76 million, while interest income saw less modest growth. The EBIT in H1/18 amounted to EUR 1.7 million, at an EBIT-margin of 30 % (25.4 % in H1/17), improving largely due to the decreased share of materials and services costs to revenue.

H2/18E: Expect sales growth of 58 % y/y, to EUR 6.7m

In H2/18E we expect sales growth of some 41 % to EUR 6.7 million, driven by increases in fee income, which we expect to grow by some 58 %. We expect interest income to amount to EUR 1.6 million, with only slight growth of some 7 % y/y. Fee income growth is supported by growth in facilitated loans, as new loan facilitations have continued on a favourable growth trend, and we estimate new loan facilitations of EUR 88 million during H2/18E.

Figure 23: New loan facilitations, rolling 12m



Source: Fellow Finance

H2/18E: Expect EBIT of EUR 1.7m, at an EBIT-margin of 25.4 %

We expect an EBIT of EUR 1.7 million in H2/18E, expecting a decline in the EBIT-margin from 31.5 % in H1/17 to 25.4 %. The estimated decline is partly due to increasing personnel costs from the expected costs of Fellow Finance's director of new markets' incentive scheme (described on page 27).

2018E: Net sales EUR 12.3m and EBIT EUR 3.4m; 2018 guidance: Net sales over EUR 12m and EBIT 3.1-3.6m

Our full year 2018E net sales and EBIT estimates are at EUR 12.3 million and EUR 3.4 million respectively. Fellow Finance's guidance for 2018 is for net sales to be over EUR 12 million and an EBIT between EUR 3.1-3.6 million. The incentive scheme payment in H2/18 increases the uncertainty around our full-year estimate as the amounts and payment composition, which could be in cash or shares or a combination of both, are not known.

Table 3: Operative model for Fellow Finance

Fellow Finance	2016	H1/'17	H2/'17	2017	H1/'18	H2/'18E	2018E	2019E	2020E
Net sales	**5.6**	**3.9**	**4.7**	**8.7**	**5.6**	**6.7**	**12.3**	**17.2**	**24.9**
sales growth, %	*40%*	-	-	*55%*	*43%*	*41%*	*42%*	*40%*	*45%*
Fee income	3.6	2.7	3.2	6.0	4.1	5.1	9.2	14.0	21.6
Interest income	2.0	1.2	1.5	2.7	1.4	1.6	3.0	3.2	3.3
Facilitated loans	45	44	55	99	76	88	164	250	400
change, %	*96%*	*119%*	*123%*	*120%*	*74%*	*59%*	*66%*	*52%*	*60%*
Expenses									
Materials and services	-1.9	-1.5	-1.5	-3.0	-1.8	-2.2	-4.0	-6.5	-11.0
as % of net sales	*4.3%*	*3.4%*	*2.7%*	*3.0%*	*2.4%*	*2.5%*	*2.5%*	*2.6%*	*2.8%*
Personnel expenses	-0.8	-0.5	-0.6	-1.0	-0.7	-1.1	-1.8	-2.5	-3.0
Other op. expenses	-1.6	-0.8	-1.0	-1.8	-1.2	-1.5	-2.7	-3.2	-4.0
D&A	-0.3	-0.2	-0.2	-0.4	-0.2	-0.2	-0.4	-0.4	-0.4
EBIT	**0.9**	**1.0**	**1.5**	**2.5**	**1.7**	**1.7**	**3.4**	**4.6**	**6.5**
EBIT margin	*16.2%*	*25.3%*	*31.5%*	*28.8%*	*29.9%*	25.4%	*27.4%*	*26.7%*	*26.2%*
Net financials	-0.8	-0.6	-0.7	-1.3	-0.7	-1.7	-2.4	-1.3	-1.3
Taxes	-0.1	0.0	-0.1	-0.1	-0.2	0.0	-0.2	-0.7	-1.0
Net earnings	0.1	0.4	0.7	1.1	0.8	0.0	0.8	2.6	4.2
EPS	0.01	0.06	0.12	0.19	0.13	0.00	0.11	0.37	0.59
EPS adj. *	0.01	0.06	0.12	0.19	0.13	0.14	0.25	0.37	0.59

*Excluding estimated listing expenses. EPS figures split adjusted.

Source: Evli Research

Long-term estimates

Positioned for profitable and rapid growth.

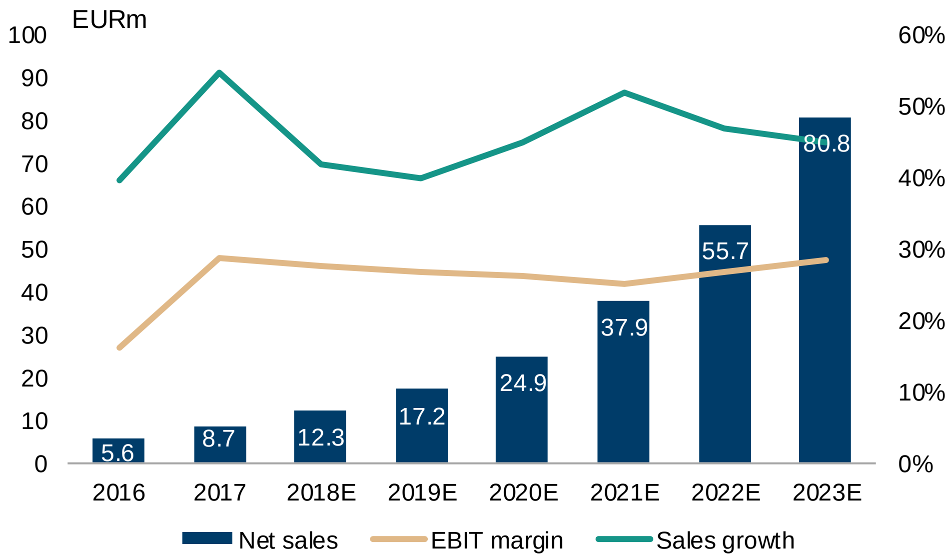
We expect Fellow Finance to seek to take further advantage of the growing P2P lending market and a growing sentiment toward alternative financing means as opposed to traditional banking services. In our view Fellow Finance is positioned to be able to continue on a rapid growth trajectory and to be able to grow profitably.

Based on the underlying growth prospects in Fellow Finance's current and possible new markets, coupled with the company's strong track record and a sound business model for growth, we estimate the company's long term financial targets be achievable. The net sales target is set at being over 80 million while the EBIT-margin target is at over 25 %, with our 2023E net sales at EUR 80.8m and EBIT-margin at 28.4 %.

2019-2021: Growth picking up, new market investments pressuring margins

We expect the growth to accelerate during 2019-2021 on the back of growth in the Finnish business lending and the other markets starting to scale up. The majority of facilitated loans will still be in consumer loans, but we expect the relative share of business loans and especially invoice funding in Finland to increase. Scaling up in the other markets as well as entering new markets will require more spending on brokers and other marketing channels. As such we expect some pressure on the EBIT margins during the period while the share of other expenses to net sales is expected to decrease due to scalability.

Figure 24: Long-term estimates for Fellow Finance



Source: Fellow Finance, Evli Research estimates

2021-2023: Slightly slower sales growth and improved profitability

During 2021-2023 we expect the growth rate to start to slow down but to remain at high levels. As the presence in the other countries becomes more stabilized the relative need for brokers declines and as such we expect margin improvement.

Given Fellow Finance's track record so far and the growth rates achieved by certain competitors we see that Fellow Finance's 2023 targets and our estimates are achievable, but we see a few factors that warrant some caution.

- **International growth proof**
  We expect that international expansion will play a significant role in achieving growth and with the other countries than Finland still mostly in a ramp-up phase, Fellow Finance has yet to show its capabilities of achieving significant growth in other countries. Although Fellow Finance's platform is well adaptable to other countries and currencies, the international competitive landscape varies, and Fellow Finance may have challenges growing in a specific country.

- **Cost of growth**
  The factor that in our view mainly affects profitability is the variable costs (materials and services), consisting of broker commissions and marketing spend as well as costs from customer and credit assessments. Through scaling and a growing number of repeat customers the proportion of variable costs to facilitated loans has gradually decreased (peak 4.3 % in 2016) to 2.4 % in during H1/18. However, if Fellow Finance intends to expand aggressively in new markets these spends will likely increase. Some companies in the sector that have sought rapid growth have done so unprofitably due to high marketing spend, but we believe that Fellow Finance will seek growth without significantly sacrificing profitability.

Valuation

Initiate coverage with HOLD and a target price of EUR 8.0

We initiate coverage of Fellow Finance with a HOLD rating and target price of EUR 8.0. Our primary valuation measure is peer P/E multiples for 2019E. Our target price values Fellow Finance at a target P/E '19E of 21.9x. On our target P/E '20E of 13.7x valuation looks more attractive but with our estimates relying on international expansion, we see that Fellow Finance still needs to show proof of international success to justify a higher valuation.

Our valuation is primarily based on peer group comparison, for which we have viewed four different peer groups. In our view, the relevant peer groups are platform companies that offer payment processing, financing and lending. We have added two additional peer groups, consumer finance and alternative finance companies, but due to differences in business models and performance metrics we see them mainly as comparison objects.

Exchange-listed lending platform companies in the more mature western countries are limited and as such we have included only three reasonable firms: Lending Club, Funding Circle and OnDeck. Compared to Fellow Finance these companies have a lower expected sales growth and profitability, with median 19E sales growth and net income margin of 15 % and 10 % respectively (Fellow Finance by Evli Research: 40 % and 15 % respectively). Funding Circles growth trajectory is more in line with our estimates for Fellow Finance but has yet to show positive profitability. We consider the lending platform peer median more as a low threshold in considering valuation.

The other in our view relevant peer group, the payment processing & financing platform companies, are generally by size considerably larger and have among the highest profitability and sales growth expectations, with median '19E sales growth and net income margins of 13 % and 23 % respectively (Fellow Finance by Evli Research: 40 % and 15 % respectively). We consider these companies as a more reasonable range for valuation, however noting the significant differences in size compared to Fellow Finance.

Valuation based on ~10 % premium to payment processing and financing platform peers

In deriving our valuation for Fellow Finance, we view the 2019E multiples for the payment processing and financing platform peers as a ballpark. In general, the firms have a higher profitability and are significantly larger, but we estimate a stronger growth trajectory both in sales and earnings for Fellow Finance and the P2P lending market in general is seeing solid growth. Our DCF implies a value of EUR 10.8, which shows good upside to current valuation, but with significant uncertainty in the materialization of long-term estimates we have not emphasized it in our valuation. Materialization of our estimates requires for Fellow Finance to succeed in its internationalization, which we have not yet seen sufficient proof of. Ultimately, we base our valuation on a ~10 % premium to the payment processing and financing platform peers on P/E '19E, given the higher estimated growth in sales and earnings, having also taken into consideration the difference in size.

VALUATION	Implied value	Notes
DCF	10.8	
Peer P/E '19E	7.2	Payment processing and
Peer P/E '20E	10.0	financing platforms
Target price (EUR)	**8.0**	

Source: Evli Research

Table 4: Valuation multiples for selected peer groups

CONSUMER FINANCE COMPANIES	Ticker	MCAP MEUR	P/E 19E	P/E 20E	P/Sales 19E	P/Sales 20E	Sales gr. 19E	Sales gr. 20E	Net income margin 19E	Net income margin 20E
Santander Consumer USA	SC US	5859	6.8x	6.4x	0.9x	1.4x	15%		13%	
Synchrony Financial	SYF US	16185	5.9x	5.5x	1.3x	1.3x	4%	-2%	21%	20%
Discover Fn Svc	DFS US	20288	8.0x	7.2x	2.0x	1.9x	7%	6%	24%	23%
American Express	AXP US	79841	13.1x	11.9x	2.1x	2.0x	7%	8%	16%	16%
Capital One Finl	COF US	35931	7.6x	7.0x	1.4x	1.3x	3%	5%	19%	19%
Peer Group Average		33387	**8.3x**	**7.6x**	**1.6x**	**1.6x**	**7%**	**4%**	**19%**	**19%**
Peer Group Median		5884	**7.6x**	**7.0x**	**1.4x**	**1.4x**	**7%**	**6%**	**19%**	**19%**

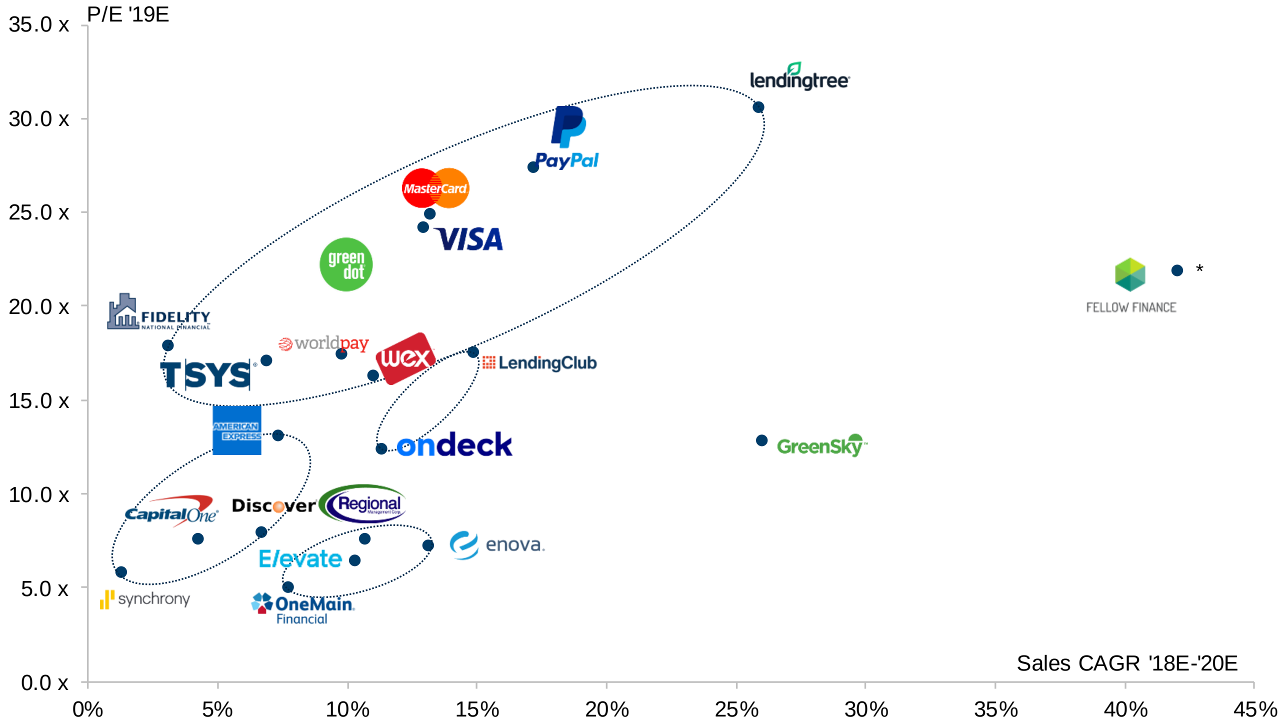
ALTERNATIVE CONSUMER/SME LENDING COMPANIES	Ticker	MCAP EUR	P/E 19E	P/E 20E	P/Sales 19E	P/Sales 20E	Sales gr. 19E	Sales gr. 20E	Net income margin 19E	Net income margin 20E
Elevate Credit	ELVT US	171	6.4x	4.6x	0.2x	0.2x	11%	10%	4%	5%
OneMain Holdings	OMF US	3325	5.0x	4.6x	1.0x	1.0x	8%	7%	21%	21%
Enova International	ENVA US	670	7.3x	6.2x	0.6x	0.5x	15%	11%	9%	9%
Regional Management Corp	RM US	284	7.6x	6.7x	0.9x	0.9x	14%	8%	13%	13%
Peer Group Average		1112	**6.6x**	**5.5x**	**0.7x**	**0.6x**	**12%**	**9%**	**11%**	**12%**
Peer Group Median		477	**6.9x**	**5.4x**	**0.8x**	**0.7x**	**12%**	**9%**	**11%**	**11%**

PAYMENT PROCESSING & FINANCING PLATFORMS	Ticker	MCAP EUR	P/E 19E	P/E 20E	P/Sales 19E	P/Sales 20E	Sales gr. 19E	Sales gr. 20E	Net income margin 19E	Net income margin 20E
Green Dot	GDOT US	3588	21.4x	18.4x	3.6x	3.2x	11%	10%	17%	18%
Total System Services	TSS US	13415	17.1x	15.0x	3.5x	3.3x	8%	6%	21%	22%
WEX	WEX US	5908	16.3x	14.4x	4.0x	3.7x	12%	10%	25%	26%
GreenSky	GSKY US	1510	12.8x	10.1x	3.3x	2.7x	28%	24%	26%	28%
PayPal Holdings	PYPL US	81793	27.4x	22.7x	5.2x	4.4x	17%	18%	19%	19%
Mastercard	MA US	170087	24.9x	21.1x	11.5x	10.2x	13%	14%	46%	47%
Visa	V US	237935	24.2x	20.9x	11.5x	10.4x	14%	11%	53%	54%
Worldpay	WP US	22361	17.4x	14.9x	5.9x	5.4x	10%	9%	34%	36%
LendingTree	TREE US	2551	30.6x	23.1x	2.8x	2.4x	35%	17%	11%	12%
Fidelity Natl Info Svcs	FIS US	29702	17.9x	16.0x	3.9x	3.8x	2%	4%	22%	23%
Peer Group Average		59905	**21.0x**	**17.7x**	**5.5x**	**4.9x**	**15%**	**12%**	**27%**	**28%**
Peer Group Median		13415	**19.7x**	**17.2x**	**4.0x**	**3.7x**	**13%**	**11%**	**23%**	**25%**

LENDING PLATFORMS	Ticker	MCAP EUR	P/E 19E	P/E 20E	P/Sales 19E	P/Sales 20E	Sales gr. 19E	Sales gr. 20E	Net income margin 19E	Net income margin 20E
On Deck Capital	ONDK US	477	12.4x	11.1x	1.2x	1.1x	13%	10%	10%	11%
LendingClub	LC US	1260	17.6x	12.5x	1.8x	1.6x	15%	15%	10%	13%
Funding Circle Holdings	FCH GB	1376			6.2x	4.4x	42%	41%	-18%	-7%
Peer Group Average		869	**15.0x**	**11.8x**	**3.1x**	**2.4x**	**23%**	**22%**	**1%**	**6%**
Peer Group Median		869	**15.0x**	**11.8x**	**1.8x**	**1.6x**	**15%**	**15%**	**10%**	**11%**

Source: Bloomberg

Figure 25: P/E to sales growth comparison for the selected peer companies



Source: Bloomberg, Evli Research. *Evli est., target price implied P/E '19E of 21.9x

Risks

The main risks to our investment case are:

1) Competitive pressure from foreign players: Established competitors, such as Zopa or Funding Circle, entering main markets can lead to them gaining market share as they have a larger pool of investor funds, lower interest rates and abundant marketing resources.
2) Turn of the credit cycle leading to wave of defaults: The model has not withstood wide-scale economic turmoil. A wave of defaults can dry up the supply of funds from investors.
3) Reputational risk: While Fellow Finance would comply, a reputational hit from another P2P lender can damage the whole industry. It is not unheard of that a new finance instrument leads to adverse behavior in the pursuit of fees.
4) Adverse regulatory decisions: As the industry is nascent, the regulation governing its operations are only taking shape. While unlikely, there is a possibility that introduced regulatory framework makes the business model unfeasible.
5) Operational risks: The platform fails to live up to expectations. There can be problems with credit scoring, payment services, malpractice etc.
6) New entrants: Other players with superior technology or service model make the product obsolete. Banks start offering similar services and overtake with greater resources.
7) Liquidity risk: Discrepancies with the cash flows in Lainaamo's balance sheet lending business lead to financial distress.

Management option plans

Fellow Finance's board of directors has decided on an incentive scheme for the director of new markets, Antoni Airikkala. Airikkala is eligible for a compensation in the form of synthetic options based on the development of Fellow Finance's equity value.

The first compensation plan entitles Airikkala to a share of any increase in Fellow Finance's stock value. The value of the compensation plan presented in the IPO prospectus was approx. EUR 0.87m, with a approx. EUR 0.17m compensation to be paid upon completion of the IPO. The second element of the first compensation plan entitles Airikkala to a compensation based on the fulfillment of certain operational targets by the 30.6.2019.

The second compensation plan entitles Airikkala to a compensation corresponding to 2.8 per cent of the increase in Fellow Finance's equity value based on the subscription price of the IPO and the share price on the first trading day compared to the closing share price one year after. The compensation in the second plan is conditional upon fulfilment of the first and second element of the first compensation plan.

VALUATION RESULTS		BASE CASE DETAILS		VALUATION ASSUMPTIONS		ASSUMPTIONS FOR WACC	
Current share price	7.42	PV of Free Cash Flow	40	Long-term growth, %	2.0	Risk-free interest rate, %	2.25
DCF share value	10.83	PV of Horizon value	53	WACC, %	11.5	Market risk premium, %	5.8
Share price potential, %	46.0	Unconsolidated equity	0	Spread, %	0.5	Debt risk premium, %	3.3
Maximum value	11.7	Marketable securities	2	Minimum WACC, %	11.0	Equity beta coefficient	1.40
Minimum value	10.0	Debt - dividend	-17	Maximum WACC, %	12.0	Target debt ratio, %	20
Horizon value, %	56.9	Value of stock	77	Nr of shares, Mn	7.1	Effective tax rate, %	20

DCF valuation, EURm	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	Horizon
Net sales	9	12	17	25	37	54	79	98	108	114	116	118
Sales growth, %	*55.0*	*41.7*	*40.0*	*45.0*	*50.0*	*45.0*	*45.0*	*25.0*	*10.0*	*5.0*	*2.0*	*2.0*
Operating income (EBIT)	2	3	5	7	9	14	21	25	22	18	19	19
EBIT margin, %	*28.8*	*27.5*	*26.7*	*26.2*	*25.0*	*26.7*	*27.0*	*25.0*	*20.0*	*16.0*	*16.0*	*16.0*
+ Depreciation+amort.	0	0	0	0	0	1	1	1	1	2	2	
- Income taxes	0	-1	-1	-1	-2	-3	-4	-5	-4	-4	-4	
- Change in NWC	0	-2	-2	-3	-4	-5	-7	-2	-2	-2	-1	
NWC / Sales, %	*57.8*	*55.4*	*51.9*	*47.2*	*41.8*	*38.1*	*34.8*	*30.3*	*29.2*	*29.2*	*29.9*	
+ Change in other liabs	0	0	0	0	0	0	0	0	0	0	0	
- Capital Expenditure	-5	-1	0	-1	-1	-1	-2	-2	-2	-2	-2	-2
Investments / Sales, %	*54.0*	*4.4*	*2.8*	*2.6*	*2.6*	*2.6*	*2.6*	*2.2*	*1.8*	*1.7*	*1.6*	*1.6*
- Other items	0	0	0	0	0	0	0	0	0	0	0	
= Unlevered Free CF (FCF)	-3	1	1	2	3	6	9	16	15	13	13	142
= Discounted FCF (DFCF)		1	1	2	2	4	5	8	7	5	5	53

= DFCF min WACC	1	1	2	2	4	5	9	7	5	5	58
= DFCF max WACC	1	1	2	2	4	5	8	7	5	5	48

INTERIM FIGURES

EVLI ESTIMATES, EURm	2017Q1	2017Q2	2017Q3	2017Q4	2017	2018Q1	2018Q2	2018Q3E	2018Q4E	2018E	2019E	2020E
Net sales	0	0	0	9	9	0	6	0	7	12	17	25
EBITDA	0	0	0	3	3	0	2	0	2	4	5	7
EBITDA margin (%)	*0.0*	*0.0*	*0.0*	*33.1*	*33.1*	*0.0*	*33.3*	*0.0*	*28.4*	*30.6*	*28.1*	*27.2*
EBIT	0	0	0	2	2	0	2	0	2	3	5	7
EBIT margin (%)	*0.0*	*0.0*	*0.0*	*28.8*	*28.8*	*0.0*	*30.0*	*0.0*	*25.4*	*27.5*	*26.7*	*26.2*
Net financial items	0	0	0	-1	-1	0	-1	0	-2	-2	-1	-1
Pre-tax profit	0	0	0	1	1	0	1	0	0	1	3	5
Tax	0	0	0	0	0	0	0	0	0	0	-1	-1
Tax rate (%)	*0.0*	*0.0*	*0.0*	*11.0*	*11.0*	*0.0*	*21.8*	*0.0*	*0.0*	*21.8*	*20.0*	*20.0*
Net profit	0	0	0	1	1	0	1	0	0	1	3	4
EPS	0.00	0.00	0.00	0.19	0.19	0.00	0.11	0.00	0.00	0.11	0.37	0.59
EPS adjusted (diluted no. of shares)	0.00	0.00	0.00	0.19	0.19	0.00	0.11	0.00	0.00	0.11	0.37	0.59
Dividend per share	0.00	0.00	0.00	0.00	0.09	0.00	0.00	0.00	0.00	0.10	0.11	0.18
SALES, EURm												
Fellow Finance	0	0	0	9	9	0	6	0	7	12	17	25
Total	0	0	0	9	9	0	6	0	7	12	17	25
SALES GROWTH, Y/Y %												
Fellow Finance	*0.0*	*0.0*	*0.0*	*55.0*	*55.0*	*0.0*		*0.0*	*-22.7*	*41.7*	*40.0*	*45.0*
Total	*0.0*	*0.0*	*0.0*	*54.9*	*55.0*	*0.0*	*558,143.9*	*0.0*	*-22.7*	*41.7*	*40.0*	*45.0*
EBIT, EURm												
Fellow Finance	0	0	0	2	2	0	2	0	2	3	5	7
Total	0	0	0	2	2	0	2	0	2	3	5	7
EBIT margin, %												
Fellow Finance	*0.0*	*0.0*	*0.0*	*28.8*	*28.8*	*0.0*	*30.0*	*0.0*	*25.4*	*27.5*	*26.7*	*26.2*
Total	*0.0*	*0.0*	*0.0*	*28.8*	*28.8*	*0.0*	*30.0*	*0.0*	*25.4*	*27.5*	*26.7*	*26.2*

INCOME STATEMENT, EURm	2013	2014	2015	2016	2017	2018E	2019E	2020E
Sales	0	0	4	6	9	12	17	25
Sales growth (%)	*0.0*	*0.0*	*100,025.0*	*39.6*	*55.0*	*41.7*	*40.0*	*45.0*
Costs	0	0	-2	-4	-6	-9	-12	-18
Reported EBITDA	0	0	2	1	3	4	5	7
Extraordinary items in EBITDA	0	0	0	0	0	0	0	0
EBITDA margin (%)	*0.0*	*0.0*	*40.7*	*22.5*	*33.1*	*30.6*	*28.1*	*27.2*
Depreciation	0	0	0	0	0	0	0	0
EBITA	0	0	1	1	2	3	5	7
Goodwill amortization / writedown	0	0	0	0	0	0	0	0
Reported EBIT	0	0	1	1	2	3	5	7
EBIT margin (%)	*0.0*	*0.0*	*32.2*	*16.4*	*28.8*	*27.5*	*26.7*	*26.2*
Net financials	0	0	-1	-1	-1	-2	-1	-1
Pre-tax profit	0	0	0	0	1	1	3	5
Extraordinary items	0	0	0	0	0	0	0	0
Taxes	0	0	0	0	0	0	-1	-1
Minority shares	0	0	0	0	0	0	0	0
Net profit	0	0	0	0	1	1	3	4
BALANCE SHEET, EURm								
Assets								
Fixed assets	0	0	11	10	14	14	14	15
% of sales	*0*	*0*	*264*	*171*	*160*	*115*	*83*	*59*
Goodwill	0	0	0	0	0	0	0	0
% of sales	*0*	*0*	*3*	*2*	*1*	*0*	*0*	*0*
Inventory	0	0	0	0	0	0	0	0
% of sales	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Receivables	0	0	3	5	6	8	11	15
% of sales	*0*	*0*	*82*	*94*	*71*	*69*	*65*	*61*
Liquid funds	0	0	2	2	2	10	9	9
% of sales	*0*	*0*	*39*	*40*	*20*	*78*	*50*	*35*
Total assets	0	0	16	17	22	32	34	39
Liabilities								
Equity	0	0	3	3	4	13	15	19
% of sales	*0*	*0*	*76*	*55*	*48*	*110*	*89*	*75*
Deferred taxes	0	0	0	0	0	0	0	0
% of sales	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Interest bearing debt	0	0	11	13	17	17	16	16
% of sales	*0*	*0*	*276*	*238*	*191*	*138*	*96*	*66*
Non-interest bearing current liabilities	0	0	2	1	1	2	2	3
% of sales	*0*	*0*	*38*	*12*	*13*	*14*	*14*	*14*
Other interest free debt	0	0	0	0	0	0	0	0
% of sales	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Total liabilities	0	0	16	17	22	32	34	39
CASH FLOW, EURm								
+ EBITDA	0	0	2	1	3	4	5	7
- Net financial items	0	0	-1	-1	-1	-2	-1	-1
- Taxes	0	0	0	0	0	0	-1	-1
- Increase in Net Working Capital	0	0	-2	-3	0	-2	-2	-3
+/- Other	0	0	0	0	0	0	0	0
= Cash flow from operations	0	0	-2	-2	1	-1	1	2
- Capex	0	0	-11	1	-5	-1	0	-1
- Acquisitions	0	0	0	0	0	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Net cash flow	0	0	-13	-2	-4	-1	0	1
+/- Change in interest-bearing debt	0	0	11	2	3	0	-1	0
+/- New issues/buybacks	0	0	3	0	0	9	0	0
- Paid dividend	0	0	0	0	0	-1	-1	-1
+/- Change in loan receivables	0	0	0	0	0	0	0	0
Change in cash	0	0	2	1	0	8	-1	0

KEY FIGURES	2014	2015	2016	2017	2018E	2019E	2020E
M-cap	0	0	0	0	53	53	53
Net debt	0	9	11	15	7	8	8
Enterprise value	0	9	11	15	60	61	61
Sales	0	4	6	9	12	17	25
EBITDA	0	2	1	3	4	5	7
EBIT	0	1	1	2	3	5	7
Pre-tax	0	0	0	1	1	3	5
Earnings	0	0	0	1	1	3	4
Book value	0	3	3	4	13	15	19
Valuation multiples							
EV/sales	0.0	2.4	2.0	1.7	4.9	3.5	2.4
EV/EBITDA	0.0	5.8	8.8	5.2	16.0	12.6	8.9
EV/EBITA	0.0	7.3	12.1	5.9	17.9	13.2	9.3
EV/EBIT	0.0	7.3	12.1	5.9	17.9	13.2	9.3
EV/operating cash flow	0.0	-17.2	-6.4	6.9	48.9	33.9	22.9
EV/cash earnings	0.0	43.0	26.9	10.1	51.4	21.4	13.7
P/E	0.0	0.0	0.0	0.0	67.3	20.3	12.7
P/E excl. goodwill	0.0	0.0	0.0	0.0	67.3	20.3	12.7
P/B	0.0	0.0	0.0	0.0	3.9	3.4	2.8
P/sales	0.0	0.0	0.0	0.0	4.3	3.1	2.1
P/CF	0.0	0.0	0.0	0.0	42.9	29.5	20.0
Target EV/EBIT	*0.0*	*0.0*	*0.0*	*0.0*	*19.1*	*14.1*	*9.9*
Target P/E	*0.0*	*0.0*	*0.0*	*0.0*	*72.6*	*21.9*	*13.7*
Target P/B	*0.0*	*0.0*	*0.0*	*0.0*	*4.2*	*3.7*	*3.0*
Per share measures							
Number of shares	0	5,818	5,818	5,818	7,129	7,129	7,129
Number of shares (diluted)	0	5,818	5,818	5,818	7,129	7,129	7,129
EPS	0.00	-0.04	0.01	0.19	0.11	0.37	0.59
EPS excl. goodwill	0.00	-0.04	0.01	0.19	0.11	0.37	0.59
Cash EPS	0.00	0.04	0.07	0.25	0.16	0.40	0.62
Operating cash flow per share	0.00	-0.09	-0.30	0.37	0.17	0.25	0.37
Capital employed per share	0.00	2.15	2.44	3.26	2.93	3.26	3.71
Book value per share	0.00	0.52	0.53	0.72	1.89	2.16	2.63
Book value excl. goodwill	0.00	0.50	0.52	0.71	1.89	2.15	2.63
Dividend per share	0.00	0.00	0.00	0.09	0.10	0.11	0.18
Dividend payout ratio, %	0.0	0.0	0.0	47.2	90.7	30.0	30.0
Dividend yield, %	0.0	0.0	0.0	0.0	1.3	1.5	2.4
Efficiency measures							
ROE	0.0	0.0	2.4	29.8	8.9	18.1	24.5
ROCE	0.0	18.3	6.0	13.4	13.2	14.7	19.5
Financial ratios							
Capex/sales, %	0.0	275.0	-12.7	54.0	4.4	2.8	2.6
Capex/depreciation excl. goodwill,%	0.0	3,216.9	-202.9	1,257.8	153.5	201.4	247.3
Net debt/EBITDA, book-weighted	0.0	5.8	8.8	5.2	2.0	1.6	1.1
Debt/equity, market-weighted	0.0	0.0	0.0	0.0	0.3	0.3	0.3
Equity ratio, book-weighted	0.0	19.4	18.1	19.1	41.9	45.0	48.6
Gearing	0.00	3.13	3.59	3.54	0.55	0.51	0.41
Number of employees, average	0	0	0	0	0	0	0
Sales per employee, EUR	0	0	0	0	0	0	0
EBIT per employee, EUR	0	0	0	0	0	0	0

COMPANY DESCRIPTION: Fellow Finance Oyj operates a lending platform for debt-based consumer and business financing. The company operates in Finland, Sweden, Germany, and Poland. The company began its operations in 2014 and listed on the Nasdaq First North Finland -marketplace in 2018.

INVESTMENT CASE:

OWNERSHIP STRUCTURE	SHARES	EURm	%
Taaleri Oyj	1,847,163	13.706	25.9%
Margin Investments Oy	830,843	6.165	11.7%
TN Ventures Oy	830,843	6.165	11.7%
Oy T&T Nordcap Ab	646,436	4.797	9.1%
Avensis Capital Oy	277,266	2.057	3.9%
Nordea Bank Abp, nominee register	164,995	1.224	2.3%
OP-Finland Micro Cap	130,000	0.965	1.8%
OP-Finland Small Cap	130,000	0.965	1.8%
Säästöpankki Small Cap mutual fund	129,366	0.960	1.8%
Fennia Life Insurance Company	107,860	0.800	1.5%
Ten largest	5,094,772	37.803	71%
Residual	2,033,853	15.091	29%
Total	7,128,625	52.894	100%

EARNINGS CALENDAR

OTHER EVENTS

COMPANY MISCELLANEOUS

CEO: Jouni Hintikka	Ratakatu 1 b A 10, FIN-00120 Helsinki
CFO: Pasi Rantamäki	Tel: 0203, 80,101
IR:	

DEFINITIONS

P/E $\frac{\text{Price per share}}{\text{Earnings per share}}$	EPS $\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}{\text{Number of shares}}$
P/Sales $\frac{\text{Market cap}}{\text{Sales}}$	DPS Dividend for the financial period per share
P/BV $\frac{\text{Price per share}}{\text{Shareholders' equity} + \text{taxed provisions per share}}$	CEPS $\frac{\text{Gross cash flow from operations}}{\text{Number of shares}}$
P/CF $\frac{\text{Price per share}}{\text{Operating cash flow per share}}$	EV/Share $\frac{\text{Enterprise value}}{\text{Number of shares}}$
EV (Enterprise value) Market cap + net debt + minority interest at market value – share of associated companies at market value	Sales/Share $\frac{\text{Sales}}{\text{Number of shares}}$
Net debt Interest bearing debt – financial assets	EBITDA/Share $\frac{\text{Earnings before interest, tax, depreciation and amortisation}}{\text{Number of shares}}$
EV/Sales $\frac{\text{Enterprise value}}{\text{Sales}}$	EBIT/Share $\frac{\text{Operating profit}}{\text{Number of shares}}$
EV/EBITDA $\frac{\text{Enterprise value}}{\text{Earnings before interest, tax, depreciation and amortisation}}$	EAFI/Share $\frac{\text{Pretax profit}}{\text{Number of shares}}$
EV/EBIT $\frac{\text{Enterprise value}}{\text{Operating profit}}$	Capital employed/Share $\frac{\text{Total assets} - \text{non interest bearing debt}}{\text{Number of shares}}$
Div yield, % $\frac{\text{Dividend per share}}{\text{Price per share}}$	Total assets Balance sheet total
Payout ratio, % $\frac{\text{Total dividends}}{\text{Earnings before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}$	Interest coverage (x) $\frac{\text{Operating profit}}{\text{Financial items}}$
Net cash/Share $\frac{\text{Financial assets} - \text{interest bearing debt}}{\text{Number of shares}}$	Asset turnover (x) $\frac{\text{Turnover}}{\text{Balance sheet total (average)}}$
ROA, % $\frac{\text{Operating profit} + \text{financial income} + \text{extraordinary items}}{\text{Balance sheet total} - \text{interest free short term debt} - \text{long term advances received and accounts payable (average)}}$	Debt/Equity, % $\frac{\text{Interest bearing debt}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}$
ROCE, % $\frac{\text{Profit before extraordinary items} + \text{interest expenses} + \text{other financial costs}}{\text{Balance sheet total} - \text{noninterest bearing debt (average)}}$	Equity ratio, % $\frac{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}{\text{Total assets} - \text{interest free loans}}$
ROE, % $\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions (average)}}$	CAGR, % Cumulative annual growth rate = Average growth per year

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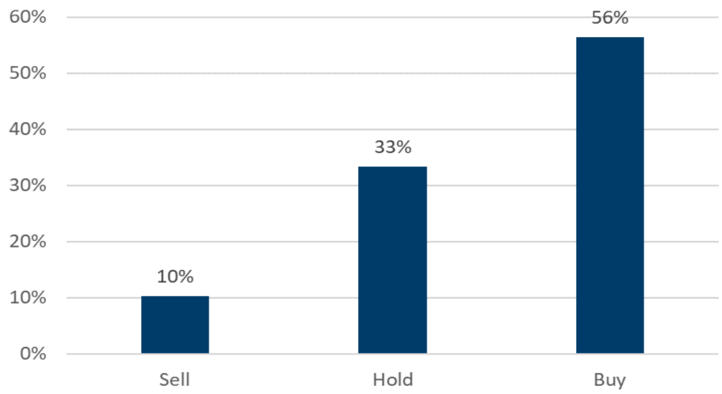
https://research.evli.com/JasperAllModels.action?authParam=key;461&authParam=x;G3rNagWrtf7K&authType=3
Detailed information about the valuation or methodology and the underlying assumptions is accessible via ERP:
http://research.evli.com
Investment recommendations are defined as follows:

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

ERP's investment recommendation of the analyzed company is in general updated 2 – 4 per year.



The graph above shows the distribution of ERP's recommendations of companies under coverage in 16th of April 2018. If recommendation is not given, it is not mentioned here.

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

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