

Unique Fintech exposure

NEO Finance offers unique exposure to high-growth P2P lending and Payment Initiation Service (PIS) platforms. A successful integration of these platforms, combined with a consumer loan functionality, could open a significant upside.

P2P and PIS stand-alone valuation support price

With +90K reg. borrowers, +30K reg. lenders, and EUR +80m in granted loans, NEO Finance is the leading Lithuanian P2P lending platform (~50% mkt. share). Based on the 2021E P/Sales peer Median, we value the P2P platform at EUR 1.84/shr. while the PIS platform is valued at EUR 1.06/shr. for a total value of EUR 2.90/shr. (~current price).

P2P & PIS integration present substantial upside

Integrating the P2P and the PIS (payment initiation service) platforms combined with a consumer loans functionality would enable the clients of NEO Finance to offer e-commerce purchase loans, financed through the P2P lending platform. This could boost growth and margins and motivate a substantially higher valuation multiple.

We are not there yet

A P2P and PIS integration is a natural step in NEO Finance's evolution, but it is too soon to tell if it will succeed. Our Base case assumes a 50% small cap discount and 30% probability of a successful integration, which implies a share price of EUR 3.61 (~30% upside). Our Bear case assume no integration and indicates EUR 2.90/shr. Our Bull case assume 35% probability of integration success and indicates EUR 4.21/shr. (upside ~50%).

Key figures (MEUR)

	2019	2020	2021E	2022E	2023E
Net sales	1.7	2.5	4.1	6.8	10.2
Net sales growth	69.7%	44.1%	65.5%	65.4%	50.6%
EBITDA	-0.8	0.0	0.5	0.8	1.4
EBITDA margin	-47.3%	-1.3%	11.3%	11.6%	13.5%
EBIT	-0.8	0.0	0.2	0.5	1.1
EBIT margin	-47.3%	-1.3%	5.0%	7.7%	10.7%
EV/Sales	8.5	5.1	3.1	2.0	1.4
EV/EBITDA	neg.	neg.	27.8	17.5	10.3
EV/EBIT	neg.	neg.	63.2	26.3	13.0
P/E adj.	neg.	neg.	67.1	25.7	12.2
P/BV	11.8	7.2	5.4	4.4	3.3
EPS adj.	-0.21	-0.03	0.04	0.11	0.23
EPS growth adj.	na	na	na	160.51%	110.38%
Div. per share	0.00	0.00	0.00	0.00	0.00
Dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%

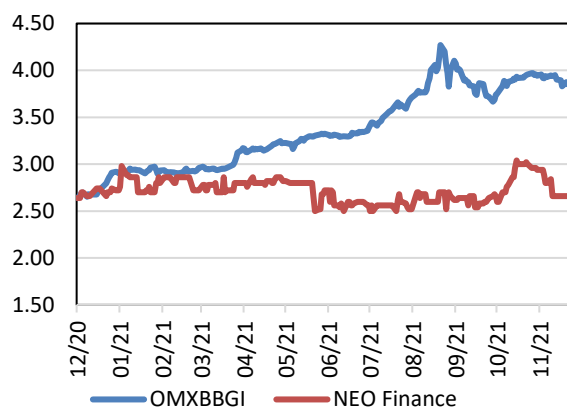
Source: Company data, Enlightenment Research estimates

Fair value range (EUR)

Bull	4.21
Base	3.61
Bear	2.90

Key Data

Price (EUR)	2.80
Ticker	NEOFI
Country	Lithuania
Listed	Vilnius (Lithuania)
Market Cap (EURm)	11.3
Net debt (EURm)	1.6
Shares (m)	4
Free float	12.00 %



Price range

52-week high	3.04
52-week low	2.50

Analyst

ResearchTeam@enlightresearch.net

Coverage frequency

2x per year

Key Investment Factors

P2P and PIS stand-alone values motivate current price

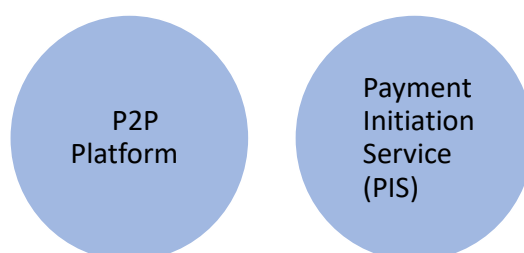
Today, NEO Finance has the leading P2P lending platform in Lithuania commanding about 50% market share. With over 90K registered borrowers and over 30K registered lenders (investors) it will be very hard for a competitor to overtake the Company's leading position in Lithuania. At the same time, it is not easy to expand the offer to other countries as there is usually an established market leader in every country. This does not mean that we are negative to the P2P lending platform, on the contrary, we believe the P2P lending platform alone motivates a share price of EUR 1.84 based on a P/Sales peer median multiple of 2.5x (after a 30% small cap discount). Adding our motivated value for the PIS platform of EUR 1.06 (based on P/Sales peer median of 6.8x after 75% small cap discount) sums up to a total (P2P and PIS) motivated share price of EUR 2.90 which is roughly equal to the current price. Worth noting is that we apply an 75% small cap discount to the stand-alone PIS valuation (vs. 30% for the P2P valuation) as the PIS peers are much larger than the P2P peers (see peer tables in the Valuation section).

P2P and PIS stand-alone valuations

P2P peer valuation	2021E
NEO P2P Sales (EURm)	2.9
P/Sales peer Median	3.6
NEO Small cap discount	30%
P/Sales peer Median w/ disc.	2.5
Share price at peer Median (EUR)	1.84
PIS peer valuation	
2021E	
NEO PIS Sales (EURm)	0.6
P/Sales peer Median	27.4
NEO Small cap discount	75%
P/Sales peer Median w/ disc.	6.8
Share price at peer Median (EUR)	1.06
Total P2P and PIS (non-integrated) share price at peer Median (EUR)	2.90
Implied upside*	4%

Source: Enlight Research (NEO Finance valuation) MarketScreener (peer consensus), Evli (Fellow Finance valuation), *based on share price EUR 2.78

NEO Finance current stand-alone non-integrated P2P, and PIS service offer



Source: Enlight Research

P2P and PIS integrated motivate substantial upside

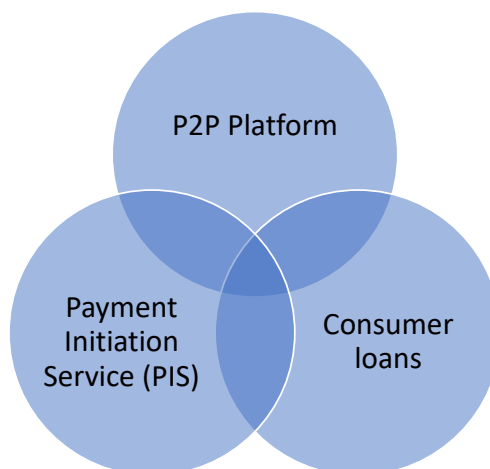
If NEO Finance could offer its Payment Initiation Service (PIS) clients (e.g. online retailers) the possibility to offer its clients consumer loans, we believe a substantial upside in the share price could be revealed. The sourcing of capital for these consumer loans would be NEO Finance's own P2P lending platform. For example, a client buying clothes from an online retailer (who is a NEO Finance PIS client), will get the option to finance the purchase with a consumer loan through the NEO Finance P2P platform. This would position NEO Finance more in the PIS peer group (Adyen, Klarna, Stripe etc.) rather than the P2P peer group (Fellow Finance, Raize, Funding Circle) implying higher growth and margins. We believe an integrated P2P and PIS offer with added consumer loan functionality is a natural step in NEO Finance's evolution. However, it is not yet integrated and hence we assume a 30% probability of a successful integration, which based on the average PIS peer Median of 13.7x (after 50% small cap discount), implies a share price of EUR 3.61 (30% upside). Worth noting is that this valuation approach is very sensitive to the assumed probability of a successful integration. Raising the probability of success from 30% to 35% increases the implied share price to EUR 4.21 (around 50% upside), while lowering the probability of success to 25% decreases the implied share price to EUR 3.01 (around 8% upside).

P2P & PIS with Consumer loans integrated valuation

	2021E
NEO P2P + PIS Sales (EURm)	3.6
P/Sales peer Median	27.4
NEO Small cap discount	50%
P/Sales peer Median w/ disc.	13.7
Share price at peer avg. w/ disc. (EUR)	12.03
Probability of successful integration	30%
Prob. weighted Share price at peer avg. w/ disc. (EUR)	3.61
Implied upside	30%

Source: Enlight Research (NEO Finance valuation) MarketScreener (peer consensus), *based on share price EUR 2.78

NEO Finance possible future integrated P2P, PIS, with Consumer loan service offer



Source: Enlight Research

Baltic regulators provide favourable environment

One challenge to integrate the P2P and PIS platforms with a Consumer loan functionality is to get the regulator's approval to offer this type of service. In our view, the regulators in the Baltic countries have been fintech friendly and created a safe and legitimate framework for alternative lending and payment initiation players. This has enabled Baltic alternative lending companies to grab a market leading position on a European scale. According to P2PMarketData, 23 out of the 69 largest alternative lending platforms in Europe (based euro denominated loans since launch), are based in the Baltics, including the largest one – Mintos. Baltic based platforms represent 60% of the total amount funded since launch and 58% of the funded amount in the last 90 days as of end of September 2021. We believe the Lithuanian based lending and payment initiation platforms will continue to benefit from a favorable regulatory environment and see good chances of NEO Finance being able to offer an integrated P2P and PIS solution with consumer loan functionality during 2022. Worth noting is that NEO Finance has a good relationship with the regulator (Lithuanian Central Bank) having been granted an **unlimited** Electronic Money Institution (EMI) license already in 2017.

Top 30 Alternative lending platforms

No	Platform	Country	Total funding since launch (EURm)	Funded last 90 days as of end of Sep. (EURm)	Share of Total funding
1	Mintos	Latvia	7,159.7	466.3	38.6%
2	Credimi	Italy	1,766.1	89.1	9.5%
3	Twino	Latvia	892.4	50.0	4.8%
4	Fellow Finance	Finland	840.5	54.8	4.5%
5	CreditGate24	Switzerland	818.6	32.2	4.4%
6	PeerBerry	Latvia	760.3	156.9	4.1%
7	October	France	639.5	33.4	3.4%
8	Bondora	Estonia	486.1	35.5	2.6%
9	EstateGuru	Estonia	437.0	51.5	2.4%
10	Obyn	Italy	396.4	89.0	2.1%
11	Robocash	Croatia	304.8	38.8	1.6%
12	VialInvest	Latvia	278.8	15.8	1.5%
13	Swaper	Estonia	245.9	20.4	1.3%
14	IUVO Group	Estonia	214.7	24.5	1.2%
15	MytripleA	Spain	188.3	15.0	1.0%
16	CrowdProperty	UK	183.4	18.8	1.0%
17	Kameo	Norway	180.7	22.3	1.0%
18	Kuflink	UK	170.1	12.0	0.9%
19	Lend	Switzerland	159.8	16.8	0.9%
20	Raizers	Switzerland	150.6	15.8	0.8%
21	Bergfurst	Germany	143.8	5.3	0.8%
22	Viventor	Latvia	142.1	1.3	0.8%
23	Housers	Spain	126.9	2.1	0.7%
24	Lendermarket	Ireland	120.8	27.9	0.7%
25	Look&Fin	Belgium	120.5	7.8	0.6%
26	Crowdestate	Estonia	114.4	6.6	0.6%
27	CapitalRise	UK	107.8	18.1	0.6%
28	MyConstant	USA	103.9	16.1	0.6%
29	Credit.fr	France	103.0	5.1	0.6%
30	NEO Finance	Lithuania	84.0	7.7	0.5%
Top 30			17,440.7	1356.9	94.0%
Others			1,104.2	130.5	6.0%
Total			18,544.9	1,487.5	100.0%

Source: P2PMarketData

Institutional investors to support growth

If the P2P and PIS integration is successful and a buy-now-pay-later functionality can be added, then the demand for loans would most likely increase substantially. We believe this increase could be filled by institutional lenders (investors). Furthermore, given NEO Finance's long track record and regulatory license, we see good prospects for attracting institutional investors. The first example of this is the German fixed income asset manager nordIX AG that signed an agreement in August this year to invest at least EUR 3m into NEO Finance's loan portfolio. In just two months (Aug-Sep), nordIX invested around EUR 0.7m into NEO Finance loans (in September, nordIX financed 18% of the new loans issued). In addition, nordIX bought a EUR 0.950m existing loan portfolio from NEO Finance in September. We believe NEO Finance will be able to attract additional institutional investors in mainland Europe as the interest rates offered in the Baltic region are often higher compared to mainland Europe. A continued successful co-operation with nordIX should also be helpful when trying to attract other institutional investors.

nordIX

Since foundation in 2009, nordIX AG has been a fixed income specialist and deals exclusively with bonds and derivatives. At the company's location in Hamburg, nordIX manages several mutual and special funds and develops intelligent investment opportunities. nordIX AG supports more than 1,000 clients and institutional investors in Germany, Austria and Switzerland and manages more than EUR 400 million in 5 different investment funds.

Institutional investors

(EURm)	Aug 21	Sep 21
New loans	0.253	0.466
Existing loans		0.950
Total	0.253	1.416

Loans issued

(EURm)	Aug 21	Sep 21
Institutional investors	0.253	0.466
Other investors	2.427	2.064
Total	2.680	2.530

Loans issued

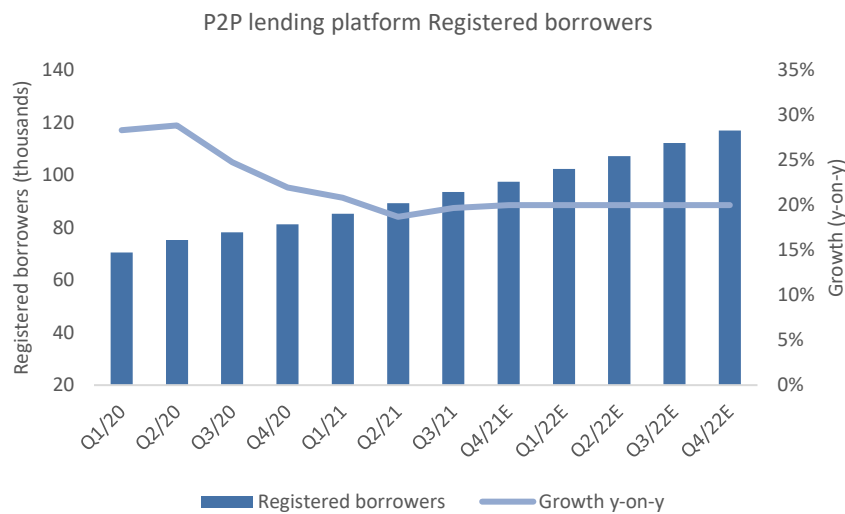
Distribution	Aug 21	Sep 21
Institutional investors	9%	18%
Other investors	91%	82%
Total	100%	100%

Source: Company reports

Key metrics

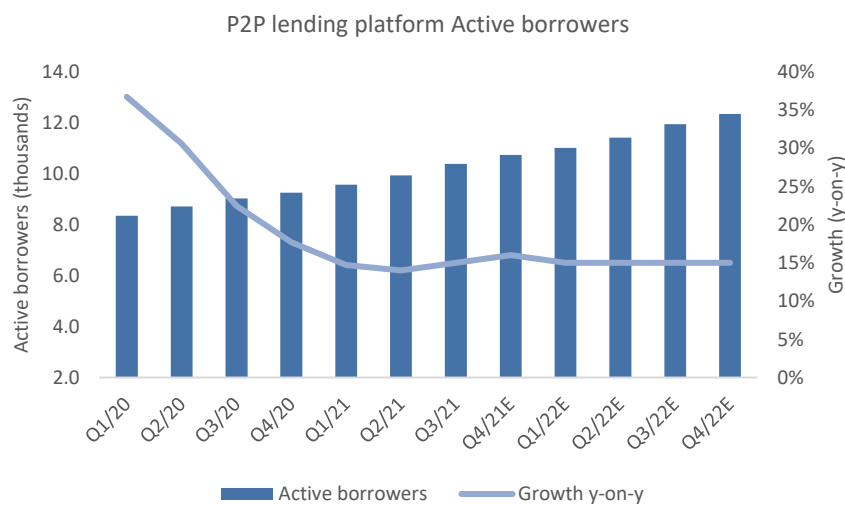
In the long-term, we believe the integration of the P2P and the PIS platform with consumer loan functionality is the key investment factor. In the short-term, we believe the following metrics are the most important:

The number of **Registered borrowers** shows how many potential borrowers that have registered on the NEO Finance P2P lending platform at the end of a period. A registered borrower can de-register from the platform (then excluded from the statistic). At the end of Q3/21, the number of registered borrowers were 94K equal to a growth of 20% y-on-y. We expect the number of registered borrowers to continue to grow by 20% in Q4/21 and 2022.



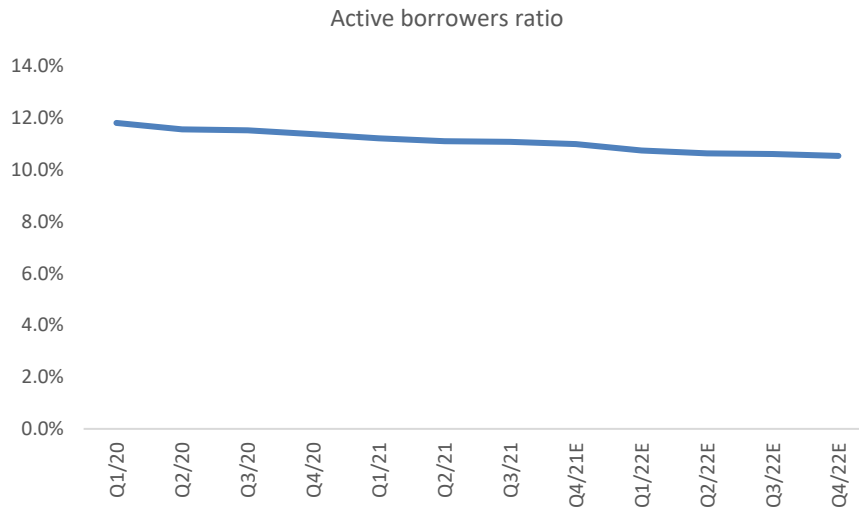
Source: Company reports (historic), Enlight Research (estimates)

The number of **Active borrowers** shows how many registered borrowers that have at least one active loan during a period. An active borrower must register before being able to take a loan. At the end of Q3/21, the number of active borrowers were 10.4K equal to a growth of 15% y-on-y. We expect the number of active borrowers to grow by 16% in Q4/21 and 15% in 2022.



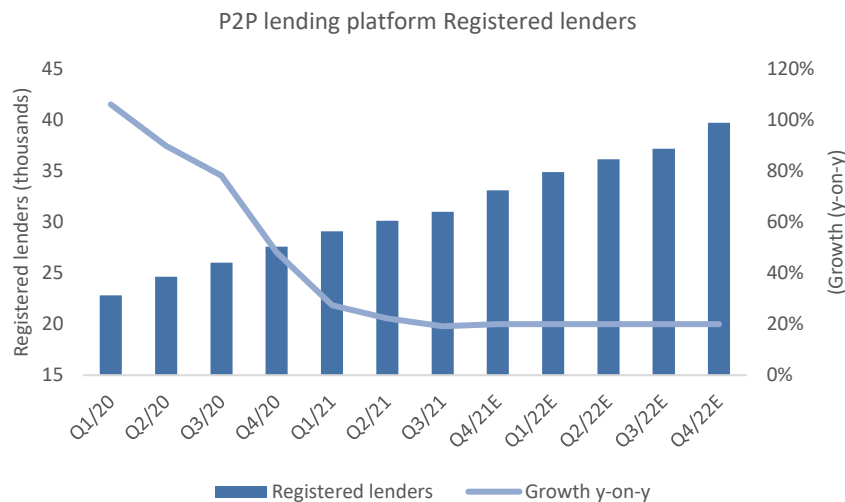
Source: Company reports (historic), Enlight Research (estimates)

The **Active borrowers ratio** show what percentage of the registered borrowers have been active on the P2P lending platform (Active borrowers divided by Registered borrowers). This year, the ratio has been around 11.1%, which is a slight decrease from 2020 when it was 11.4%. In 2022, we forecast the ratio to decrease to 10.5%, and then stabilize around 10% in subsequent years.



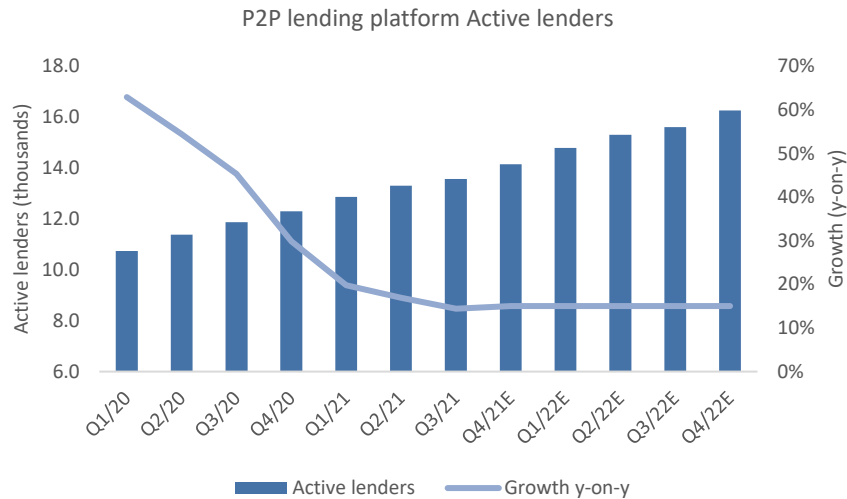
Source: Company reports (historic), Enlight Research (estimates)

The number of **Registered lenders (investors)** shows how many potential lenders that have registered on the NEO Finance P2P lending platform at the end of a period. A registered lender can de-register from the platform (then excluded from the statistic). At the end of Q3/21, the number of registered lenders were 31K equal to a growth of 19% y-on-y. We expect the number of registered borrowers to grow by 20% in Q4/21 and 2022.



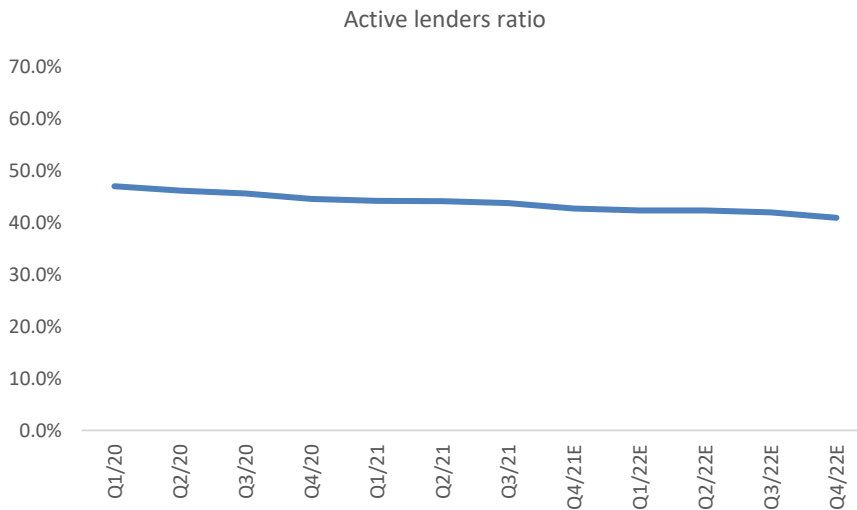
Source: Company reports (historic), Enlight Research (estimates)

The number of **Active lenders (investors)** shows how many registered lenders that have at least one active investment (loan) during a period. An active lender must register before being able to give a loan. At the end of Q3/21, the number of active lenders were 13.6K equal to a growth of 14% y-on-y. We expect the number of active lenders to grow by 15% in Q4/21 and 2022.



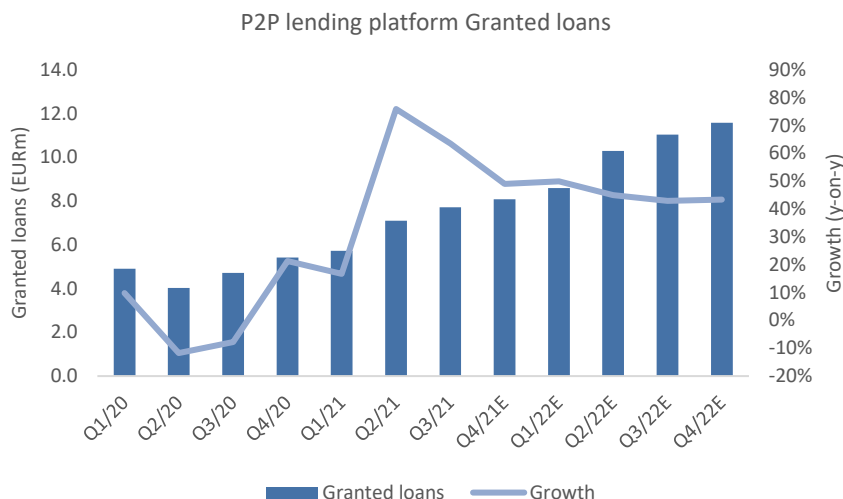
Source: Company reports (historic), Enlight Research (estimates)

The **Active lenders ratio** show what percentage of the registered lenders (investors) have been active on the P2P lending platform (Active lenders divided by Registered lenders). This year, the ratio has been around 44%, which is a slight decrease from 2020 when it was around 44.6%. In 2022, we forecast the ratio to decrease to 41.0%, and then stabilize around 39% in subsequent years.



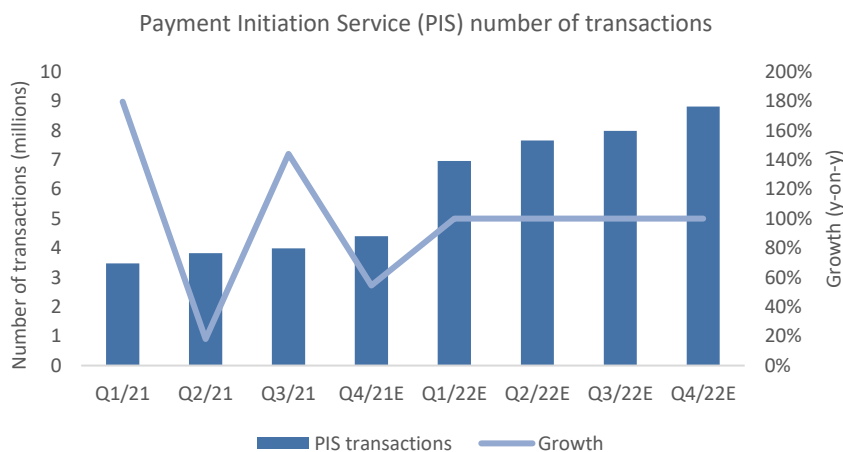
Source: Company reports (historic), Enlight Research (estimates)

The amount of **Granted loans** is the loans intermediated on the P2P lending platform. In Q3/21, the amount of loans granted was EUR 7.7m equal to a growth of 64% y-on-y. In Q4/21, we forecast EUR 8.1m of loans to be granted equal to a growth of 49% y-on-y. In 2022, we estimate the amount of Granted loans to grow by 45% to EUR 41.5m from an estimated 28.6m in 2021. Institutional lenders (investors) are the main driver for our assumed strong growth in granted loans.



Source: Company reports (historic), Enlight Research (estimates)

The number of **PIS transactions** shows the number of transactions made on the Payment Service Initiation (PIS) platform. In Q3/21, and 9M/21, the number of PIS transactions grew y-on-y by 144%, and 85%, respectively. For the full-year 2021, we forecast the number of transactions to grow 75% to 15.7m. In 2022, we forecast the number of PIS transactions to grow 100% to 31.4m.



Source: Company reports (historic), Enlight Research (estimates)

Forecast

Forecast by segment

The publication of the Q3/21 report marks the start of quarterly reporting for the Company (previously reported on a half-year basis). Starting next year, we will make quarterly forecasts. The P2P and Crowdfunding estimates are based on the percentage Intermediary fee in relation to Granted loans. For P2P lending, we assume Granted loans to grow by 40-50% during 2021-23 with a stable Intermediary fee in relation to granted loans of around 10%. For Crowdfunding, we assume Granted loans to reach EUR 2m in 2021, and grow by 350% in 2022, and 75% in 2023, with a stable Intermediary fee around 5%. The PIS estimates are based on the number of transactions and the fee per transaction. This year we forecast the number of transactions to grow 75%, followed by a 100% growth in 2022, and 50% in 2023. The revenue per transactions is expected to decline to EUR 0.04 in 2021 compared to EUR 0.05 in 2020. The revenue per transaction is expected to increase by EUR 0.01 in 2022, and 2023 which is driven by international expansion (Poland) where transaction revenues are higher. The Investment income is estimated to grow by 65% this year, 40% in 2022, and 30% in 2023.

P2P lending (Paskolu Klubas)									
(EURm)	H1/20	H2/20	H1/21	H2/21E	2019	2020	2021E	2022E	2023E
Granted loans	8.9	10.1	12.8	15.8	18.6	19.1	28.6	41.5	58.1
Growth y-on-y	-1.1%	5.8%	43.4%	55.8%	30.5%	2.5%	50.0%	45.0%	40.0%
Intermediary fee income	0.9	0.9	1.0	1.9	1.3	1.7	2.9	4.2	5.8
Growth y-on-y Intermediary fee/Granted loans	21.4%	52.6%	15.8%	124.2%	26.7%	35.0%	69.0%	41.5%	40.0%
	9.9%	8.4%	8.0%	12.1%	6.9%	9.1%	10.3%	10.0%	10.0%
Crowdfunding (FinoMark)									
(EURm)	H1/20	H2/20	H1/21	H2/21E	2019	2020	2021E	2022E	2023E
Granted loans	na	na	0.2	1.8	0.0	0.0	2.0	9.0	15.8
Growth y-on-y	na	na	na	na	na	na	na	350.0%	75.0%
Intermediary fee income	na	na	0.0	0.1	0.0	0.0	0.1	0.5	0.8
Growth y-on-y Intermediary fee/Granted loans	na	na	na	na	na	na	na	350.0%	75.0%
	na	na	9.1%	4.5%	na	na	5.0%	5.0%	5.0%
PIS (Neopay)									
(EURm)	H1/20	H2/20	H1/21	H2/21E	2019	2020	2021E	2022E	2023E
PIS transactions (m)	4.5	4.5	7.3	8.4	3.7	9.0	15.7	31.4	47.1
Growth y-on-y	na	na	62.9%	87.1%	na	140.5%	75.0%	100.0%	50.0%
PIS revenue (EURm)	0.2	0.3	0.6	0.0	0.2	0.5	0.6	1.6	2.8
Growth y-on-y Revenue per transaction (EUR)	na	na	289.0%	-89.5%	na	167.1%	31.9%	150.0%	80.0%
	0.03	0.07	0.08	0.00	0.05	0.05	0.04	0.05	0.06
Growth y-on-y	na	na	138.9%	-94.4%	na	11.1%	-24.7%	25.0%	20.0%
Investment income									
(EURm)	H1/20	H2/20	H1/21	H2/21E	2019	2020	2021E	2022E	2023E
Investment income (EURm)	0.0	0.3	0.1	0.3	0.3	0.3	0.4	0.6	0.8
Growth y-on-y	na	na	na	17.2%	na	4.5%	65.0%	40.0%	30.0%

Source: Company reports (historic), Enlight Research (estimates)

Group forecast

We forecast 2021 Revenues to grow by 66% to EUR 4.1m with a Net profit of EUR 0.2m. For 2022, we estimate Revenues to grow 65% to EUR 6.8m with a Net profit of EUR 0.4m. In 2023, we forecast Revenues to grow 51% to EUR 10.2m with a Net profit of EUR 0.9m. The Operating profit margin is estimated to improve from 5.0% in 2021 to 10.7% in 2023.

Income statement									
(EURm)	H1/20	H2/20	H1/21	H2/21E	2019	2020	2021E	2022E	2023E
Revenues	1.0	1.4	1.6	2.5	1.7	2.5	4.1	6.8	10.2
Other operating income	0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total income	1.2	1.3	1.6	2.5	1.7	2.5	4.1	6.8	10.2
Cost of Sales	-0.8	-0.8	-0.7	-1.6	-1.5	-1.6	-2.3	-3.6	-5.3
Gross profit	0.3	0.5	0.9	1.0	0.2	0.9	1.9	3.2	4.9
General & admin expenses	-0.5	-0.4	-0.9	-0.8	-1.0	-0.9	-1.6	-2.7	-3.8
Other activities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investments parent, subs., assoc.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other LT inv. & loan income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other loans granted interest income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating prof. bef. Impairments	-0.2	0.1	0.0	0.2	-0.8	0.0	0.2	0.5	1.1
Interest expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EAFI	-0.2	0.1	0.0	0.2	-0.8	0.0	0.2	0.5	1.1
Financial impairment costs	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0
Pre-tax profit after impairments	-0.2	0.1	0.0	0.2	-0.9	-0.1	0.2	0.5	1.1
Income tax	0.0	-0.1	0.0	0.0	0.0	-0.1	0.0	-0.1	-0.2
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	-0.2	0.1	0.0	0.2	-0.8	-0.1	0.2	0.4	0.9
Growth									
	H1/20	H2/20	H1/21	H2/21E	2019	2020	2021E	2022E	2023E
Revenue growth y-on-y	40.8%	46.5%	70.5%	61.8%	na	44.1%	65.5%	65.4%	50.6%
Total income growth y-on-y	58.1%	33.6%	37.0%	91.5%	na	44.1%	65.9%	64.9%	50.6%
Margins									
	H1/20	H2/20	H1/21	H2/21E	2019	2020	2021E	2022E	2023E
Gross margin	33.5%	37.2%	56.2%	38.5%	11.1%	35.7%	45.3%	47.0%	48.0%
Operating profit margin	-16.4%	9.5%	-0.3%	8.3%	-47.3%	-1.3%	5.0%	7.7%	10.7%
EAFI margin	-16.8%	9.5%	-0.7%	8.3%	-47.3%	-1.5%	4.8%	7.6%	10.6%
Pre-tax profit margin	-16.8%	7.3%	-0.7%	8.3%	-51.1%	-2.8%	4.8%	7.6%	10.6%
Net margin	-16.8%	3.6%	-0.7%	7.1%	-48.8%	-4.9%	4.1%	6.4%	9.0%

Source: Company reports (historic), Enlight Research (estimates)

Valuation

Peer valuation

We divide our NEO Finance peers into two groups, the P2P lending peers and the PIS peers. The number of listed companies in both groups are limited, especially for the PIS group, where we have found only two much larger listed peers. The P2P peers consist of smaller European players and much larger US players. Based on P/Sales 2021E, the P2P peers are homogenous with a Peer average of 4.7x or 3.3x excluding extreme values (Raize). With a 2021 estimated P/Sales multiple of 2.7x, NEO Finance is trading at a discount to P2P peers of 17% excluding extremes, and 41% including extremes (Raize).

The PIS peers consist of large US players (although Klarna founders are Swedish it is based in the US) and one European player (Adyen). NEO Finance P/Sales 2021E multiple of 2.7x implies a discount of over 90% to PIS peers (P/Sales 32.8x), but a straight comparison is hardly relevant given the much larger size of the PIS peers - all have valuations above USD 40bn (private companies' valuation are based on the last available information mentioned on public websites).

One could argue there is hidden value in the NEO finance P2P peer valuation stemming from a conservative way of reporting sales. While most peers report around half of their outstanding future intermediary fee income in the period the loan was signed, NEO Finance reports sales when the interest payment is made i.e., no future intermediary fees are reported in the income statement. According to our calculation, the sales would be 30-40% higher in the forecast period 2021-23 if the company would report according to industry standards. Worth noting is that we have not accounted for these hidden sales in our estimates nor peer valuation but recognize there is a potential hidden value if the company were to change sales reporting principles.

P2P peers

Company	Ccy	Price (last)	Mcap (m) (last)	P/Sales 2020	P/Sales 2021E	P/Sales 2022E	P/Sales 2023E	EV/EBITDA 2020	EV/EBITDA 2021E	EV/EBITDA 2022E	EV/EBITDA 2023E
Fellow Finance	EUR	3.10	22	2.0	1.9	1.6	1.4	27.6	19.0	10.8	8.4
Raize	EUR	1.50	8	13.6	11.5	9.9	8.4	na	na	na	na
Funding Circle Hld.	GBP	1.44	515	5.0	2.4	2.2	2.0	neg.	7.8	9.0	7.6
LendingClub Corp.	USD	38.94	3,889	12.3	4.9	3.5	2.8	neg.	26.5	15.4	12.0
LendingTree	USD	127.73	1,703	1.9	1.5	1.4	1.2	16.9	15.8	11.9	9.1
FundedByMe	SEK	1.16	82	5.4	5.9	5.5	5.1	neg.	82.3	63.3	51.5
Average				6.7	4.7	4.0	3.5	22.3	30.3	22.1	17.7
Median				5.2	3.6	2.8	2.4	22.3	19.0	11.9	9.1
Avg. excluding extremes				3.6	3.3	2.8	2.5		17.2	11.8	9.3

PIS peers

Company	Ccy	Price (last)	Mcap (m) (last)	P/Sales 2020	P/Sales 2021E	P/Sales 2022E	P/Sales 2023E	EV/EBITDA 2020	EV/EBITDA 2021E	EV/EBITDA 2022E	EV/EBITDA 2023E
Adyen	EUR	2334.50	71,954	105.2	71.9	52.0	38.6	171.6	112.5	79.7	55.8
Klarna	USD	na	45,600	na	42.0	na	na	na	na	na	na
Stripe	USD	na	95,000	na	12.8	na	na	na	na	na	na
Square	USD	179.72	82,900	8.7	4.7	4.3	3.6	173.5	82.6	75.5	48.8
Average				57.0	32.8	28.1	21.1	172.6	97.5	77.6	52.3
Median				57.0	27.4	28.1	21.1	172.6	97.5	77.6	52.3
Avg. excluding extremes					19.8						
NEO Finance	EUR	2.78	11	4.3	2.7	1.7	1.1	neg	27.8	17.5	10.3

Source: MarketSreener, Enlight Research (NEO Finance), CNBC (Klarna), Crunchbase (Stripe),

DCF valuation

We use our DCF model to back-check our motivated peer based valuations. To reach our Base case motivated share price of EUR 3.61, we need to assume a terminal EBIT margin of 15.3%. To reach our Bear case motivated share price of EUR 2.90, we need to assume a terminal EBIT margin of 12.6%, while a terminal EBIT margin of 17.5% is needed to reach our Bull case motivated share price of EUR 4.21. Worth noting is that the only assumption that changes between our scenarios is the terminal EBIT margin (see table below for assumptions under the different scenarios and DCF sensitivity table).

DCF Valuation Scenarios	Bear	Base	Bull
WACC	9.5%	9.5%	9.5%
Sales CAGR 2020-26	28.0%	28.0%	28.0%
Terminal sales growth	2.5%	2.5%	2.5%
Avg. EBIT margin 2020-26	9.5%	9.5%	9.5%
Terminal EBIT margin	12.6%	15.3%	17.5%
Fair Value per share	2.90	3.61	4.21
Upside/Downside (last price)	4%	29%	50%
Last price	2.80	2.80	2.80

Source: Enlight Research

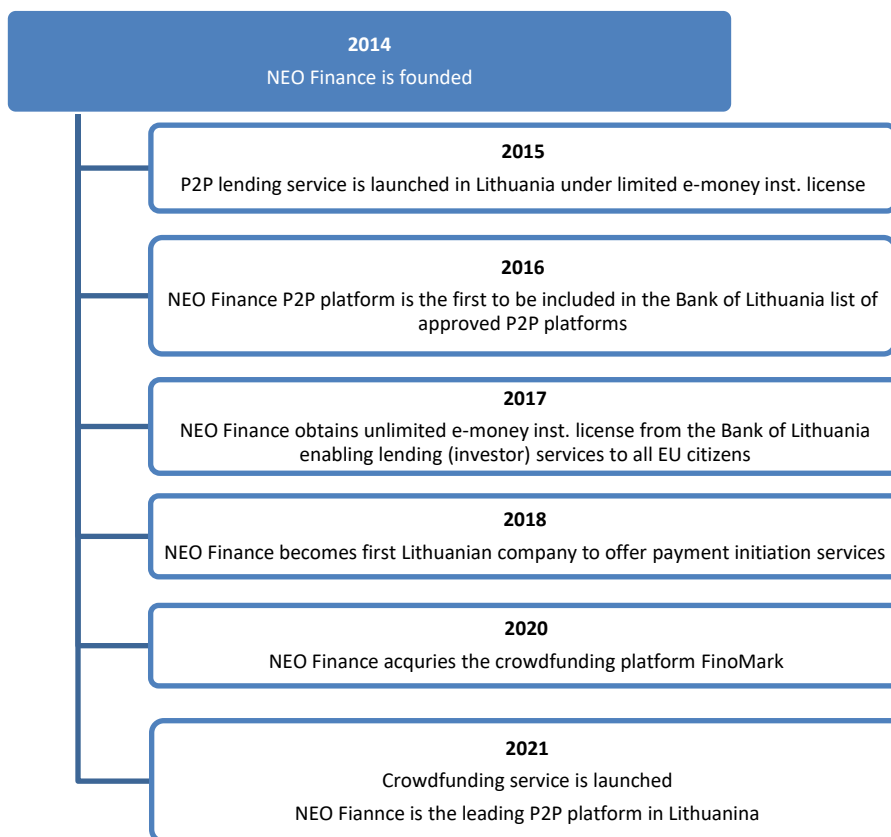
Sensitivity parameters	Current		Test values & Results										
	Current	Step	0.87	0.92	0.97	1.02	1.07	1.1	1.17	1.22	1.27	1.32	1.37
Equity beta	1.12	0.05	0.87	0.92	0.97	1.02	1.07	1.1	1.17	1.22	1.27	1.32	1.37
<i>Fair value (DCF)</i>	3.61		4.19	4.06	3.94	3.83	3.72	3.61	3.51	3.41	3.32	3.23	3.14
Target debt ratio*	45.0 %	5.0 %	20%	25%	30%	35%	40%	45%	50%	55%	60%	65%	70%
<i>Fair value (DCF)</i>	3.61		2.47	2.66	2.87	3.09	3.34	3.61	3.92	4.26	4.65	5.09	5.60
Riskfree IR	2.5 %	0.5 %	0.0 %	0.5 %	1.0 %	1.5 %	2.0 %	2.5 %	3.0 %	3.5 %	4.0 %	4.5 %	5.0 %
<i>Fair value (DCF)</i>	3.61		4.98	4.66	4.36	4.09	3.84	3.61	3.40	3.21	3.03	2.86	2.71

Source: Enlight Research, *Debt / (Debt + Equity)

Company description

History

NEO Finance was founded in 2014 by the current main owner and Chairman of the Management Board, Evaldas Remeikis. Following the establishment of a P2P legal framework in Lithuania in 2015, the Company launched its P2P lending services under a limited e-money institution license. In 2016, NEO Finance’s P2P platform became the first platform to be included in the Bank of Lithuania’s list of approved P2P platforms. In 2017, the Bank of Lithuania granted an unlimited e-money institution license for the Company, enabling it to offer its services to lenders (investors) who are citizens in an EU country. In 2018, NEO Finance became the first company in Lithuania to offer a payment initiation service (PIS) under the EU Payment Services Directive (PSD2). In 2020, the Company acquired the crowdfunding platform FinoMark, which started operations in 2021 when the Bank of Lithuania included it in the list of approved crowdfunding operators. Today, NEO Finance is the leading P2P platform in Lithuania with over EUR 86m in mediated loans since inception.



Source: Company reports

Business Model

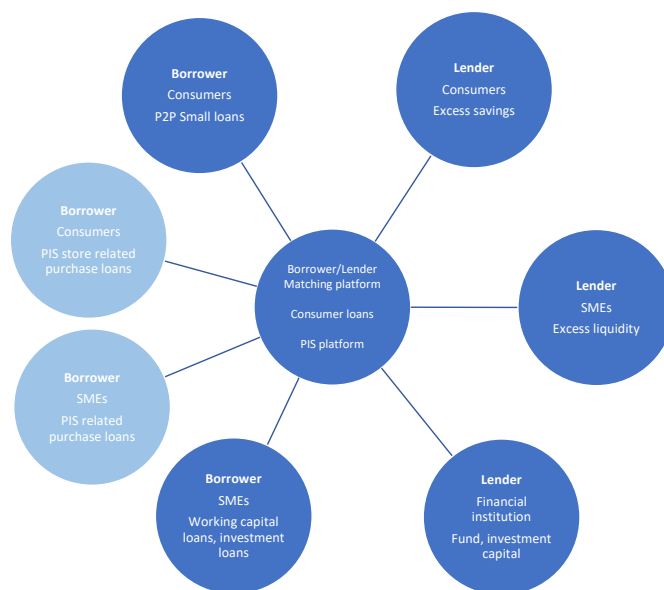
Neo Finance business model’s main objective is to earn a fee by making it easy for borrowers and lenders (investors) to find a counterparty i.e., match lenders and borrowers. The payment initiation service (PIS) has potential to enhance the business model by enabling a consumer loan option to its clients using the Company’s P2P lending platform as a source of capital. The consumer loan functionality is not yet part of the PIS platform, but we believe it is a natural add on. The services are currently packaged according to below offerings:

P2P lending offered under the **Paskolu klubas** brand name. This service match private borrowers with lenders (investors). The lenders could be private individuals, companies, and/or institutional investors (funds). In the future, when the P2P platform is integrated with the PIS platform (including consumer loan functionality), borrowers could finance online purchases with help of the NEO Finance P2P and PIS platforms (see light circle below “Borrower Consumers”).

Crowdfunding offered under the **Finomark** brand name. This service enables companies (SMEs) to get loans (working capital loans, investment loans etc.) funded by private individuals, companies, and institutional investors. Worth noting is that this service differs from P2P lending in numerous ways i.e., it is not just a P2P platform with companies being the borrower instead of private individuals. Some examples of how crowdfunding loans are different are (a) stricter rules on how a project must be presented to investors, (b) use of collaterals, personal guarantees, (c) more variety of payments schedules e.g., bullets, and (d) no buy-back possibility.

Payment initiation service (PIS) offered under the **Neopay** brand name. This service enables companies (online retailers/service providers) to offer its clients easy and secure online payments based on the Neopay PIS platform, which is integrated with banks via an API (EU Payment Services Directive - PSD2). The consumer loan functionality has yet to be launched. We believe this is the next step for the PIS service as it would enhance the borrowing-lending (P2P) matching platform.

Neo Finance Business Model



Source: Enlight Research

Shareholders

According to the listing document, the largest shareholder, UAB Era Capital (71.65%), is equally owned by the NEO Finance founder, Evaldas Remeikis, and Aiva Remeikiene. The second largest owner, Grigory Gurevich (9.79%), is a Russian IT entrepreneur who sold his company, R-Keeper, in 2019 (R-Keeper offers IT solutions for restaurants, and is well established in Russia, Baltics, Germany, Hungary, Czech Republic and other CEE countries, as well as in Asia). The third largest owner, UAB Value Capital (3.65%), is owned by the Lithuanian citizen Deividas Tumas. The main shareholders of the fourth largest owner, Asian Pacific Green Energy PTE. LTD (2.57%), are Antanas Danys, and Lina Daniene with 16.6% each.

NEO Finance shareholders as of 31 Dec 2020

Shareholder	Shares (m)	Percent
UAB ERA Capital	2.779	71.65%
Grigory Gurevich	0.380	9.79%
UAB Value Capital	0.142	3.65%
Asian Pacific Green Energy PTE. LTD	0.100	2.57%
Other shareholders	0.479	12.34%
Total	3.878	100.00%

Source: Company Annual report 2020

Risk factors

Below risks is not a complete list of risks related to NEO Finance, but rather a list of risks that we view as the most important to highlight given the current environment and our investment case. For examples of additional risks, we recommend reading the IPO Information document.

Integration of P2P and PIS platform

Our investment case envisions an integration of the P2P lending platform and the PIS (payment initiation service) platform with consumer loan functionality added. If for some reason, this integration is not possible to implement, then our forecast is most likely too optimistic.

Consumer loan offer

The consumer loan service is not yet launched. The ability to launch this service might be dependent on regulatory approval. If for some reason a consumer loan service cannot be launched, our forecast is most likely too optimistic.

Institutional investors

Our forecast assumes that the company can attract additional institutional lenders (investors). If this is not possible, it is most likely not possible to grow the granted loans according to our forecast.

Regulatory risk

The Company operates in a regulated market under licenses granted by the Central Bank of Lithuania. A major change in the regulations and/or a breach resulting in a loss of a license could affect the prospects of the Company significantly.

Income Statement	2019	2020	2021E	2022E	2023E
Net sales	1.7	2.5	4.1	6.8	10.2
Total operating costs	-2.5	-2.5	-3.6	-6.0	-8.9
EBITDA	-0.8	0.0	0.5	0.8	1.4
Depr. & Amort.	0.0	0.0	-0.3	-0.3	-0.3
EBIT	-0.8	0.0	0.2	0.5	1.1
Financial net	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	-0.8	0.0	0.2	0.5	1.1
Taxes	0.0	-0.1	0.0	-0.1	-0.2
Minority interest	0.0	0.0	0.0	0.0	0.0
Other items	-0.1	0.0	0.0	0.0	0.0
Net earnings	-0.8	-0.1	0.2	0.4	0.9

Balance Sheet	2019	2020	2021E	2022E	2023E
Cash and cash equivalent	4	7	8	9	15
Receivables	0	1	1	1	2
Inventories	0	0	0	0	0
Other current assets	0	0	0	0	0
Total current assets	4	8	9	10	17
Tangible assets	0	0	0	1	1
Goodwill & intangible assets	1	1	1	2	2
Lease & Investment properties	0	0	0	0	0
Long-term Investments	2	2	2	2	2
Associated companies	0	0	0	0	0
Other long-term assets	0	0	0	0	0
Total fixed assets	3	3	3	4	5
Total Assets	7	11	12	14	22
Accounts payable	0	0	0	0	0
Short-term IB debt	4	8	8	10	16
Other current liabilities	0	0	0	0	0
Total current liabilities	4	8	8	10	16
Long-term IB debt	2	1	1	2	3
Convertibles & Lease liab.	0	0	0	0	0
Deferred tax liab.	0	0	0	0	0
Provisions	0	0	0	0	0
Other long-term liab.	0	0	0	0	0
Total long-term liab.	2	1	2	2	3
Total Liabilities	6	9	10	11	19
Minority interest	0	0	0	0	0
Shareholders' equity	1	1	2	3	3
Total liabilities and equity	7	11	12	14	22

DCF valuation	Cash flow, mEUR		
WACC (%)	9.54 %	NPV FCF (2020-2022)	-1
Assumptions 2020-2026 (%)		NPV FCF (2023-2029)	5
Avg. sales growth	24.44 %	NPV FCF (2030-)	13
Avg. EBIT margin	11.86 %	Non-operating assets	7
Fair value per share (EUR)	3.61	Interest-bearing debt	-9
Share price (EUR)	2.80	Fair value estimate	15

Free Cash Flow	2019	2020	2021E	2022E	2023E
EBIT	-0.8	0.0	0.2	0.5	1.1
Depr. & Amort.	0.0	0.0	0.3	0.3	0.3
Change in working capital	-0.2	-0.4	0.2	-0.4	-0.5
Other Operating CF items	0.0	0.0	0.0	-0.1	-0.2
Operating Cash Flow	-1.0	-0.5	0.6	0.3	0.7
Net investments	-0.6	0.0	-0.8	-1.1	-1.2
Other items	0.0	0.0	0.0	0.0	0.0
Free Cash Flow	-1.5	-0.5	-0.2	-0.8	-0.5

Capital structure	2019	2020	2021E	2022E	2023E
Equity ratio	15.3%	13.7%	17.4%	18.2%	15.8%
Debt / Equity ratio	531.0%	610.1%	466.5%	443.4%	528.1%
Gearing %	170.0%	124.2%	75.4%	95.3%	84.4%
Net debt/EBITDA	-2.3	-56.5	3.4	3.1	2.1

Profitability	2019	2020	2021E	2022E	2023E
ROE	-83.1%	-9.5%	9.4%	18.9%	30.7%
FCF yield	-12.1%	-4.8%	-1.7%	-7.4%	-4.3%
EBITDA margin	-47.3%	-1.3%	11.3%	11.6%	13.5%
EBIT margin	-47.3%	-1.3%	5.0%	7.7%	10.7%
PTP margin	-47.3%	-1.5%	4.8%	7.6%	10.6%
Net margin	-48.8%	-4.9%	4.1%	6.4%	9.0%

Valuation	2019	2020	2021E	2022E	2023E
P/E	-15.2	-88.5	67.1	25.7	12.2
P/E adjusted	-15.2	-88.5	67.1	25.7	12.2
P/Sales	7.4	4.3	2.7	1.7	1.1
EV/Sales	8.5	5.1	3.1	2.0	1.4
EV/EBITDA	-18.0	-386.1	27.8	17.5	10.3
EV/EBIT	-18.0	-386.1	63.2	26.3	13.0
P/BV	11.8	7.2	5.4	4.4	3.3
P/BV tangible	35.8	19.6	12.5	14.0	10.9

Per share ratios	2019	2020	2021E	2022E	2023E
EPS	-0.21	-0.03	0.04	0.11	0.23
EPS, adjusted	-0.21	-0.03	0.04	0.11	0.23
Operating CF/share	-0.25	-0.12	0.15	0.08	0.17
Free Cash Flow/share	-0.38	-0.13	-0.05	-0.21	-0.12
BV/share	0.27	0.37	0.52	0.63	0.85
Tangible BV/share	0.27	0.37	0.52	0.63	0.85
Div. per share	0.00	0.00	0.00	0.00	0.00
Div. Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%

Shareholders	Capital	Votes
UAB ERA Capital	8.078	71.65 %
Grigory Gurevich	1.104	9.79 %
UAB Value Capital	0.412	3.65 %
Asian Pacific Green Energy PTE. LTD	0.290	2.57 %

Key people	
CEO	Paulius Tarbunas (pending)
CFO	
IR	Dariusz Borisas
Chairman	Evaldas Remeikis

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

Disclaimer

Enlight Research OÜ's main valuation methods are discounted cash flow valuation and peer valuation with common multiples such as Price to Earnings, Enterprise Value to EBITDA, dividend yield etc. Aforementioned methods are used to estimate a company's fair value according to the following three scenarios: Bull (positive), Base (main scenario), and Bear (negative).

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