

Management report

4Q20 was an exceptionally busy and successful quarter for VEF, within the context of a challenging but rewarding year for the firm overall.

In the final quarter of 2020, we successfully raised fresh equity capital of USD 61 mln, took up our rights in Creditas' landmark fundraising valuing the company at USD 1.75 bln, and closed the year with our share price and NAV per share reaching record highs. While always confident of the long-term value creation path we are on, the achievements of 4Q were a really positive way to end the year, especially given the headwinds and uncertainty of outlook faced at the outset of the COVID-19 crisis through 1H20.

4Q20 record NAV mark – capital raise and Creditas to the fore

We end 2020 with a NAV per share of SEK 3.83, up 6% QoQ and 8% YoY. Total USD NAV ended the year at 388 mln, 45% QoQ and 56% YoY. Total USD NAV uplift of USD 120 mln QoQ was in part driven by fresh capital raised of USD 61 mln and in part by portfolio valuation uplift, with Creditas the notable engine of growth. Looking back on 2020, post the 1Q20 COVID-19-triggered downward revision of our NAV, we have experienced a gradual recovery and return to growth of our NAV through the 2Q–4Q20 period. This trend was driven by a mix of positive company-level performance, recovery of market benchmark multiples and a broadly stronger FX trend versus the USD through 4Q20. On a portfolio level, Creditas accounted for the majority of the NAV uplift during the quarter. Creditas' valuation mark was upped 66% in 4Q20 in USD terms, post their USD 255 mln Series E funding round, in which VEF participated, taking up our rights of USD 25 mln. The round valued Creditas at USD 1.75 bln and our c. 10% position in it at USD 169 mln. Besides Creditas, Finja also closed a fresh financing round of USD 9 mln, bolstering the company's valuation, but more importantly, leaving the company exceptionally well-placed to grow its Pakistani digital loan marketplace through 2021.

Portfolio highlights – Creditas grabbed the headlines, Konfío impressive performer

Creditas' 4Q20 USD 255 mln Series E funding, at a USD 1.75 bln post money valuation, is yet another milestone for VEF's north star investment. Creditas delivered BRL 600 mln loan originations and BRL 232 mln in revenues for the 9M20 period, doubling YoY despite COVID-19 headwinds. With the core Brazilian secured lending business on a very healthy growth trajectory, management is gradually expanding the product suite around the key three verticals (auto, home, payroll) in Brazil and recently launched in Mexico. On a path towards IPO, Creditas will now start to share quarterly results of key operational metrics, with the objective of increasing transparency to the market, something which we welcome as a listed investment company. Creditas is now 44% of our NAV.

Konfío was arguably our most impressive holding in 2020, especially given the space/country it operates in and the natural macro/credit headwinds that came with COVID-19. The asset quality stress test was managed extremely well, and while most credit businesses were in defence mode in 2020, Konfío used the window to expand their product offering into a broader range of financial services, including credit as a service, and has just closed an ERP acquisition. They are first out of the blocks in terms of credit growth in 4Q20, which is delivering better quality clients at lower CACs. Konfío has all the hallmarks of being our next Creditas and we plan to back Konfío harder on its path to being the number one digital financial services provider for SMEs in Mexico.

Beyond our big two assets, there are so many positive sub-stories within the portfolio from 2020. TransferGo is top three in our NAV and was one of the clearest COVID-19 beneficiaries in our portfolio. FinanZero has created the number one digital loan brokering platform in Brazil (while still being early days) and is well-placed to replicate the success of Lendo in Sweden. Juspay has had a strong first year of life in our portfolio and has only increased our appetite for more assets in India. Revo and Jumo, two of our longest holdings, came through 2020 exceptionally well and are in the best position they have been since we invested, to add significant value for us in 2021. Revo is profitable and Jumo within a whisker of it. Indeed, much of the portfolio has had a very strong 2020, laying the groundwork for an exciting 2021 and beyond.

One new investment in 2020 and pipeline very healthy for 2021

In 2020 we added one new asset, a first investment into India – Juspay – and had no portfolio exits. We had a very busy 2H20 for pipeline versus the relatively quiet 1H20 period and we continue to be encouraged by the fresh quality opportunities coming through. We have engaged with over 130 companies in 2020 – and beyond the closure of Juspay, expect to close more investments off the back of this groundwork in 2021. Geographies of focus remain Brazil, Mexico, India, Pakistan and Egypt. Sectors getting more relative focus include secured lending, all things small business, the employee/payroll ecosystems, accounting SaaS and payments.

Successful capital raise leaves us well positioned for continued investment

2020 was a busy year on the investor front as we put in increasing virtual mileage to spread the word on the VEF story. We work with most of the leading investment banks and have a healthy following amongst LatAm funds, EM small cap funds, financials funds and the broader Swedish investment community. Today, we have formal research coverage from four different brokers, partly via sponsored research, which has been a very positive experience with real impact. All this laid the ground work for our successful share placement in 4Q20, where we raised USD 61 mln with the support of existing and new investors, to continue with our investment mandate.

We close 2020 with our share price 37% above YE19, 132% up from 1Q20 lows, our average daily volume over the last three months is now comfortably USD 250k, with a number of USD 1 mln volume trading days over this period. VEF has been trading at a premium to NAV for the longest period since inception. Over the five years to YE20, VEF has delivered 26% and 30% NAV per share and share price CAGR, respectively.

Our business – more robust, with more options than ever

We are building the VEF investment business for the long term, and I like to think we made good use of the 2020 crisis window. We redirected COVID-19 cost savings into the look and feel of the business including our website, company rebranding, reporting, sponsored research and an incremental analyst hire. As a business, we are simply in a much better position at the end of 2020 than just a year ago. Looking ahead, we have a lot more options open to us given our size, shape, track record and experience, which is probably the most exciting aspect of this moment.

Concluding remarks

At VEF, we invest in fintech across the emerging world, and are riding one of the strongest multi-year secular growth trends in some of the world's fastest-growing markets. That said, 2020 was a year with more twists and headwinds than most. While we continuously take on board the human and macro impact of the pandemic, VEF and our companies have benefitted from the step-change growth in digital adoption by all. On a micro level, we have been impressed with how our portfolio of companies survived and then thrived through this period, something which has played out in 2020 through our quarterly NAV performance. We end 2020 post one of our most successful quarters to date, with a record NAV per share and market cap, a strong cash position and our first unicorn in Creditas. It is hard not to be optimistic as we look into 2021 and beyond.

February 2021,
Dave Nangle