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B2 Impact ASA (B2I.NO)

Q1 2024 Earnings Call

### CORPORATE PARTICIPANTS

André Adolfsen

Chief Financial Officer, B2 Impact ASA

Erik Just Johnsen

Chief Executive Officer, B2 Impact ASA

### MANAGEMENT DISCUSSION SECTION

[Abrupt Start]

### **Unverified Participant**

...and committed for end of Q1. And we believe that this will take us to the target. And if there's more investments coming this way, the opportunities, we will be able to extend our investments beyond what we did last year.

We are in very strong financial positions. We have delivered steady results over a longer period of time, and both rating agencies has improved our rating. And when we the issued our bonds this quarter, the NOK 100 million and NOK 50 million, we see that we have received improved margins on those issues.

Our loan leverage give us good room for growth going forward, and we are thus able to invest more than we did invest last year without this having a particular impact on our leverage going forward. Note also that we sold Hungary. It was in May, so this will be reported in May in the second quarter. But we are continuing taking way to countries that are not core for B2.

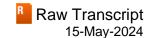
Priorities going forward, selective investment approach and also further reduce our cost on our debt that

André will touch upon and followed continued focus on footprint.

Going over to our key Going over to our key figures for Q1. Cash collection was again strong at NOK 1.273 million. Also under unsecured performance, 105% for the quarter. And going into the second quarter, it looks even stronger. So, good start of the year when it comes to collection and we see most of our markets are in over performing.

Portfolio investments NOK 1 billion with a committed and expend – expanded investment on investment this first quarter. We – we NOK 290 million of those are expense but we also have around NOK 800 million that is committed to capital. Cash EBITDA again strong NOK 905 million. Should also be noted that our book value of equity per share is NOK 16 at the end of Q1.

Q1 2024 Earnings Call



Now, what we've been talking about several quarters, and this has effect going forward, is that we see that the OpEx ratio is coming down. This is due to also that, we've been taking down the FTE cost and reduced our FTEs numbers to a large extent, but we haven't reduced it as much – the FTE cost as much as it can look on on a board because we have increased some of our fixed costs with related to data analytics.

So, we have a little bit more fixed cost going forward and a much higher scalability. When we are then going to increase our investments going forward, we also will have a much higher scalability on our operations. And this is important. This is one of the driving forces going forward.

Now, B2 Impact is uniquely positioned to capitalize on the opportunities. It's three things that is the driving force behind this. You have indicated returns on the portfolios on the – on the graph to the left-hand side. We believe that the competitive environment as well as we see that the NPL volumes are coming up as well as Stage 2 loans are coming up and stage 2 – conversion from Stage 2, that is the stage before we have built level Stage 3 is coming up, and the conversion rate there is around 25%.

All this indication – indicates that we will have more portfolios going forward and will have more performers coming to market. At the same time, we see that quite a bit of competition is lower in some of some of the markets, giving better opportunities for B2.

The second thing is that the funding costs are coming down. Two elements there. The market rate, the risk rate is coming down in a general manner. That is anticipated by the market or the macroeconomic indicators. Also, the margin for B2 is coming down. So, there's two elements why funding cost for B2 will come down going forward.

And then, it comes back to the third element that I talked in the previous slide. Scalability of operation is coming up And with better opportunities, we will buy more. We have full intention of increasing our purchases going forward. That will increase also the scalability of our operations due to the fact that we have done – taken the measures necessary to improve our operations.

Now, together this with, we have countries, 17 countries still. We have two on run off one and in addition I one of them – those has been sold in the quarter but we do have also see that our focus is on 10 to 12 markets. When we concentrate on the purchases going forward on those markets, we will achieve the scalability that I was talking about. And as well as we see that our improved margins and low cost of capital, this will have a positive effect going forward.

So the core unsecured markets still use economies of scale and continue focus on efficiency and optimization. And this is going to also be one of the driving force going forward.

And with that, I'll leave the word over to André, to go through the financial performance. Thank you.

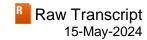
#### André Adolfsen

Chief Financial Officer, B2 Impact ASA

Thank you, Erik, and good morning, everyone. So, let me first draw your attention to the Q1 report, which is now in a new and cleaner format. Our goal has been to simplify the report. The number of financial KPIs have been reduced. Aligned with report and presentation to a larger extent, and provide clarifying tables throughout the material.

tables throughout the material. Hopefully, you will find B2's financial development and performance somewhat easier to understand and that the key messages will be clear.

Q1 2024 Earnings Call



For the first quarter, we are very pleased with the underlying business performance and we see, as Erik point out, a very strong trend in collection performance. We also see that our actions on both operational costs, but more importantly the interest costs are impacting the quarter positively compared to previous periods. I also want to highlight that during the material and the presentation, we will focus on deviations in constant FX and pro forma adjusted for the sale of Bulgaria.

So, moving into the financial highlights of the quarter. The first quarter delivered strong collections with positive trend in our collection performance, and we saw a 4% growth in unsecured collections compared to last year. The unsecured collection performance came in at 105% of the latest forecast, and we are pleased to see a further positive trend into the second quarter. Secured cash collections came in at NOK 265 million, which includes NOK 96 million related to sale of [indiscernible] 00:09:37. This is in line with the collection level we had last year despite no new investments and secured in the period.

Important to note that we have repossessed fewer assets in that we have repossessed fewer assets in the quarter compared to last year, amounting to NOK 38 million lower repossessions, which are reported as collections last year. But they have no cash impact.

Consequently, you will see a negative effect on a comparable basis on a reported EBIT compared to last year. But as you can see from the cash EBITDA, we are collecting more actual cash this quarter compared to the same quarter last year.

The cash collected from joint ventures in the quarter was around NOK 15 million to low compared to the collection performance, which is related to a delayed extraction of cash from one of the joint ventures. And this will be part of the second quarter cash flow.

The underlying operating expenses are trending down. And as you can see from Erik presentation on personnel, we have made many initiatives to improve efficiency and we now see personnel costs compared to last year down 4%, again, in constant FX and on a comparable basis pro forma adjusted for Bulgaria.

We did incur higher legal collection costs in the quarter, which are related to the higher collection level on unsecured, but is mainly driven by positioning for tax refunds in the coming periods. We expect these investments in OpEx to yield a positive return for the company in the coming quarters.

In terms of the underlying cash EBITDA, as mentioned we – we had some delays in cash flow from one of our joint ventures. If you include that cash, we had an underlying cash EBIDTA in this quarter of NOK 920 million, which is an increase of 2% compared to last year.

In the fourth quarter presentation back in February we presented a target to notably reduce our interest costs during this year. We have already seen a clear impact in the first quarter with interest costs reduced by 10% compared to the end of 2023. And I will come back to more details and further progress on the interest costs later in the presentation.

Our investments came in at NOK 290 million for the quarter. This is in line with normal seasonality and the same level as we had last year. In the first quarter last year, we reported investments of NOK 767 million and this included NOK 435 million of investments that were booked in that quarter, but was signed in the fourth quarter of 2022.

Q1 2024 Earnings Call



In addition to the Q1 investments of NOK 290 million, we also have an additional commitment for the remainder of the year of NOK 700 million, taking the investment – invested and committed amount to NOK 1 billion for 2024.

Moving on to page number 10, we elaborate a bit more on the collection, performance and trends in the quarter. We have seen an overall very strong collection performance with a positive trend in unsecured election performance in particular. The performance in unsecured was 105% compared to the latest forecast, which is up compared to previous periods and as mentioned, the observed collection so far in Q2 confirms this positive trend.

Secured cash collections remained stable with claims collected and real sold comfortably above our book values. The REOs was NOK 96 million in the quarter and sold at a comfortable margin to book value of 51%. I just want to highlight also that the spike you see on the bottom left in secured collections in the fourth quarter last year was related to the collection of the group's largest single claim of NOK 500 million.

So, moving on to page 11 and the cash generation for the quarter. Cash earnings came in for the quarter at NOK 371 million. This is after adjusting for portfolio investments, interest cost and tax. The positive cash earnings resulted in the further reduction in debt and the reduction of leverage to 1.86 in constant FX. We expect strong earnings in the coming quarters as well driven by the positive trends that we're seeing in collection performance, lower underlying OpEx and reduced interest cost. The low leverage, coupled with strong cash generation, provides a very solid foundation for investment growth in 2024.

On slide – on page 12, we elaborate more on the operating expenses. Over the last four months, we have seen the cash revenue grow by 8% with the corresponding OpEx increase of 3%. In the first quarter of this year, we saw a increase in revenue of 2% with that – with the corresponding OpEx increase of 3%. A very important to note that the underlying cost base has been reduced in this quarter compared to last year with personnel expenses down 4%.

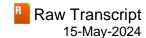
The increase in the quarter is driven by activity-based costs related to unsecured collections, mainly legal collection costs in order to maximize the cash from tax refunds in some of our core unsecured markets. While this is expected to support the positive collection fund observed so far in the second quarter. And just to highlight, this is not a recurring cost but an investment in higher collections.

In the first quarter, we made additional actions to extract efficiencies. We have made further reduction in central cost and we have further reduced the group's footprint. We have the non-recurring items of NOK 6 million in connection with these initiatives.

On page 13, some more details on the collect performance in terms of investments in the quarter. As mentioned, the investments was NOK 290 million, but we have an additional NOK 700 million committed for the remainder of the year. All investments are related to unsecured assets. Due to the sizeable secured collections we had in the fourth quarter, but also the strong monetization of the secured book over a three year period, the secured ERC has declined more than 30% compared to last year and is now 17% of the total remaining ERC.

The unsecured ERC is now 83% of the total and we saw a growth in – in unsecured ERC of 3% compared to last year in line with the group's communicated investment strategy. On page 14, an update on the group's capital structure. We issued a new bond of €100 million in January this year with the maturity in 2028. The bond was placed at a notable improvement in credit spreads, moving the curve of B2 Impact below 500 basis points compared with the previous issue at 690 basis points.

Q1 2024 Earnings Call



Later in the quarter, we increased the size of this facility to €150 million and we further improved the spreads to an indicative 461 basis points. We have also, during the quarter, fully repaid the senior facility agreement with PIMCO.

As you can see on the bottom left, following the refinancing of bonds in the quarter, we see a positive trend in interest expense and a reduction of interest costs and commitment fees of 10% compared to the end of last year for Q4 2023. The credit rating has also been improved and is now among the most solid in the industry.

So, we would like to elaborate a bit more on the target and status of the target that we set at the end of 2023 in terms of lowering our interest cost. Now, we demonstrated in the quarter that the hard work to delever over the recent years and to reduce cost has given us the ability to successfully issue new debt improved terms.

Going into this year, we consequently set a target to significantly reduce our interest cost compared to the run rate at the end of 2023. We target a lower annual run rate of NOK 200 million during this year. Now, I want to highlight that this target is fully based on company-specific actions and is not dependent on any potential lowering of the floating interest rate.

We intend to utilize the improved credit breadth. We will extend the RCF during the year. We will maintain the hedging ratio above 50% which we have done in the first quarter. And we will have reduced costs going forward related to repaying the senior facility agreement.

We are well on track to achieving this target and we expect at the end of the second quarter to have achieved more than 50% of the target set. We expect the full target to be achieved either during the third or the fourth quarter, depending on timing and availability of the bond market. But we are happy to see that we are already – already have a positive impact on interest rates and we expect that trend to continue, as mentioned, then into the second quarter to reach more than 50% of this target already in the next quarter.

With that, I leave the word back to Erik.

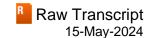
#### Erik Just Johnsen

Chief Executive Officer, B2 Impact ASA

Thank you very much. Just to summarize a little bit where B2 stands, we have a strong collection performance. The online back book is performing very well, both on the secured side, but also on the unsecured side. And going into second quarter we can also say that the unsecured is continuing to positive trend that we've seen in previous quarters.

The scalability and underlying costs for B2 Holding is coming down and the scalability is coming up. And few markets means also that we are able to do the investments and have a higher return on those investments in those markets that we invest in. We have a strong financial position, which is also leading us to have the possibility to go beyond and invest beyond what we could last year without having any notable effect on the leverage ratio or on – on the debt structure.

Lower cost of funding is – is just, as I said, looks very positively back on track or on track to achieve the goals earlier than anticipated, what we said last quarter. And also then the last part, it's a favorable market with the expected high returns and we also then see possibly higher volumes coming to market.



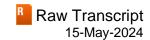
Now, this is – now it is always that the second and the fourth quarter is good. But we also anticipate volumes, addition to – to what we've seen in the previous years coming to market. So, looks good for B2. And on that, I – we close them, we take them in the Q&A for those that want to ask questions. [indiscernible] 00:24:46?

### **QUESTION AND ANSWER SECTION**

Thank you, André.
Operator: [Operator Instructions]
A
That was the AI speaker. Thank you. We will then open for questions. You can, as previously – as in previous quarters, you can use the chat. We will reduce – receive some questions. But if there are live callers, we would then ask for them to ask questions now as we will start with them. So, unless there are – if there are any live callers, we will then continue to the – to the chats.
A
Okay. So far, no live questions, then, we will continue to the chat. We will then start with question from [indiscernible] 00:25:54. Should some of the higher external costs in the quarter be considered NRIs? How much do you expect external costs to be in the second quarter?
Δ
So, these are absolutely not NRIs. These are not recurring costs every quarter. It's a deliberate action to increase collections in a period where we expect to test refunds – tax refunds to be important for some of our markets, and we have deliberately pursued this strategy to increase collections. I think the only thing we can say is that this has impacted already positively the second quarter.
A
Thank you. And then, a follow-up question from [indiscernible] 00:26:48. Do you provide some more information on the size of your Hungarian portfolios, both book value and the ERC? Will this allow you to further reduce OpEx?

The book values are small. As we noted earlier, what we have done in Hungarian market, and I told you earlier that we had about €3 million in Hungarian market, the book value now is €2 million. So, it's a very small market.

Q1 2024 Earnings Call



And those small markets, we've been scaling down and extracting the cash flow from those markets. So, this is just ending what we have started already some years ago by – by deliberate in not investing and just expecting the cash flows market. So, the book value is €2 million, so it's a small market. There's no P&L impact exiting.

A

And it will have on the bottom line a positive impact. So, yes, there will be a cost saving and we can come back to that. But on the bottom line, this is accretive to B2.

Very good. And question from a shareholder, I assume. How will lower market rates influence the results, everything else the same. Well, yeah, obviously, a lower interest cost will have a positive impact on our bottom line. I guess it's just to understand the dynamics of the [indiscernible] 00:28:37, but fair enough.

Okay. Let's go to the next analyst [indiscernible] 00:28:44. How confident [indiscernible] 00:28:49 on new portfolio investments will increase from 2024 to 2025? Would you be happy with an investment level of NOK 3 billion to NOK 4 billion in the coming years, or can you go higher?

A

Well, that's – we had a goal of €2.5 billion to €3 billion investment last year. We made that within that target and we have around the same target this year. But we can extend investments beyond that without having any particular impact on leverage of debt level of B2. So, if the opportunity comes by and we see the opportunity as accretive to B2's performance, we will of course invest more beyond what we did investment last year.

А

Very good. Then, we have a question from [indiscernible] 00:29:49 for Pareto. Could you elaborate on the SFA facility? Does it remain available or will it be terminated or cancelled?

A

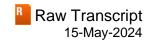
What we can say is it is rebate and the reinvestment facility that we had under the SFA was terminated at – in April or expired in April and will no longer carry on and the commitment is in the second – second quarter. So, we do not anymore have a facility to draw on the SFA.

A

Thank you. Then we have another question related to the leverage ratio, what leverage ratio is B2 in comfortable with? And has the company reevaluated its investment targets for 2024? Can you also give some color on the company's strategy for a bit longer term outlook, for example, 2025 and 2026?

A

Q1 2024 Earnings Call



I think Erik, more or less answered the target on the investments in the previous question and we'd probably add that we're targeting a minimum of the same level as last year and we clearly aim to increase our purchases and that will of course at some point increase the leverage. But of course, we're at the level we are at today is not the level we want to be at. We clearly want to increase our investment level. But for the next 12 months our investment level. But for the next 12 months, given the strong cash flow that we've had and continue to have, we can increase our investments notably NOK 3 billion, still have a leverage around 2. So, I think the answer to the question is we're very comfortable with increasing the leverage, but we do not want to increase the leverage too high, and we are at the level now when – where B2 can invest over time more than what we've done in previous years and maintain a low leverage at the same time.

A

Thank you, André. We still don't have any live questions. If you have any live questions, press star then 5. We have one.

Operator: The next question comes from Hakon Astrup from DNB Markets. Please go ahead.

**Hakon Astrup** 

Good morning. Two questions from me. The first one, just a quick follow-up on your – regarding on interest rates. So, just to understand, when you are saying NOK 300 million in lower run rate interest costs, not assuming short-term rates at current levels, so the short term rates declined from where it is today, but shouldn't be more than NOK 200 million, is that correct?

А

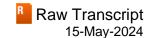
Yes. So, all else equal, we're – in terms of the floating rate, we're targeting to reduce the margin -the blended margin or our overall outstanding facilities. And of course, there's also other elements as improving our cash management setup throughout all our markets throughout all our markets where we expect to also have some reductions in interest expense.

Perfect. Very clear. And then just...

Δ

Yeah. Please go on.

Yeah. And then just the question on your hedging strategy going forward. Will you now – say, how will you hedge your new portfolio – new portfolio acquisitions and how would you, say, target your hedging ratio going forward?



A

So we don't necessarily hedge specific investments. We hedge our outstanding interest expense. And as we point out in the material, our target is to continue to have a high degree of – of hedging ratio above 50%, which we still do have at the end of this quarter at 53%.

We – we had some hedges that matured in the first quarter, and we have made new ones in this quarter. So, we currently have more than 50% coverage with maturity above on average, above two years. So – so the clear strategy is to continue to make sure that we have transparency and visibility into our interest expense.

Q

So, what will determine if it's an increase it's from more from this level? Is it the attractiveness of hedge or is there other consideration about how that impacts – impacts whether you'll increase it further from where it is today.

A

It's always the balance. You obviously want to have you obviously want to have some transparency and visibility, but you also want to have some flexibility. So, hedging 100% may not always be the perfect solution. So, it's a balance of striking that flexibility and transparency. We are quite happy with where we are right now.

Perfect. Thank you very much.

Δ

Sure.

### **Unverified Participant**

Thank you, [indiscernible] 00:35:57 And I think we are – we have finalized all the questions. So, with that, we can conclude this first quarter presentation. If you have any questions that comes to your mind after this presentation, feel free to contact us. My contact details, you can find on the last page of the presentation.

So, with that, thank you very much and we will see you again in August.

### **Unverified Participant**

Thank you very much.

Q1 2024 Earnings Call



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