FELLOW FINANCE

Diversified Financial Services/Finland, October 23, 2020

Company report

Obstacles to overcome

Fellow Finance is a highly scalable international marketplace lending platform. Recent challenges due to increased competition, adverse regulatory decisions and the Coronavirus pandemic caused a setback to the company's solid growth and profitability track and is now on a slightly challenging turnaround undertaking.

Good track record, challenging year behind...

Fellow Finance is an international marketplace lending platform connecting investors and lenders and facilitates both consumer and business lending. Operations have in the past years been expanded abroad, with operations now in six countries. The company has been able to achieve a good track record on growth and profitability but has since the latter half of 2019 been met with challenges due to regulation, increased competition and volume declines due to the Coronavirus pandemic. As a result of a decline in facilitated loan volumes sales have decreased and profitability has suffered.

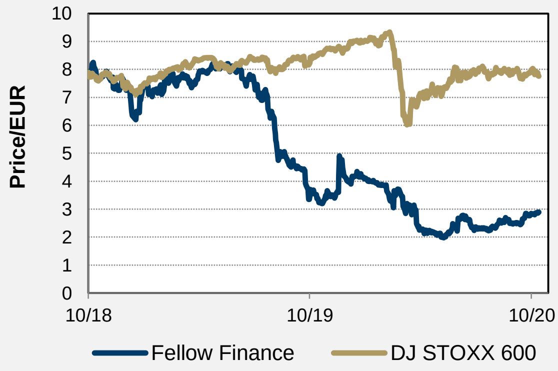
... but long-term potential remains

The business environment still remains challenging in the near-term, especially with the temporary cap on interest rates on certain consumer credit. Potential for disruptive growth in the addressable market and the scalability of the platform still continues to offer ample opportunities in the long-term but with the challenges being faced there is still work to be done. With the improving investor demand after a dip in volumes due to the pandemic we expect the negative sales trend to be reversed and profitability to improve as a result in 2021.

HOLD with a target price of EUR 2.8 (2.5)

We base our valuation on peer multiples and derive a fair value of EUR 2.78 using a 2021 P/sales multiple of 1.3x, at a discount to the consumer finance companies given differences and faced challenges and above the somewhat chronically underperforming lending platform peers. We adjust our target price to EUR 2.8 (2.5) and retain our HOLD-rating.

Rating HOLD



Share price, EUR (Last trading day's closing price)	2.89
Target price, EUR	2.8
Latest change in recommendation	19-Aug-19
Latest report on company	31-Aug-20
Research paid by issuer:	YES
No. of shares outstanding, '000's	7,174
No. of shares fully diluted, '000's	7,174
Market cap, EURm	21
Free float, %	-
Exchange rate	0.000
Reuters code	FELLOW.HE
Bloomberg code	FELLOW HE
Average daily volume, EURm	0.07
Next interim report	15-Feb-21
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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
2018	12.0	3.4	28.3%	0.6	0.12	55.1	4.6	16.1	1.2	0.04
2019	14.2	1.6	11.6%	-0.8	-0.01	-349.3	3.2	28.0	-2.9	0.00
2020E	11.3	0.1	1.2%	-1.9	-0.17	-17.0	3.5	298.1	-9.2	0.00
2021E	15.3	2.1	13.7%	-1.0	0.06	45.6	2.6	19.1	-4.6	0.00
2022E	18.7	3.5	18.4%	-0.3	0.20	14.2	2.2	11.7	-1.3	0.06

Market cap, EURm	21	Gearing 2020E, %	138.6	CAGR EPS 2019-22, %	0.0
Net debt 2020E, EURm	18	Price/book 2020E	1.6	CAGR sales 2019-22, %	9.7
Enterprise value, EURm	39	Dividend yield 2020E, %	0.0	ROE 2020E, %	-8.8
Total assets 2020E, EURm	35	Tax rate 2020E, %	8.3	ROCE 2020E, %	0.4
Goodwill 2020E, EURm	0	Equity ratio 2020E, %	38.1	PEG, P/E 20/CAGR	0.0

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

Investment summary

Leading international marketplace lending platform in the Nordics

Fellow Finance is a P2P consumer and business lending platform operating in Finland, Sweden, Germany, Poland, Denmark and the Czech Republic. The company operates a leading international marketplace lending platform in the Nordics and has intermediated consumer and business loans for over EUR 650m. Fellow Finance's platform connects investors looking for attractive risk-adjusted returns and borrowers in need of funds. The company began operations in 2014 and employs close to 50 people.

Scalable platform enables profitable growth

Fellow Finance's business model 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 company utilizes its financing subsidiary Lainaamo, with a net loan book of some EUR 25m, to facilitate the launching of new markets or products and does not actively seek to expand its balance sheet investing.

Large addressable market with disruptive growth potential

The alternative finance sector, including platform lending, has been growing rapidly but has not yet vastly impacted the mainly by incumbents dominated area of financing. The P2P and crowdlending volumes only account for some 2.5% of the total unsecured consumer credit despite Finland ranking fifth in alternative financing volumes per capita in Europe.

Strong track record – past year, however, has been challenging

Fellow Finance has a previous track record of solid growth and sound margins, having posted double-digit growth figures and achieved adj. EBIT-margins of close to some 30%. Sights were set on rapid growth, having targeted net sales of EUR 80m in 2023. However, the good progress started to falter in 2019 with the introduction of a cap on interest rates in Finland and increased competition from foreign competitors. 2020 saw the Coronavirus pandemic making a further dent on already weakened intermediated loan volumes as investors shifted funds to other asset classes.

Sales declined 20% in H1/20 as investor demand declined due to the pandemic

The first half of 2020 was not easy for Fellow Finance, as intermediated loan volumes declined some 37% y/y due to the significant impact of the Coronavirus pandemic company on investor demand. The revenue decline was not as large due to higher interest income but still amounted to 20% y/y. The adj. EBIT as a result fell into the red to EUR -0.1m. The company has not given a guidance for 2020.

We expect a reversal of the sales and profitability trend in 2021

We expect 2020E net sales of EUR 11.3m and an adj. EBIT of EUR 0.1m. 2020 figures will be heavily influenced by the decline in intermediated loan volume levels since March. With some positive development in volumes profitability should return to positive figures in the second half of the year. We expect a rebound in volumes to pivot the sales back on a growth track in 2021. In our view Fellow Finance will still want to continue to seek growth by continuing its international expansion but how much can be achieved will depend on prevailing market conditions, as the Coronavirus pandemic has seen temporary regulation being placed on consumer credit interest rates. The near-term uncertainty is at a clearly more elevate level and as such Fellow Finance as an investment case is currently overshadowed by a higher than normal investment risk.

HOLD with a target price of EUR 2.8 (2.5)

We base our valuation on peer multiples and derive a fair value by comparing both Fellow Finance and its intermediation business and balance sheet lending functions separately. We arrive at a 2021 P/sales multiple of 1.3x, at a discount to the consumer finance companies given differences and faced challenges and above the somewhat chronically underperforming lending platform peers. The 1.3x multiple implies a fair value of EUR 2.78 per share. We adjust our target price to EUR 2.8 (2.5) and retain our HOLD-rating.

Company overview

Leading P2P lending platform in the Nordics

Fellow Finance is a Finnish company operating an international marketplace 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, currently employing some 45 people (H1/2020 average). During its rather short lifetime, Fellow Finance has facilitated financing for over EUR 650m 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, Denmark, Poland, Germany and the Czech Republic. Fellow Finance completed its IPO in October 2018. The company's shares are listed on Nasdaq's First North Finland exchange.

Intermediary pursuing superior user experience

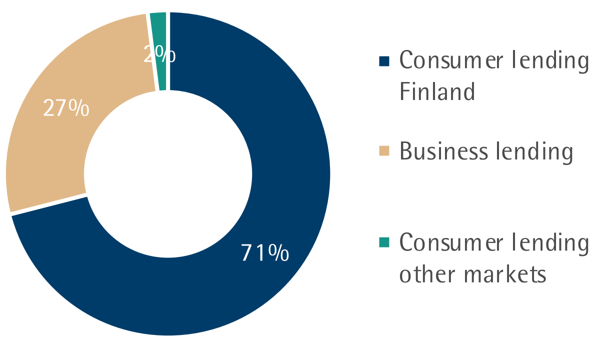
Fellow Finance acts as an intermediary between investors and borrowers in need of funds. The company strives to offer both attractive yields to investors and reasonable rates to borrowers. A fast and effortless user experience is central to the services offered. Fellow Finance competes with lenders, 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 and purchase invoice funding

Consumer loans are the backbone of Fellow Finance's business and they accounted for just above two thirds of the loan volume in September 2020. SME business loans were introduced in 2016 and the offering to companies was extended to invoice funding in 2017. Business financing solutions are currently available in Finland and Sweden, with services expanded to the Czech Republic in June 2020. The volume of business loans represented slightly below a third of the loan volume in September 2020. 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, Sweden and Denmark in 2016, 2017, 2018 and 2019 respectively. International loans represented only 2% of the total loan volume in September 2020.

Figure 1: Split of facilitated loan volume (September 2020)

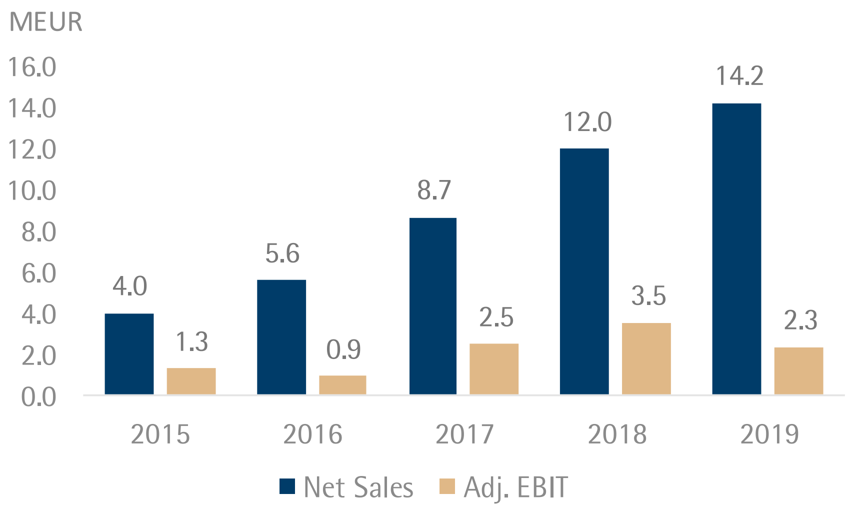


Source: Fellow Finance, Evli Research

Trajectory of sales growth and good profitability reversed by COVID-19

The group's net sales grew 18.7% to EUR 14.2m (12.0m) in 2019 but declined 18.6% in H1/20 to EUR 5.8m (7.2m). The operating profit in 2019 and H1/20 amounted to EUR 1.6m (3.4m) and EUR -0.1m (1.4m), equaling 11.6% and -0.9 % of net sales, respectively. The company has sought to grow aggressively in both in Finland and abroad but a decline in investor demand due to uncertainty caused by COVID-19 saw loan volumes take a hit during H1/20. The company's target has been to grow its business lending and invoice funding business in Finland, as well as grow through international expansion.

Figure 2: Fellow Finance net sales and adj. EBIT 2015-2019



Source: Fellow Finance, Evli Research

Good start but still a lot to prove

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	Weaknesses
• Strong market position • Scalable business model • Technology • Growing underlying market	• Awareness • Dependency on Finland • Small player • Short track record
Opportunities	**Threats**
• Expansion to new markets • Introducing new products • Collaboration • Payment Services Directive	• Foreign competitors • Credit cycle • Adverse regulation • New disruptors

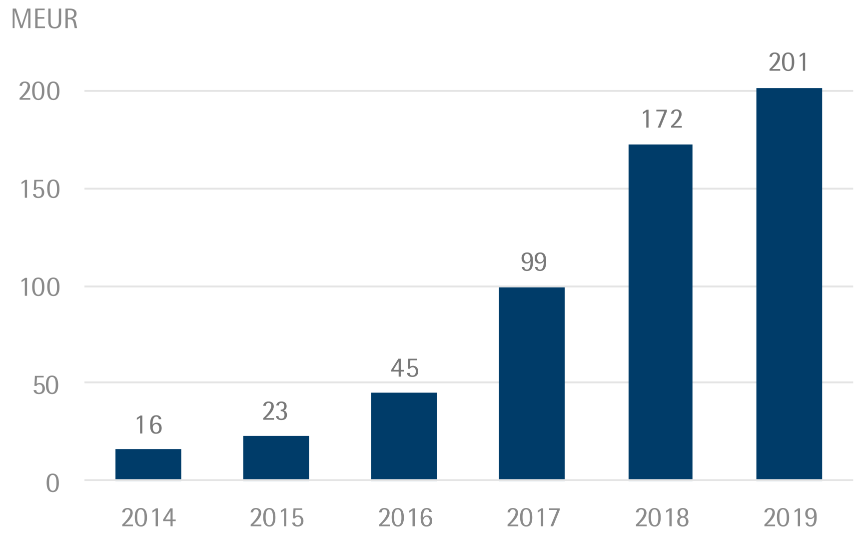
Source: Evli Research

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.

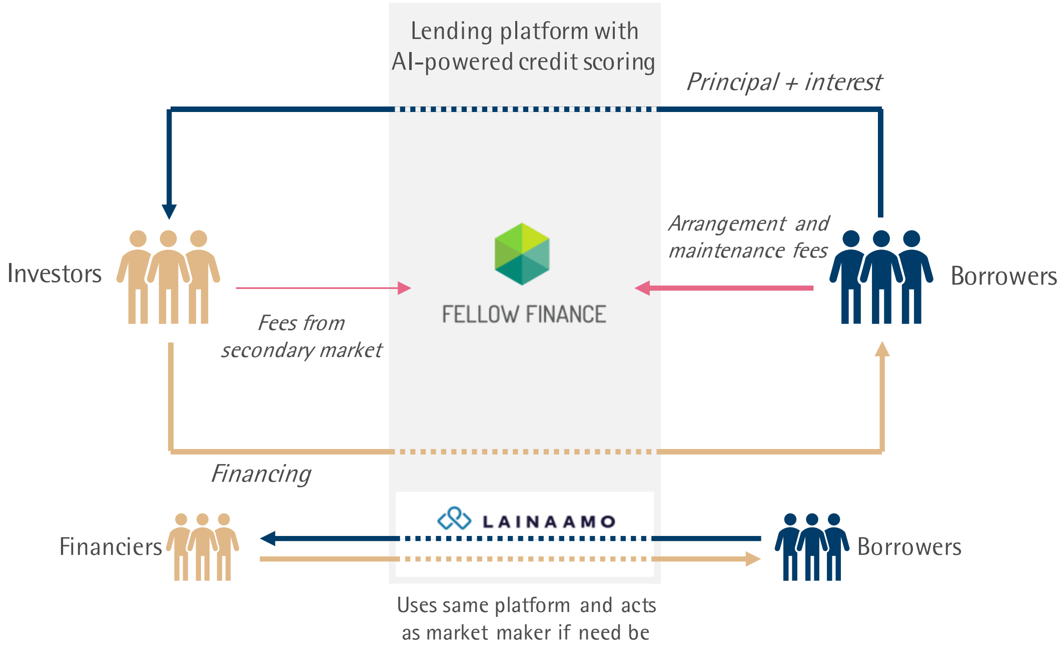
Figure 4: Fellow Finance loans facilitated annually 2014-2019



Source: Fellow Finance, Evli Research

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 the seller is charged a 1% fee. 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

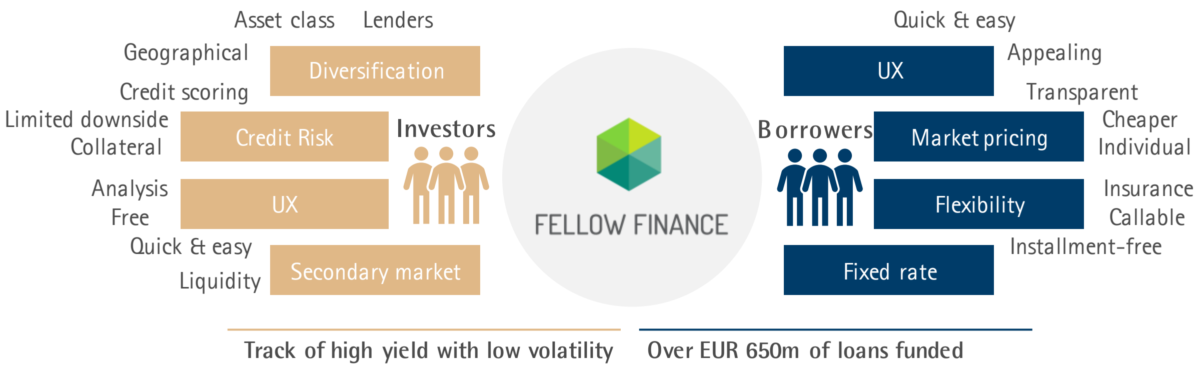


Source: Fellow Finance, Evli Research

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 2m in 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 24.5m at the end of H1/2020. 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



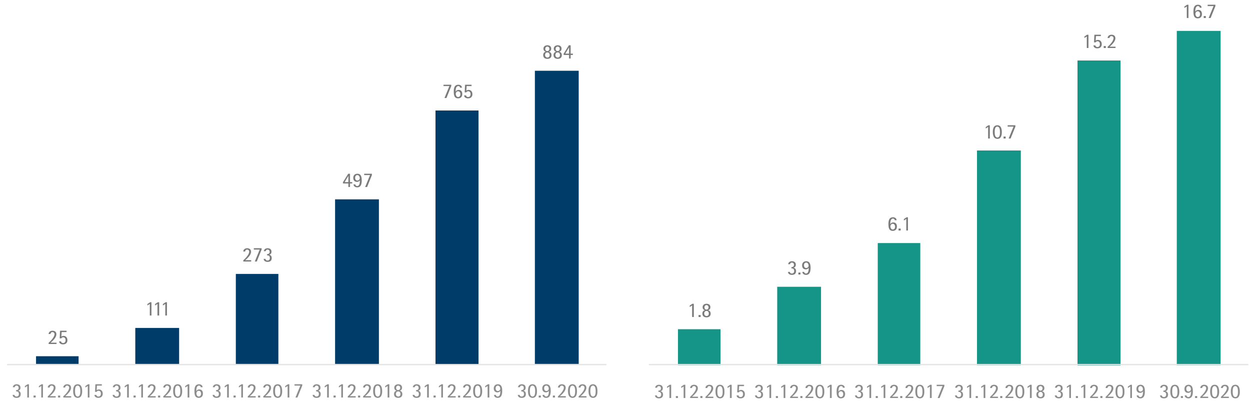
Source: Fellow Finance, Evli Research

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 16,000 investors since its inception and they have, on average, received an annual return of 6-9% depending on market. 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, Evli Research

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 has seen volumes of some EUR 20m in so far during 2020. 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. The Latvian bank Citadele Bank launched a partnership with Fellow Finance in November 2019. Citadele is the first bank in the Baltics which started to invest in consumer loans on a peer-to-peer lending platform. In our view, partnerships like these are a necessary 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 21% of applications are approved and 4% ultimately funded (2020). 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 for the application that the applicant 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 2,000-3,000 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.

Consumer loan interest rates vary between ~11-20%

By 9/2020 the average rates offered to each risk class 1-5 in consumer loans range between 11.3% for the highest quality and 19.9% for the lowest. This is a competitive range when looking at other consumer loan providers. Fellow Finance currently offers consumer loans of up to EUR 20,000 in Finland, DKK 100,000 in Denmark, SEK 500,000 in Sweden, EUR 10,000 in Germany and PLN 20,000 in Poland. The effective interest rate for the borrower is higher, as Fellow Finance for example in Finland charges an origination fee of EUR 150 or max 3.65% of loan capital. In Finland Fellow Finance also charges 2% of interest yield paid for the investor but no monthly fees from the borrower. In other markets the origination fee is typically 4-10% and monthly installment fee of EUR 2-12.

Business loans and invoice funding are available for businesses in Finland, Sweden and the Czech Republic. Business loans of up to EUR 1m/SEK 10m/CZK 150k are offered, with an origination fee of 3.5-4.5% along with a monthly administration fee of 0.084 %.

User acquisition costs

User acquisition costs to a large extent variable

Fellow Finance has a team of 4 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 4.3m in 2019 (30% of net sales or 2.1% 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 credit worthiness analysis. Fellow Finance aims to grow the Finnish business lending business, in particular invoice and purchase invoice funding.

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 the current volumes 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 4.1% during 2015-2019, 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.

Financial targets and strategy

Aims at rapid organic and profitable growth domestically and internationally

Fellow Finance's strategy has been 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

2020 guidance

The company withdrew its guidance March 2020 due to the effect of the coronavirus pandemic on the business environment and the weakened visibility and has not re-issued a guidance since.

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. The AGM resolved that no dividend shall be paid for 2019.

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 more 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.

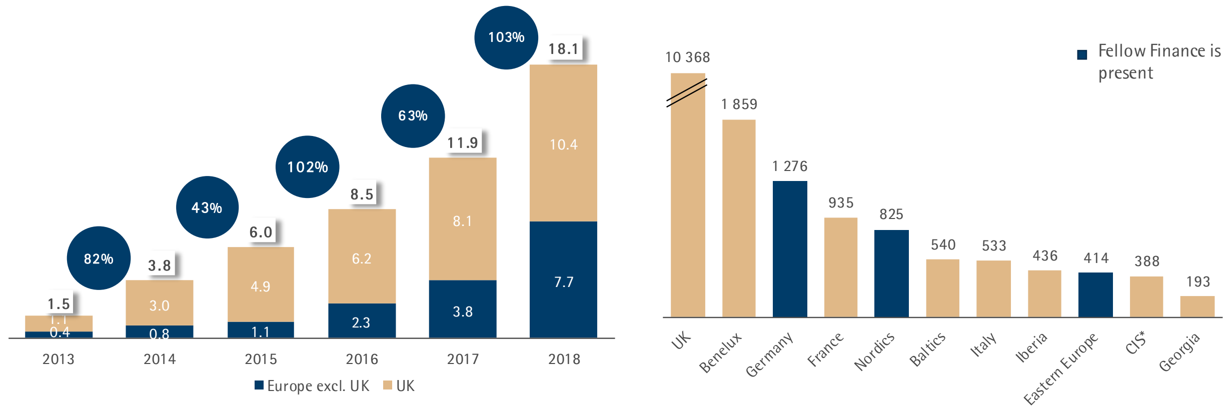
Impressive growth figures in the global alternative finance market

The global alternative finance volumes have grown impressively in the past years. The total volumes amounted to USD 305bn in 2018. The CAGR over the past three years has been some 30%. Growth was particularly impressive up until 2018, when volumes shrank 27%. This can imply that there has been unaddressed supply and demand of funds. It should be noted that 71% of the volumes in 2018 originated from China. (Source: University of Cambridge. The Global Alternative Finance Market Benchmarking Report, 2020)

European market had a volume of USD 18.1bn in 2018

The European market has developed favorably, and total volume reached USD 18.1bn in 2018, with a CAGR of around 65% from 2013. The market in the UK is clearly the largest, with a volume of USD 10.4bn. The UK has a handful of established players with strong market positions. The rest of Europe has been catching up, with the market growing 103% in 2018 to a total volume of USD 7.7bn. On a global level, the by alternative financing volumes measured smaller regions (APAC excl. China, Latin America and Caribbean, Middle East, and Africa) all achieved over 100% growth figures in 2018 compared with 2017. Europe excl. UK matched those regions with a growth of 103%. UK's market share compared to the rest of Europe has been shrinking and it accounted for 57% in 2018 vs. 82% in 2015. (Source: University of Cambridge. The Global Alternative Finance Market Benchmarking Report, 2020)

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

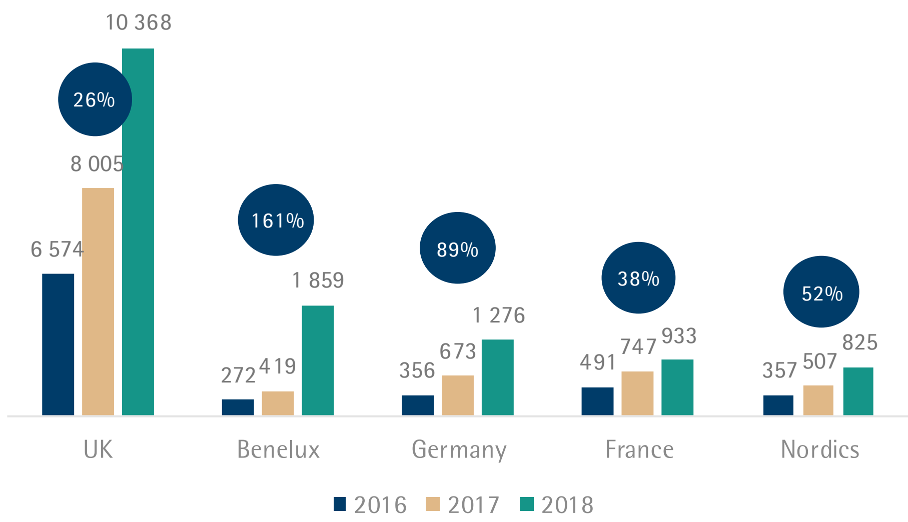


Source: University of Cambridge. The Global Alternative Finance Market Benchmarking Report (April 2020), Evli Research. *CIS: Russia, Belarus, Ukraine, Moldova, Armenia

Fellow Finance's target countries represent some 30% of the European market (excl. UK)

The three largest markets in Europe behind the UK are France, Germany, and the Netherlands, with combined volumes close to USD 4.0bn in 2018. On a per capita basis the UK ranks the highest in Europe with Latvia and Estonia on second and third place. Finland ranks fifth after the Netherlands. The Baltics have become a home to some of the more prominent European-based international P2P lending platforms, contributing to the development both domestically and other developing regions. The Nordics also perform well on the per capita statistics supported by the wealth and highly digitalized societies and high levels of social trust. The combined volume of the countries where Fellow Finance is active in amounted to approximately USD 2.5bn, which would represent some 30% of the European market excl. the UK. (Source: University of Cambridge. The Global Alternative Finance Market Benchmarking Report, 2020)

Figure 10: Market volume and two-year CAGR in largest European alternative finance markets



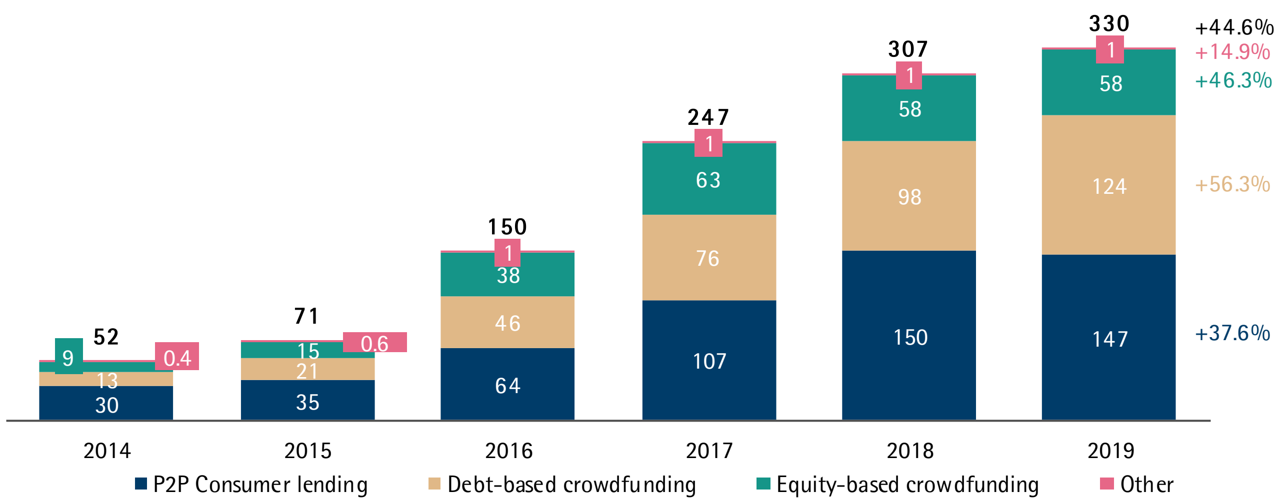
Source: University of Cambridge. The Global Alternative Finance Market Benchmarking Report (April 2020), Evli Research.

Finland

Healthy home market but growth has slowed down

The Finnish alternative finance volumes continued to grow in 2019, albeit at a slower pace. In the Finnish market, which accounts for the majority of Fellow Finance's loan volumes, growth amounted to 7% in 2019 with volumes reaching EUR 330m. Compared to the 2014-2019 CAGR of 44.6%, growth in 2019 was clearly slower. Debt instruments (consumer and business loans), which are offered by Fellow Finance, accounted for 82% of the alternative finance volumes in 2019 and grew 9% y/y. Fellow Finance's market share in Finland of the total alternative financing market was 60.5% in 2019. The share of consumer-based lending and business lending volumes were 91% and 41% respectively. The largest part of the alternative finance market volumes comes from P2P consumer lending, with 2019 volumes of EUR 147m, debt-based crowdfunding with volumes of EUR 124m. (Source: Bank of Finland, Fellow Finance)

Figure 11: Alternative Finance volume in Finland (EURm) and CAGR 2014-2019



Source: Bank of Finland. Crowdfunding and peer-to-peer lending statistics 2019, Evli Research

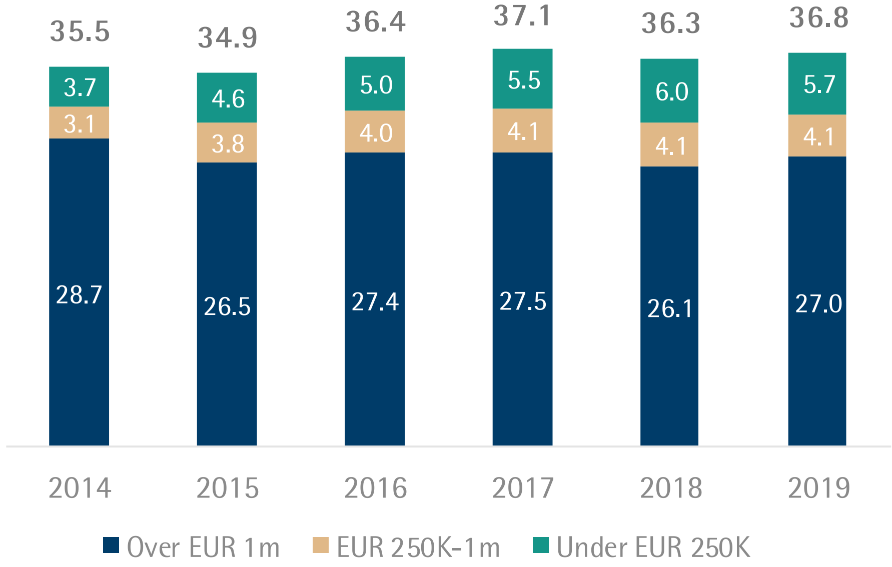
General P2P consumer lending penetration still negligible

Despite the rapid growth, P2P consumer lending still corresponded to around one per cent of the ~EUR 16bn consumer credit market (excl. overdrafts and credit card credit) in Finland and around 2.5% of the unsecured customer credit. Consumer loans have been slightly on the rise as well, and the consumer credit stock in Finland in July 2020 grew by 3% y/y. Household indebtedness has been increasing gradually in the 2000s, which is keeping up demand, and in 2019 approximately 25% of Finns had a consumer loan. At the end of August 2020, the outstanding consumer loan base (excluding mortgages) among Finnish households was around EUR 34bn. (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 36.8bn worth of loan agreements to companies in the Euro-region. Approximately 27% of the loan agreements are below EUR 1m. Fellow Finance issues through its platform business loans for amounts as high as EUR 1m. The total outstanding loan base for Finnish businesses at the end of 2019 was approximately EUR 90bn.

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



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

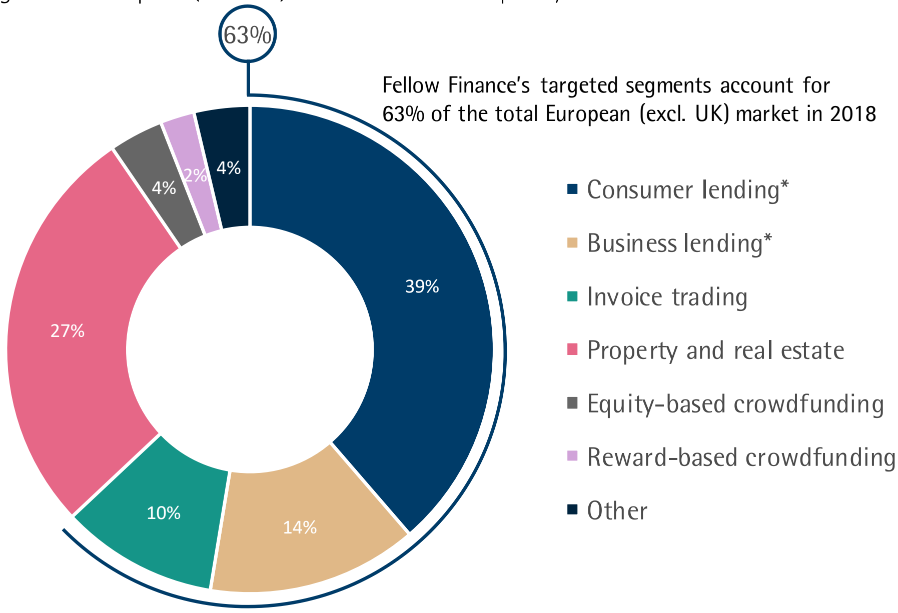
Fellow Finance's offering covers 63% of targeted alternative finance market

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 39%, 14% and 10% respectively. Fellow Finance's offering encompasses these products which account to 63% of the total volume in 2018. Invoice trading has seen rapid growth with volumes in 2018 nearly at ten times the volumes in 2015.

Funding still mostly originates from non-institutional investors

The dominant source of capital within alternative financing in 2018 came from non-institutional investors, with the queried platforms having a weighted average of 71% of volumes funded by non-institutional investors. The institutional rate is highest among invoice trading and business lending, potentially implying that institutional investors may seek to avoid higher risk investments and look for higher potential for project standardization, which is somewhat mitigated by the low institutional rate within for instance P2P consumer lending. When looking at country differences, the institutional rate appears to be lower in higher risk economies and those with exceptionally strong banking sectors. (Source: University of Cambridge. The Global Alternative Finance Market Benchmarking Report, 2020)

Figure 13: European (excl. UK) alternative finance split by model 2018



Source: University of Cambridge. The Global Alternative Finance Market Benchmarking Report (April 2020), Evli Research. *Includes P2P/Marketplace and balance sheet lending

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, regulation specific to crowdfunding may be near to non-existent in other European countries, which makes expansion of operations more is difficult as it requires navigating through local regimes. The EU proposed a framework for alternative lending in 2018, with the implementation procedures still on-going. The aim is to harmonize legislation to support financing of innovative companies in their growth phases. The proposed framework would seek to enable European crowdfunding service providers (ECSP's) to carry out their activities across all member states and intermediate projects from across the EU, as ECSP's face substantial challenges in cross-border expansion in the EU. The harmonization of legislation would further be beneficial in providing a set of rules that create additional trust in the applicability of safeguards, due diligence treatment and levels of scrutiny. This would be a welcome development allowing operating union-wide under EU authorization. (Source: 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 entered fully into effect in 2019. The goal is to increase innovation and competition in payment services previously monopolized by banks, through improved transparency, security and access. Banks are required to open their APIs to allow third-party payment services providers access to account information and initiate transactions. This provides opportunities for 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.

On September 1, 2019 the Finnish consumer loan market was affected by new legislation. To control the growing indebtedness of consumers and increase transparency of lending, the Finnish Parliament capped the effective interest rate of unsecured loans at 20%. The new legislation is expected to weaken interest income of consumer loan providers. According to Fellow Finance, the new legislation caused stronger market disruption than expected, which affected negatively on the company's growth during the second half of 2019. The new legislation is affecting the competitive landscape of P2P lending markets in Finland. The competition has intensified and both loan fees and interest rates have decreased. For instance, one of the Finnish P2P lending services, Lainaaja.fi, stopped offering new consumer loans due to the new legislation. Furthermore, the interest rates of certain unsecured consumer loans were temporarily capped at 10%, effective during 1.7.2020-31.12.2020. The intention of the temporary regulation is to ease the financial situation of consumers due to the coronavirus pandemic and hinder problems arising from indebtedness. The impact of the temporary regulation on competition remains to be seen but Fellow Finance decided to deal with the temporary conditions by compensating investors with the difference of the interest rates and the cap.

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 to larger extents 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 be rather well positioned.

The table below shows a few competitors offering unsecured consumer finance in Finland. With the introduced cap on consumer loan interest rates the differences on min and max interest rates have narrowed and currently do not appear to differ substantially between providers. The overall financing costs when also considering arrangement fees and monthly fees appear to be somewhat less favourable for the lending platform providers but with notable differences between individual providers and fees depending on loan sizes it is hard to draw any conclusions regarding attractiveness on pricing.

Table 1: Selected competitors offering unsecured consumer credit in Finland

	Santander Consumer Finance	banknorwegian	Nordax Bank	S-Pankki	Resurs Bank	collector bank	Bondora	FIXURA	FELLOW FINANCE
Max loan amount (EUR)	50,000	60,000	60,000	50,000	50,000	25,000	10,000	20,000	20,000
Max term (years)	10	15	15	12	12	18	5	6	10
Arrangement fee (EUR)	0-49	45-90	0-89	0	0-95	60	18.25-150	0	36.5-150
Monthly fee (EUR)	6-8	3-5	3-9.9	12.5	3-5	3	1.5-12.5	6-12.5	2-12
Min interest rate	4.57%	5.99%	7.9%	5.99%	7.54%	9.9%	9%	9.9%*	5.0%
Max interest rate	9.47%	9.99%	18.9%	9.99%	10.0%	19.9%	N/A	9.9%	10.0%
Countries present	40+	NOR, SWE, FIN, DEN	SWE, FIN, NOR, DEN, GER	FIN	SWE, FIN, NOR, DEN	SWE, FIN, NOR	EST, FIN, ESP	FIN	FIN, POL, GER, SWE, DEN

P2P lenders

Source: Company websites (situation 30.9.2020), Evli Research. *Declining interest rate structure, possible minimum 2.9%

Leader in Finnish P2P market with limited relevant local challengers

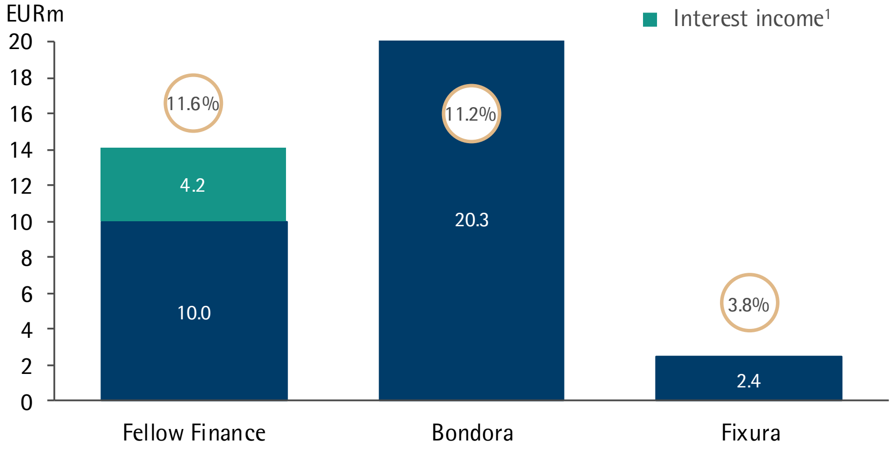
Fellow Finance is the market leader in the Finnish P2P lending market. The company estimates its market share in consumer-based lending to have been approximately 91% in 2019. The second largest Finnish player is Fixura, founded already back in 2010. Fixura has issued a cumulative loan volume of over EUR 107m and had a revenue of EUR 2.4m in 2019 with operating profit of EUR 0.0m. 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 to an increasing extent been used as a market maker rather than for maximizing financing business profits.

Figure 14: Sales and EBIT margin of largest P2P lenders operating in Finland (2019)



Note: [1]Included to adjust for Lainaamo

Source: Company filings, Asiakastieto, Evli Research

Estonian peer Bondora growing aggressively and 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 and grown aggressively and also gained a foothold in the Finnish market. Net sales in Finland grew some 130% to EUR 6.9m in 2019 (EUR 3.0m in 2018) and Finland's share of company's net sales was approximately 34%. Bondora is in a strong growth trajectory, reporting sales of EUR 20.3m in 2019 compared with 10.3m in 2018. The company was also able to greatly improve profitability, reaching an EBIT-margin of 11.2% compared with 1.2% in 2018. In addition to Finland and its main market Estonia, Bondora lends also to consumers in Spain.

Lendify, the largest marketplace lender in Sweden

Lendify is a Swedish lending platform which has also been seeing solid growth figures in recent years. Its loans issued grew more some 70% in 2019. The company's net sales grew 103% to SEK 130m in 2019 compared to the previous fiscal year. Profitability is still weak with focus on investments leading to an operating loss of -49%. Lendify has been able to attract rather significant equity investments from local venture capitalists. According to Crunchbase, Lendify has raised a total of SEK 4.0bn in funding (both equity and debt) from a total of 13 rounds. For now, Lendify's goals are in consumer loans and on the Swedish market, which limits the threat it could pose 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. Lendify also serves as an example for possible valuation multiples in the alternative financing market. In its most recent financing round Lendify raised SEK 148m, valuing the company at SEK 1500m (pre-money). On 2019 figures this would imply a sales multiple of over 10x, keeping in mind that the company is still quite far from profitability.

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)	>50,000	>10,000	>600	>380	>200	>100
Sales 2019 (EURm)	~700	~179	14.2	20.3	~12	2.4
Growth 2019	9%	18%	19%	96%	103%	-7%
EBIT margin 2019	neg.	neg.	11.6%	11.2%	neg.	3.8%
Countries	USA	GBR, GER, NLD, USA	FIN, GER, POL, SWE, DEN	EST, FIN, ESP	SWE	FIN
Consumers loans	✓		✓	✓	✓	✓
Business loans	✓	✓	✓			
Invoice funding			✓			
Secondary market	✓	✓	✓	✓	✓	
Max consumer loan (EUR)	~35,000	N/A	20,000	10,000	48,000	20,000
Investor returns (historic)	~4-7%	4.5-6.5%	6-9%	9.5%	5.5%	6.25%

Source: Company filings and websites, Evli Research

Funding Circle one of the biggest public European platforms

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 1.6bn. The valuation implies a multiple of 13.7x LTM (7/17-6/18) sales. The company is still far from healthy profitability, with an operating loss of GBP 84.7m on net income of GBP 167.4m in 2019. P2P business platform Lending Club was valued at a staggering market cap of over USD 9bn after its IPO in late 2014 with LTM sales of USD 211m. The story has not been as rosy, as the company's market capitalization was approximately USD 500m in September 2020. 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. Similarly, Funding Circle has also not performed as expected since its IPO and its market cap had fallen to around GBP 300m in September 2020.

Financial performance

Track of rapid sales growth while maintaining good profitability

The net sales of Fellow Finance have grown rapidly over the past four years with a CAGR of 37%. The net sales of the company were EUR 14.2m in 2019, amounting to a 19% increase compared to 2018. Revenue comprises of two components: fee income and interest income from Lainaamo's balance sheet lending business. The share of fee income was 71% and interest income 29% of net sales in 2019. Fellow Finance's growth in recent years has mainly been attributable to consumer lending in Finland, which represents the largest share of loan volumes. The company's international operations have also contributed to growth, but growth has not been quite as good as anticipated. 2019 was a somewhat challenging year, as the growth in loan volumes slowed down considerably during the year and growth in the second half of the year was essentially negative. Growth was affected by the introduced 20% cap on consumer loan interest rates and increased competition in the consumer lending space in Finland and business lending volumes also did not fair as well as in the first half of the year.

Sales growth has slowed down since H2/2019 and declined clearly during H2/2020 due to COVID-19

2020 brought increasing challenges for Fellow Finance due to the impact of the coronavirus pandemic. Facilitated loan volumes declined in Q2 to an average level of around EUR 9m per month from the Q1 levels of around EUR 14.5m as investor demand declined following the increased uncertainty. Loan volumes were also to some extent affected by temporary regulation on consumer lending interest rates in Poland, while similar regulation was introduced in Finland from the 1.7.2020. The impact on loan volumes in Finland due to the regulation is not expected to be substantial as Fellow Finance will compensate investors with the difference between the interest rate cap and actual interest rate. Following the decline in loan volumes during Q2 Fellow Finance's H1/2020 net sales declined 20% y/y to EUR 5.8m.

Figure 15: Net sales and EBIT margin

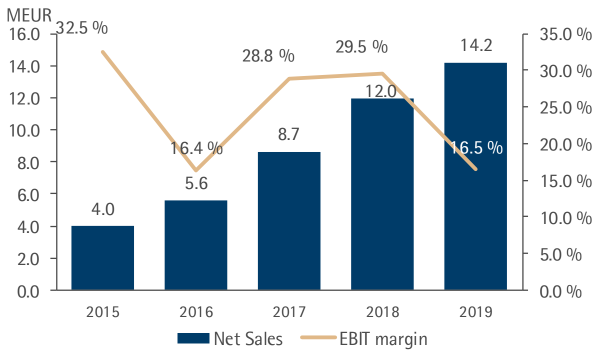
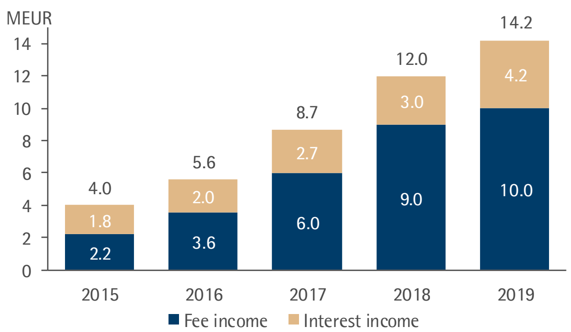


Figure 16: Net sales breakdown



Source: Fellow Finance, Evli research

Good profitability supported by balance sheet business

The company has been able to operate profitably despite the rapid growth. When looking at other P2P lending platforms, the EBIT margin of 28-29% that Fellow Finance was able to achieve during 2017-2018, is clearly an outlier. Lainaamo's contribution is also partly 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 11% of net sales in 2019 and has amounted to approx. 7.5% of interest-bearing debt. As the platform gains ground, the relevance of this would decrease, as according to management Fellow Finance is not actively seeking to expand the financing business. The exact contribution of the balance sheet lending is hard to estimate, as Fellow Finance includes credit loss provisions in other operating expenses and has not specified the amounts.

Margins declined in 2019 following suboptimal performance

In 2019 the group's adj. EBIT margin was 16.5%. The decline in margins compared with 2018 can be largely attributed to the somewhat meagre sales growth and a growth in bad debt provisions (included in P&L) due to international expansion. When expanding new markets, the marketplace is typically not operating efficiently due to lack of data and investors and Lainaamo's balance sheet funding will play a larger role in financing new loans. As such Fellow Finance will typically increase provisions in these early stages and have them rolled out over a longer time period.

Earnings in the red in H1/2020

During H1/2020 Fellow Finances's profitability took a dip to EUR -0.1m (H1/19: EUR 1.4m). Net earnings fell to EUR -0.7m (H1/19: EUR 0.4m). The decline in profitability was due to the lower revenue following the uncertainty brought by the coronavirus pandemic.

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 the end of H1/2020, the non-current assets consisted of a mere EUR 774 thousand of intangible assets, mostly software, and EUR 123 thousand of PP&E. The largest individual balance sheet items are some EUR 17.3m in loan receivables paired with some EUR 15.9m in external interest-bearing debt. Fellow Finance's equity ratio has increased from below 20% to over 40% after the IPO and due to a positive financial performance.

Figure 17: Balance sheet at the end of H1/2020

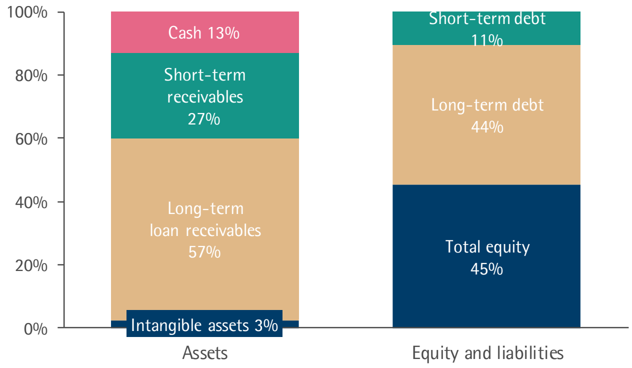
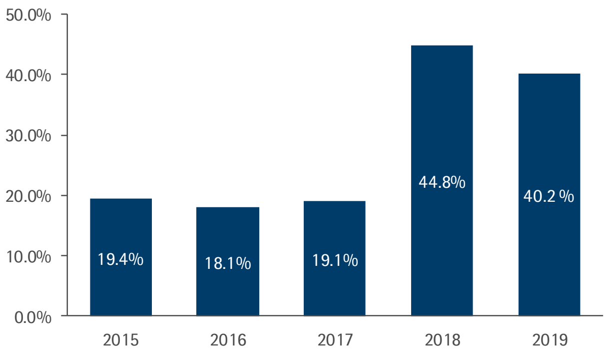


Figure 18: Equity ratio 2015-2019



Source: Fellow Finance, Evli Research

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 premise rents, IT expenses and credit losses and credit loss provisions.

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 0.42m in 2019. 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 13.6% in 2015 to 6.2% in 2019.

Figure 19: Cost structure 2015-2019

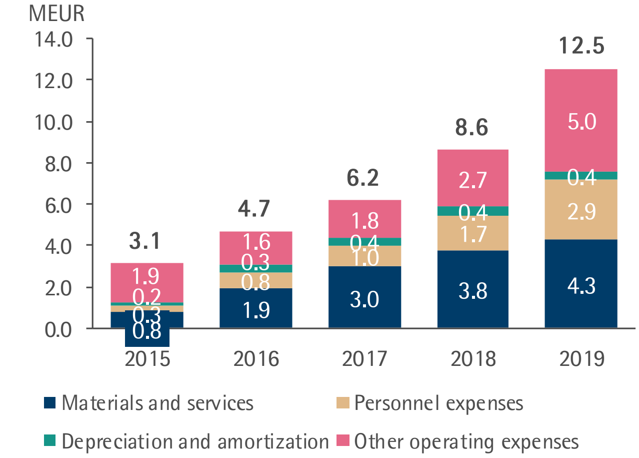
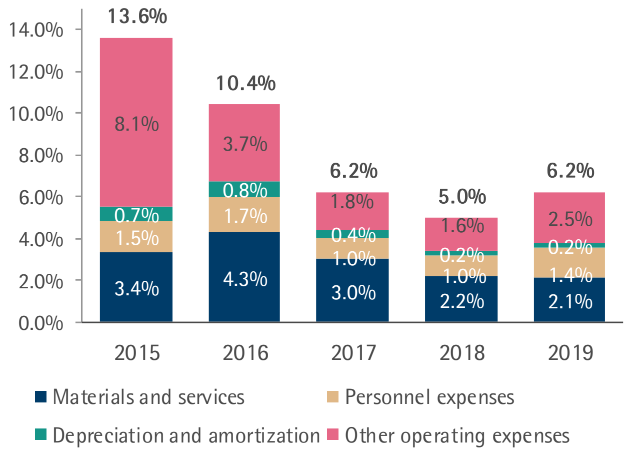


Figure 20: Cost structure 2015-2019 (as % of loans issued)



Source: Fellow Finance, Evli Research

Estimates

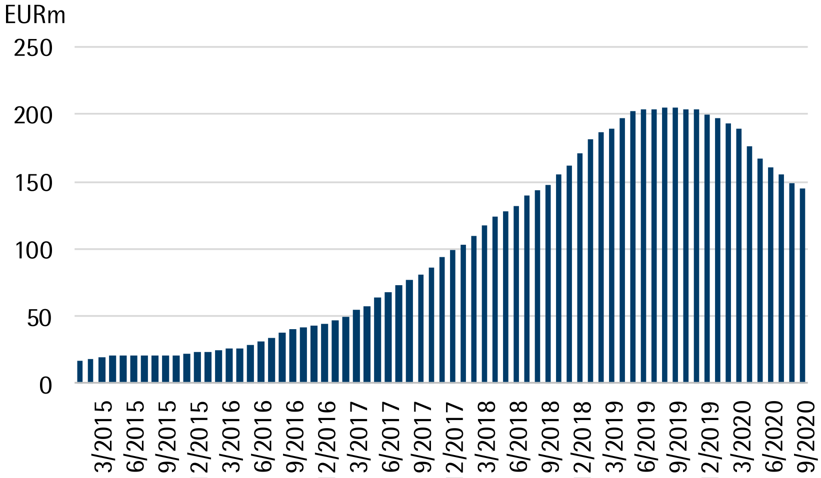
H1/20: 20% sales decline causing hit to profitability

During H1/20 Fellow Finance's net sales declined around 20% y/y and amounted to EUR 5.8m, of which close to 60% came from commission income. The commission income took a hefty hit due to the coronavirus pandemic and the uncertainty it caused on investor sentiment, declining by some 40% y/y. Intermediated loan volumes also fell close to 40% y/y. Interest income saw healthy growth of some 30%. H1/20 adj. EBIT amounted to EUR -0.1m, clearly below the profitability levels seen in the past years, during which adj. EBIT-margins have typically been north of the 20% mark. Profitability was affected by the decline in intermediated loan volumes but also by the high level of credit loss provisions due to the more recent new market entries.

H2/20E: Expect 22% sales decline y/y, to EUR 5.5m, on EUR 61m intermediated loan volume

During H2/20E we expect the unfavourable intermediated loan volume trend seen during the first half of the year to continue, leading to a sales decline of around 22% and net sales of EUR 5.5m. We expect intermediated loan volumes to amount to EUR 61m, some 33% below H2/19 levels. Volumes during Q3 saw some relief towards the end of the quarter, with the intermediated loan volume in September rising to EUR 10.8m from the approx. EUR 9m levels seen during previous months but is still far of the 2019 average of around EUR 17m. We expect interest income to grow by 11% from the comparison period and amount to EUR 2.5m.

Figure 21: Cumulative intermediated loan volumes, rolling 12m



Source: Fellow Finance, Evli Research

H2/20E: Expect adj. EBIT of EUR 0.2m, lower volumes continue to impact profitability

We expect an adj. EBIT of EUR 0.2m in H2/20E. The profitability should improve slightly from H1/20, as the impact of credit loss provisions should be lower due to the new market expansion having been set more on hold. With the weaker loan volumes, the adj. EBIT-% will still be below comparison period figures, with our estimate at 3.3% vs. 14.0% in H2/19.

2020E: 20% sales decline and barely positive adj. EBIT due to volume declines

For 2020E we expect net sales and adj. EBIT of EUR 11.3m (2019: EUR 14.2m) and EUR 0.1m (2019: EUR 2.3m) respectively. Fellow Finance has not given a guidance for 2020. Our full-year figures reflect an approx. 35% decline in intermediated loan volumes compared to 2019, resulting in a decrease in commission income of similar magnitude. The impact on net sales is mitigated by an increase in interest income, which we estimate to be approx. 20% in 2020, with interest income estimated to account for around 45% of net sales. Profitability is mainly affected by the lower net sales. Broker commissions decrease in line with volume declines, providing some aid for the cost structure, while other operating expenses should be lower in H2 than in H1 due to lower credit loss provisions.

Table 3: Fellow Finance estimates summary

Fellow Finance	2018	H1/'19	H2/'19	2019	H1/'20	H2/'20E	2020E	2021E	2022E
Net sales	**12.0**	**7.2**	**7.0**	**14.2**	**5.8**	**5.5**	**11.3**	**15.3**	**18.7**
sales growth, %	*38%*	*30%*	*10%*	*19%*	*-20%*	*-22%*	*-20%*	*35%*	*22%*
Fee income	9.0	5.3	4.7	10.0	3.3	3.0	6.3	10.2	13.5
Interest income	3.0	1.9	2.2	4.2	2.5	2.5	5.0	5.1	5.2
Facilitated loans	172	109	92	201	69	61	130	200	265
change, %	*74%*	*43%*	*-4%*	*17%*	*-37%*	*-33%*	*-35%*	*54%*	*33%*
Expenses									
Materials and services	-3.8	-2.3	-2.0	-4.3	-1.4	-1.3	-2.7	-4.2	-5.6
as % of facilitated loans	*2.2%*	*2.1%*	*2.1%*	*2.1%*	*2.0%*	*2.1%*	*2.1%*	*2.1%*	*2.1%*
Personnel expenses	-1.7	-1.0	-1.8	-2.9	-1.1	-1.1	-2.2	-3.0	-3.5
Other op. expenses	-2.7	-2.3	-2.6	-5.0	-3.1	-2.7	-5.8	-5.5	-5.8
D&A	-0.4	-0.2	-0.2	-0.4	-0.2	-0.2	-0.5	-0.5	-0.4
EBIT	**3.4**	**1.4**	**0.3**	**1.6**	**-0.1**	**0.2**	**0.1**	**2.1**	**3.5**
EBIT margin	*28.1%*	*19.0%*	*3.9%*	*11.6%*	*-0.9%*	*3.3%*	*1.2%*	*13.7%*	*18.4%*
Adj. EBIT	**3.5**	**1.4**	**1.0**	**2.3**	**-0.1**	**0.2**	**0.1**	**2.1**	**3.5**
Adj. EBIT margin	*29.5%*	*19.0%*	*14.0%*	*16.5%*	*-0.9%*	*3.3%*	*1.2%*	*13.7%*	*18.4%*

Source: Evli Research

Temporary cap on interest rates putting pressure on volumes

We see that Fellow Finance is currently in a somewhat tricky spot following the decline in investor demand due to the coronavirus pandemic, the temporary regulations impacting both domestic and international markets and a more challenging competitive landscape. These elements have in turn created an increased uncertainty for the coming years and visibility, which was not very good even before the pandemic, has declined further. An unwanted but not completely surprising effect of the temporary regulations in the Finnish consumer lending market appears to have been a decline in volumes but not in the way that was anticipated. The original intention of the interest rate cap was for individuals to have access to credit at lower interest rates. However, as consumer lending follows a risk-return pattern the interest rate should have and has reduced the number of individuals that should be eligible for credit and opposite to the original intentions the low interest rates seems to enable credit only for the least risky cases, i.e. individuals who are also more unlikely to need the credit, and credit for those previously needing it may no longer be available. This was already seen to when the 20% interest rate cap was implemented in the latter half of 2019. The implemented regulation, aimed at limiting unsecured consumer lending, led to several domestic actors having to close shop only to be replaced by foreign actors and volumes continuing to grow. The effects of earlier regulation, in particular the cap on "microloans" in 2013, has been an increase in loan sizes, which has also been a clearly contributing factor in continued growth in volumes.

Competing at unequal terms

The time period after the implementation of the 20% interest cap in 2019 has also seen a clear increase in competition from other Nordic consumer lenders. With several already quite well-established domestic players not able to continue operations under the new regulation these competitors have sought to aggressively take market share and grow volumes. It has been unclear whether the competitors are able to continue with such approaches especially with the further limitations from the temporary regulation set in 2020. One important factor to note is the different sources of financing and the costs of said financing. Fellow Finance is in some sense at a disadvantage to for instance retail banks competing in the same sphere as the cheaper source of capital should reduce yield requirements. Fellow Finance's funding comes from private and institutional investors and the funding on loan applications will be dependent on expected returns. Fellow Finance essentially competes for funding by seeking to create attractive returns for investors while at the same time balancing out the interest paid by borrowers, as too high rates would not attract lenders. As investors can choose from a plenitude of asset classes, if the expected returns offered by Fellow Finance are unattractive in comparison to for instance expected stock market returns, investor can simply choose to switch to the more attractive asset class. This was already seen in the first half of 2020, as the sharp decline in stock markets led investors to shift funds to stocks instead. With stocks now having returned much closer to pre-corona levels signs of increased demand for the loans intermediated by Fellow Finance have been seen.

Some uncertainty in how temporary the temporary regulation will be

A big question mark for the near future and a potential cause for concern is whether or not the Finnish government will seek to extend the temporary regulation in its current form or some less limiting version, as a possible continuation in a stricter form is in our view very unlikely. We have currently not identified any visible signs of the regulation being continued but as the situation with the Coronavirus has again taken a turn toward the worse during the early autumn, we entertain the thought of a possible continuation of the regulation. Fellow Finance has so far avoided the impacts of the regulation by compensating investors with the difference between the interest rate cap and the interest rates at which the loans are funded, but this of course is not an optimal long-term solution. If the regulation were to be continued, without such actions we would expect Fellow Finance's intermediated loan volumes to decline clearly.

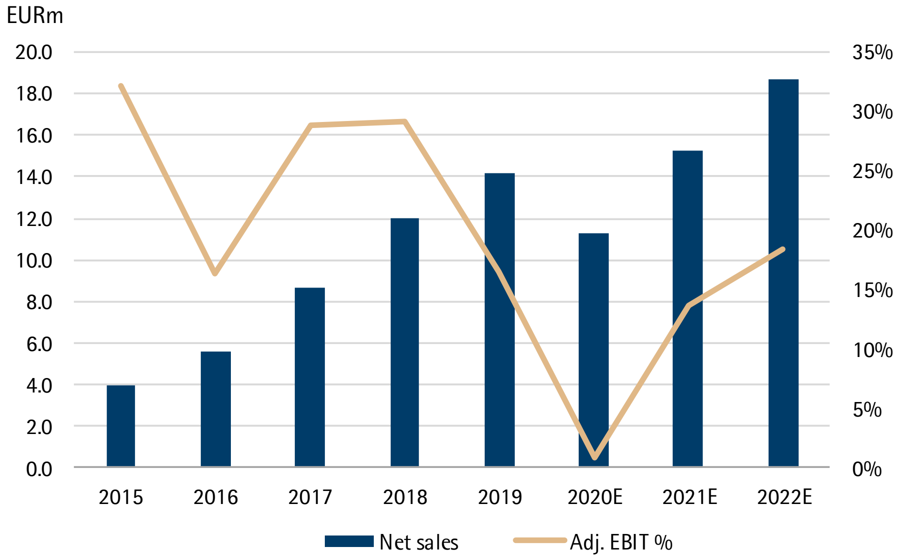
Long-term growth prospects still good despite short-term weakness

Although the short-term growth prospects are rather challenging, we still see that Fellow Finance and the alternative financing market in general have good growth potential in the long run. A need for consumer and business lending will continue to exist, with the pandemic also quite unfortunately having increased the need for temporary funding for individuals working in hard struck industries. Ease of access is still an important driver for individuals seeking credit and many players in the alternative financing sector have been forerunners in the ability to digitally provide rapid financing for those in need of and eligible for funding. The penetration rate of alternative financing providers such as Fellow Finance is still very low. Big growth potential lies in the hand of institutional investors, individual investors are measured by volume still the main providers of funding for the intermediated loans. Institutional investors have been starting to catch on, as intermediated loan portfolios can potentially provide superior returns compared with other asset classes and the possibilities for product standardization are rather attractive as well.

Expect to see volume rebound and growth picking up

We expect growth to accelerate pick up in the coming year following the expected meager figures for 2020. Fellow Finance has before the pandemic invested in and begun ramping up operations in new countries, but the Coronavirus pandemic put a halt to further scaling. Growth is driven primarily by investor's demand and could potentially pick up quite rapidly if the asset class's attractivity increases relative to others. on the back of growth in the Finnish business lending and the other markets starting to scale up. The Finnish consumer lending market will continue to be challenging as long as the foreign competitors are able to sustain the aggressive competition and we expect relative growth in the coming years, excluding the expected volume rebound in 2021, to originate from lending in the new markets. Business lending in Finland is also gaining traction due to growth in invoice and purchase invoice funding and we expect solid growth in these, although absolutely speaking the impact is still small.

Figure 22: Fellow Finance's net sales and adj. EBIT % development and Evli estimates



Source: Fellow Finance, Evli Research

We estimate a 2020E-2023E sales CAGR of 28%

Fellow Finance has in its financial targets set a target for achieving net sales of EUR 80m in 2023. The targets were set in 2018 and have not been updated since. Fellow Finance's progress in the past years has been rather bumpy and the current target would in our view be virtually impossible to achieve. We expect to see an update to the company's strategy and financial targets in the near-term given the challenges in achieving current targets and recent changes in management. We expect a roughly 28% net sales CAGR between 2020E-2023E, although part of the growth is attributable to a rebound in volumes from the meager 2020 (2019-2023E CAGR 13%).

Volume pick-up to support margin improvement

Historically, Fellow Finance has been able to achieve impressive profitability given the simultaneous rapid growth, with EBIT-margins of close to 30%. More lately, profitability has been negatively affected by growth investments and weaker than anticipated loan volume development. Despite growth setbacks, we remain confident that Fellow Finance will still be looking to grow fairly aggressively in the coming years, when possible, which will show in margins. Partly this is visible through increases in credit provisions when scaling up new markets and partly through other up-front growth investments. We still expect margins to remain relatively healthy, with 2021E-2023E EBIT-margins within the 10%-20% mark, as growth can still be achieved with relatively little investment due to the scalability of the platform and the proportionate share of fixed costs to decrease with loan volumes expected to pick up.

Valuation

HOLD with a target price of EUR 2.8 (2.5)

We base our valuation on peer multiples and derive a fair value by comparing both Fellow Finance and its intermediation business and balance sheet lending functions separately, described in more detail in the rest of this section. We arrive at a 2021 P/sales multiple of 1.3x, at a discount to the consumer finance companies given differences and faced challenges and above the somewhat chronically underperforming lending platform peers. The 1.3x multiple implies a fair value of EUR 2.78 per share. We adjust our target price to EUR 2.8 (2.5) and retain our HOLD-rating.

The development of Fellow Finance's share price has not exactly been favourable as the company completed its IPO in October 2018 with a subscription price of EUR 7.73 per share and the price has since declined to EUR 2.89 (22.10.2020 closing price). With a good growth and profitability potential expectations were high but the challenges faced since the latter half of 2019 negatively affected the company's development. With the share price decline valuation now mainly consists of the company's financial assets through Lainaamo and the intermediation business has declined. As it is difficult to derive the exact profitability of the balance sheet lending operations and the intermediation operations, for sake of reference we derive valuation multiples for the intermediation business based on current valuation and our estimates below.

Evli estimates	2019	2020E	2021E	2022E
Facilitated loans	201	130	200	265
Revenue	14.2	11.3	15.3	18.7
-Fee income	10.0	6.3	10.2	13.5
EBIT	1.6	0.1	2.1	3.5

Based on the loan receivables at the end of H1/2020 of EUR 24.5m and H1/2020 net debt of around EUR 12.5m, a baseline value of EUR 12.5m for the balance sheet lending could be derived. Given that the balance sheet lending functions are mainly oriented towards facilitating entries into new markets it could be argued that the risk level of the loans invested into is high, as the platform builds up enough data to form more efficient pricing of loans, and a discount should be used for the asset value. As a second approach, we use the historical annual return of 6-9% achieved by Fellow Finance's investors on Lainaamo's loan book and using the 5.75% coupon on Fellow Finance's bond we would arrive at a mid-point P/E of roughly 20x, which appears too high given that returns would likely be closer or below the lower end of the return range given the type of loans. Assuming a EUR 10m-12.5m range for the balance sheet lending business and a market cap of EUR 20.7m (22.10.2020 closing price), the implied value of the loan intermediation business or the platform itself would be EUR 8.2m-10.7m. Using our 2020-2021E for fee income this would imply P/sales ranges for 2020 and 2021 of 1.3-1.7x and 0.8-1.05x respectively.

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. As with Fellow Finance, these companies have in general performed weaker than expected in recent years and have seen share prices decline considerably. The companies are also not expected to be notably profitable in the near-term. Given the limited number of exchange-listed lending platforms we have also added three other peer groups for comparison: consumer finance companies, alternative consumer & SME lending companies and payment processing & platform companies.

The payment processing & financing platform companies are generally by size considerably larger and have among the highest profitability and sales growth expectations and as a result are also clearly in a different league on multiples. In our view the P/E multiples of these peers are more representative of what would be reasonable for Fellow Finance if it had been able to maintain its earlier sales growth and profitability track.

The consumer finance companies show a similar trend on average as we expect for Fellow Finance. The year 2020 is expected to be weaker, with revenue declines and weaker profitability, followed by improvement in 2021. The alternative consumer & SME companies appear to be somewhat capped on growth and profitability potential and hence multiples are overall below the other peer groups. Enova recently acquired On Deck Capital, which explains the sales jump in 2021. Based on our current view of Fellow Finance, we lean towards the multiples exhibited by the consumer finance companies as a benchmark. In deriving our valuation, we further take into account several factors. Fellow Finance has been able to achieve even higher profitability than we have estimated for the coming years and as such we do not consider the profitability improvement expectations close to unreasonable, but market conditions have changed in the recent year and as such a higher risk is associated with the estimated improvement. On our estimates Fellow Finance will also not show healthy net income figures before 2022 and we do not expect dividends to be paid during 2020-2021. As a primarily intermediation focused company the lower counterparty risk should work in Fellow Finance's favour but with the company's current loan volumes interest income is near half of the company's revenue. Fellow Finance is essentially also still quite an early stage company given it's plans of international expansion and by size also clearly smaller than peers. On a positive note the more recent figures for intermediated loan volumes have shown a positive trend, creating some increased confidence in the turnaround.

2020 should be an exceptional year and our 2021 estimates should be more representative of what Fellow Finance should be able to accomplish. Granted, the visibility currently is challenging, which also should affect multiples. Ultimately, we consider a 25-30% discount to the P/sales multiples exhibited by the consumer finance companies to be reasonable, corresponding to a P/sales of approx. 1.25-1.35x. Due to the nature of Fellow Finance's business we have excluded enterprise value based multiples and with earnings during 2020-2021 on our estimates expected to be low or negative we are left with P/sales multiples. Using a 1.30x 2021 P/sales multiple we arrive at a fair value of EUR 2.78 per share. Using the earlier breakdown of the loan intermediation and balance sheet lending businesses this would imply P/Sales multiples for 2020 and 2021 of 1.2-1.6x and 0.75-1.0x respectively for the former which is on the lower side compared with the consumer finance companies but given recent challenges and future uncertainty not completely unreasonable. The multiples range is also much more in line with the lending platforms and as such certainly justifiable.

Table 4: Valuation multiples for selected peer groups

CONSUMER FINANCE COMPANIES	Ticker	MCAP MEUR	P/E 20	P/E 21	P/Sales 20	P/Sales 21	Sales gr. 20	Sales gr. 21	Net income margin 20	Net income margin 21
Santander Consumer USA	SC US	5664	52.4x	14.6x	0.8x	0.8x	7.1%	1.4%	0.1%	6.5%
Synchrony Finl	SYF US	13801	15.4x	8.6x	1.4x	1.3x	-18.3%	7.4%	7.5%	13.4%
Discover Fn Svc	DFS US	17140	25.8x	9.7x	1.8x	1.8x	-0.7%	4.0%	3.8%	14.6%
American Express	AXP US	71336	30.0x	15.4x	2.3x	2.1x	-13.6%	10.7%	7.3%	13.3%
Capital One Financial	COF US	29632		9.4x	1.3x	1.2x	-4.9%	2.4%	-4.0%	11.3%
Norwegian Finans Holding	NOFI NO	1157	6.9x	7.2x	2.2x	2.2x	11.1%	-0.7%	31.7%	29.9%
Peer Group Average		42586	**19.5x**	**10.0x**	**1.8x**	**1.7x**	**-5.3%**	**4.8%**	**9.3%**	**16.5%**
Peer Group Median		5596	**20.6x**	**9.4x**	**1.8x**	**1.8x**	**-4.9%**	**4.0%**	**7.3%**	**13.4%**

ALTERNATIVE CONSUMER/SME LENDING COMPANIES	Ticker	MCAP EUR	P/E 20	P/E 21	P/Sales 20	P/Sales 21	Sales gr. 20	Sales gr. 21	Net income margin 20	Net income margin 21
Elevate Credit	ELVT US	93	5.3x	17.0x	0.2x	0.2x	-41.3%	5.1%	2.0%	0.6%
OneMain Holdings	OMF US	4145	9.8x	7.1x	1.3x	1.4x	5.3%	-2.7%	12.0%	16.7%
Enova International	ENVA US	529	5.4x	4.3x	0.7x	0.5x	-16.4%	27.3%	8.0%	8.8%
Regional Management	RM US	204	17.2x	7.7x	0.7x	0.6x	10.5%	4.8%	3.6%	8.8%
Peer Group Average		**1243**	**9.4x**	**9.0x**	**0.7x**	**0.7x**	**-10.5%**	**8.6%**	**6.4%**	**8.7%**
Peer Group Median		**366**	**7.6x**	**7.4x**	**0.7x**	**0.6x**	**-5.6%**	**4.9%**	**5.8%**	**8.8%**

PAYMENT PROCESSING & FINANCING PLATFORMS	Ticker	MCAP EUR	P/E 20	P/E 21	P/Sales 20	P/Sales 21	Sales gr. 20	Sales gr. 21	Net income margin 20	Net income margin 21
Green Dot	GDOT US	2648	32.4x	26.3x	2.8x	2.6x	4.6%	5.0%	3.5%	5.9%
Global Payments	GPN US	44509	27.7x	22.1x	7.8x	6.9x	63.2%	12.4%	10.6%	19.6%
WEX	WEX US	5528	22.4x	17.4x	4.1x	3.7x	1.7%	10.5%	7.4%	11.7%
GreenSky	GSKY US	342	27.1x	13.4x	1.8x	1.6x	26.0%	13.5%	4.8%	10.7%
PayPal Hldgs	PYPL US	202301	54.6x	44.7x	11.2x	9.4x	34.3%	19.4%	14.7%	14.3%
Mastercard	MA US	282354	50.0x	38.5x	21.4x	17.9x	1.5%	19.0%	42.2%	45.8%
Visa	V US	356201	38.0x	32.5x	18.9x	16.9x	4.2%	11.5%	50.6%	52.7%
LendingTree	TREE US	3827		187.9x	5.1x	4.2x	12.2%	21.2%	-0.7%	4.4%
Fidelity Natl Info Svcs	FIS US	21	26.0x	21.3x	7.0x	6.5x	43.1%	8.4%	4.5%	11.0%
Peer Group Average		**99748**	**34.8x**	**44.9x**	**8.9x**	**7.7x**	**21.2%**	**13.4%**	**15.3%**	**19.6%**
Peer Group Median		**5528**	**30.0x**	**26.3x**	**7.0x**	**6.5x**	**12.2%**	**12.4%**	**7.4%**	**11.7%**

LENDING PLATFORMS	Ticker	MCAP EUR	P/E 20	P/E 21	P/Sales 20	P/Sales 21	Sales gr. 20	Sales gr. 21	Net income margin 20	Net income margin 21
On Deck Capital	ONDK US	91		18.3x	0.3x	0.6x	-25.8%	-36.6%	-19.8%	2.2%
LendingClub	LC US	301			1.2x	0.7x	-59.8%	78.9%	-70.8%	-1.6%
Funding Circle Holdings	FCH LN	284			1.6x	1.3x	5.0%	25.1%	-32.6%	-16.4%
Peer Group Average		**225**	**-**	**18.3x**	**1.1x**	**0.8x**	**-26.9%**	**22.5%**	**-41.1%**	**-5.3%**
Peer Group Median		**284**	**-**	**18.3x**	**1.2x**	**0.7x**	**-25.8%**	**25.1%**	**-32.6%**	**-1.6%**

Source: FactSet, Evli Research

Risks

The main risks to our investment case are:

1) Competitive pressure from foreign players: Nordic consumer lending companies have grown aggressively recently in the Finnish market and could chip at Fellow Finance's market share through lower interest rates on consumer loans from cheaper sources of capital and larger 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 still seeking its form, the regulation governing its operations are only taking shape. There is a possibility that introduced regulatory framework could make 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.

VALUATION RESULTS		BASE CASE DETAILS		VALUATION ASSUMPTIONS		ASSUMPTIONS FOR WACC	
Current share price	2.89	PV of Free Cash Flow	15	Long-term growth, %	2.0	Risk-free interest rate, %	2.25
DCF share value	2.97	PV of Horizon value	23	WACC, %	11.5	Market risk premium, %	5.8
Share price potential, %	2.9	Unconsolidated equity	0	Spread, %	0.5	Debt risk premium, %	3.3
Maximum value	3.4	Marketable securities	4	Minimum WACC, %	11.0	Equity beta coefficient	1.40
Minimum value	2.6	Debt - dividend	-20	Maximum WACC, %	12.0	Target debt ratio, %	20
Horizon value, %	60.5	Value of stock	21	Nr of shares, Mn	7.2	Effective tax rate, %	20

DCF valuation, EURm	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	Horizon
Net sales	14	11	15	19	23	29	32	34	35	37	38	39
Sales growth, %	*18.3*	*-20.4*	*35.5*	*22.3*	*25.0*	*25.0*	*10.0*	*5.0*	*5.0*	*5.0*	*2.0*	*2.0*
Operating income (EBIT)	2	0	2	3	5	6	7	7	8	8	8	9
Operating income margin, %	*11.6*	*1.2*	*13.7*	*18.4*	*20.0*	*22.0*	*22.0*	*22.0*	*22.0*	*22.0*	*22.0*	*22.0*
+ Depreciation+amort.	0	0	1	1	1	1	1	1	1	1	1	
EBITDA	2	1	3	4	5	7	8	9	9	9	10	
- Paid taxes	-1	0	0	-1	-1	-1	-1	-1	-2	-2	-2	
- Change in NWC	0	-1	-1	-1	-3	-1	-1	-1	-1	-1	-1	
NWC / Sales, %	*50.6*	*69.0*	*60.0*	*56.9*	*58.8*	*50.9*	*49.0*	*49.0*	*49.0*	*49.0*	*50.2*	
+ Change in other liabs	-7	0	0	0	0	0	0	0	0	0	0	
- Operative CAPEX	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1	
opCAPEX / Sales, %	*4.6*	*4.9*	*3.6*	*4.2*	*4.2*	*4.2*	*3.8*	*3.6*	*3.6*	*3.6*	*3.5*	
- Acquisitions	0	0	0	0	0	0	0	0	0	0	0	
+ Divestments	0	0	0	0	0	0	0	0	0	0	0	
- Other items	0	0	0	0	0	0	0	0	0	0	0	
= FCFF	-7	-1	0	1	0	4	5	5	5	6	6	62
= Discounted FCFF		-1	0	1	0	2	3	3	2	2	2	23
= DFCF min WACC		-1	0	1	0	2	3	3	2	2	2	25
= DFCF max WACC		-1	0	1	0	2	3	2	2	2	2	21

INTERIM FIGURES

EVLI ESTIMATES, EURm	2019Q1	2019Q2	2019Q3	2019Q4	2019	2020Q1	2020Q2	2020Q3E	2020Q4E	2020E	2021E	2022E
Net sales	0.0	7.2	0.0	7.0	14.2	0.0	5.8	0.0	5.5	11.3	15.3	18.7
EBITDA	0.0	1.6	0.0	0.5	2.1	0.0	0.2	0.0	0.4	0.6	2.6	4.0
EBITDA margin (%)	*0.0*	*21.7*	*1,673.0*	*6.9*	*14.5*	*0.0*	*2.7*	*0.0*	*7.4*	*5.5*	*17.1*	*21.2*
EBIT	0.0	1.4	0.0	0.3	1.6	0.0	-0.1	0.0	0.2	0.1	2.1	3.5
EBIT margin (%)	*0.0*	*19.0*	*0.0*	*3.9*	*11.6*	*0.0*	*-0.9*	*0.0*	*3.3*	*1.2*	*13.7*	*18.4*
Net financial items	0.0	-0.7	0.0	-0.8	-1.5	0.0	-0.7	0.0	-0.8	-1.5	-1.5	-1.6
Pre-tax profit	0.0	0.6	0.0	-0.5	0.1	0.0	-0.7	0.0	-0.6	-1.3	0.6	1.8
Tax	0.0	-0.2	0.0	0.0	-0.2	0.0	0.0	0.0	0.1	0.1	-0.1	-0.4
Tax rate (%)	*0.0*	*34.3*	*0.0*	*4.6*	*176.3*	*0.0*	*-1.8*	*0.0*	*20.0*	*8.3*	*20.0*	*20.0*
Net profit	0.0	0.4	0.0	-0.5	-0.1	0.0	-0.7	0.0	-0.5	-1.2	0.5	1.5
EPS	0.00	0.06	0.00	-0.07	-0.01	0.00	-0.10	0.00	-0.07	-0.17	0.06	0.20
EPS adjusted (diluted no. of shares)	0.00	0.06	0.00	-0.07	-0.01	0.00	-0.10	0.00	-0.07	-0.17	0.06	0.20
Dividend per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.06
SALES, EURm												
Fellow Finance	0.0	7.2	0.0	7.0	14.2	0.0	5.8	0.0	5.5	11.3	15.3	18.7
Total	0.0	7.2	0.0	7.0	14.2	0.0	5.8	0.0	5.5	11.3	15.3	18.7
SALES GROWTH, Y/Y %												
Fellow Finance	*0.0*	*29.6*	*0.0*	*8.4*	*18.3*	*0.0*	*-19.8*	*0.0*	*-21.1*	*-20.4*	*35.5*	*22.3*
Total	*0.0*	*29.6*	*0.0*	*8.4*	*18.3*	*0.0*	*-19.7*	*0.0*	*-21.1*	*-20.4*	*35.5*	*22.3*
EBIT, EURm												
Fellow Finance	0.0	1.4	0.0	0.3	1.6	0.0	-0.1	0.0	0.2	0.1	2.1	3.5
Total	0.0	1.4	0.0	0.3	1.6	0.0	-0.1	0.0	0.2	0.1	2.1	3.5
EBIT margin, %												
Fellow Finance	*0.0*	*19.0*	*0.0*	*3.9*	*11.6*	*0.0*	*-0.9*	*0.0*	*3.3*	*1.2*	*13.7*	*18.4*
Total	*0.0*	*19.0*	*0.0*	*3.9*	*11.6*	*0.0*	*-0.9*	*0.0*	*3.3*	*1.2*	*13.7*	*18.4*

INCOME STATEMENT, EURm	2015	2016	2017	2018	2019	2020E	2021E	2022E
Sales	4.0	5.6	8.7	12.0	14.2	11.3	15.3	18.7
Sales growth (%)	*0.0*	*39.6*	*55.0*	*38.5*	*18.3*	*-20.4*	*35.5*	*22.3*
EBITDA	1.6	1.3	2.9	3.8	2.1	0.6	2.6	4.0
EBITDA margin (%)	*40.7*	*22.5*	*33.1*	*31.9*	*14.5*	*5.5*	*17.1*	*21.2*
Depreciation	-0.3	-0.3	-0.4	-0.4	-0.4	-0.5	-0.5	-0.5
EBITA	1.3	0.9	2.5	3.4	1.6	0.1	2.1	3.5
Goodwill amortization / writedown	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	1.3	0.9	2.5	3.4	1.6	0.1	2.1	3.5
EBIT margin (%)	*32.2*	*16.4*	*28.8*	*28.3*	*11.6*	*1.2*	*13.7*	*18.4*
Reported EBIT	1.3	0.9	2.5	3.4	1.6	0.1	2.1	3.5
EBIT margin (reported) (%)	*32.2*	*16.4*	*28.8*	*28.3*	*11.6*	*1.2*	*13.7*	*18.4*
Net financials	-1.3	-0.8	-1.3	-2.3	-1.5	-1.5	-1.5	-1.6
Pre-tax profit	0.0	0.1	1.2	1.1	0.1	-1.3	0.6	1.8
Taxes	-0.1	-0.1	-0.1	-0.3	-0.2	0.1	-0.1	-0.4
Minority shares	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	-0.3	0.1	1.1	0.8	-0.1	-1.2	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
BALANCE SHEET, EURm								
Assets								
Fixed assets	11	10	14	17	24	24	24	24
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	3	5	6	7	8	9	10	12
Liquid funds	2	2	2	9	4	2	3	4
Total assets	16	17	22	32	36	35	37	40
Liabilities								
Shareholder's equity	3	3	4	15	14	13	14	15
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	11	13	17	17	20	21	22	23
Non-interest bearing current liabilities	2	1	1	1	1	1	1	1
Other interest-free debt	0	0	0	0	0	0	0	0
Total liabilities	16	17	22	32	36	35	37	40
CASH FLOW, EURm								
+ EBITDA	2	1	3	4	2	1	3	4
- Net financial items	-1	-1	-1	-2	-2	-1	-2	-2
- Taxes	0	0	0	0	0	0	0	0
- Increase in Net Working Capital	-2	-1	1	0	0	-1	-1	-1
+/- Other	0	0	0	0	0	0	0	0
= Cash flow from operations	-2	-1	2	1	0	-1	0	1
- Capex	-11	0	0	-1	-1	-1	-1	-1
- Acquisitions	0	0	0	0	0	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Free cash flow	-13	-1	2	1	-1	-2	-1	0
+/- New issues/buybacks	3	0	0	10	0	0	0	0
- Paid dividend	0	0	0	-1	0	0	0	0
+/- Other	11	2	-2	-3	-4	0	2	1
Change in cash	2	1	0	7	-5	-2	1	1

KEY FIGURES	2016	2017	2018	2019	2020E	2021E	2022E
M-cap	0	0	46	30	21	21	21
Net debt (excl. convertibles)	11	15	8	17	18	19	20
Enterprise value	11	15	55	46	39	40	40
Sales	6	9	12	14	11	15	19
EBITDA	1	3	4	2	1	3	4
EBIT	1	2	3	2	0	2	3
Pre-tax	0	1	1	0	-1	1	2
Earnings	0	1	1	0	-1	0	1
Equity book value (excl. minorities)	3	4	15	14	13	14	15
Valuation multiples							
EV/sales	2.0	1.7	4.6	3.2	3.5	2.6	2.2
EV/EBITDA	8.8	5.2	14.3	22.4	63.2	15.4	10.2
EV/EBITA	12.1	5.9	16.1	28.0	298.1	19.1	11.7
EV/EBIT	12.1	5.9	16.1	28.0	298.1	19.1	11.7
EV/OCF	-13.8	7.0	41.5	-228.4	-29.0	-96.9	79.8
EV/FCFF	-34.5	-5.0	-65.4	-6.6	-69.0	150.1	39.3
P/FCFE	0.0	0.0	81.8	-34.9	-10.9	-21.6	-75.7
P/E	0.0	0.0	55.1	-349.3	-17.0	45.6	14.2
P/B	0.0	0.0	3.2	2.0	1.6	1.5	1.4
Target EV/EBITDA	*0.0*	*0.0*	*0.0*	*0.0*	*62.1*	*15.1*	*10.0*
Target EV/EBIT	*0.0*	*0.0*	*0.0*	*0.0*	*293.2*	*18.8*	*11.5*
Target EV/FCF	*0.0*	*0.0*	*0.0*	*0.0*	*-20.2*	*-41.2*	*-145.0*
Target P/B	*0.0*	*0.0*	*0.0*	*0.0*	*1.5*	*1.5*	*1.3*
Target P/E	*0.0*	*0.0*	*0.0*	*0.0*	*-16.5*	*44.1*	*13.8*
Per share measures							
Number of shares	5,818	5,818	7,129	7,129	7,174	7,174	7,174
Number of shares (diluted)	5,818	5,818	7,129	7,129	7,174	7,174	7,174
EPS	0.01	0.19	0.12	-0.01	-0.17	0.06	0.20
Operating cash flow per share	-0.14	0.36	0.18	-0.03	-0.19	-0.06	0.07
Free cash flow per share	-0.17	0.34	0.08	-0.12	-0.27	-0.13	-0.04
Book value per share	0.53	0.72	2.04	2.03	1.85	1.91	2.12
Dividend per share	0.00	0.09	0.04	0.00	0.00	0.00	0.06
Dividend payout ratio, %	0.0	47.2	33.9	0.0	0.0	0.0	30.0
Dividend yield, %	0.0	0.0	0.6	0.0	0.0	0.0	2.1
FCF yield, %	0.0	0.0	1.2	-2.9	-9.2	-4.6	-1.3
Efficiency measures							
ROE	2.4	29.8	9.0	-0.6	-8.8	3.4	10.1
ROCE	6.0	13.4	13.0	5.0	0.4	6.0	9.2
Financial ratios							
Inventories as % of sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Receivables as % of sales	93.6	71.3	58.4	58.3	76.7	67.7	64.7
Non-interest bearing liabilities as % of sales	12.1	13.5	6.9	7.7	7.7	7.7	7.7
NWC/sales, %	81.5	57.8	51.5	50.6	69.0	60.0	56.9
Operative CAPEX/sales, %	3.0	1.9	6.3	4.6	4.9	3.6	4.2
CAPEX/sales (incl. acquisitions), %	3.0	1.9	6.3	4.6	4.9	3.6	4.2
FCFF/EBITDA	-0.3	-1.0	-0.2	-3.4	-0.9	0.1	0.3
Net debt/EBITDA, book-weighted	8.8	5.2	2.2	8.0	29.7	7.4	4.9
Debt/equity, market-weighted	0.0	0.0	0.4	0.7	1.0	1.1	1.1
Equity ratio, book-weighted	18.1	19.1	44.8	40.2	38.1	36.8	38.0
Gearing, %	358.8	354.2	57.4	114.0	138.6	141.0	129.3

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 650m 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 have a significant impact on margings in the coming years.

OWNERSHIP STRUCTURE	SHARES	EURm	%
Taaleri Oyj	1,847,163	5.338	25.7%
TN Ventures Oy	830,843	2.401	11.6%
Oy T&T Nordcap Ab	656,436	1.897	9.2%
OP-Finland Micro Cap	298,174	0.862	4.2%
OP-Finland Small Cap	269,711	0.779	3.8%
Avensis Capital Oy	178,000	0.514	2.5%
Fennia Life Insurance Company	151,174	0.437	2.1%
Säästöpankki Small Cap mutual fund	128,841	0.372	1.8%
Syrjänen Eva	84,698	0.245	1.2%
Swiss Life (luxembourg) S.A.	73,756	0.213	1.0%
Ten largest	4,518,796	13.059	63%
Residual	2,654,829	7.672	37%
Total	7,173,625	20.732	100%

EARNINGS CALENDAR	
February 15, 2021	FY 2020 Results
August 27, 2021	Q2 report
OTHER EVENTS	
April 02, 2021	AGM

COMPANY MISCELLANEOUS	
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IR:	

DEFINITIONS

P/E $\frac{\text{Price per share}}{\text{Earnings per share}}$	**EPS** $\frac{\text{Profit before extraord. items and taxes– income taxes + minority interest}}{\text{Number of shares}}$
P/BV $\frac{\text{Price per share}}{\text{Shareholders' equity + taxed provisions per share}}$	**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** $\frac{\text{Capital expenditure – divestments – acquisitions}}{\text{Sales}}$
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** $\frac{\text{Total assets – non-interest bearing debt}}{\text{Number of shares}}$
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, %** $\frac{\text{Interest bearing debt}}{\text{Shareholders' equity + minority interest + taxed provisions}}$
Payout ratio, % $\frac{\text{Total dividends}}{\text{Earnings before extraordinary items and taxes – income taxes + minority interest}}$	**Equity ratio, %** $\frac{\text{Shareholders' equity + minority interest + taxed provisions}}{\text{Total assets – interest-free loans}}$
ROCE, % $\frac{\text{Profit before extraordinary items + interest expenses+ other financial costs}}{\text{Balance sheet total – non-interest bearing debt (average)}}$	**CAGR, %** Cumulative annual growth rate = Average growth per year
ROE, % $\frac{\text{Profit before extraordinary items and taxes – income taxes}}{\text{Shareholder's equity + minority interest + taxed provisions (average)}}$	

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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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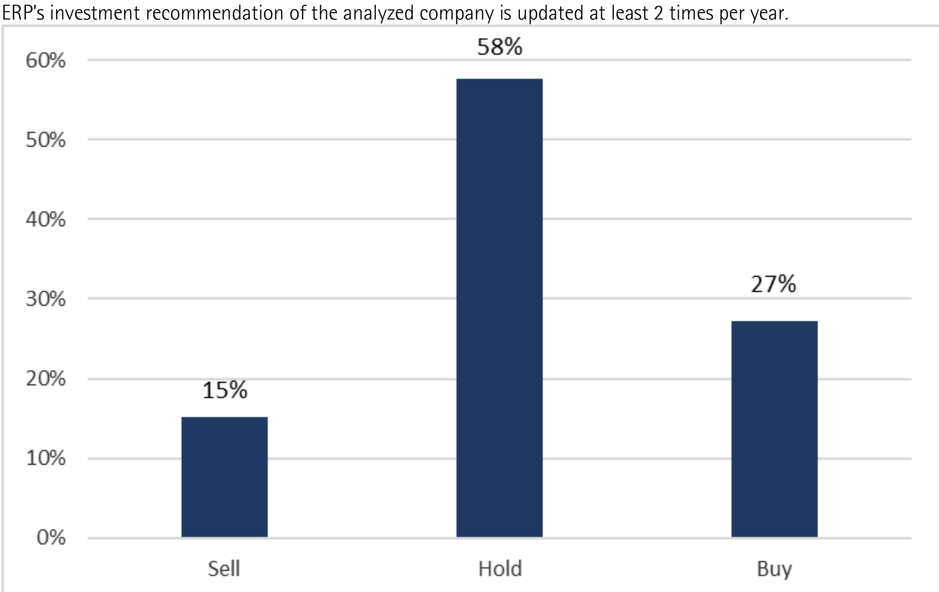

The graph above shows the distribution of ERP's recommendations of companies under coverage in 11th of May 2020. If recommendation is not given, it is not mentioned here.

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

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