ibancar

# Newsletter / Management Report

June 2022

# CEO Summary

**June 2022**

Ibancar delivered another excellent performance in June with strong growth and once again setting a new record for revenue. Overall operating results remain well ahead of plan and Ibancar has now been profitable for twelve consecutive months demonstrating that profitability in the lending sector is achievable at an early stage. The most important highlight of Q2 is that Ibancar was also operating cash flow positive. Being both profitable and cash flow positive demonstrates the sustainability and efficiency of our lending model.

Key figures for the month:

- 340 loans issued vs 346 in May
- Origination of €870k
- Total revenue for the month was €358k
- Expected end of year ARR is €6m
- P&L was €31k, ahead of plan by 110%
- Expected full year P&L is €215k

On the underwriting side of the business June was similar to May with a small decrease in lead quality and consequently we approved fewer loans with a similar volume of traffic. The loan approval rate closed at 49% rate vs a year to date average of 52%. The average loan reduced to €2,550 and the average LTV reduced to 47%. The performing book stayed strong at 93% with the total book LTV reducing slightly to 37% keeping us in a strong position from a credit perspective.

We finished the quarter with solid growth and all KPIs on target.

Key figures for Q2:

| | Origination | Loan book | Receivables | Revenue | ARR | Contribution Margin |
|---|---|---|---|---|---|---|
| KPI | 2.5m | 6.4m | 12.2m | 966k | 4.3m | 51% |
| Vs Q1 | +25% | +26% | +26% | +23% | +19% | -3.5% |

While we continue scaling in Spain and preparing for expansion to Mexico we have not forgotten to look at the landscape. Inflation and changing employment prospects are having a progressive impact on household liquidity and psychology and, with the economic paralysis caused by COVID still in recent memory, households will aim to have more cash at hand by borrowing more and/or spending less - and spending less may mean not paying loan installments. Either way, it is reasonable to expect that the erosion of household income will increase NPLs across all lending segments.

We already showed the resilience of our model during the COVID crisis and we have proven that the use of collateral and applying appropriate flexibility in the collection and escalation processes preserves the positive outcomes for borrowers. This makes our business more sustainable in a very natural and organic way.
Despite the changes in the market we expect to continue to outperform our competitors as we did during COVID. We offer larger loans than most online lenders but our borrowers are also more cautious because they guarantee the loan with their car. Many of our borrowers take less than the approved amount and this was noticeable in June when the average loan issued was 87% of the approved amount - the lowest take up rate of the year.
In general, a lower average loan, LTV and take up rate are good for the credit quality of the book so we plan to let these trends settle naturally and not take more risk to compensate.

In general online unsecured lenders are significantly reducing risk and this should present an additional market opportunity for our asset based model. However, reducing risk in online unsecured (and payday) lending is not easy to do in markets like Spain and Mexico for several reasons:

(a) borrowers don't come with credit scores or are credit invisible
(b) the risk adjustments will in many cases be handled by the same algorithms that have already been struggling to deliver profitable lending growth
(c) this type of lending requires scale and churn

In these markets an asset based lender like Ibancar may see their addressable market increase and there may eventually be less competitors. We also see banks becoming much more restrictive, opening an opportunity for us to do more lending in the near-prime segment.

On the front end our CAC remains stable and we have a lot of spending power in reserve as we have sufficient margin and our business plan allows for a more than 100% increase. We have seen online lenders competing for a bigger share of the market in order to be profitable and cover NPLs and this has driven their CAC up and CLTV down so a sudden change in their risk appetite will also affect the lead generation ecosystem. Lenders approving less loans could see their CAC go up and publishers and affiliates may see their revenue go down. Ibancar may again benefit in this environment as we currently spend up to 50% less on acquisition and our average CLTV is up to 5x higher than other online lenders.

If we look at what underpins our strong credit performance we see that our excellent results have been achieved mainly through the use of collateral and being smart and efficient in managing the collections and recovery processes, and, only now, with close to €12m originated, are we achieving a scale that allows meaningful portfolio analytics. This means that there are still many things to work on and that we will become even better at making credit decisions in the future than we are today.
Over the coming quarters we will start looking for technology tools to develop these analytics capabilities so that we can lend more at higher LTVs to good borrowers and less to potentially bad borrowers. Doing this successfully means maintaining or improving the quality of our loan book even further as we grow. We do not see credit quality and growth as opposing forces when we factor in the use of collateral and our servicing experience.

Our management of the business has always attempted to keep a balance between credit quality, corporate sustainability and growth and the teams diligence in sticking to this policy has made us one of few online lenders to become operating cash flow positive and profitable at such an early stage.

We have become "control freaks" because our business model is different so the outsourcing of servicing activities is less efficient than continuing to develop and do things ourselves. This approach means we have genuinely built our business from the ground up instead of layering a service stack or tech stack provided by third parties. It means we have had to work and think harder but it also has benefits - not outsourcing means there are no excuses and that responsibility remains with the team. We own the outcomes and, to a large extent, control our trajectory.
It also means we have continued to own our gross margin and that is how we have become profitable. It gives us great confidence in our long term prospects and in maintaining our current expansion trajectory.

# Business Performance

**Continuing to grow profitably**

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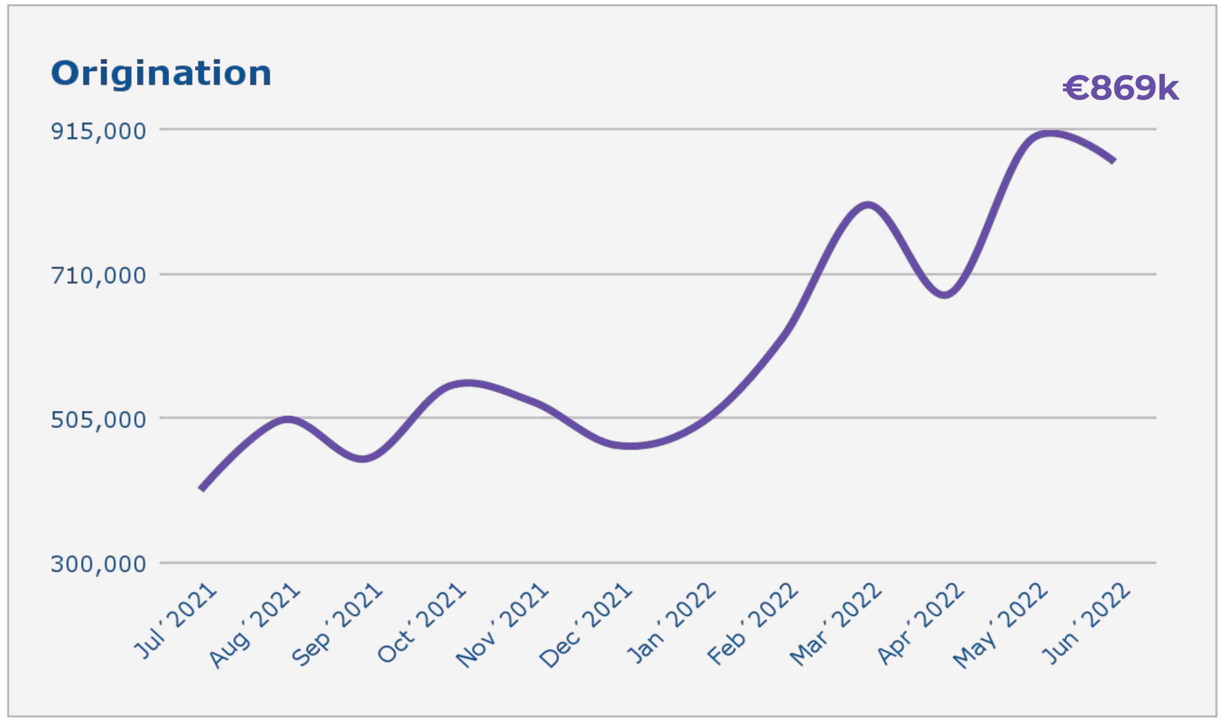
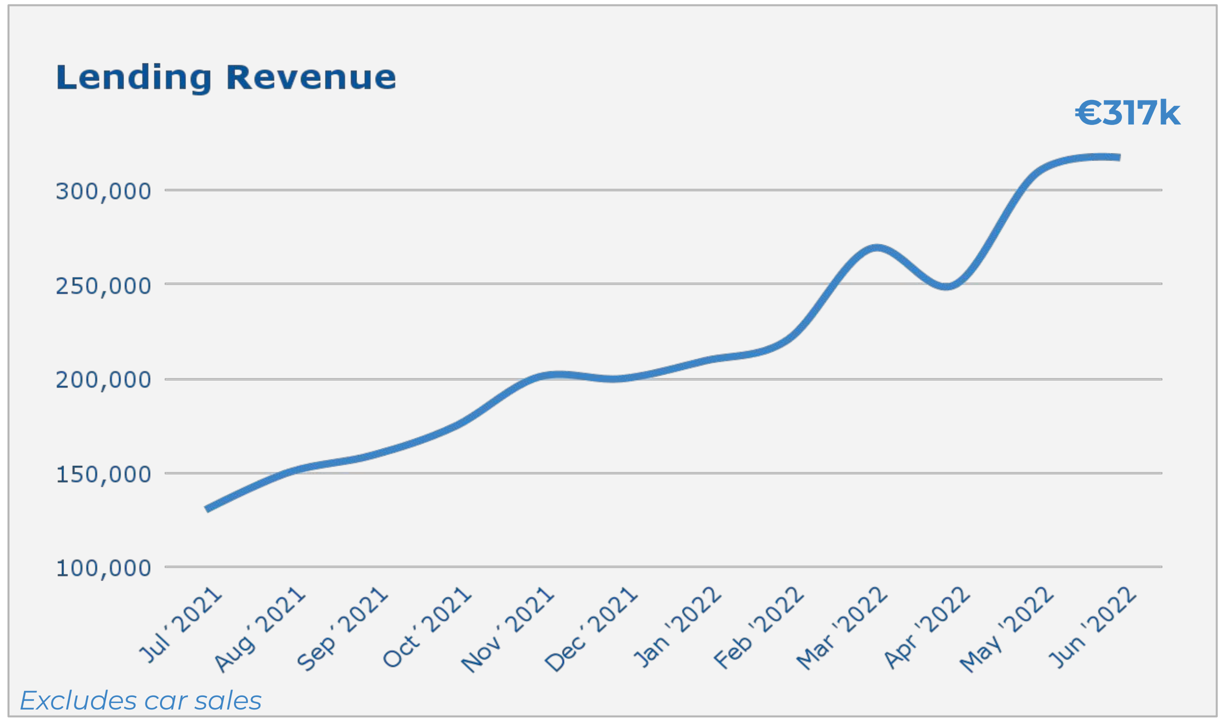
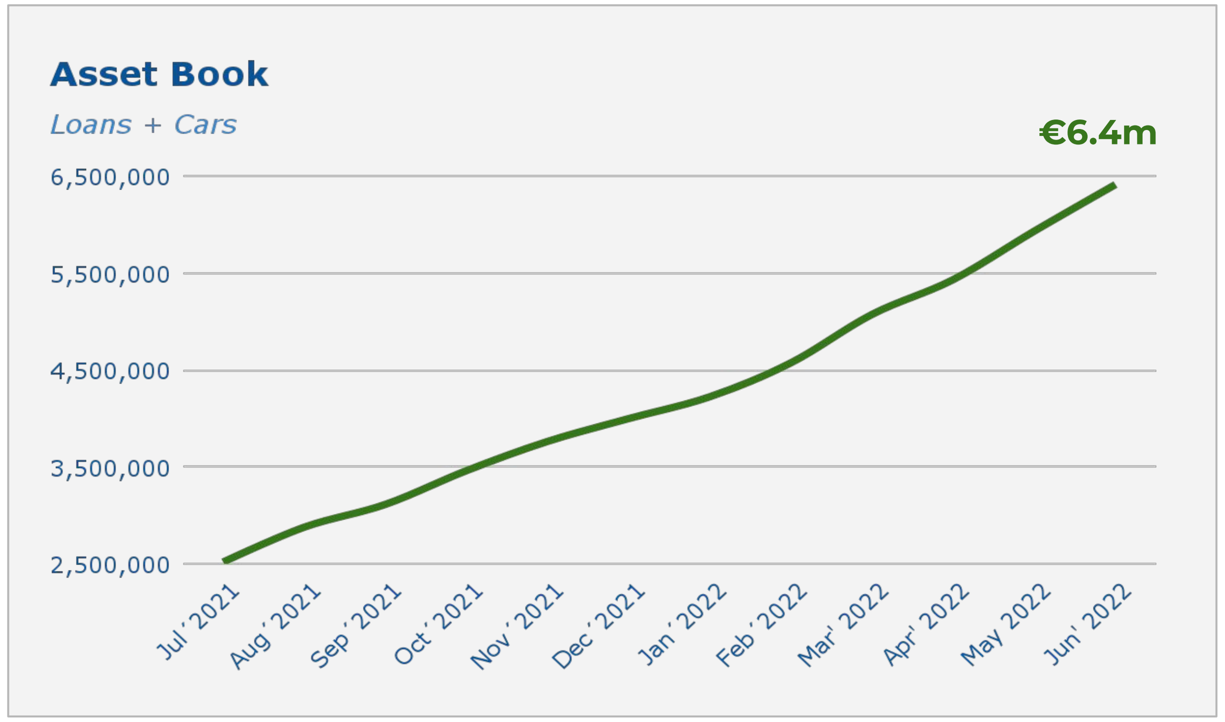
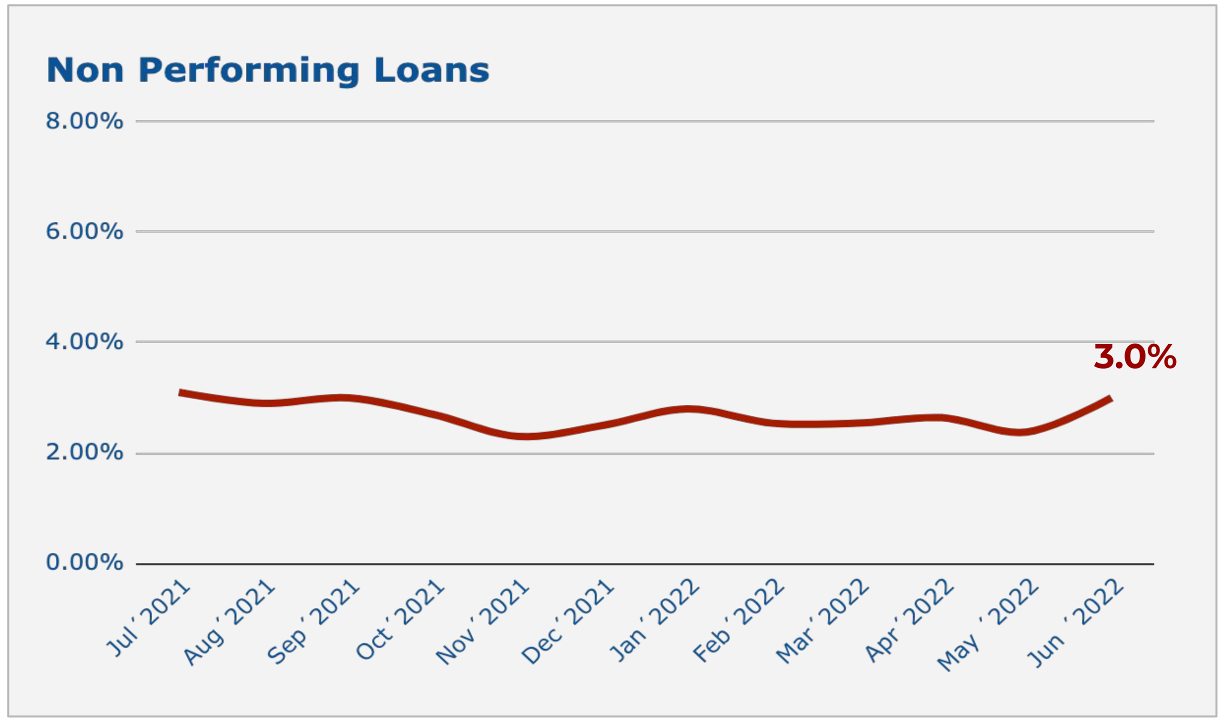
| JUNE HIGHLIGHTS | |
|---|---|
| Origination | €869,350 |
| Lending Revenue | €317,381 |
| Total Revenue | €358,289 |
| P&L | €30,894 |

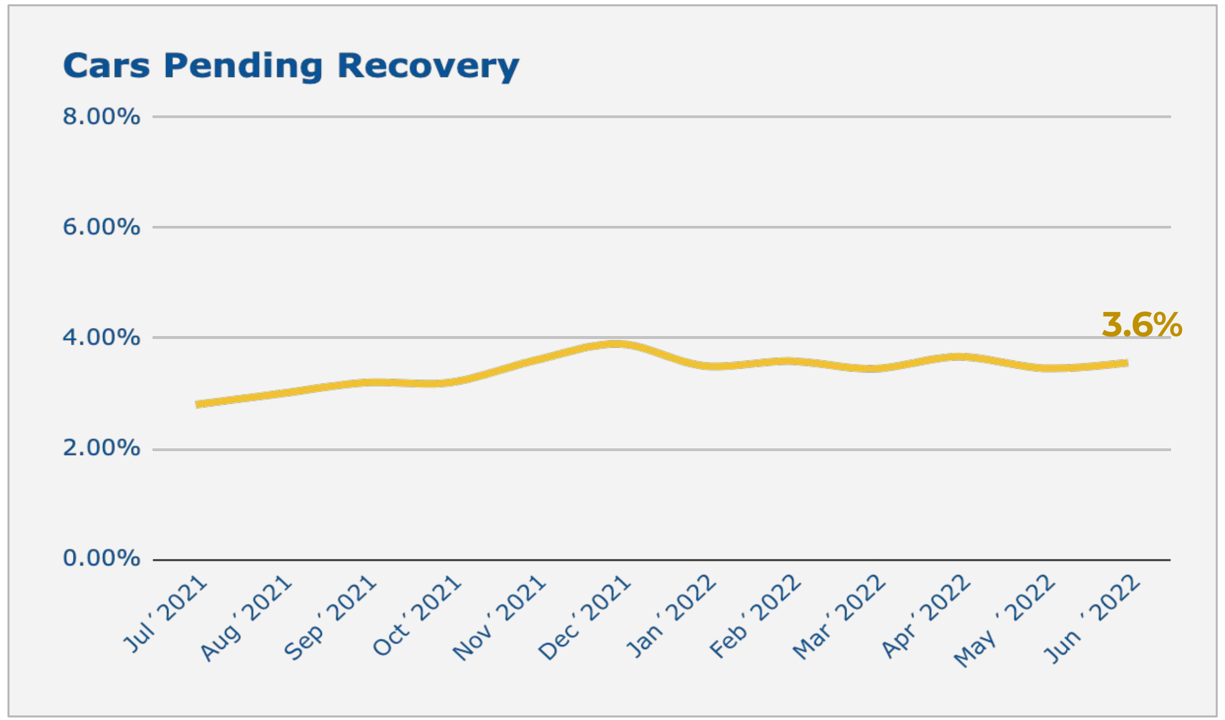
| ASSET BOOK | €6,433,689 | 100% |
|---|---|---|
| Performing Loans | €5,997,508 | 93.2% |
| Non Performing Loans | €192,618 | 3.0% |
| Car Pending Recovery | €229,065 | 3.6% |
| Car Pending Sale | €14,297 | 0.2% |



# Underwriting & Collections

In June the number of leads that reached underwriting was almost the same as in May (734 vs 731). The average LTV issued dropped from 51% to 48% and the average loan size remained stable resulting in a slight reduction of aggregate risk in the loan book.

The take up rate reduced to 87% which is the lowest of the year, although it is too early to tell if this is a trend, it does indicate that in June our borrowers were being more careful and wanted smaller installments. In total 94% of cases were underwritten in less than 1 hour and 83% of clients signed their loan agreements within 3 hours of approval.

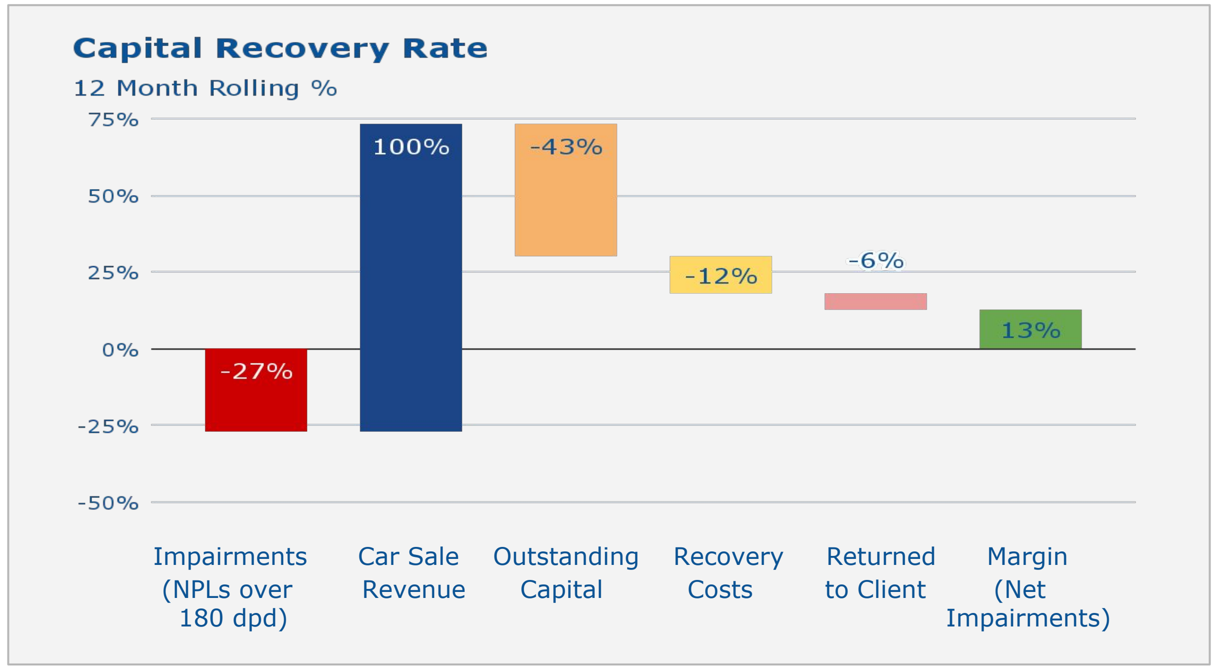
The main reasons for underwriting not approving loans remain:
(1) 49% due to an ineligible cars, mainly those with a pre-existing lien and
(2) 23% for a bad credit history

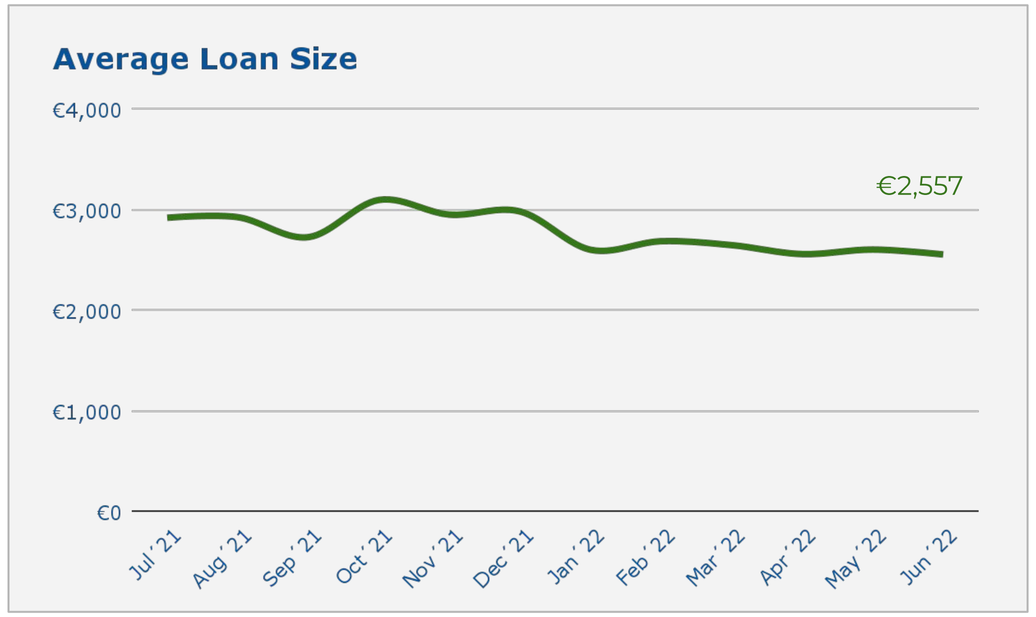
Last month (May) we saw an increase in unpaid late payments (>5 dpd) to 7.2% but in June this number dropped to 5.9% which is more in line with the YTD average of 5.6%. We continue to see that most late clients are receptive when they receive notifications about the consequences of non payment.

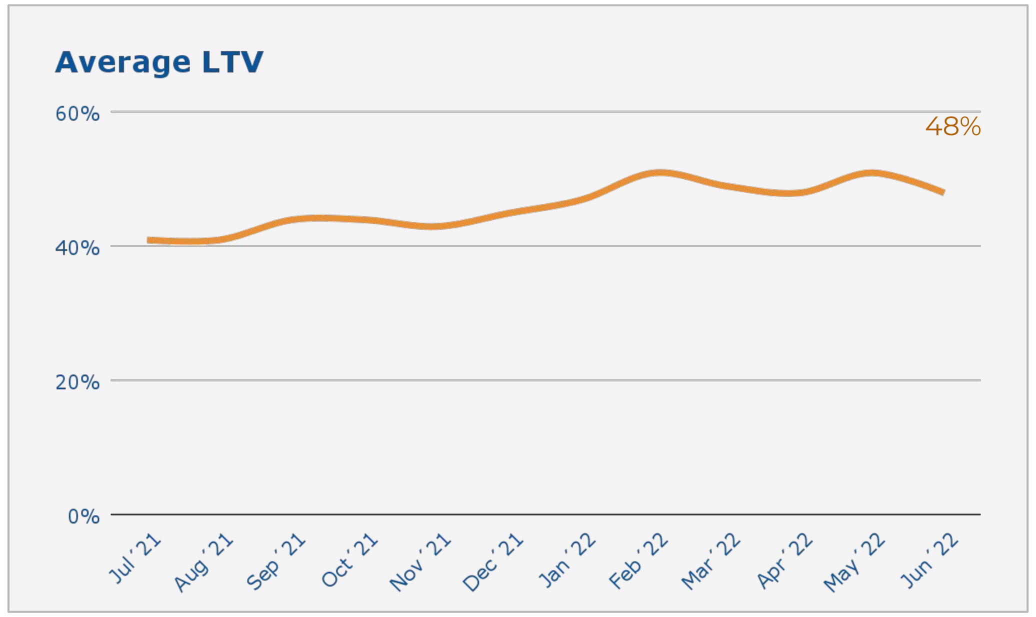
Our collections software (Kineox) is now fully operational and allows us to assign received installments to the bank account of the owner of the loan (our lenders) automatically. We have also started tokenizing payment card details to allow clients to pay every month automatically.

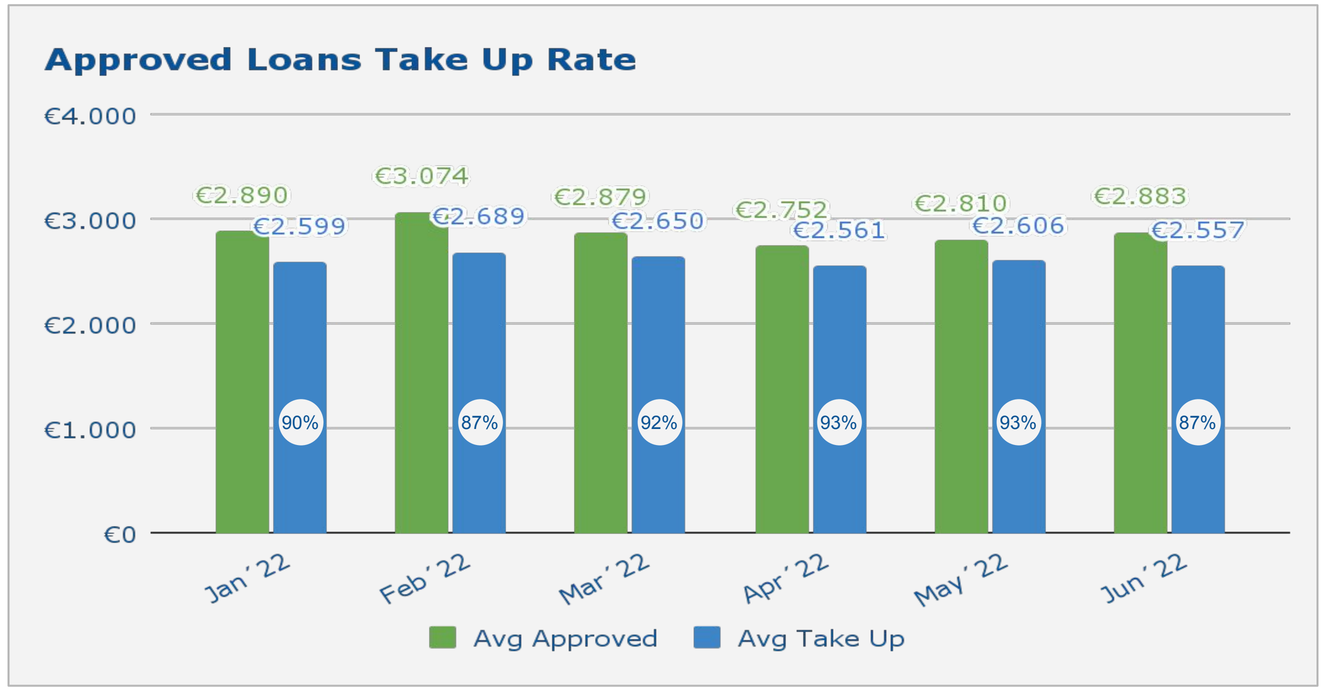
In late June we implemented several changes to our legal and recovery procedures which should further improve our performance by accelerating the pace of NPL resolution and we will be adding an additional team member in logistics.

From a capital recovery perspective results remain very positive with a 113% capital recovery rate on NPLs which means that we have recovered more from car sales than we have lost in impairments and expenses. On an accumulated basis net impairments are therefore negative (ie have generated a profit). Over time, as we continue to return excess capital from the car auction to borrowers we expect this margin to disappear.




On the tech front we continue to work on several projects:

- We now have "Fraud IQ" set up via API and this will allow us to check how often a Spanish ID card is being used to apply for loans over a certain period - this is not yet being used for underwriting.
- We are waiting for approval to use a new API to validate bank accounts electronically from the database of the Bank of Spain, this will allow us to improve the onboarding experience and means we can eliminate one document upload for borrowers.
- Our next big project will be to integrate OCR to handle documentation and fully automate the underwriting process allowing us to save on manpower as we continue to scale
- We will also start looking at software tools for portfolio analytics so that we can start to learn from our own data

# Financials
## Q2 2022 - H1 2022

| Profit & Loss €'000 | Actuals Q1-22 | Actuals Q2-22 | Actuals H1-22 | Plan H1-22 | Actuals H1-21 | Plan Q2´22 | Actuals Q2´21 |
|---|---|---|---|---|---|---|---|
| Lending Revenue | 699 | 877 | 1,576 | 1,648 | 595 | 923 | 328 |
| Cars Sales Revenue | 85 | 89 | 174 | 23 | 44 | 23 | 28 |
| Other Income | 0 | 1 | 1 | 0 | 1 | 0 | 0 |
| **Total Revenue** | **785** | **966** | **1,751** | **1,671** | **641** | **946** | **357** |
| Impairments | ( 22) | ( 43) | ( 65) | ( 80) | ( 18) | ( 51) | ( 20) |
| Cars Purchase Costs | ( 36) | ( 44) | ( 81) | ( 9) | ( 29) | ( 9) | ( 18) |
| Funding Costs | ( 103) | ( 137) | ( 240) | ( 268) | ( 80) | ( 160) | ( 43) |
| CAC | ( 154) | ( 196) | ( 350) | ( 337) | ( 90) | ( 210) | ( 53) |
| Direct Operating Costs | ( 45) | ( 56) | ( 102) | ( 96) | ( 43) | ( 57) | ( 22) |
| ***Contribution Margin*** | ***425*** | ***490*** | ***915*** | ***881*** | ***381*** | ***460*** | ***199*** |
| *Contribution Margin %* | *54%* | *51%* | *52%* | *53%* | *59%* | *49%* | *56%* |
| Overhead Costs | ( 299) | ( 367) | ( 666) | ( 698) | ( 439) | ( 384) | ( 223) |
| ***Operating Profit*** | ***126*** | ***123*** | ***249*** | ***183*** | ***( 58)*** | ***76*** | ***( 24)*** |
| Depreciation & Amortization | ( 18) | ( 21) | ( 39) | ( 51) | ( 13) | ( 27) | ( 8) |
| Financial Activity | ( 17) | ( 21) | ( 38) | ( 9) | ( 4) | ( 1) | ( 3) |
| ***Profit Before Tax*** | ***91*** | ***81*** | ***172*** | ***124*** | ***( 75)*** | ***48*** | ***( 35)*** |

| KPIs | Actuals Q1-22 | Actuals Q2-22 | Actuals H1-22 | Plan H1-22 | Actuals H1-21 | Plan Q2´22 | Actuals Q2´21 |
|---|---|---|---|---|---|---|---|
| Origination | 1,923 | 2,452 | 4,375 | 4,421 | 1,471 | 2,621 | 866 |
| Asset Book | 5,076 | 6,415 | 6,415 | 6,668 | 2,252 | 6,668 | 2,252 |
| Total Debt | 4,401 | 5,260 | 5,260 | 5,355 | 1,476 | 5,355 | 1,476 |
| Debt to Asset Book | *86.7%* | *82.0%* | *82.0%* | *80.3%* | *65.5%* | *80.3%* | *65.5%* |
| Operating Cash Flow | ( 51) | 2 | (49) | ( 241) | ( 214) | ( 166) | ( 119) |
| Available Cash | 995 | 711 | 711 | 388 | 629 | 388 | 629 |

- Q2 was another positive quarter for Ibancar where we outperformed on all fronts
- Origination finished at €2.5m, leading into an Asset Book of €6.4m*(3x YoY increase)*
- Total revenue finished ahead of plan at €966k which is a 3x YoY increase
- Contribution margin remained high at 51% due to excellent credit risk management with impairments at only 4% of revenue and an efficient marketing, servicing, collections and recoveries processes
- While increasing origination and revenue YoY by 200%, our profit oriented structure resulted on an only 68% increase on fixed costs, which remained below plan
- Net profit in Q2 was €81k or 8% which is 70% better than plan
- Q2 operating cash flow was, for the first time, breakeven at €2k, also better than plan
- Principal repayments collections outperformed the plan
- Besides, we drew another €500k from our credit facility and €325k from the P2P market to support lending growth
- We finished Q2-2022 with a strong cash position of €711k
- All in all, we continued growing and delivered another profitable first half of the year with revenues of €1.8m and P&L of €172k

Thank you for your interest in ibancar