EQUITY RESEARCH – COMMISSIONED RESEARCH
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Financials
Initiating coverage
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2 September 2020

DNB MARKETS

ESG insight

VOSTOK EMERGING FINANCE

Scarcity value with upside potential

VEF offers rare access to: 1) leading VC fintech companies in emerging markets; and 2) a strong NAV value creation track record. We see several potential NAV catalysts by 2021e that could make investors more confident in the medium-term NAV growth prospects. Although it is not a low-risk investment, we like the investment opportunity evolving in VEF and initiate coverage with a fair value of SEK2.6–4.2/share.

Rare VC access to one of the most attractive emerging fintech markets. Vostok Emerging Finance (VEF) is an investment company that lends access to scarce VC fintech in scale emerging markets. In our view, Latin America (~75% of its portfolio) is one of the world's most interesting structural fintech opportunities, where VEF owns the leading equivalents to proven business models such as Klarna, Tink, Lendo, Betterment, Fortnox, etc., and taps into a addressable market opportunity of USD22bn (~SEK190bn). We believe emerging markets can benefit disproportionally from fintech innovation by leapfrogging traditional high-margin banking services – the oligopolistic Latin American banking market is particularly vulnerable to new fintech entrants.

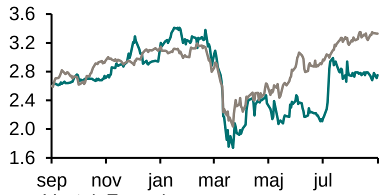
Delivering on key aspects of the equity story. VEF has a track record of generating substantial shareholder value (NAV IRR of 23% since 2015), and is building traction in the investment community from recent successful portfolio exits (Tinkoff Bank at 65% IRR, iyzico at 57% IRR). We believe VEF is well positioned to crystallise further value, where consumer-lending holdings Creditas and Konfio are potential high-value companies in the making and hold the largest short-term potential (49% of NAV), which could boost VEF's NAV by 45%+ by 2022e. Also, with a solid net cash position of USD20m (9% of NAV), we believe it has ample resources to support its portfolio in further funding rounds, as well as carry out share buybacks.

Investors still struggling to tap into emerging market (EM) fintech. Institutional capital has been pouring into private, illiquid investments in search of alternative sources of return. The few listed EM fintechs are trading at all-time highs and we believe VEF's portfolio of 12 leading EM fintechs, diversified by geography, business model and stage of development, lends scarcity value. Also, we highlight an ESG angle as VEF offers exposure to the wealth catch-up from financial inclusion in EMs (increasing accessibility to and affordability of financial services for under-served, low-income and SME segments) where its portfolio is an indirect facilitator for most of the UN's SDGs.

Covid-19 stress-testing VEF's crisis-ready holdings. We are encouraged that its portfolio fared well during the Covid-19 stress-test, focusing on sustainable revenue growth, extending cash runways, asset quality, etc., and believe the portfolio is well positioned to take market shares post-Covid-19 as structural fintech trends accelerate.

Initiating coverage with a SEK2.6–4.2/share fair value, based on: 1) a 10% discount to reported NAV; 2) an IRR of 15% by end-2022e for VEF's holdings (versus its 30% IRR target); 3) a multiple of 4x on invested capital, and a 20% cost of capital using an exit period six years from its initial investment; and 4) our 2022e NAV, based on peer multiples. We apply a 10% discount to our NAV in all valuation scenarios (currently 6%) to reflect a higher risk profile due to VEF's VC-stage portfolio, somewhat offset by recent investment successes demonstrating its shareholder value-creation potential.

VEMFsdb versus OMXS30 (12m)



Source: Factset

SUMMARY

Share price (SEK)	2.75
Tickers	VEMFSDB SS, VEMFsdb.ST

CAPITAL STRUCTURE

No. of shares (m)	661.5
No. of shares fully dil. (m)	663.7
Market cap. (SEKm)	1,819
NIBD adj end-2020e (USDm)	-20
Enterprise value adj (USDm)	191
Free float (%)	100

Source: Company, DNB Markets (estimates)

Note: Unless otherwise stated, the share prices in this note are the last closing price.

NEXT EVENT

Q3 2020	04/11/2020

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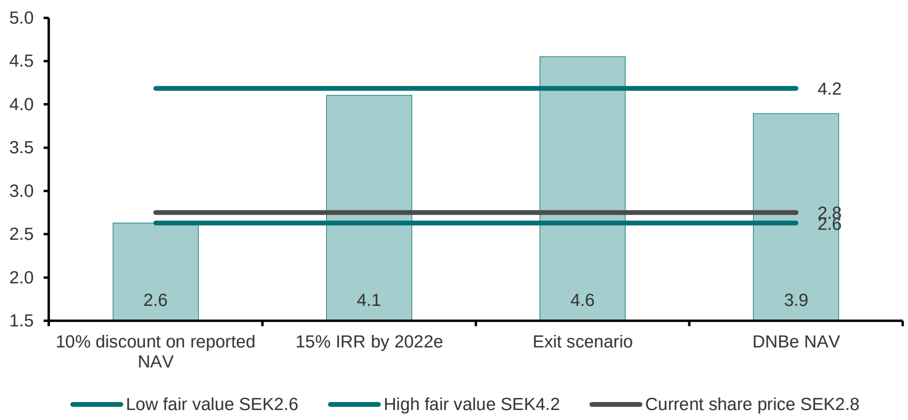
ANALYSTS
Joachim Gunell

Overview

Valuation (SEK)



Source: DNB Markets

Valuation methodology

- Our SEK2.6–4.2/share fair value is based on: 1) a 10% discount to reported NAV; 2) a target IRR of 15% by end-2021e for its holdings (versus its 30% IRR target); 3) a multiple on invested capital of 4x and 20% cost of capital using an exit period six years from its initial investment; and 4) our 2021e NAV based on its respective holdings' peer multiples.
- We apply a 10% discount to NAV target in our valuation scenarios. VEF is currently trading at a 6% discount to NAV (versus its five-year average of 19%).

Source: DNB Markets

Downside risks to our fair value

- Low disclosure of early-stage private assets (financial, KPIs, cash-burn etc.) adds valuation uncertainty.
- As VC valuations correlate, albeit with a time lag to public markets, it could trigger a change to the narrative and risk assessed for high-growth loss-making VC investments with little fundamental valuation support if public valuations deteriorate, resulting in private investment impairments, etc.
- Additional capital need to fulfil its current funding pipeline in combination with new investments.
- Emerging markets carry greater risks in terms of politics, financial stability, and FX (USD versus BRL, MXN, RUB, EUR, and ZAR). Still, VEF's main exposure is to USD/SEK as it invests and reports in USD, but the NAV/share and share price are in SEK, where a weakening of USD (and stronger SEK) should have a negative impact. Accordingly, VEF's benefits from a weak SEK and strong USD.
- Failure to retain key persons in the management team and BoD in order to secure the best deal flow.

Source: DNB Markets

DNB Markets estimates

- VEF has a track record of generating substantial shareholder values (NAV IRR of 23% since 2015) and is building traction in the investment community from recent successful portfolio exits (Tinkoff Bank exited at 65% IRR, iyzico at 57% IRR in 2019).
- With a solid net cash position of USD20m (9% of GAV), we believe it has firepower to support its portfolio in future funding rounds.
- Creditas and Konfio hold the largest short-term potential to unlock value and move the needle for VEF's NAV (today comprising 49% of its GAV) which on a stand-alone basis could boost VEF's NAV by 45%+ by 2021e, according to our analysis.
- VEF is clearly not a low-risk investment, but lends scarce access to VC in some of the most interesting fintech markets. The LatAm-tilted portfolio holds leading versions of proven western business models such as Klarna, Tink, Lendo, Betterment, Fortnox etc., providing rare exposure to wealth catch-up from financial inclusion in emerging markets.

Source: DNB Markets

Upside risks to our fair value

- Value crystallisation from portfolio exits at attractive terms. We believe VEF strives for 30% IRRs and returns of invested capital of 3–5x.
- New funding rounds (and potentially IPOs in the medium term) in its existing portfolio winners could drive positive NAV revisions from valuation uplifts, which should increase investor appetite, as seen historically.
  - Financing rounds generally take place every 18 months.
  - Short-term potential NAV catalysts: Creditas, Konfio, Finja, FinanZero, and Nibo.
- VEF is improving its communication and documentation of how its fintech investments can generate a positive social impact by increasing accessibility and affordability of financial services in under-served segments, which could increase ESG investor appetite.
- We believe VEF will continue to make share buybacks when it trades at a 20–25%+ discount to NAV.

Source: DNB Markets

ESG overview

Sustainability assessment

	Positive	Negative
Conclusions	■ The capital VEF injects into fintech investments can generate a positive social impact by increasing accessibility and affordability of financial services, especially for under-served segments (low- and middle-income, and SMEs) that are ignored by traditional banks. ■ Other key ESG considerations from its portfolio holdings relate to responsible lending and debt prevention, increased client transparency and fair advice. Also, there is a layer of energy efficiency from its digital distribution models.	■ Domiciles in Bermuda and Cyprus (considered tax havens) could hurt its governance rating. Granularity in how it presents and discloses ESG considerations have until late been relatively poor. ■ VEF's holdings increase access to credit for under-served segments, which we argue acts as a substitute for traditional lending in segments which would otherwise resort to informal or expensive lending. Still, a change in consumer behaviour with rapidly growing consumer debts in emerging markets could reduce financial stability.
Actions being taken by company	■ With sizeable minority stakes of 10–20% and board representation, VEF has the ability to influence its holdings' directions. Its fintech portfolio is an indirect enabler of almost all the UN's SDGs by 2030, but a direct enabler of SDG 1, 2, 4, 5, 8, and 10, with increased financial inclusion and literacy via less expensive financial services.	■ As VEF is increasingly communicating and providing documentation regarding how it leverages finance as a force of good in emerging markets, we believe its ESG assessment should improve over time. Also, we do not rule out that it could change to a more modern and ESG-compatible governance structure.
Key ESG drivers Short-term	■ Good examples where VEF's holdings' offers remove barriers for financial inclusion are: ■ JUMO's mobile money marketplace gives the low-income population and SMEs in Africa and Asia access to financial services (who are otherwise excluded from the financial system). ■ Creditas and Konfio help to materially lower borrowing costs in markets which have some of the highest interest rates in the world. ■ Xerpa allows employees to withdraw portions of their salary before payday in Brazil, where tens of millions Brazilians resort to predatory credits to meet their cash needs till the next pay cycle. ■ TransferGo dramatically reduces the remittance transaction costs for blue-collar workers sending money cross-border to families back home.	■ The evolution in borrowing behaviour and large-scale adoption of consumer loans could increase credit losses, lessen consumer protection and comprise financial stability risks in VEF's markets. ■ VEF's parent company domicile is Bermuda (considered a tax haven), while the holding company is registered in Cyprus (corporate tax rate 12.5%), having copied the historical Vostok Nafta structures in its split from VNV in 2015. As corporate tax responsibility and disclosure are increasingly becoming a leading governance consideration, it could hurt its ESG assessment, in our view. ■ Our interpretation is that VEF's management is aware of this from a governance perspective, and we do not rule out that it could change to a more modern and ESG-compatible governance structure in the coming years.
Long-term	■ VEF has the greatest impact on ESG considerations by being an active and responsible owner. Our analysis suggests VEF is increasingly developing its own ESG competence (from investment screening to board decision-making), and we expect it to place high expectations on its portfolio holdings to drive such trends, mainly focusing on the social aspects of financial inclusion of the underbanked population in emerging markets at lower cost.	■ The key to VEF's success is the networks of its skilled management in order to identify successful fintech entrepreneurs and source the best investment ideas. Its future success could depend on its ability to retain and attract new talent. Thus, it is important to have compensation guidelines in line with VC/PE fund benchmarks. VEF's board of directors has a discretionary mandate to pay extraordinary bonuses to key employees upon substantial shareholder value creation (exits, etc.)

Source: DNB Markets

Contents

ESG overview 3
Summary of positives 5
Summary of negatives 6
Company overview 7
Vostok Emerging Finance in the fintech ecosystem 9
Drivers underpinning fintech adoption 9
Factors holding back fintech adoption in emerging markets 14
Potential revenue pool of ~SEK190bn 15
Venture capital point of view 17
Favourable exit environment…until February 2020 21
Covid-19 impacts for VEF 24
Covid-19 implications for its portfolio holdings 25
Investment strategy and targets 27
Portfolio overview 31
Creditas (36% of VEF's portfolio) 32
Konfio (13% of VEF's portfolio) 35
Juspay (6% of VEF's portfolio) 37
Nibo (5% of VEF's portfolio) 38
Magnetis (3% of VEF's portfolio) 40
FinanZero (3% of VEF's portfolio) 42
Finja (1% of VEF's portfolio) 43
Xerpa (2% of VEF's portfolio) 45
JUMO (3% of VEF's portfolio) 46
REVO (5% of VEF's portfolio) 47
TransferGo (10% of VEF's portfolio) 48
GuiaBolso (4% of VEF's portfolio) 50
Financials 53
Net asset value 53
Management costs 54
Balance sheet and cash flow 55
Valuation 58
Overview 58
NAV overview 59
Valuation methodology 60
Peer group multiples 62
Discount to NAV 64
Fair valuation of VEF 66
Appendices 73
Company history 73
Management and board 73
Ownership 75
FX and sensitivity analysis 76
Important Information 80

Summary of positives

Secular growth opportunity from emerging market fintech evolution

We believe the receptiveness and market opportunity for fintech is particularly attractive in VEF's emerging markets (with LatAm comprising ~75%), due to a large underbanked population (allowing for scalability), and tech-savvy young population (more likely to adopt fintech solutions). In our view, emerging markets may benefit disproportionally from fintech innovation by leapfrogging traditional banking services. With growing smartphone and internet access (acting as key delivery mechanisms), the door for financial inclusion opens up, while incumbent banks have long neglected the growing lower-, middle-income and SMEs, spurning innovation for high-margin retail banking products. This makes the oligopolistic banking markets' profit pools (wide interest-rate margins, high lending rates, transaction costs etc.) rather vulnerable for fintech entrants that can lower spreads/fees, improve transparency, foster financial inclusion and operate with a leaner cost structure, in our view.

Brazil is one of the most interesting structural fintech opportunities, in our view…

With the portfolio maturing, we note potential value catalysts

Our analysis suggests that VEF's portfolio holds the emerging market versions of proven western fintech models such as Klarna, Tink, Lendo, Betterment, and Fortnox, etc., which taps into a potential addressable market opportunity of USD22bn (~SEK190bn), in our high-level breakdown of its sub-sector segments in: 1) lending; 2) payments; and 3) other fintech (accounting SaaS, wealth management, digital banks, mobile wallets, comparison websites, personal finance management, etc.). Our analysis suggests consumer lending companies Creditas and Konfio hold the largest short-term potential to unlock value and move the needle for VEF's NAV (today comprising 49% of its GAV) by 45%+ by 2022e. In addition, its early-stage holdings (Juspay, TransferGo, Nibo, Magnetis, FinanZero, and Finja) could drive material NAV growth long-term (3–5 years+), if they maintain their current 3–5x top-line CAGRs.

…and VEF owns the emerging market versions of Klarna, Tink, Lendo, Betterment, and Fortnox, tapping into an addressable market of over USD22bn…

VEF's venture capital portfolio offers scarcity value…

According to Blackrock's 2020 institutional rebalancing survey, institutional capital has been pouring into private illiquid investments in search of alternative sources of return. With few publicly listed fintechs in emerging markets, it remains challenging for investors to gain access to this theme. With a portfolio of 12 emerging market fintech holdings, diversified by geography, business model, and stage of development, we argue that VEF has attractive scarcity value, offering exposure to the wealth catch-up from financial inclusion in EMs. With USD20m in net cash (9% of GAV), it is well-capitalised to support its holdings in future funding rounds, and adding new investments, in our view.

…lending investors' scarce access to VC fintech in emerging markets

…and a solid exit track record, which is key to the narrative

Exits at attractive returns is key to the investment story in VEF, and it is building traction, having started to realise substantial values in 2019 it had built since inception in 2015 via successful exits (Tinkoff Bank at 65% IRR, iyzico at 57% IRR). While it could prove hard to match the first generation of successful exits, management remains focused on building the next wave of value creation. In our view, VEF is well positioned to crystallise further shareholder value, and its NAV IRR of 23% since 2015 validates its track record.

Management has a track record of creating substantial value through exits and high returns on invested capital (average of 4.7x from two exits)

EM and fintech experience across management and board of directors

VEF was relatively early in 2015 to chase the fintech opportunity in emerging markets, before it became a target market for global investors with larger international funds. In addition, its heritage from Vostok New Ventures (and previously Vostok Nafta) means it enjoys a strong reputation and brand among emerging market entrepreneurs. While the organisational set-up is quite small and reflects a rather concentrated portfolio, VEF can leverage the combined breadth of its management's and board's network, and extensive emerging market and financial services experience, to identify and source the best investment ideas in its regions.

Management and board with extensive emerging market and financial services backgrounds

Summary of negatives

Rare VC exposure, but the risk profile is high

There are inherent risks fintech VC investing in emerging markets, in our view. Given the early-stage nature of VEF's portfolio, it can provide almost no financial disclosure and operational KPIs of its holdings, as well as for competitive reasons. To us, this limits financial forecast visibility, cash burn, etc., which increases valuation uncertainty as investors seldom have the time for the deep-dive required to fully appreciate VEF. Risks related to audit and regulation are higher in the fintech space, we believe. Moreover, VC investing means high illiquidity risk (once you are in, you could be in for good), and while we do not expect a lack of potential interest for high-quality assets (such as Creditas and Konfio), VEF may not be able to exit its investments according to plan. As VEF primarily invests in equity, there is also risk that there will be no recoveries in the event of bankruptcy of individual portfolio holdings.

VEF is clearly not a low-risk investment, due to the very nature of the early-stage VC businesses in which it invests

Lofty VC valuations after more than a decade-long fintech market boom

The private-market orchestra has been playing for a decade, as the VC market is strongly correlated to the stock market, albeit with a slight lag leading to sustained imbalances after a correction. Following a protracted stock market boom for over a decade until 2020, risk appetite has increased, with record capital allocated to private VC markets (potential over-crowding from institutions allocations and investors such as Softbank), resulting in high investment activity and lowered investment standards (difficult to maintain a disciplined investment approach), leaving fintech valuations stretched. Unlike the 2000 IT bubble, many of the fintech unicorns have revenues, but in most cases earnings are still far in the distance. If stock market conditions deteriorate, valuations contract, and private investments get impaired, it should in our view trigger a change to the narrative regarding the risk of VC investments, especially for emerging markets, which could hamper VEF's exit opportunities.

VC fintech valuations are sky-high, which could reverse if stock market conditions deteriorate, hampering VEF's exit opportunities

High funding need of its portfolio holdings

As VEF's network of new deal opportunities expands and its current portfolio matures, it has grown its rate of investments, both in terms of number and average deal size (USD10m–20m). Historically, VEF has funded new investment via rights issues (USD69m in 2015), but as it has been able to make two cash realisations from portfolio exits (USD152m to date), balancing net investments, its FCF burn averaged USD0m in 2018–2019. It is currently well-capitalised, with a net cash position of USD20m, suggesting ample room to support its holdings in the current pipeline of future financing rounds. Should it choose to have a more opportunistic pipeline or in the absence of major realisations, it would imply a need for further financing (either via equity as seen historically or bonds, as seen with its older sibling VNV).

Further funding could be needed if it chooses to be more opportunistic, but for now it has a strong balance sheet

There are inherent risks from investing in emerging markets

The appeal of emerging markets is clear in terms of their greater potential growth rate, and for VEF a structural wealth catch-up, but they also face greater risks to political and financial stability, while lacking the corporate governance structure of developed markets. 2018–2019 were banner years for Brazilian fintech equities, with the IPOs of Stone, PagSeguro, and XP. Still, Brazil's deep recession in 2015–2016 and the current political turmoil across many Latin American countries are examples of the macroeconomic volatility presented by emerging markets. We also believe that adverse FX effects (stronger USD versus BRL, MXN, RUB, EUR, and ZAR) could have an impact on VEF's results, as we do not believe VEF engages in any hedging. Also, as it invests and reports in USD, while its share price is in SEK, a weaker USD (and stronger SEK) should have a negative impact, in our view.

Emerging markets carry greater political, default, and FX risks

Key-person risk

VEF's holdings are start-ups growing at 3–5x per year in many cases, where the entrepreneurs behind the business models are often a dominant force. Such fast growth and dependence on entrepreneurs adds execution and key-person risks, in our view. Moreover, the key to VEF's success is the professional networks of its skilled management and board of directors in order to identify successful fintech entrepreneurs and source the best investment ideas. Its future success could depend on its ability to retain these persons, making it important to have compensation guidelines in line with VC/PE fund benchmarks for key persons, in our view.

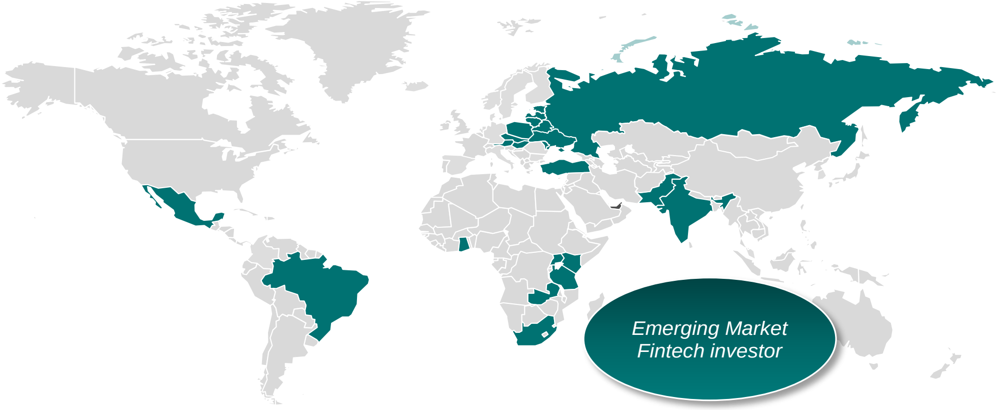
Vital to retain key persons in the management team and board of directors in order to secure the best deal flow

Company overview

VEF is an investment company lending investors rare access to VC fintech in emerging markets

Having been spun-out of Vostok New Ventures in 2015, Vostok Emerging Finance (VEF) is a Swedish investment company entirely dedicated to invest in growth stage (VC) private fintech companies operating in scale emerging markets. Its target markets (mainly in Latin America) are in pole position to benefit from fintech adoption, as their large populations are largely 'unbanked' today, whereas penetration of technology (smartphone and internet access being key delivery mechanisms) is reaching a critical mass, while the current oligopolistic financial market structures mean that disruptive consumer-oriented technology can lower the cost of financial services, which are among the highest in the world, and drive financial inclusion.

Figure 1: Emerging market fintech investor with a heavy Latin America focus



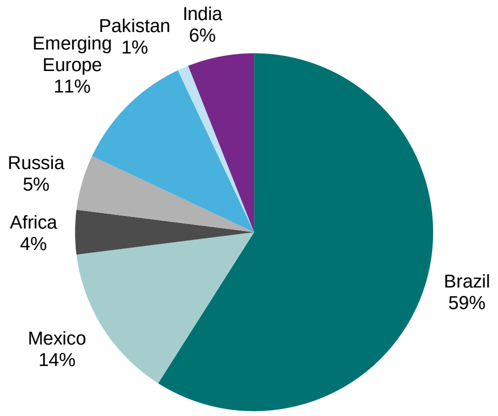
Source: DNB Markets

An active owner with board representation in each of its holdings, striving to find and support the best entrepreneurs behind the business model in each market

VEF often takes 10–20% ownership stakes and focuses on backing the entrepreneurs behind the business models, targeting the wealth catch across all lines of fintech sub-sectors including payments, credit, mobile money and financial marketplaces, etc. Today it has a portfolio of 12 holdings diversified by geography, business model, and stage of development, and enjoys a strong brand among emerging market fintech entrepreneurs, which we attribute to:

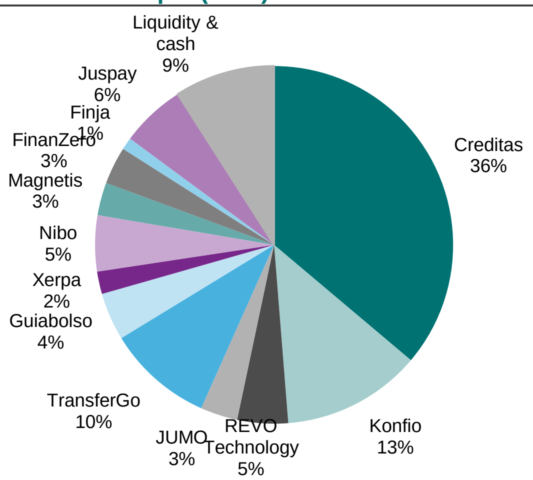
- Being a listed investment company, VEF has access to permanent capital, which means entrepreneurs will not have to worry that it will force an exit before time. (VEF partnered with Tinkoff Bank for almost 14 years).
- With its deep sector expertise and network in emerging markets throughout the world (versus local VCs), it can compare business models, traction, economics, valuation, etc.
- VEF is comfortable with taking a long-term view in the often-volatile world of emerging markets, and can aid its holdings via deep experience of capital-raising processes.

Figure 2: Geographical split ex cash (2020)



Source: Vostok Emerging Finance

Figure 3: Portfolio split (2020)



Source: 2345234

Figure 4: Vostok Emerging Finance portfolio overview

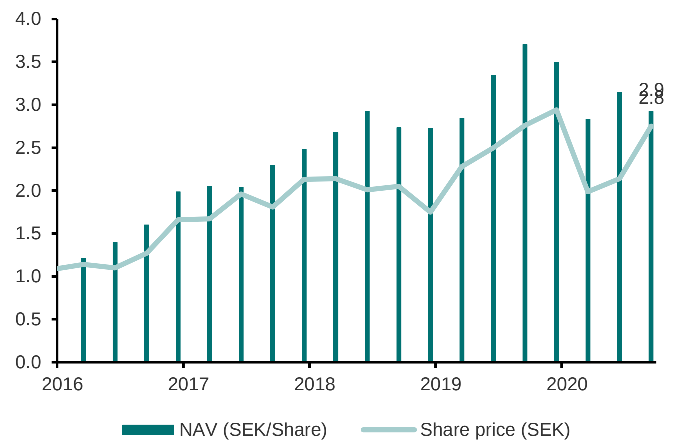
Company	Geography	Business type	% of VEF's portfolio	Ownership	VEF's investment (USDm)	Fair value (USDm)	IRR	CoC return	Investment date
creditas		Secured lending platform	36%	9.6%	48.5	80.7	20%	1.7	Dec-17
konfio		SME lending	13%	11.4%	27.5	28.1	1%	1.0	Jun-18
JUSPAY		Payments	6%	9.9%	13.0	13.0	0%	1.0	Mar-20
JUMO	Pan-Africa, Asia	Mobile money marketplace	3%	6.8%	14.6	7.5	-13%	0.5	Oct-15
РЕВС+		Payments & consumer credit	5%	25.0%	8.8	10.2	3%	1.2	Sep-15
transferGo		Cross-border remittances	10%	15.4%	11.0	21.4	17%	1.9	Jun-16
Guiabolso		Personal finance management	4%	10.9%	30.0	9.6	-33%	0.3	Oct-17
nibo		Accounting Saas	5%	20.1%	6.5	11.3	18%	1.7	Apr-17
XERPA		HR & payroll platform	2%	16.0%	8.5	4.5	-47%	0.5	Sep-19
magnetis		Digital investment advisor	3%	17.5%	5.7	6.6	5%	1.2	Sep-17
FinanZero		Consumer credit marketplace	3%	18.0%	2.7	7.6	26%	2.8	Mar-16
FINJA		Mobile wallet	1%	20.4%	2.4	2.5	0%	1.0	Jul-16

Source: DNB Markets

VEF aims to be stage-agnostic in its investments, but we note that it tends to enter its holdings in series B-C financing rounds (new investments typically in the range of USD10m–20m), where there is a funding gap between local VCs and global investors. Over the past four years, there is a track record of successful exits (Tinkoff Bank exited at 65% IRR, iyzico at 57% IRR) that have generated a 22% share price IRR since Q4 2015 (NAV IRR of 20%), suggesting that VEF can rightly claim that it is building substantial shareholder value.

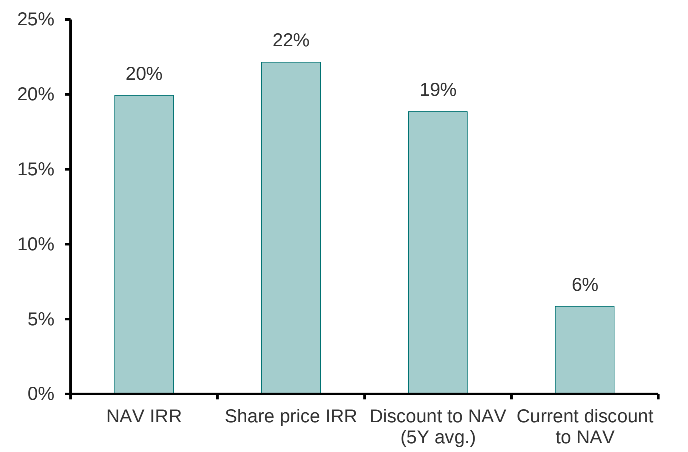
Recent portfolio exits highlight the value creation potential from its early-stage portfolio, having achieved a NAV IRR of 20%+ from Q4 2015

Figure 5: VEF – NAV and share price (SEK)



Source: VEF (underlying data), DNB Markets (further calculations)

Figure 6: VEF performance and IRR (2015–YTD 2020)



Source: VEF (underlying data), DNB Markets (further calculations)

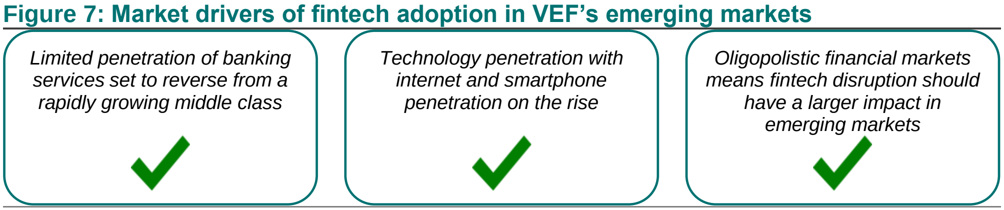
Vostok Emerging Finance in the fintech ecosystem

Drivers underpinning fintech adoption

We have identified several drivers of the secular growth opportunity for fintech solutions in emerging markets (foremost Brazil, comprising ~60% of VEF's portfolio GAV):

- Limited penetration of financial services and favourable demographics to play catch-up with developed markets.
- Penetration of technology (smartphone and internet access being key delivery mechanisms) has increased to the point where fintech business models can reach critical mass in emerging markets.
- The high market concentration in banking means prices for financial services are among the highest in the world, providing a rare opportunity for disruptive technology to act as an agent to lower spreads and costs.
- There is an international expansion opportunity as any neighbouring country with a high banking concentration is a clear opportunity for fintech (large EMs such as Mexico and India, etc.), although there is still a long runway for growth in Brazil.

Figure 7: Market drivers of fintech adoption in VEF's emerging markets



Source: DNB Markets

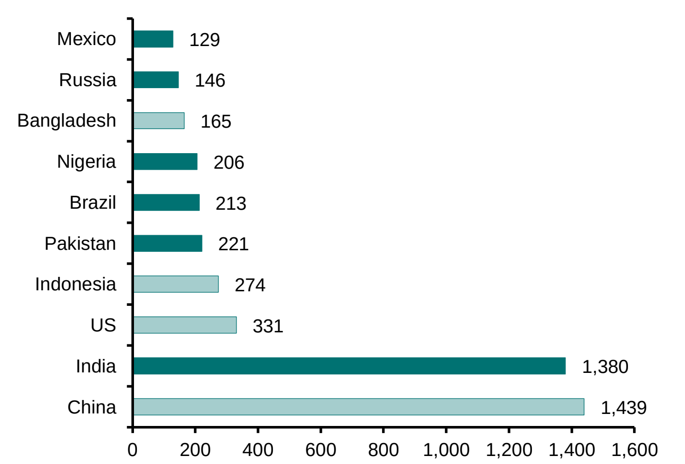
Favourable demographic trends in emerging markets…

We believe the market opportunity in emerging markets' financial systems is particularly attractive

While fintech disruption has been a common trend in many countries, we believe the market opportunity in emerging markets' financial systems is particularly attractive, with a large addressable population (allowing for scalability) and a considerably younger population than in developed markets (more likely to adopt fintech solutions).

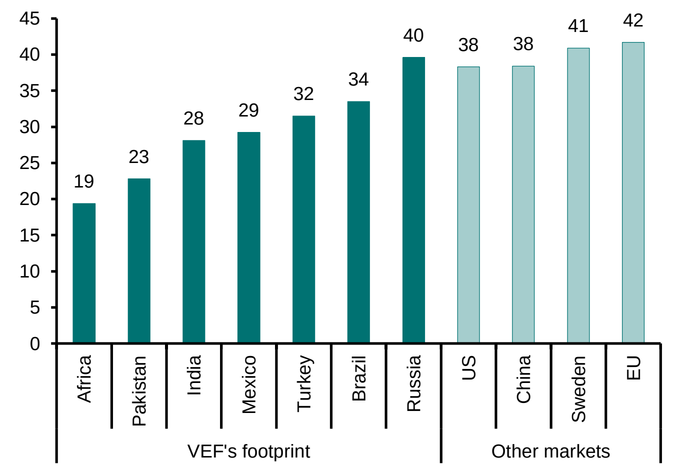
Brazil (VEF's most important market) is the sixth largest country, with a population of more than 200m; and as the younger generation (which is more educated and tech-savvy than older generations) becomes more productive and wealthy, we believe increasing consumption will spill over into more frequent use of financial services (deposits, payments, spending, investment, consumer lending, etc.).

Figure 8: Population by country (m, 2020)



Source: OECD
Note: VEF's geographical markets in darker shade

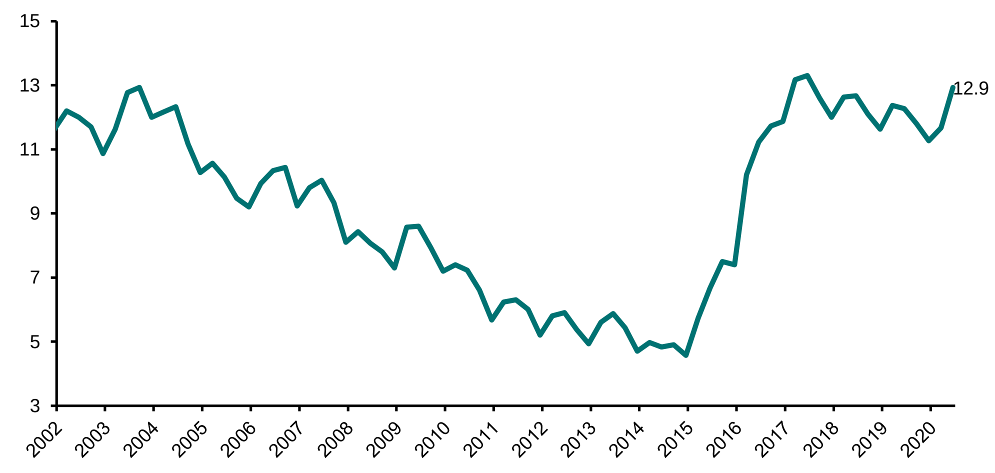
Figure 9: Median age by country (2020) (years)



Source: OECD

Improved wealth generation and a growing middle class in emerging markets means unemployment is steadily reducing, albeit from high levels (>11% in Brazil in 2019), suggesting the economy is slowly recovering. With recovering economic activity and lower unemployment, we believe there are large population segments under-served by incumbent banks that fintech penetration could help to overcome. However, in a short-term perspective, it is likely that Brazil's economy could tip into recession yet again this year as the global Covid-19 pandemic pummels demand, investment and trade.

Figure 10: Brazil – unemployment coming down from highest levels in two decades (%)



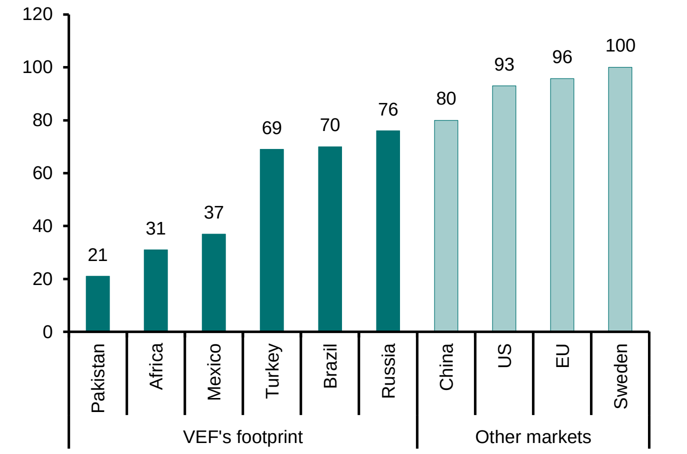
Source: Bloomberg

…and a digital infrastructure in place…

Penetration of banking services is still playing catch-up in VEF's target markets versus developed markets

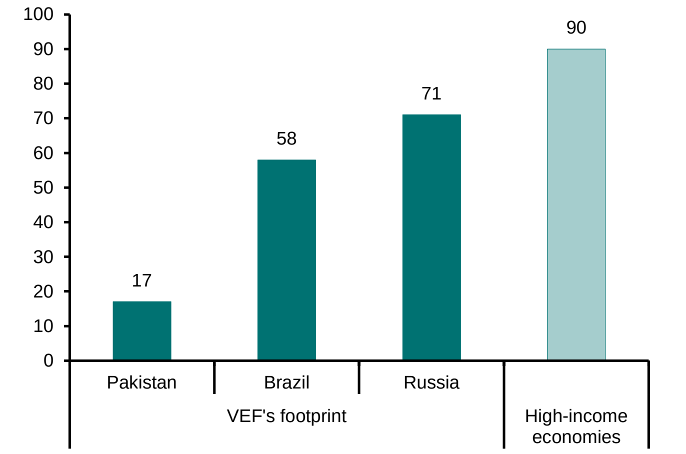
Penetration of banking services is still playing catch-up in VEF's target markets versus developed markets. For instance, in 2017, only 70% of Brazil's population was 'banked' (i.e. had access to financial services), versus 93% in the US, while only 58% of Brazil's population made digital payments (90% in high-income economies). Still, we believe this substantial under-banked population in emerging markets' growing middle class provides attractive receptiveness of fintech innovation.

Figure 11: 'Banked' population (% of population with a bank account, 2017)



Source: The World Bank

Figure 12: Digital payments penetration (% of population, 2017)



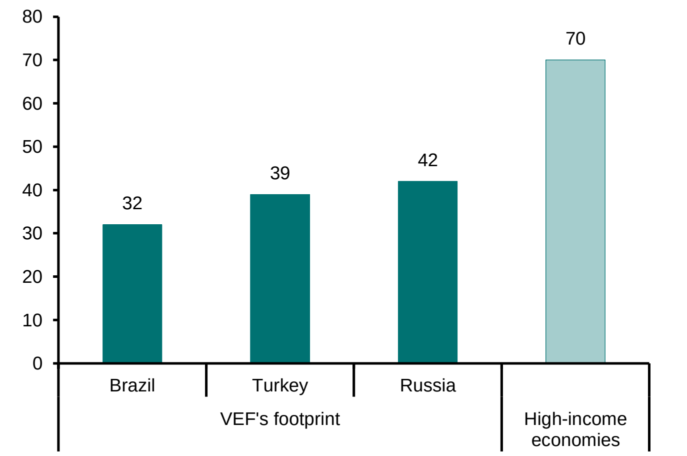
Source: Global Findex database

Smartphones and internet access are key delivery mechanisms for fintech

In Brazil, increasing mobile penetration and internet proliferation mean technology improvements are opening the door for financial inclusion, whereas large incumbent banks have neglected the growing lower and middle classes and spurned innovation for high-margin retail banking products. This is one reason why mobile payments and card ownership penetration have been seemingly slow to pick up.

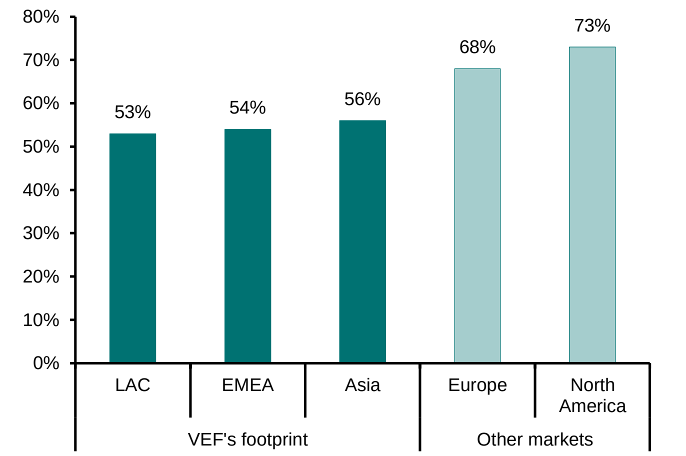
As internet penetration and smartphone ownership correlates to GDP per capita and employment, we believe the economic recovery in Brazil should accelerate such technology adoption, acting as gateways for fintech, which should increase accessibility to financial products, allowing previously 'unbanked' individuals to become potential clients.

Figure 13: Card ownership (% of population, 2017)



Source: Global Findex database

Figure 14: Mobile internet penetration (% of population, 2018)

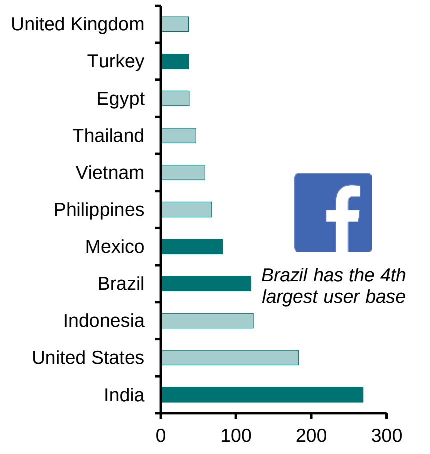


Source: GSMA Intelligence

Brazil has a tech-savvy population

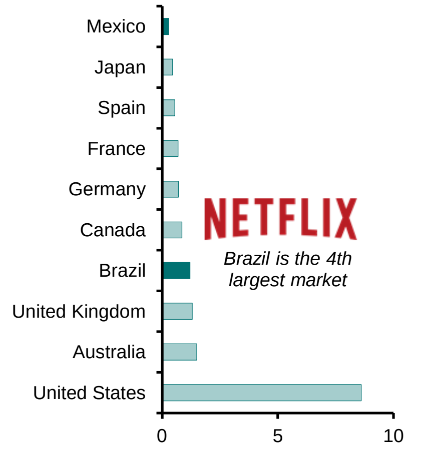
In terms of having a tech-savvy population, we believe Brazil is a top tech market globally as we note that: 1) it has the fourth largest user base of Facebook's markets; 2) it is Netflix's fourth largest market in terms of revenues; and 3) Brazil has the third-largest YouTube user base in the world. To us, this suggests technology disruption is a proven trend in VEF's markets; and, with increased usage of smartphones and internet access, the digital infrastructure is in place to support wider fintech adoption, as in developed markets.

Figure 15: Facebook – number of users per country (m, 2019)



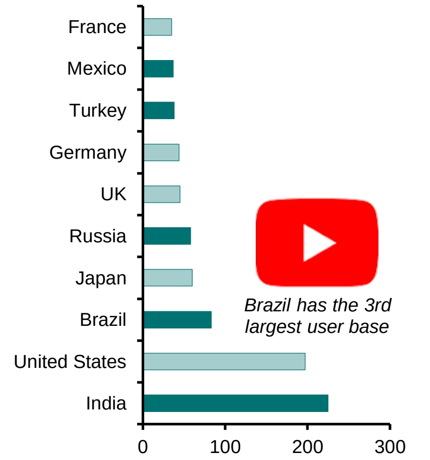
Source: Facebook

Figure 16: Netflix – estimates revenue by market (USDbn, 2019)



Source: CompariTech
Note: VEF's geographical markets in darker shade

Figure 17: YouTube – top countries by users (m, 2019)



Source: YouTube statistics

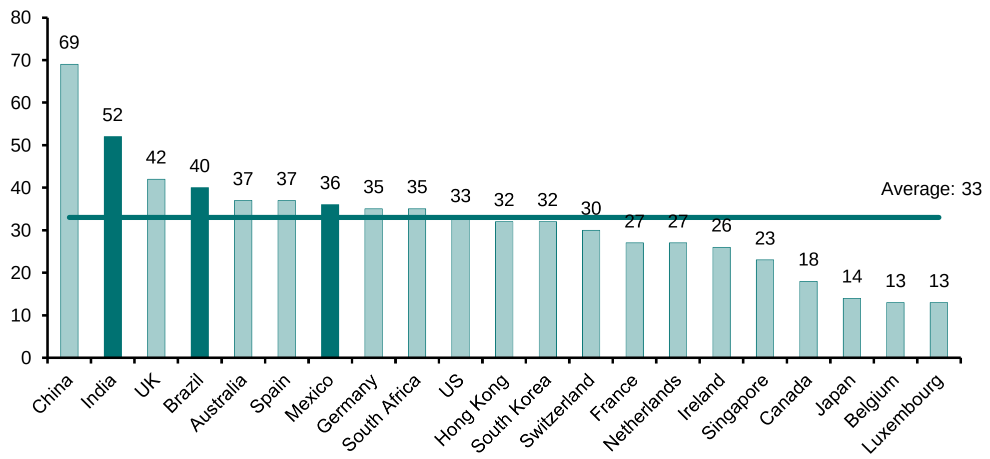
…representing structural growth opportunity for fintech

With the 'unbanked' population increasingly getting access to financial services unlocked by technology penetration in emerging markets, we believe that while developed countries with mature financial sectors tend to be at the forefront of fintech adoption, it is low income and emerging market economies that can benefit disproportionally from fintech innovations, leapfrogging traditional banking services.

Brazilians are increasingly using fintech solutions, even more so than other developed countries

On that topic, the fintech adoption rate (how large a share of the digitally native population regularly use fintech services) in Brazil is ~40%, which is above the global average of 33% where Brazil ranks fourth highest in the world, according to EY's Fintech adoption index.

Figure 18: Fintech adoption rates (as % of the digitally active population)

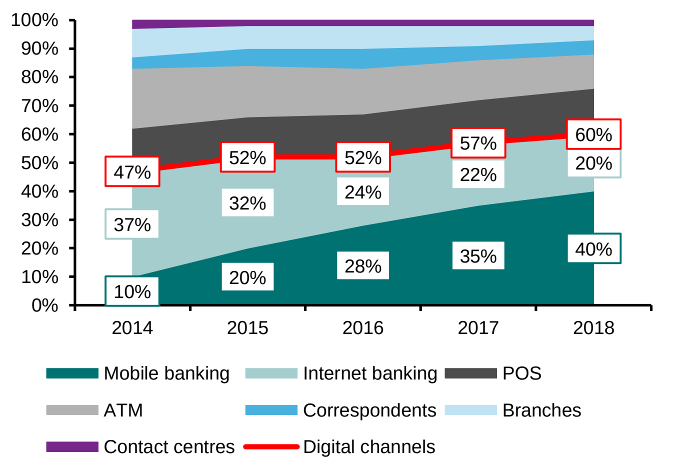


Source: EY

In 2018, 60% of bank transactions where were made digitally (mobile and internet banking), suggesting banks are moving from bricks to clicks, and we note a skew towards payments and remittances service in Latin America's fintech landscape, based on Finnovista data. The changing habits of bank clients – migrating to digital banking – should ultimately accelerate overall fintech industry growth, we believe.

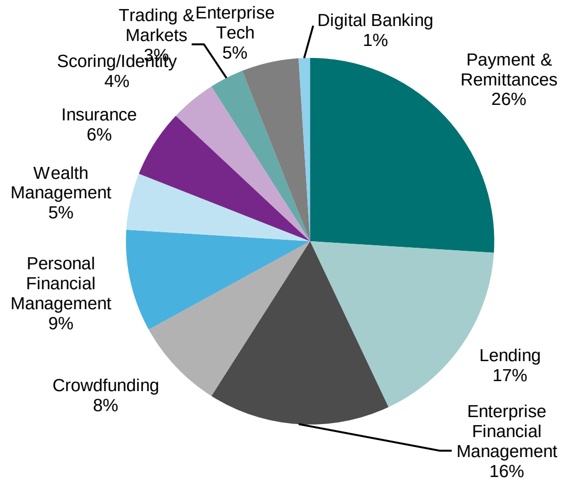
Most Latin American fintechs are in the payments space, but the spread is diversified

Figure 19: Brazil – banking transactions by channel (%)



Source: Deloitte

Figure 20: Latin America number of fintech start-ups by segment (2018)

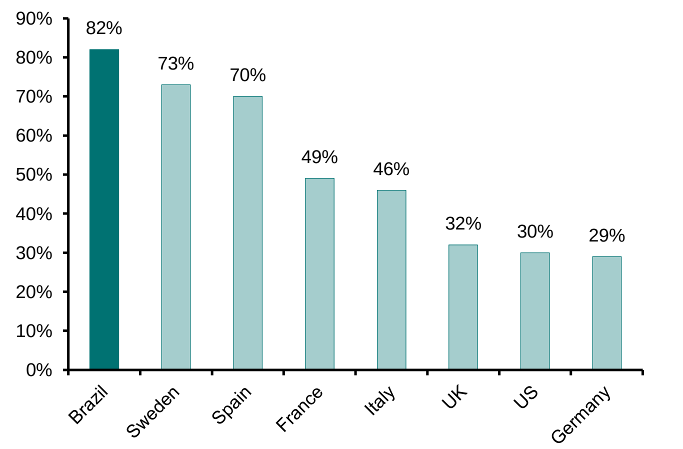


Source: Finnovista

As the top five banks in Brazil hold 82% of the assets in the system, we believe many fintech companies are looking to win business by providing an improved customer offering at more attractive rates via technology. While market concentration should offer barriers to entry protecting the incumbents, we believe these barriers are largely based on distribution. With technology acting as a disruptive force to distribution (clients using mobile apps instead of visiting a branch, etc.), we believe the oligopolistic market structure in Brazil seems rather vulnerable to new fintech entrants.

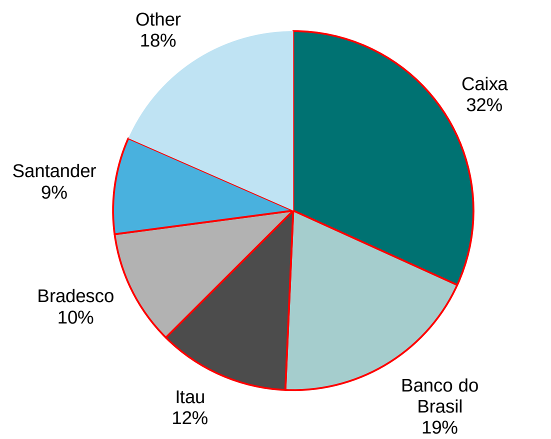
Banking market concentration is high…

Figure 21: Top five banks market share (2018)



Source: Banco Central Do Brasil, Deutsche Bundesbank, ECB

Figure 22: Brazil market share by loans to individuals (2018)



Source: Banco Central Do Brasil

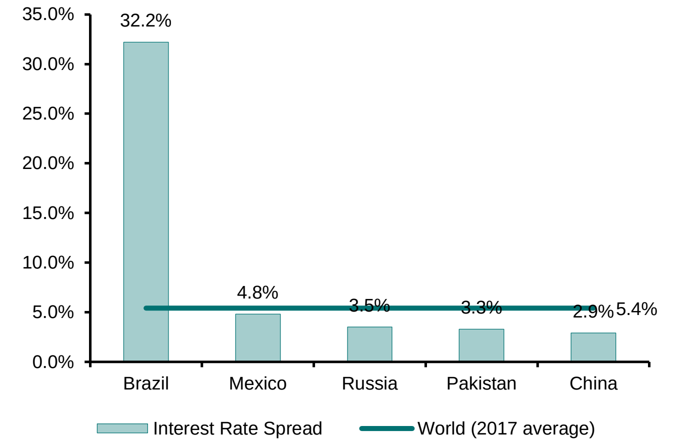
One adverse consequence of a highly concentrated banking market is wide interest rate margins and high lending rates, and we note Brazil has one of the world's highest borrowing costs (interest rate spread of 32%+, according to Global Findex). This has resulted in Brazilian households being highly reliant on non-traditional financing sources (borrowing from friends, family). Still, we believe expensive loan rates are also driven by regulation, taxation, and a lack of credit information.

…so is the cost of borrowing, which in Brazil is one of the highest in the world…

We believe that growing fintech competition has the potential to attack incumbent profit pools, lowering spreads/fees by making it easier to unbundle service and products, and improve the information flow to foster financial inclusion by operating with a leaner cost structure emphasising the business model of digital distribution (bank branches in everybody's pocket).

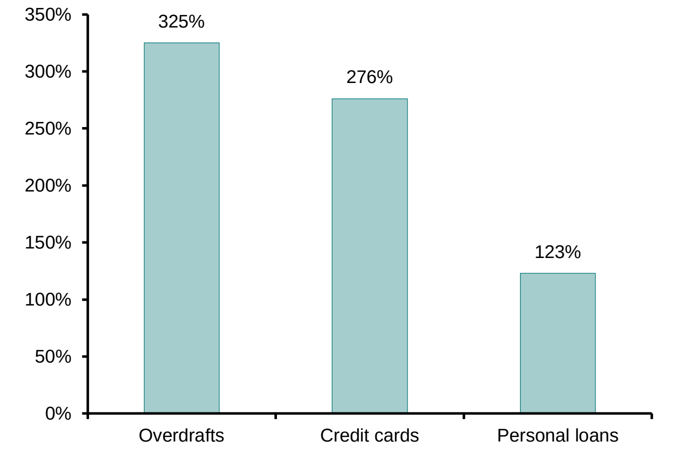
...opening up a large market opportunity for price-competitive fintech solutions

Figure 23: Interest rate spread (lending minus deposit rate, 2018)



Source: Global Findex database

Figure 24: Brazil – annual percentage interest rate on lending products



Source: Creditas

Factors holding back fintech adoption in emerging markets

We also note some potential hurdles that could hold back fintech growth in VEF's markets.

Figure 25: Factors hampering emerging market fintech adoption

Source: DNB Markets

- Incumbent banks (which control the financial services in VEF's markets) could be unwilling to embrace change and attempt to block fintech adoption by denying access to client information or lobby for regulations that slow the adoption of new technology.

Incumbents could block fintech adoption

- Regulatory reform could hamper the development of fintechs (minimum capital levels, consumer access limitations, etc). We believe that as legislators strive to preserve the integrity and stability of financial systems, it could actually promote regulation that damages the ability of fintechs, in favour of incumbent banks. But as suggested in Figure 26, regulation can also break down barriers and clear the way for new market entrants.

Regulatory headwinds

Figure 26: Selected Latin American regulations that have favoured fintech

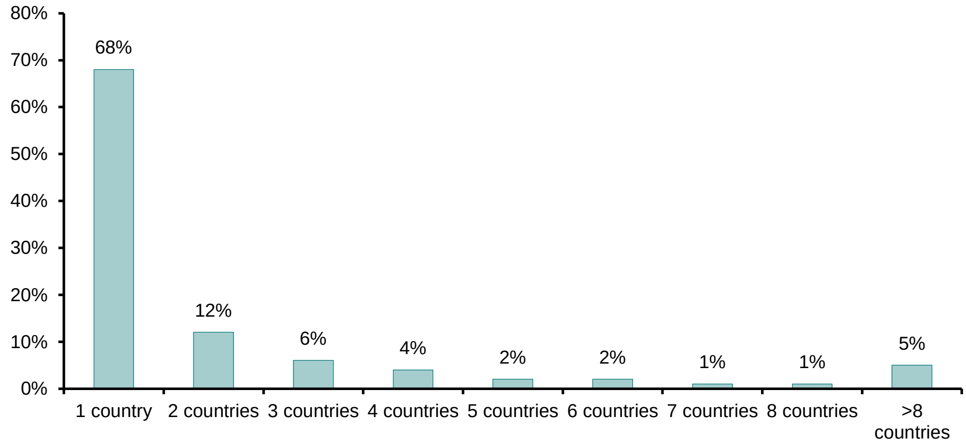
Source: IMF Fintech Survey

- Acquiring the 'unbanked' population in emerging markets as customers could be challenging and costly, as fintechs have to build credit profiles from non-traditional data, simplify onboarding, and navigate cultural requirements for customers that lack experience from formal banking systems.

High customer acquisition cost in emerging markets

- Geographical expansion of fintechs could be hampered as financial services are heavily regulated, making it hard to expand even into neighbouring markets, despite similar demographics and digital infrastructure. One global private capital investor in a Finnovista survey said "a fintech company that starts in Mexico and tries to expand to Colombia is no better off financially than a company that just starts in Colombia in the first place".

Figure 27: % of Latin American-based fintechs by presence in number of countries



Source: IDB/Finnovista survey of 397 fintechs 2018

Potential revenue pool of ~SEK190bn

We identify a medium-term (3–5-year) addressable market opportunity for Vostok Emerging Finance's holdings of ~SEK190bn (USD22bn), in our high-level breakdown of the sub-sector segments its holdings target in: 1) credit; 2) payments; and 3) other fintech (accounting SaaS, wealth management, digital banks, mobile wallets, comparison websites, personal finance, and insurance).

Figure 28: DNB breakdown of selected Vostok Emerging Finance's key fintech segments

		Scope of the opportunity	*Estimated revenue pool*	*VEF holding*	*Western comparables*
Credit	***Consumer loans*** *(Brazil)*	The large Brazilian incumbent banks hold 80%+ of the outstanding loans in the system and Brazilian consumers pay among the highest interest rates in the world (high-priced unsecured loans with an average APR of 230%). Fintech has the potential to gain market share from reducing the information asymmetry, bridge the gap between savers and borrowers, and reduce the Brazilian consumer debt burden.	SEK60bn (~USD6bn) Based on a market share of 5% of the USD125bn addressable market for high APR products such as credit cards, overdrafts, and personal loans.	creditas *Secured lending* FinanZero *Consumer loan marketplace* ***36% of NAV***	LendingClub SoFi lendingtree Lendo
Credit	***SME lending*** *(Mexico)*	The small business community in Mexico is vast yet underserved by larger banks (7 million SMEs that comprises 35%+ of all outstanding loans to a value of USD50bn). In addition, we note that Mexican SME output to GDP is above 50%, suggesting there is a large financing gap, in our view. For fintechs, there is an opportunity to strenghten SME access to financing by providing convenience and affordability to customers who are creditworthy.	SEK50bn (~USD5bn) We identify an USD50bn total market opportunity within Mexican SME credits and assume a penetration rate of 10%.	konfio *Digital SME lending* ***13% of NAV***	ondeck prospa CAPITAL FLOAT
Payments	***Mobile payments platform*** *(India)*	India has one of the most advanced and complex electronic payment infrastructures globally, resulting in friction and challenges for merchants and banks in the country. There is a growing need for mobile payment platforms for online merchants to solve the challenges to improve customer conversion rates.	SEK15bn (~USD2bn) We assume digital payments processed through online gateways to be a USD80bn market growing at a 100% CAGR until 2025e and apply a 7.5bp fee	JUSPAY *Payment gateway* ***6% of NAV***	stripe adyen PayPal amazon pay
Payments	***Merchant payments*** *(Russia)*	While Point-of-sale financing options that can allow for consumers to spread their cost or consumption habits over time are widely available in developed economies, they are only now becoming the norm in emerging markets like Russia. Moreover, technological developments (particularly smartphones and online commerce) have created an entry point for fintechs.	SEK15bn (~USD1.5bn) Assuming a 5% market share of the Russian e-commerce payments market valued at ~USD30bn	peBC+ *Merchant payments & consumer credit* ***5% of NAV***	Klarna. affirm AIMIA INSPIRING LOYALTY
Payments	***Remittances*** *(EU)*	Blue-collar workers are the most consistent and regular remittances customers in the world. Still, traditional bank networks are local, expensive, slow, and often inconvenient. Fintech innovation has the potential to lower costs associated with transferring money across borders (a key source of income for many low emerging markets) and reduce transfer times.	SEK6bn (~USD0.6bn) We apply a 1% fee on the annual European remittance flows to low- and middle-income regions of USD60bn	transferGo *Cross Border Remittances* ***10% of NAV***	TransferWise azimo worldremit
Other Fintech	***Digital investment advisory*** *(Brazil)*	Saving has traditionally been constrained to the wealthy population but digital wealth management could be a way to reach financial inclusion, especially for the younger and more tech savvy population. Robo-advisors can provide savers with tailored user-friendly and dynamically allocated investment options at lower fees than static funds sold by incumbent banks.	SEK2bn (~USD0.2bn) We estimate that Brazilian robo-advisors can penetrate ~5% of the mutual funds AUM and apply a management fee of 0.5%	magnetis *Digital investment advisor* ***3% of NAV***	wealthfront Betterment EV ELLEVEST
Other Fintech	***Personal finance management*** *(Brazil)*	As it is difficult to access financial information in combination with complicated financial profiles, Brazilian bank clients have limited tools to monitor and manage a complete view of their income and spending habits. Fintech solutions can help simplify clients' financial profiles by aggregation technology and help them gain a better oversight of their indebtedness and reduce interest costs.	SEK8bn (~USD0.8n) Based on a 10% market share of the ~USD8bn current account fees generated by Brazilian banks	Guiabolso *Personal finance management* ***4% of NAV***	credit karma intuit mint tink muse
Other Fintech	***Accounting SaaS*** *(Brazil)*	The Brazilian accounting and tax environment is complex and there are over 400,000 individual accountant professionals servicing 10+ million SMEs that are legally required to have an accountant. There is a opportunity to leverage innovative technology solutions and provide a full suite of cost-effective administrative solutions and financial products to underserved SMEs.	SEK30bn (~USD3bn) We multiply BRL109 for Nibo's monthly pricing plan to an addressable market of 10+ million Brazilian SMEs	nibo *Accounting SaaS* ***5% of NAV***	xero intuit FORTNOX

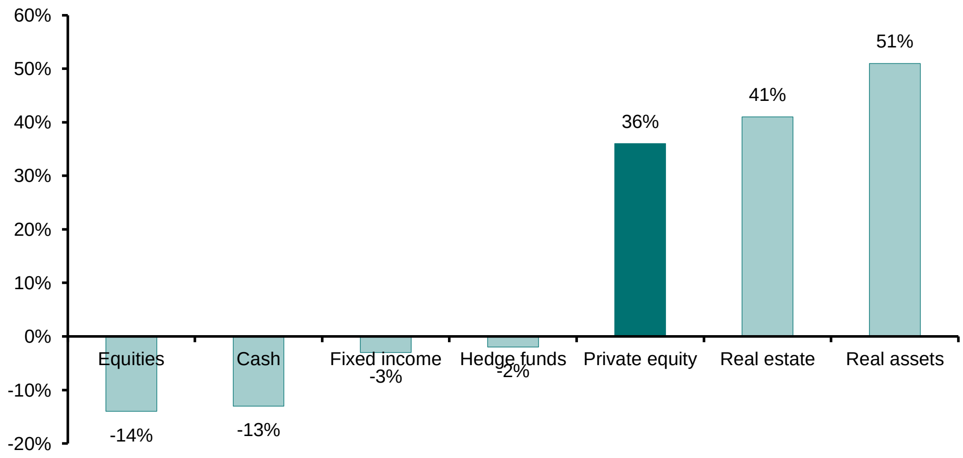
Source: DNB Markets

Venture capital point of view

The push to private markets continues

In Blackrock's 2020 institutional rebalancing survey, 271 global institutional clients representing more than USD9.8trn in assets seem to favour private markets, increasing their exposure to illiquid assets in search of uncorrelated sources of return.

Figure 29: Expected changes in asset allocation for institutional investors in 2020

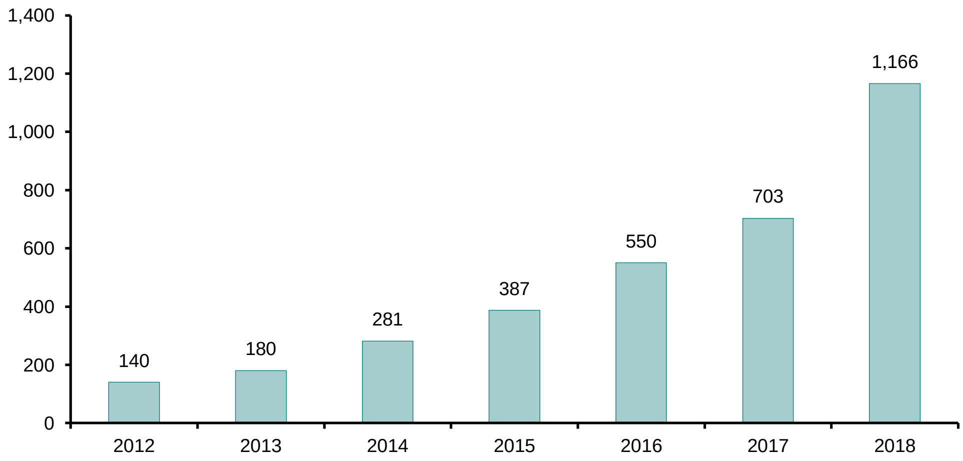


Source: Blackrock
Note: Net percentage of respondents intending to increase/decrease allocations across asset classes

Brazil and Mexico are at the centre of fundraising in Latin America…

Based on the aforementioned drivers and the large addressable market opportunity, emerging market fintech start-ups have popped up like mushrooms in recent years. For instance, Latin America was home to almost 1,200 fintech start-ups in 2018 (and the number of companies is growing at 65%+ YOY). Moreover, 2019 was a record year for Latin American fintech deals, where Brazil (70% of total volumes, or USD1.5bn) and Mexico (20%, or ~USD0.4bn) attracted the largest volume of capital, most likely driven by their market sizes, availability to capital, and ecosystem maturity, in our view.

Figure 30: Number of Latin American fintech start-ups (2012–2018)

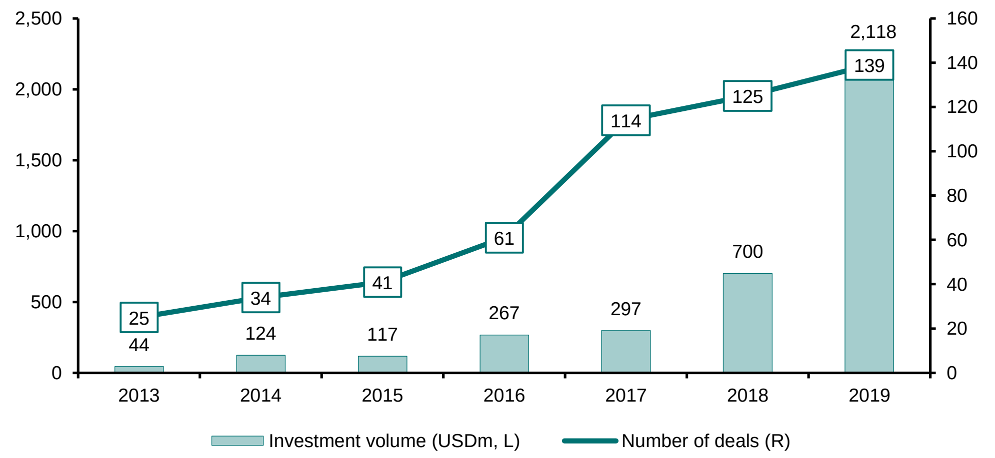


Source: International Monetary Fund "Fintech in Latin America and the Caribbean: Stocktaking"

…attracting big cheques from private capital

The rapid growth of the Latin American fintech sector is deepening the appetite of global venture capital (VC) firms, private equity (PE), and institutional investors, as we note that most leading investors in Latin America are based in other parts of the world. For instance, Softbank has a USD5bn Innovation Fund dedicated to Latin America, suggesting the region has become a target market for global investors, while we believe these start-ups are in need of larger international funds to fund long-scale growth.

Figure 31: Annual Latin American fintech deals and financing, 2013–2019 (USDm)



Source: CBInsights

Figure 32: Leading global investors in Latin American fintechs

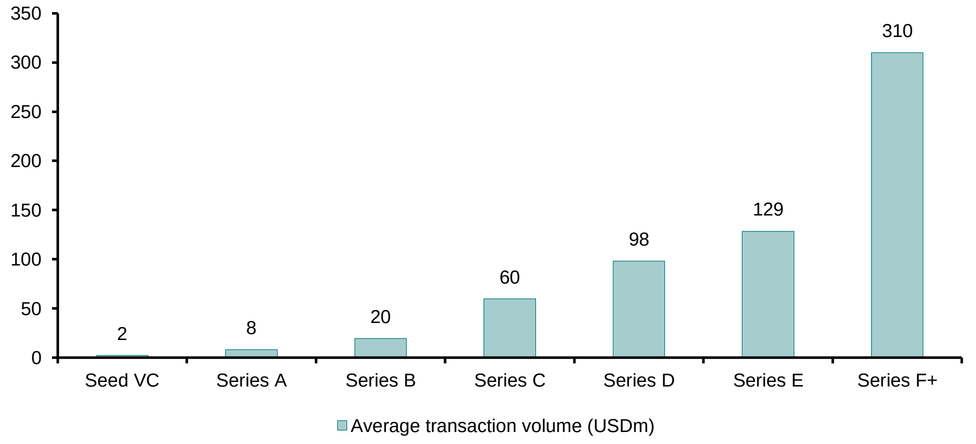
Fund	Origin country	No. of companies invested	Countries invested in	Example investments
			Incubator / Accelerator	
500 Startups	US	8	Chile, Colombia, Mexico, Peru	Clip, Conekta, Konfio
Finnovista / Startupbootcamp	Spain	45	Chile, Colombia, Mexico, Peru	Flink, Prestanómico, Vexi
Y Combinator	US	11	Brazil, Chile, Colombia, Mexico Peru, Venezuela	Apurata, Covela Tranqui
			Early Stage VC	
Accion Venture Lab	US	7	Brazil, Chile, Colombia, Mexico, Peru	Destácame, Konfio, Tienda Pago
Endeavor Catalyst	US	6	Brazil, Mexico, Uruguay	Bankingly, Creditas, Ebanx
Kairos	US	5	Brazil, Chile, Colombia	Fintual, Monetus, Tpaga
Mexamerica Ventures	US	3	Mexico	Bayonet, Finerio, Finto
Point 72 Ventures	US	3	Argentina, Brazil, Mexico	Contabilizei, Credijusto, Ualá
QED Investors	US	10	Argentina, Brazil, Mexico, Colombia, Peru	Creditas, Guiabolso, Nubank
Quona Capital	US	5	Brazil, Mexico	Creditas, Konfio, Neon
Ribbit Capital	US	5	Argentina, Brazil	Contaazul, Guiabolso, Nubank
Sinai Ventures	US	2	Colombia, Mexico	Addi, Clip, Flinto
VilCap Investments	US	5	Argentina, Chile, Mexico	Epesos, Fintuai, Siembro
Village Global	US	2	Colombia, Mexico	Addi, Minu
Vostok Emerging Finance	**Sweden**	**5**	**Brazil, Mexico**	**Creditas, Konfio, Magnetis**
			Later Stage / Stage Agnostic VC	
Andreessen Horowitz	US	2	Colombia, Mexico	Addi, Cuenca
Bessemer Venture Partners	US	2	Argentina, US (serving LatAm)	Auth10, Ualá
Greyhound Capital	UK	2	Argentina, Mexico	Albo, Ualá
IFC	US	9	Brazil, Chile, Mexico, Argentina	Creditas, Konfio, Recargapay
Riverwood Capital	US	3	Argentina, Brazil, Chile	Nubox, Omie, Technisys
			Private Equity / Debt	
Oikocredit	Netherlands	3	Brazil, Colombia, Peru	Avante, Semply, Tienda Pago
Victory Park Capital	US	3	Mexico	Credijusto, Konfio, Kueski
			Corporate VC	
HCS Capital	US	3	Chile	Ceptinel, Jooycar, RedCapital
Latinia	Spain	5	Chile, Mexico, Uruguay	Dapp, Prestanómico, Facturedo
Santander InnoVentures	UK	3	Brazil, Mexico	Creditas, Epesos, Klar
Tencent	Chinia	2	Argentina, Brazil	Nubank, Ualá

Source: Crunchbase and the Latin American Venture Capital Association
Note: Red highlights are VEF holdings.

The new phase of capital building in emerging markets fintech, in this case Latin America, means valuations have been rising rapidly as international, well-funded investors deploy capital in large investment rounds where local VC investors do not have equal firepower.

Local VC investors often take the first bite, then global players such as VEF come in

Figure 33: Investment size per financing round in selected emerging markets (USDm)



Source: Crunchbase (underlying data), DNB Markets (compilation)

VEF's portfolio holdings are well funded

As shown below in Figure 34, digital banking and no-fee stand-alone credit card company Nubank has received most of the funding among venture capital fintech in Latin America, according to Crunchbase data. Still, many of Vostok Emerging Finance's portfolio holdings have received multiple financing rounds (Creditas, Konfio, GuiaBolso, Magnetis, Finanzero).

Despite recent market turbulence, VC investors still have a lot of resources. That said, we expect VC investors to take a more prudent approach going forward although VC deal activity in the global fintech universe has picked up from its April lows, signalling a rebound.

Figure 34: Leading emerging market venture capital deals, USDm

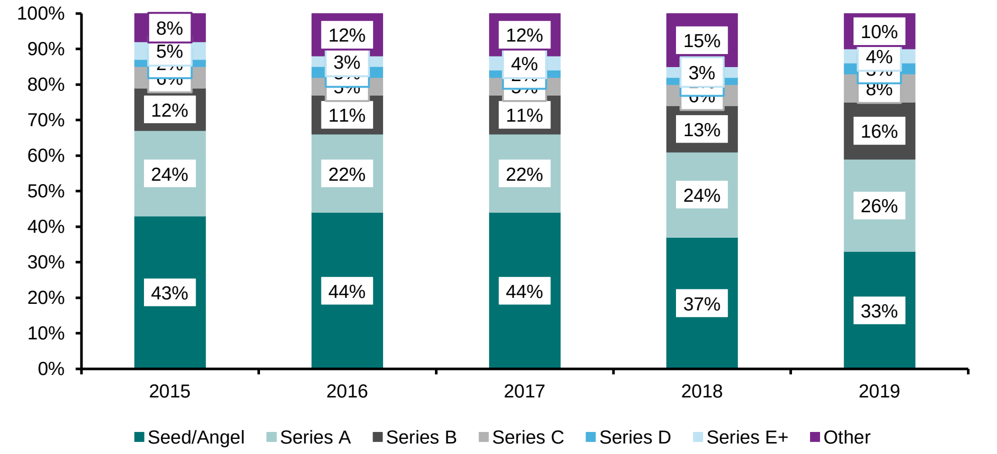
Company	Sub-sector	Round	Date	Transaction funding (USDm)	Total funding (USDm)	Country	Lead investors
PayTM	Payments	Series G	2019-11-25	1,000	3,500	India	T Rowe Price, Ant Financial
Nubank	Digital bank	Series F	2019-07-26	400	1,100	Brazil	TCV
Banco Inter	Digital bank	Post IPO Equity	2019-07-30	330	330	Brazil	Softbank
Creditas	Lending	Series D	2019-07-10	231	314	Brazil	Softbank
PolicyBazaar	Insurtech	Series F	2018-05-01	200	497	India	Softbank
Nubank	Digital bank	Series E	2018-10-08	180	1,100	Brazil	DST Global
PolicyBazaar	Insurtech	Series G	2019-11-11	150	497	India	Tencent
Ualá	Digital bank	Series C	2019-11-26	150	194	Argentina	Softbank, Tencent
Konfio	SME lending	Series D	2019-12-04	100	403	Mexico	Softbank
Clip	Payments	Series C	2019-05-06	100	101	Mexico	Softbank
Credijusto	Digital lending	Series B	2020-03-25	100	253	Brazil	
Nubank	Digital bank	Series D	2016-12-06	80	1,100	Brazil	DST Global
PolicyBazaar	Insurtech	Series E	2017-10-13	77	497	India	Wellington Management
Superlogica	SME finance	Series B	2020-03-16	64	64	Brazil	
Khatabook	Business management	Series B	2020-05-19	60	87	India	
Creditas	Lending	Series C	2017-12-11	55	314	Brazil	Vostok Emerging Finance
Nubank	Digital bank	Series C	2016-01-07	52	1,100	Brazil	Founders Fund
Credijusto	SME lending	Series B	2019-08-29	42	153	Mexico	Goldman Sachs, Point 72
PolicyBazaar	Insurtech	Series D	2015-04-15	40	497	India	PremjuInvest
Guiabolso	Personal finance	Series D	2017-10-18	39	56	Brazil	Vostok Emerging Finance
Ualá	Digital bank	Series B	2018-10-03	34	194	Argentina	Goldman Sachs
Nubank	Digital bank	Series B	2015-06-02	30	1,100	Brazil	Tiger Global
WEEL	Receivables financing	Series B - II	2019-04-04	30	45	Brazil	Frankling Templeton
Zinobe	Digital lending	Series A	2020-05-20	30	30	Colombia	
Konfio	SME lending	Series C	2018-06-18	25	403	Mexico	Vostok Emerging Finance
Juspay	Payments	Series B	2020-03-30	22	27	India	
Geru	Lending	Series A	2016-07-01	22	537	Brazil	Chromo Invest
PolicyBazaar	Insurtech	Series C	2014-05-26	20	497	India	Tiger Global
Revo	Payments and credits	Series B	2017-01-20	20	27	Russia	Baring Vostok Capital
Creditas	Lending	Series B	2017-02-21	19	314	Brazil	IFC. Prosus & Naspers
Guiabolso	Personal finance	Series C	2016-05-11	17	56	Brazil	IFC, Ribbit Capital
Nubank	Digital bank	Series A	2014-09-25	14	1,100	Brazil	Sequoia
Finanzero	Lending	Series B	2019-04-23	11	16	Brazil	Atlant Fonder
Credijusto	SME lending	Series A	2018-05-09	11	153	Mexico	Kaszek Ventures
Konfio	SME lending	Series B	2017-10-11	10	403	Mexico	IFC
Ualá	Digital bank	Series A	2018-02-06	10	194	Argentina	
WEEL	Receivables financing	Series A	2017-07-05	9	45	Brazil	Mindset Ventures
Konfio	SME lending	Series A	2016-05-24	8	403	Mexico	Quona Capital
Geru	Lending	Seed VC	2014-12-01	6	537	Brazil	Chromo Invest
WEEL	Receivables financing	Series B	2019-01-18	6	45	Brazil	
Magnetis	Wealth management	Series A	2018-04-11	5	6	Brazil	
PolicyBazaar	Insurtech	Series B	2013-04-08	5	497	India	Inventus
Revo	Payments and credits	Series A	2015-09-15	5	27	Russia	Vostok Emerging Finance
PolicyBazaar	Insurtech	Series A	2013-03-01	5	497	India	
Creditas	Lending	Series A - II	2016-06-20	5	314	Brazil	Kaszek Ventures
Finanzero	Lending	Series A	2018-03-29	4	16	Brazil	Vostok Emerging Finance
Creditas	Lending	Series A	2015-08-03	3	314	Brazil	Redpoint eventures
Nubank	Digital bank	Seed VC	2013-07-05	2	1,100	Brazil	
Creditas	Lending	Seed VC	2013-10-18	1	314	Brazil	
Clip	Payments	Seed VC	2013-03-01	1	101	Mexico	
Finanzero	Lending	Seed VC	2016-03-24	1	16	Brazil	
Magnetis	Wealth management	Seed VC	2015-08-01	1	6	Brazil	

Source: Crunchbase (underlying data), DNB Markets (compilation)

According to CB Insights, early-stage deals (seed/angel and Series A) dropped to a 5-year low in Q2 2020, as deal share globally shifted to mid- and late stages, while deal volumes cooled in developed markets but continued to grow in emerging markets, specifically South America.

Deal volumes are still growing in Latin America

Figure 35: Deal share to global VC-backed fintech companies by stage, 2015–2019



Source: CB Insights

Supportive VC, partner and investment ecosystem

Vostok Emerging Finance often seeks 10–20% ownership stakes in its holdings to gain board representation, drive an active ownership agenda in its holdings and support the entrepreneur behind the business model. Still, we believe it welcomes other strong owners so as not to own any potential problem entirely itself, and we note it has teamed up with various VC partners and co-investors in each geographical market (also shown in Figure 36).

Figure 36: VEF's VC partners and co-investors

Source: Vostok Emerging Finance

Favourable exit environment…until February 2020

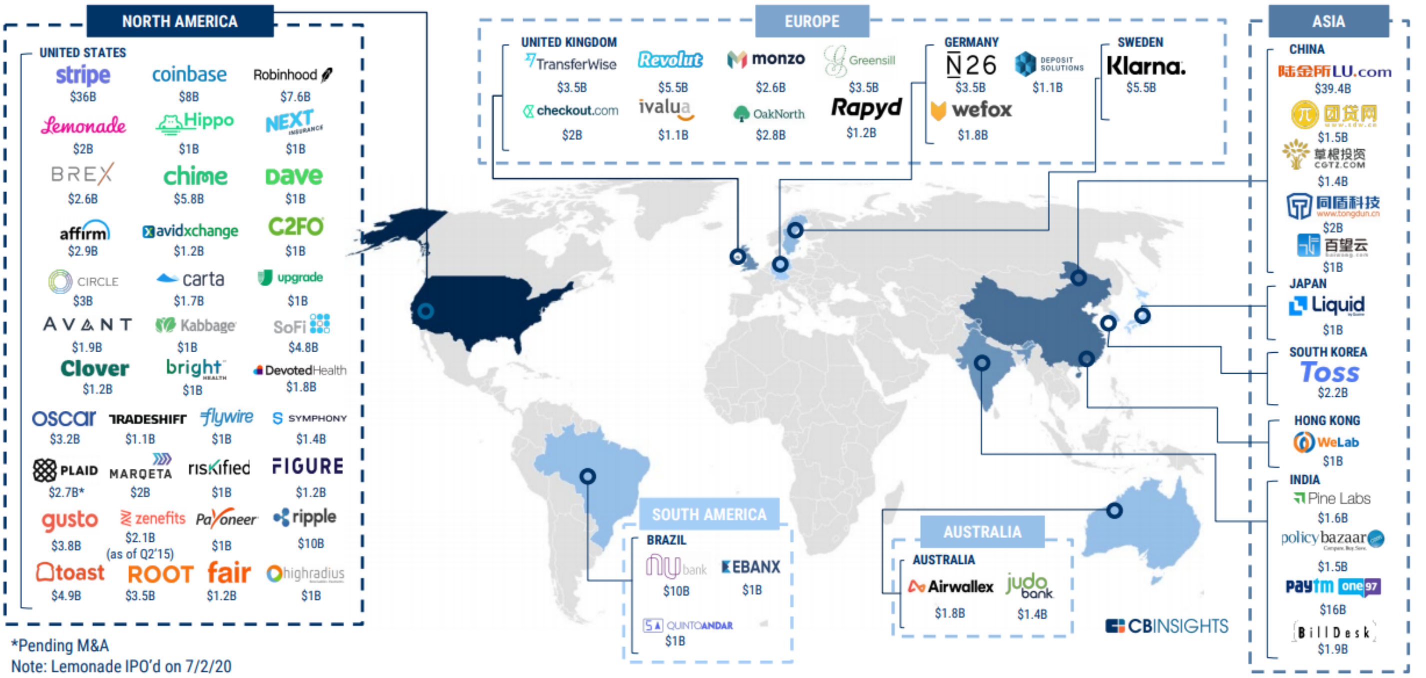
Globally there are 66 fintech unicorns valued in aggregate at USD248bn (June 2020)…

Acting as proof-points of the value creation potential from fintech, the number of fintech unicorns (private companies with a market valuation over USD1bn) has grown rapidly, particularly in the US, China and Europe. Over the past three years, the number of fintech unicorns from emerging markets such as Brazil (Nubank, Ebanx, QuintoAndar, etc.) and India (Policybazaar, Paytm, Billdesk, etc.) has also increased, suggesting the emerging market fintech opportunity is starting to realise its potential.

…but the Covid-19 outbreak has likely reduced the number of unicorns

Still, it is important to highlight that the ongoing market turbulence driven by the Covid-19 outbreak has hit equity prices across all sectors, and will likely hurt cash-burning VC companies even more, in our view. There is a risk that this could lead to a more sustained pull-back in terms of VC exits, and thus value-realisation opportunities for VEF. Still, judging by what we can track from S-1 filings from fintechs, fintech companies are continuing to mature and get ready for the public markets, as seen with Ant Financial, Lemonade, nCino, and Rocket Companies.

Figure 37: 58 VC-backed fintech companies with a private market valuation of USD1bn+ (June 2020)

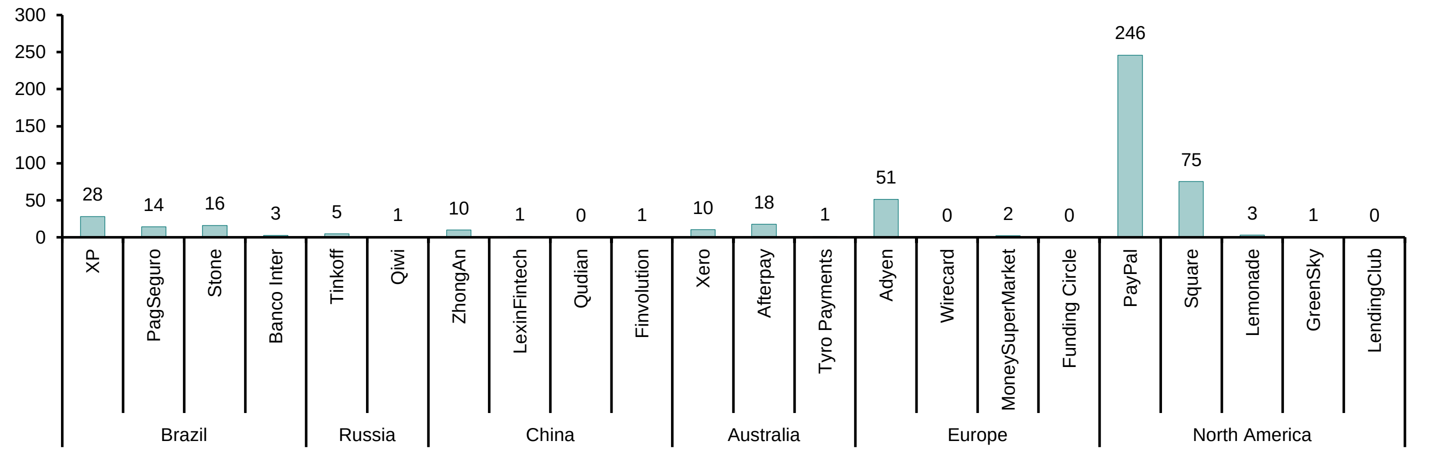


Source: CB Insights

While many private market valuations could be debated, we note an uptick in the number of fintech IPOs as well as M&A in recent years, where most of these valuations gain validation. Still, most of the IPOs have been tilted towards developed markets, which is why it remains challenging for most investors to gain access to the fintech theme across emerging markets.

What goes up privately comes down publicly? Not for fintech listings so far

Figure 38: Listed fintech market capitalisations (USDbn, September 2020)

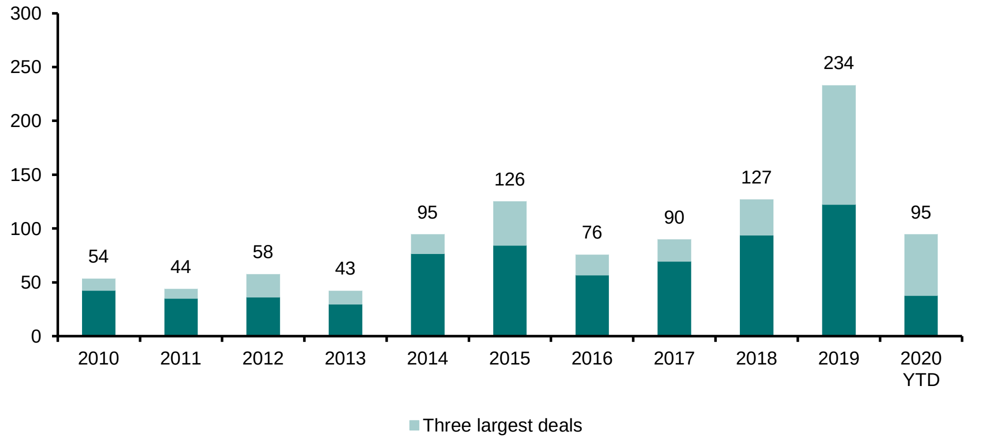


Source: Bloomberg

Global fintech M&A volumes are growing, and reached USD234bn in 2019, according to FT Partners, as: 1) maturing fintechs look to grow and achieve scale by expanding across product categories, sectors, and geographical borders; 2) incumbent financial institutions have no choice but to become more active in M&A as opposed to invest in innovation (with higher execution risk); and 3) private equity has large financial muscle to deploy.

Growing wave of fintech M&A

Figure 39: Global fintech M&A volume (USDbn, 2010–2020 YTD)



Source: FT Partners

S&P Global's Fintech M&A Tracker highlights the largest M&A deals in the sector in recent years, and we note Vostok Emerging Finance's emerging markets are clearly lagging behind developed market peers in terms of M&A activity, which to us highlights there should also be a long runway for large-scale fintech M&A in emerging markets going forward.

Fintech M&A activity in emerging markets has some catching up to do

Figure 40: Fintech M&A deal tracker (2018–2020)

Date	Buyer	Target	Deal value (USDbn)
2019-03-18	Fiserv	First Data	41.0
2019-01-16	FIS	Worldpay	37.0
2020-03-09	AON	Willis Towers Watson	36.0
2019-08-01	London Stock Exchange	Refinitiv	27.0
2019-11-25	Charles Schwab	TD Ameritrade	26.0
2019-05-28	Global Payments	Total System Services	22.2
2018-01-30	Investor Group 1	Thomson Reuters' financial & risk business	17.3
2020-02-20	Morgan Stanley	E*Trade	13.0
2019-02-04	Investor Group 2	The Ultimate Software	11.0
2020-02-04	Worldline	Ingenico	8.6
2020-02-25	Intuit	Credit Karma	7.1
2018-09-12	Carlyle	Sedgwick Claims Management Services	6.7
2018-08-08	Investor Group 3	Dun & Bradstreet	5.5
2020-01-13	Visa	Plaid	5.3
2018-01-11	SS&C Technologies	DST Systems	5.1
2018-06-19	Verscend Technologies	Cotiviti Holdings	4.4
2019-02-12	Thoma Bravo	Ellie Mae	3.7
2019-09-05	Assurance	Prudential	3.5
2019-08-06	Mastercard	Nets' account-to-account payment business	3.2
2018-01-16	Investor Group 4	Blackhawk Network	3.1
2020-06-11	SIX Group	BME	2.9
2018-05-15	Worldline	Six Payment Services	2.9
2018-04-12	Hearst	Fitch	2.8
2018-04-09	Investor Group 5	Verifone Systems	2.7
2018-07-20	State Street	Charles River Systems	2.6
2018-05-17	PayPal	iZettle	2.2
2018-04-20	ION Capital	Fidessa	2.1
2018-12-10	Investor Group 6	Travelport Worldwide	2.1
2020-04-07	SOFI	Galileo	1.2
2020-06-23	Mastercard	Finicity	1.0

Source: S&P Global Fintech M&A Tracker, FT Partners
Note: Investor group 1: GIC, Canada Pension Plan Investment Board and Blackstone. Investor group 2: Blackstone, Canada Pension Plan Investment Board, Hellman & Friedman, JMI Management and GIC. Investor group 3: CC Capital Management, Thomas H Lee Partners, Black Knight and Cannae Holdings. Investor group 4: Silver Lake Partners and P2 Capital Partners. Investor group 5: Francisco Partners Management and British Columbia Investment Management. Investor group 6: Siris Capital Group, Evergreen Coast Capital and Elliot Management

Covid-19 impacts for VEF

VEF's holdings have fared relatively well through the Covid-19 stress-test

YTD, the Covid-19 outbreak has had a major impact on the stock market, with VEF's share price down by 8% (having underperformed the MSCI World at +6%). While the current market turbulence should have a negative impact on the VC industry, we believe the most imminent risk for VEF is the ripple effect from a material economic deterioration driven by mass shutdowns, consumer spending declines, credit losses, SME bankruptcies and sky-rocketing unemployment levels, especially in Latin America, where its holdings' end-markets are among the countries most affected by Covid-19.

While deals and dollars poured into fintechs will likely come down, certain parts of the fintech ecosystem stand to benefit from the Covid-19 pandemic. For instance, Covid-19 will likely accelerate the digital transformation in emerging markets. E-commerce still accounts for only 5% of total retail sales in Brazil, but is likely to get a huge boost from the ongoing crisis and leapfrog several years, helping digital payments and merchants.

Figure 41: Short-term and long-term effects of Covid-19 on fintech

	Short-term effects	*Long-term effects*	*VEF holding*
Payments	Payment companies in hard-hit verticals (travel, restaurants, events etc.) will face existential challenges	E-commerce payments are set to boom on top of accelerated secular shift	JUSPAY, transferGo; *16% of NAV*
Lending	Although government stimulus represents easy money, challenger banks with balance sheet risk should suffer owing to rising defaults and credit losses	A potential slowdown in online lending could lead to industry consolidation	creditas, konfio, FinanZero; *52% of NAV*
Wealth tech	Wealth tech startups will continue to consolidate and shore up cash reserves	Consumers will look for hybrid robo-advisors and deeply integrated platforms	magnetis; *3% of NAV*

Source: CB Insights, DNB Markets

Potential valuation implications

- Equity prices across all of VEF's sectors initially plunged in the wake of Covid-19, but have in most cases recovered, and we believe investor sentiment towards VC-backed early-stage companies with negative cash flows could underperform in such an environment (with many businesses looking for capital). There have still been some major financing rounds in fintechs, such as Stipe and Robinhood, implying that investors want to remain liquid in later-stage mature companies rather than earlier-stage fintechs (seed to series B rounds), which could experience some funding pullback.
- There is generally a time lag between public market valuation moves and the mark-to-market valuations often used by VEF. Thus, we expect its NAV to move in line with the valuation multiples among its listed fintech peers as well as FX movements.
- The validity of VC market valuations (i.e. the unrealised value in funds) has been questioned for some time, and the current general market sell-off could further increase wariness towards VC-backed companies.

Venture capital ecosystem implications

- The VC business climate is linked to overall GDP, and with consumer spending and business investments set to decline, we believe there will be a slowdown in VC transaction volumes following a global economic contraction.

- Increased risk of a sustained pullback in VC-backed exits. This means VC firms could end up holding on to struggling assets for longer than anticipated.
- Looking forward, those VC firms that have resources to invest at an early stage of the recovery from Covid-19 at lower valuations, and less competition, with portfolio holdings set to benefit from macroeconomic tailwinds, are set for outperformance. Thus, we like that VEF is well-capitalised, with an USD20m net cash position (although most of it is committed to its existing holdings in the coming 18 months, we believe).
- There could be industry consolidation where leaders acquire distressed challengers to expand their product suites and market presence, and where struggling firms could be scooped up at a discount to past paper valuations.

Covid-19 implications for its portfolio holdings

Sequoia: "Coronavirus: The Black Swan of 2020"

We believe it is reasonable to assume that, due to its board positions in its portfolio holdings, VEF will place greater emphasis on sustainable revenue growth, profitability improvements, and most notably a reduction of the cash burn rates for 2020. Having taken inspiration from how venture capital firm Sequoia Capital guided its founders and CEOs in a public letter on 5 March 2020, we see the key focus points for VEF's holdings as:

- **Cash runway** (can the business withstand a few poor quarters, are there any contingency plans, where could it trim expenses without fundamentally hurting the business?).
- **Fundraising** (prepare for a weakened private funding market as seen in 2001 and 2009, with many of the leading technology companies of today forged during difficult times such as Cisco in 1987 and PayPal and Google post the dotcom crisis).
- **Sales** (prepare that customers may revise their spending habits, even if there are no direct effects yet).
- **Marketing** (with greater fundraising and economic uncertainty as well as softening sales, it might be wise to consider raising the ROI bar for marketing spend). Many of VEF's holdings have cut marketing spend to improve the customer acquisition costs.
- **Headcount** (this might be a time to evaluate critically whether you can do more with less and raise productivity). In some cases, VEF's holdings have cut ~10% of their workforce, but said that assuming macro trends improve they have the optionality to hire back.

With a growing risk for a severe macroeconomic downturn in 2020 spreading to VEF's fintech businesses targeting consumers and SMEs in emerging markets, we believe it makes sense to act fast and make decisive adjustments to changing circumstances, as revenue and cash levels tend to often fall much faster than expenses. Incumbent retail banks have also taken advantage of the current environment to close branches, rationalise personnel at a higher rate, allowing them to lower fixed costs, and be more competitive on pricing. In addition, we see the following potential implications for the fintech sub-sectors that VEF's holdings target:

Credit loss risk from rising defaults

- **Consumer lending (Creditas, Konfio, FinanZero).** With unemployment likely to increase rapidly, consumers will be hit hard, forcing them to choose which bills to pay, and there is a risk that personal loans could be less prioritised than mortgages, auto loans, credit card bills, etc., which could increase the risk of defaults. Thus, focus on asset quality will be key.

  A likely ripple effect for fintech consumer loans providers would be higher funding costs. Fintechs often borrow money to fund loans (to prevent balance-sheet risk), but in a scenario with rising rates for low-grade corporate debt (a good proxy for fintech funding costs), VEF holdings Creditas and Konfio are likely to feel pain.

  We believe origination volume growth should slowly decelerate in 2020, especially at lenders taking on balance sheet credit risk (although Creditas expressed optimism about returning to 10% growth MOM in Q3 2020). For instance, US-based LendingClub estimated a 90% reduction in loan volumes in Q2 2020. Still, we believe the SME and consumer lenders, such as Konfio, etc., could actually help bridge the funding as SMEs struggle to access government support and bank finance, which could provide an incentive for borrowers to continue making loan payments in an effort to retain future access to funds.

- **Payments (Juspay REVO, Finja, Jumo).** In an economic downturn, it is fair to assume that there will be a drop in transactions at all levels of the economy (fewer transactions mean lower fees and point-of-sale lending opportunities). We also note that the WHO has officially encouraged cashless payments, suggesting a potentially increasing adoption of mobile wallets and marketplaces (positive drivers for VEF holdings Finja and Jumo), as well as contactless technology.

  E-commerce payment solutions that enable faster transactions have gained traction during Covid-19; for VEF, Juspay and TransferGo have been natural beneficiaries of a global spike in online payments.

Payments fintechs enabling e-commerce likely the greatest long-term beneficiaries of Covid-19

- **Digital wealth management (Magnetis).** Consumers may be wary of investing their savings following volatile stock markets, impacting the digital wealth managers' assets under management (AUM), such as Magnetis (which conventionally charges a fee as a percentage of AUM). Moreover, CB Insights believes that the pandemic will increase the engagement with hybrid robo-advisory services longer-term, suggesting that investors still want a human advisor relationship. Over time, we would not rule out such a trend being favourable for more established players that have already incorporated hybrid advisory services alongside zero-commission models. Further down the line, market consolidation could commence among wealth managers as fees trend downward.

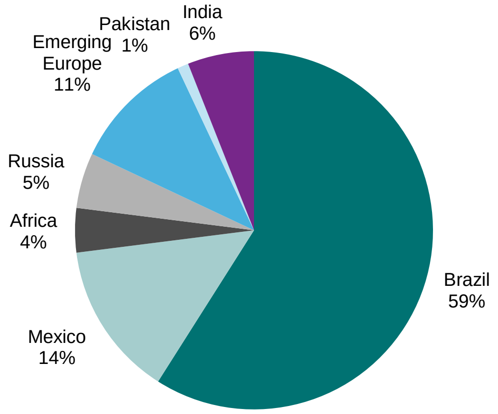
Covid-19 market volatility has shown that many clients of robo-advisors also want a human advisor relationship

Investment strategy and targets

VEF focuses on the wealth catch-up in large emerging markets, targeting all lines of fintech sub-sectors including payments, credit, mobile money and financial marketplaces. It takes minority stakes (often 10–20%) and is an active investor with board representation in its private portfolio companies, striving to find and support the best entrepreneurs in each market. It has a portfolio of 12 holdings diversified by region, business model, and stage of development.

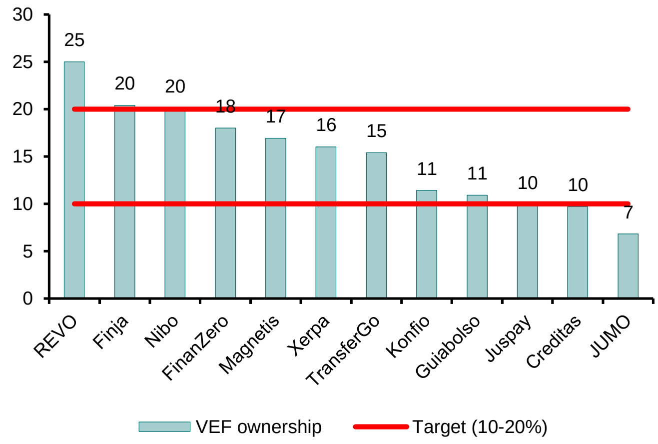
VEF strives to back the best entrepreneurs in each emerging fintech market…

Figure 42: Geographical distribution (excluding cash)



Source: Vostok Emerging Finance

Figure 43: VEF's ownership stakes



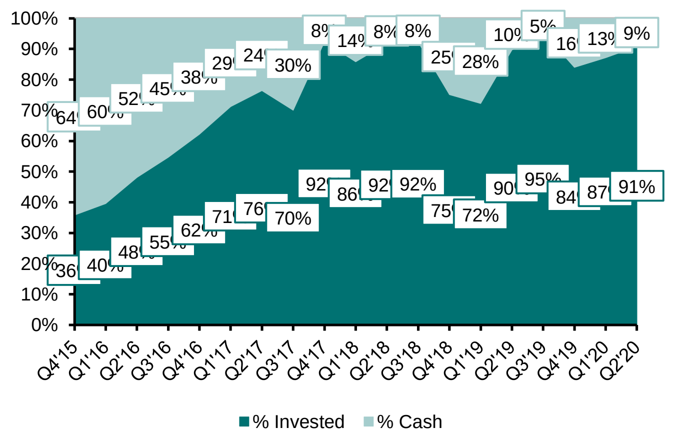
Source: Vostok Emerging Finance

VEF has a close relationship with the entrepreneurs of its holdings and holds weekly follow-ups, in addition to quarterly board meetings, with continual interaction on specific opportunities, business development, product and technology and funding. We identify the following factors why VEF is a respected brand among emerging market fintech entrepreneurs:

…and is an active owner aiming for a 10–20% stake in its holdings

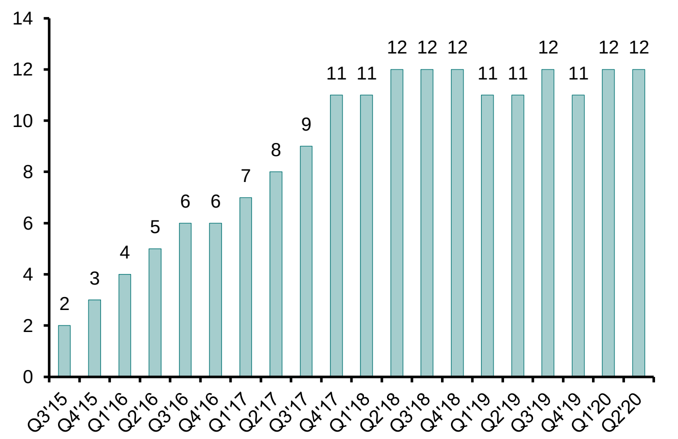
- Being a listed investment company (as opposed to a classic VC), VEF has access to permanent capital, which means the entrepreneurs will not have to worry that VEF will force an exit before the time is right (VEF partnered with Tinkoff Bank for almost 14 years).
- VEF has a broader emerging market fintech lens than most local or regional funds. With its deep sector expertise and network across emerging markets, it can compare and contrast business models, their traction, economics, valuation, etc.
- Being dedicated entirely to emerging markets, VEF is comfortable with taking a long-term view in the often-volatile world of emerging markets, and can aid its holdings via deep experience of capital-raising processes.

Figure 44: Share of invested capital (2015–2019)



Source: Vostok Emerging Finance (underlying data), DNB Markets (graph structuring)

Figure 45: Number of portfolio holdings (2015–2019)



Source: Vostok Emerging Finance

While VEF aims to be stage-agnostic in its investments, it tends to enter its holdings in series B/C financing rounds (new investments typically USD10m–20m), where local VCs take the first bite and VEF steps in when there is a funding gap as it has solid experience of raising capital.

Stage-agnostic, but we note a skew towards entering holdings via a series B-C funding round

As a rule of thumb, VEF strives to invest for 5–7 years (but is not constrained to that time frame) and seeks to exit its holdings at the same time as its entrepreneurs. There are three ways for VEF to exit and realise the value that its holdings have built up over its investment horizon: 1) IPO; 2) secondary public offering; or 3) via M&A.

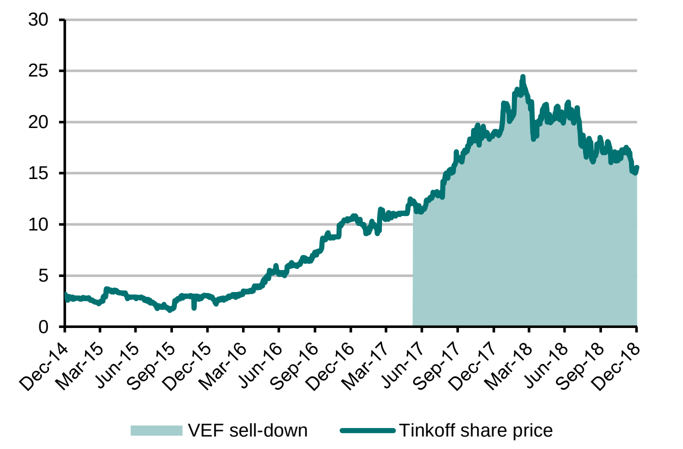
Aims to hold its investments for 5–7 years, in general

We believe its business model has been validated by two portfolio exits in 2019, where VEF built substantial shareholder value:

Recent exits created substantial shareholder value…

- Russia's largest digital bank Tinkoff Bank was exited via a share sell-down at a 6.1x cash-on-cash (CoC) return, yielding an IRR of 65% throughout the 3.6 years VEF owned Tinkoff as a separate investment company. The exit rationale was:
  - Tinkoff was a publicly listed security, whereas VEF's focus is on private investments to provide shareholders with access to emerging market fintech it cannot otherwise access.
  - Returns on the position had exceeded its benchmark goals (30%+ IRR).
  - Capital allocation purposes where it prioritised building a strong capital position to deploy by supporting other portfolio companies or buy back its own shares at a discount to NAV.

Figure 46: Tinkoff share price (USD, 2014–2018)



Source: Factset (underlying data), DNB Markets (further calculations)

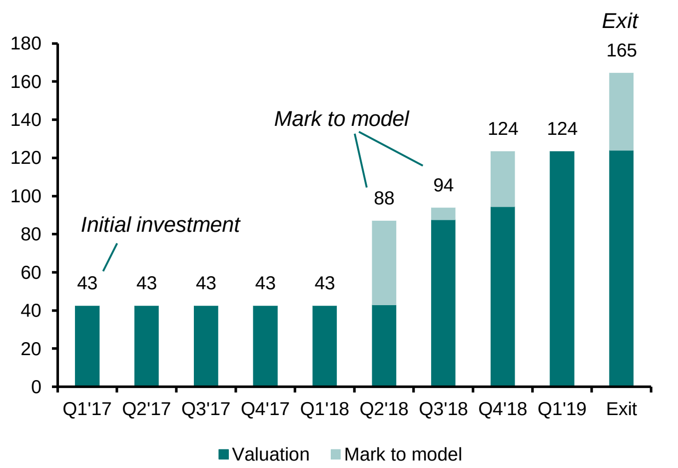
Figure 47: Tinkoff return on investment (USDm)

Net invested	-19
Total proceeds	117
Investment date	June 2015
Exit date	February 2019
Holding period (years)	3.6
IRR	**65%**
CoC return	**6.1**

Source: Vostok Emerging Finance (underlying data), DNB Markets (further calculations)

- Turkey's leading online payments solution iyzico was exited in Q4 2019 via M&A to Naspers' fintech arm PayU at a CoC multiple of 3.2x, having generated an IRR of 57% since VEF's investment in January 2017.
  - VEF in general backs the entrepreneurs behind the business model, and as the founders decided that an exit was the right path, VEF followed the entrepreneurs in their exit.
  - The exit generated returns north of its benchmark goals (30%+ IRR).
  - Some emerging markets, in this case Turkey, offer few opportunities to exit (as opposed to Brazil and South Africa, which have a more robust ecosystem through the cycle), which is why it made sense from a timing point of view to exit iyzico.

Figure 48: iyzico valuation evolution (USDm)



Source: Vostok Emerging Finance (underlying data), DNB Markets (further calculations)

Figure 49: iyzico return on investment (USDm)

Net invested	-11
Total proceeds	35
Investment date	January 2017
Exit date	December 2019
Holding period (years)	2.6
IRR	**57%**
CoC return	**3.2**

Source: Vostok Emerging Finance (underlying data), DNB Markets (further calculations)

VEF has a light and agile organisational set-up, with a 3-person investment team in addition to CEO David Nagle, and we believe it can leverage its broad emerging market fintech network also from its board of directors as well as co-investors with similar investment mandates to source and evaluate new business opportunities.

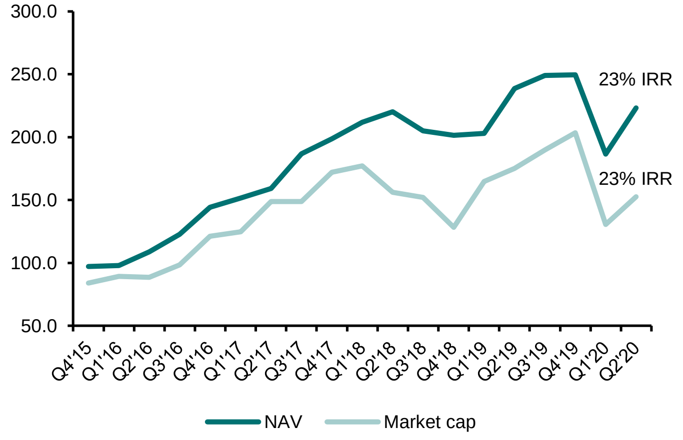
Average investment process takes c3–4 months (from screening to closing)

We believe VEF is well placed to continue to crystallise shareholder value from emerging market fintech and believe its 23% IRR on its net asset value since Q4 2015 further validates its track record.

If we study VEF's performance versus Nordic investment companies peers, Figure 51 shows that the shares have outperformed most peers since January 2016 with an annualised TSR of 23% (sector average 17%). We argue that this should mark VEF's starting point as it is when VEF had access to capital. Still, the investment strategies and risk profiles of portfolios vary, making comparisons debatable.

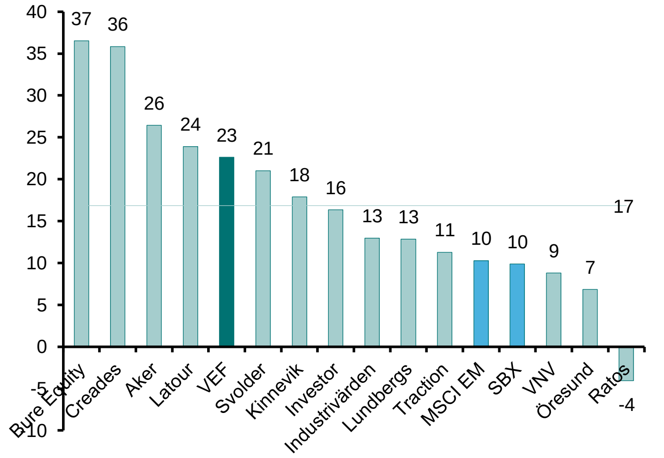
VEF'S shares have yielded an annualised TSR of 23% since listing in July 2015 (OMX benchmark index 10%, MSCI Emerging Markets 10%)

Figure 50: VEF performance and IRR (2015–2020)



Source: Vostok Emerging Finance (underlying data), DNB Markets (graph structuring)

Figure 51: Annualised total shareholder returns since January 2016 (TSR, %)



Source: Bloomberg (underlying data), DNB Markets (graph structuring)

Portfolio overview

Figure 52: Vostok Emerging Finance portfolio overview

Company	Geography	Business type	% of VEF's portfolio	Ownership	VEF's investment (USDm)	Fair value (USDm)	IRR	CoC return	Investment date
creditas		Secured lending platform	36%	9.6%	48.5	80.7	20%	1.7	Dec-17
konfio		SME lending	13%	11.4%	27.5	28.1	1%	1.0	Jun-18
JUSPAY		Payments	6%	9.9%	13.0	13.0	0%	1.0	Mar-20
JUMO	Pan-Africa, Asia	Mobile money marketplace	3%	6.8%	14.6	7.5	-13%	0.5	Oct-15
peBO+		Payments & consumer credit	5%	25.0%	8.8	10.2	3%	1.2	Sep-15
transferGo		Cross-border remittances	10%	15.4%	11.0	21.4	17%	1.9	Jun-16
Guiabolso		Personal finance management	4%	10.9%	30.0	9.6	-33%	0.3	Oct-17
nibo		Accounting Saas	5%	20.1%	6.5	11.3	18%	1.7	Apr-17
XERPA		HR & payroll platform	2%	16.0%	8.5	4.5	-47%	0.5	Sep-19
magnetis		Digital investment advisor	3%	17.5%	5.7	6.6	5%	1.2	Sep-17
FinanZero		Consumer credit marketplace	3%	18.0%	2.7	7.6	26%	2.8	Mar-16
FINJA		Mobile wallet	1%	20.4%	2.4	2.5	0%	1.0	Jul-16

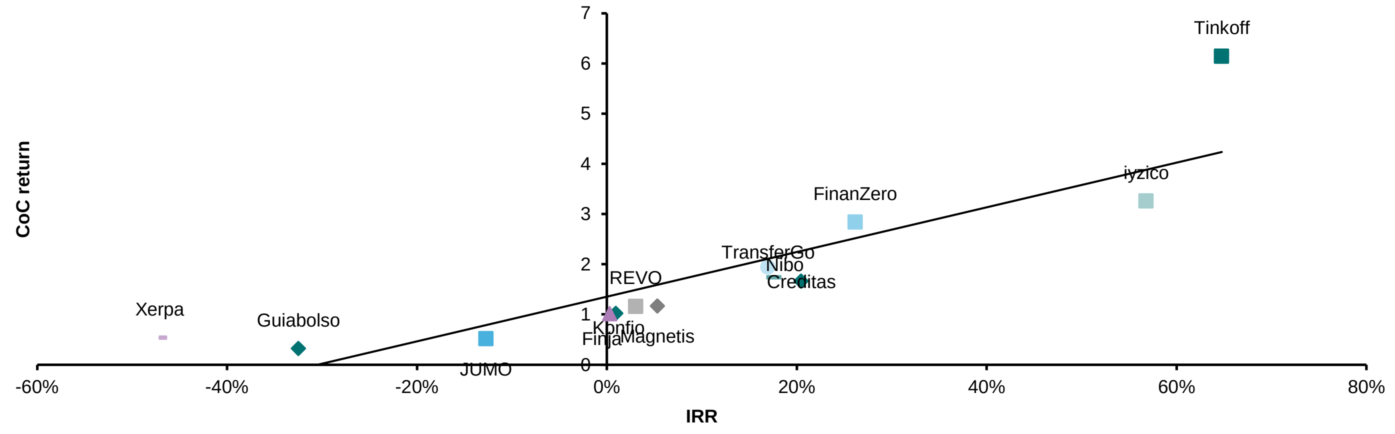
Source: Vostok Emerging Finance (underlying data), DNB Markets (graph structuring). Note: fair value is VEF's own as stated in its Q4 2019 report.

Creditas and Konfio hold the largest upside potential to VEF's NAV growth, in our view

Among VEF's 12 portfolio holdings, we believe Creditas and Konfio hold the largest short-term potential to unlock value and move the needle for VEF's NAV, and its early-stage holdings (Nibo, Magnetis, FinanZero, and Finja) could drive material NAV growth long-term (3–5+ years). We also believe it is worth highlighting that TransferGo and Juspay, operating in the digital payments space, have experienced step-like change that has fast-forwarded their respective development in the past year, and thus NAV growth outlook.

We see Jumo and REVO as holdings in the middle of transformation that hold somewhat muted NAV growth prospects, while its GuiaBolso investment highlights the risk of monetising at too early a stage.

Figure 53: VEF's portfolio holdings IRR and CoC returns (including exits)



Source: DNB Markets

Creditas (36% of VEF's portfolio)

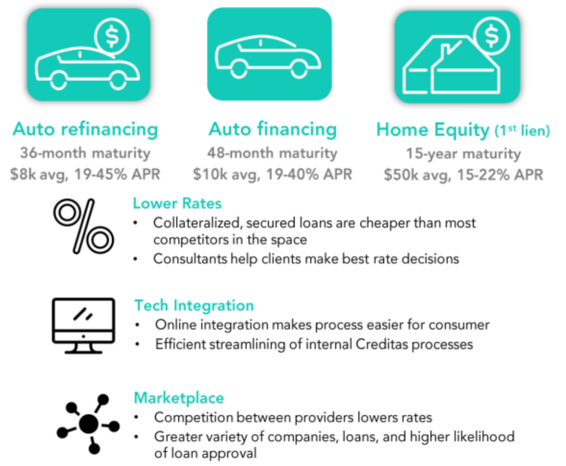
Leading digital lending platform for secured loans in Brazil

Whether it is credit cards or personal loans, Brazilian consumers pay among the highest interest rates in the world. Despite relatively high credit card penetration, there are few lending options for consumers other than very expensive short-term options with annual percentage rates (APR) of 100–400% for credit cards, overdrafts, and personal loans.

Creditas brings down the cost of borrowing for Brazilians by lending against their home or car

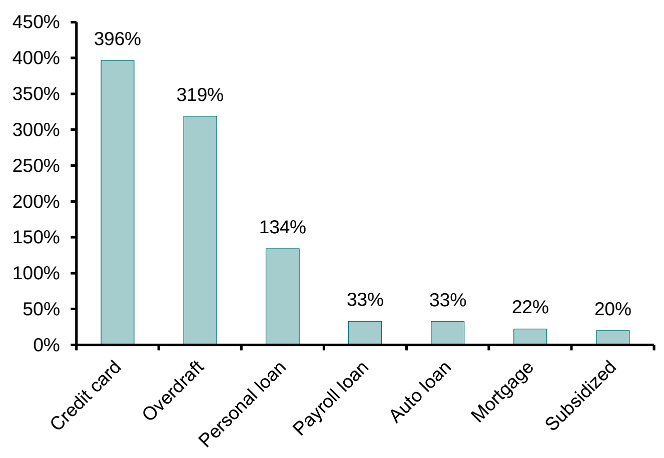
Founded in 2012 on two pillars – increased digitalisation penetration among Brazilian consumers, and abnormal high margins and low leverage in the real estate market (average LTV of ~6% versus 50%+ in developed markets) – Creditas aims to restructure expensive household debt, by allowing Brazilians to use their assets as collateral to deliver a convenient secured loan at reasonable rates, and long maturities.

Figure 54: Creditas product offering



Source: Creditas

Figure 55: Brazil – household debt market, APR %



Source: Banco de Brasil (underlying data), Arohatgi (graph structuring)

There is an underpenetrated market for secured consumer lending in Brazil as 70% of homes and cars are debt-free. Household lending is worth USD0.5trn in Brazil despite a population of 200m+, suggesting a substantial market opportunity. According to Creditas, which is the second largest name in Brazilian home loans, the largest categories for household debt (credit cards, overdrafts, personal loans) comprise a USD125bn revenue opportunity, and assuming a 5% market share suggests a USD6bn revenue pool.

Secured lending is an underpenetrated market and a USD3trn market opportunity, according to Creditas

Taking into account the potential in auto financing, the total addressable market is ~USD200bn, of which 70% today is not leveraged, while the total payroll market opportunity is ~USD20bn.

Large addressable market

Creditas funds its loans through a hybrid model that includes: 1) credit funds and securitisation; 2) traditional financial institutions; and 3) its own capital with customers that are typically top-50% earners in their 30–40s. All products use collateral allowing Creditas to provide cheap and long-term liquidity to individuals, while the products have low volatility, low expected losses, and low capital consumption.

Creditas uses capital to acquire customers and not to originating loans (leverages 100% of the loan through securitisation, whereas banks usually allocate 15-20%).

Figure 56: Creditas's western comparables

LendingClub
SoFi
lendingtree

Source: Source: DNB Markets

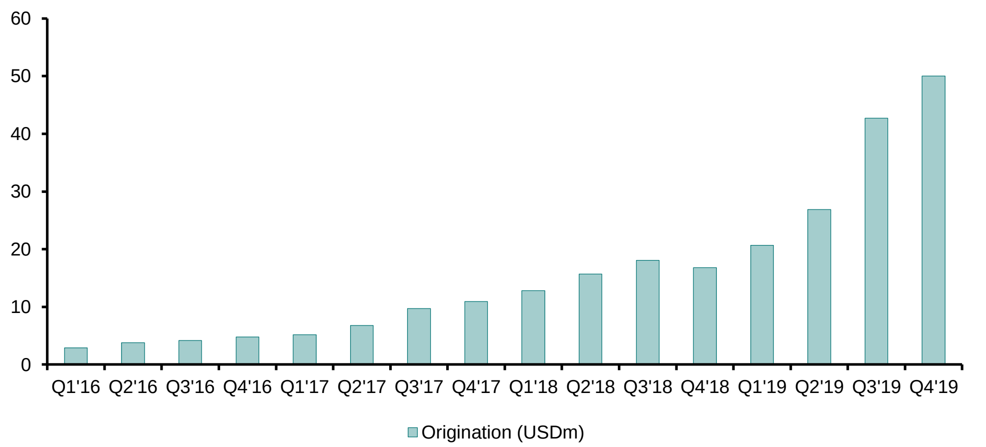
Figure 57: Creditas's competitors

biva
GERU
REBEL
Itaú

Source: DNB Markets

Its principal revenue streams are investment income on outstanding loans (inflation-linked home-equity loans comprise ~40% of revenues, auto equity loans ~40%, and private sector payroll loans ~20%), origination fees, as well as servicing fees while it has highlighted potential new segments such as solar-panel and medical-equipment financing.

Figure 58: Creditas origination (USDm, 2016–2019)



Source: DNB Markets (estimates), company (historical data), Arohatgi (data extraction)

Customer monetisation and improving the customer lifetime value are important for Creditas, as switching costs for financial services are low, and increasing the share of wallet at existing customers is thus a vital strategy rather than the absolute number of customers. That said, Creditas achieved an impressive 100%+ CAGR in origination volumes in the past three years, to ~USD100m for 2019.

The founder and CEO of Creditas, Sergio Furio, has worked at Boston Consulting Group and Deutsche Bank. He was inspired to build the company due to the gross inefficiencies of the incumbent Brazilian banking system, where Creditas is now able to provide liquidity to the owners of otherwise illiquid assets. This can dramatically increase the available funds in Brazil, and thus improve education, and help more small businesses, home renovations, etc.

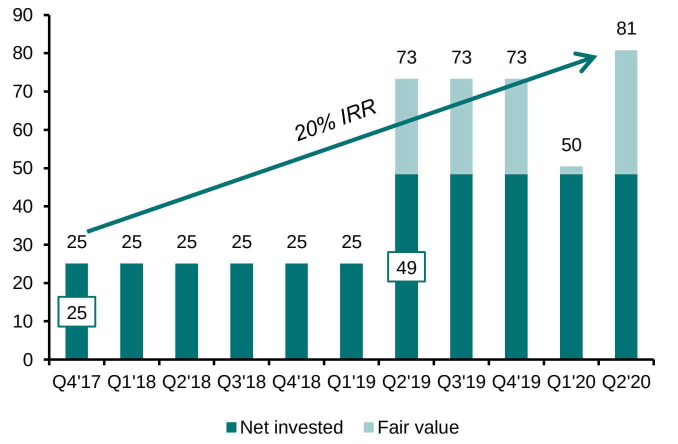
Before founding Creditas in 2012, Mr Furio was an executive at Boston Consulting Group and in Deutsche Bank's investment banking division

Figure 59: Creditas funding overview (USDm)

Date	Transaction	Money raised	Lead investors
Jul-19	Series D	231.0	Softbank
Dec-17	Series C	55.0	Vostok Emerging Finance
Feb-17	Series B	19.0	IFC, Prosus & Naspers
Jun-16	Series A	4.5	Kaszek Ventures, Redpoint
Aug-15	Series A	3.0	Redpoint
Oct-13	Seed round	1.4	
	Total	**313.9**	

Source: Crunchbase (underlying data), DNB Markets (data structuring)

Figure 60: Creditas – VEF's investments and valuation (USDm)



Source: Vostok Emerging Finance (underlying data), DNB Markets (data structuring)

1,000+ employees, with 2020e net revenues of ~USD30m–40m

Albeit from a low base, Creditas's net revenues increased by 3x in 2016, 7x in 2017, and 5x in 2018. The CEO said in an interview with FT Partners 2019 that the company aimed to originate USD100m in secure loans and achieve net revenues of USD25m+ for 2018. In another interview with StartSe in 2019, he said he aimed to grow revenues by 3x in 2019, with 1,000 employees. We prefer to be a little more cautious, and assume it could, based on historical growth rates being offset by the Covid-19 stress-test, originate ~USD150m in lending volumes for 2020e. Moreover, applying a similar margin profile as in 2018 (20–25% of origination) implies USD30m–40m in 2020e revenues.

In a press release from August 2020, Creditas mentioned that on a LTM basis its loan portfolio had reached BRL1bn (~USD180m), corresponding to 2.2x growth YOY despite Covid-19. Also, it reported August 2020 LTM revenues of BRL260m (~USD45m) suggesting our forecasts are on the conservative side.

Creditas has fared well in the Covid-19 stress-test

Until the Covid-19 crisis, Creditas was growing origination at 10% per month (suggesting ~3x per year), which came down to low single digits in April and May. As it was able to cut marketing spend (lower customer acquisition cost) by ~85% in Q2, it managed to take the business to cash flow break-even. During this period, it focused on asset quality and KPIs such as number of days past due, which only marginally deteriorated in March but bounced back in June (default rate of 2.5% from 1.5% previously). As funding markets have remained open, it also managed to place credit facilities at attractive terms (roughly 100–200%-points higher funding than pre-Covid-19) but still at 7–8% funding cost, while the spread is actually higher today on the back of raised prices.

We believe Creditas could recapitalise in H2 2020/H1 2021 (with a potential IPO in 2022/2023e), acting as potential NAV catalyst for VEF

We believe Creditas will deploy the cash saved during Q2 to reignite origination growth in Q3 2020 towards monthly growth of 10%, and if growth should normalise in H2 2020e, we do not rule out that it could seize the opportunity of a new funding round, which could act as a potential value catalyst for VEF. Moreover, having reached cash flow break-even in Q2 2020, we believe the business model could have the proof-points required to approach a potential IPO in 2–3 years' time.

Creditas had a private market valuation of USD840m in Q2 2020

In Q2 2020, VEF valued its 9.6% ownership stake in Creditas at USD81m (implying USD840m for 100% of the equity value) based on peer multiples. Based on Crunchbase data, Creditas has raised a total of USD314m in funding in seven rounds since 2013. Having invested USD49m in Creditas, we calculate that VEF has generated an unrealised IRR of 20% and a CoC multiple of 1.7x.

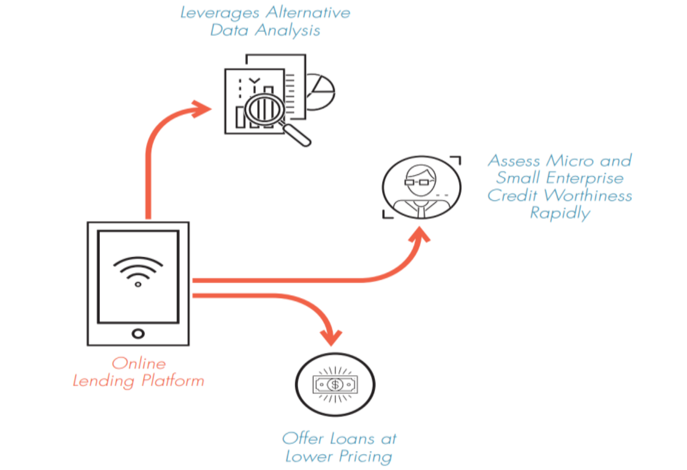
Konfio (13% of VEF's portfolio)

Digital lending platform targeting SMEs in Mexico

Konfio is an online lending platform that helps under-served SMEs in Mexico with business loans, credit cards, financial health monitoring, and insurance

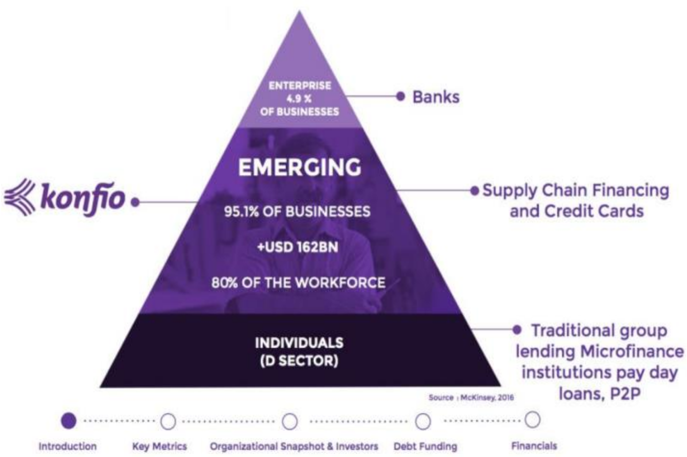
Founded in 2013, Konfio is a digital-first unsecured lending platform that lends money to small and medium-sized (SME) businesses in Mexico, which are often under-served by traditional banks. Its loans average USD25,000 (below the Mexican banks average of USD40,000) with an average interest rate of 28%, and users can fill out an application (which takes less than 10 minutes) and access credit, without providing any collateral, within 24 hours for uses such as working capital loans for inventory or equipment purchases, marketing, expansion, rent, repairs, refinancing, paying suppliers, etc.

Figure 61: Konfio – business model



Source: Konfio

Figure 62: Konfio's value chain



Source: Konfio

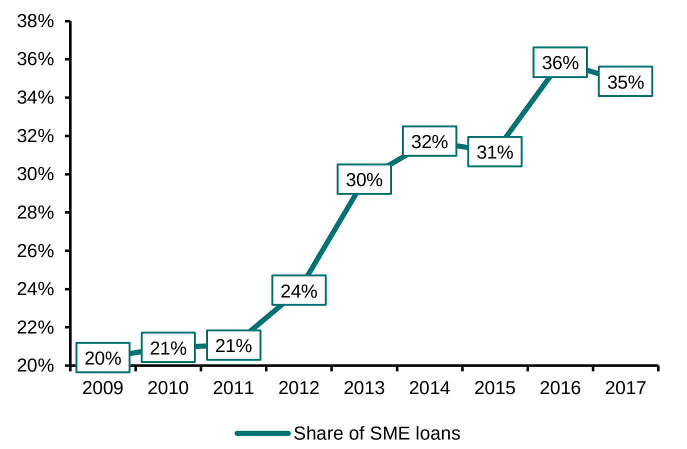
Its proprietary algorithm uses technology to measure creditworthiness

Konfio's rapid decision-making process is enabled by its proprietary algorithm, which incorporates more than 5,000 data points across five broad domains (biographical data, social network data, potential, transactional data, and lending history), and is designed to triangulate this information into a single predictive measure of whether a borrower will repay a loan.

USD50bn market for SME lending in Mexico

Mexico is Latin America's second-largest market, with a population exceeding 127m and more than 7m SMEs. SME lending comprised 35% of all outstanding loans in Mexico in 2017, according to OECD, despite SMEs' contribution to GDP output being above 50%, suggesting there is a large financing gap in Mexico. We identify market potential of USD50bn for SME lending in Mexico, and if we assume 10% penetration for Konfio as a leading lending platform, we calculate a potential revenue pool of USD5bn.

Figure 63: Mexico – share of SME of outstanding loans



Source: OECD Financing SMEs and Entrepreneurs 2019

Figure 64: Konfio's western comparables

ondeck prospa CAPITAL FLOAT

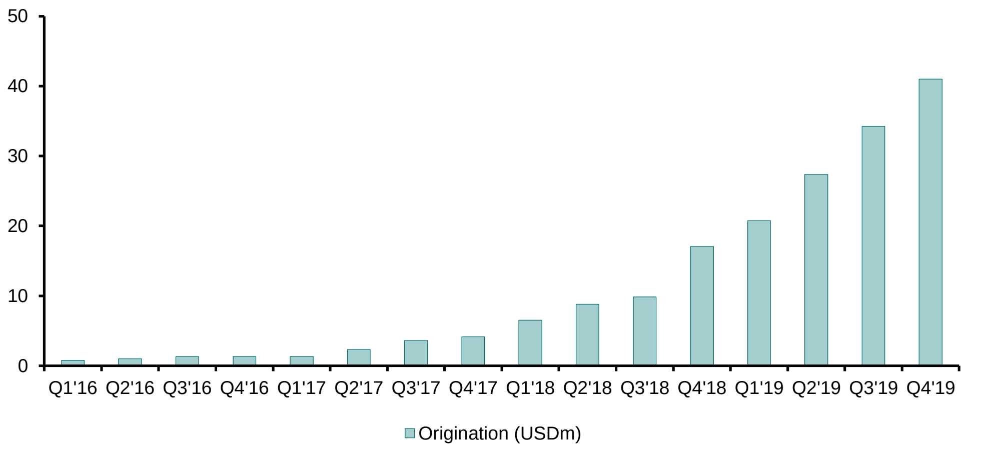
Source: DNB Markets

Co-founder and CEO, David Arana, is a former MIT graduate and Deutsche Bank employee, who said the lack of access to a credit line was what hampers a small business's growth potential. Konfio says it has lent to 25,000+ SMEs and has 1m+ clients in Mexico.

Covid-19 headwinds, but Konfio offers a lifeline to its crisis-hit SME clients

During the Covid-19 pandemic, Konfio in particular has been hit by: 1) its exposure to Mexican SMEs; and 2) unsecured lending, which means that it has modified ~45% of its loan book (its customers need flexibility in their loans terms). Still, non-performing loans stand at only 5% according to an FT article with Konfio's CEO from May 2020, and Konfio has actually helped plug the gap as SMEs struggle to access government support and bank finance resulting in a 20% surge of visitors to its website since the pandemic hit. Moreover, ~80% of its assets have begun to perform again in June, according to VEF.

Figure 65: Konfio origination (USDm, 2016–2019)



Source: DNB Markets (estimates), company (historical data), Arohatgi (data extraction)

We believe Konfio can originate ~USD100m in lending for 2020e

We find few financial metrics for Konfio given the limited financial disclosure, but note that with its recent USD100m debt round in December 2019, it issued a press release saying the funding should allow it to sustain its high growth pace (4x growth in 2019), while granting USD250m+ in SME credits in 2020e. Owing to Covid-19 headwinds, we believe it is fair to assume its growth strategy has been hit with 2020 origination volumes roughly flat versus 2019 (USD100m+, we estimate).

We believe Konfio could generate USD45m in revenues in 2021e

Since Konfio provides unsecured lending, we believe the risk profile is higher than Creditas's collateral-backed business model. Hence, we believe a suitable net interest margin should be ~15%. Assuming this on USD100m of origination volumes for 2020 implies revenues of USD15m in 2020e. Going into 2021e, we do not believe it is overly optimistic to assume its USD250m debt financing and USD100m credit facility from Goldman Sachs could achieve origination volumes north of USD300m by 2021, suggesting 2021e revenues of ~USD45m.

Credit is just the start, and off-balance sheet revenues are starting to kick-in

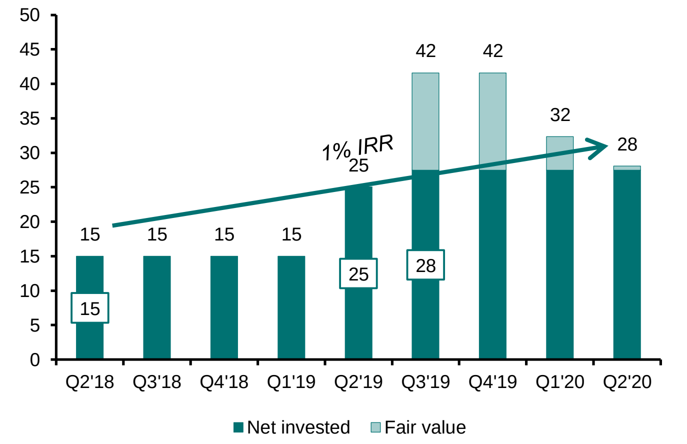
Still, we believe credit is just the start of Konfio's Mexican SME offering, as it is positioning itself to expand into payments, ERP and ancillary financial services. It is in the midst of ramping up non-balance sheet revenues from its Tech Services, which could become as much as 20% of sales in the coming year, we believe. In its Tech Services offering, Konfio's technology platform is made available to third parties through which it provides risk models, transactional management, portfolio monitoring etc. which should appeal to: 1) financial institutions seeking to deepen their penetration in the SME market; and 2) non-financials seeking to expand their knowledge of relevant SME ecosystems (profitability, commercial insights, supply-chain resilience etc.)

Figure 66: Konfio funding overview (USDm)

Date	Transaction	Money raised	Lead investors
Dec-19	Series D	100.0	Softbank
Sep-19	Debt financing	250.0	Goldman Sachs, Victory Park
Jun-18	Debt financing	9.8	IFC, Victory Park
Jun-18	Series C	25.0	Vostok Emerging Finance
Oct-17	Series B	10.0	IFC, Victory Park
May-16	Series A	8.0	Quona Capital
	Total	**402.8**	

Source: Crunchbase (underlying data), DNB Markets (data structuring)

Figure 67: Konfio – VEF's investments and valuation (USDm)



Source: Vostok Emerging Finance (underlying data), DNB Markets (data structuring)

In Q2 2020, VEF valued its 11.4% ownership stake in Konfio at USD28m (implying USD245m for 100% of the equity value) based on a calibration methodology that takes into account Covid-19 risk-adjusted forecasts, FX moves, and peer multiples movements since its latest transaction. Based on Crunchbase data, Konfio has raised a total of USD403m in funding in eight rounds since 2013. Having invested USD28m in Konfio, we calculate that VEF has generated an unrealised IRR of 1% and a CoC multiple of 1.0x.

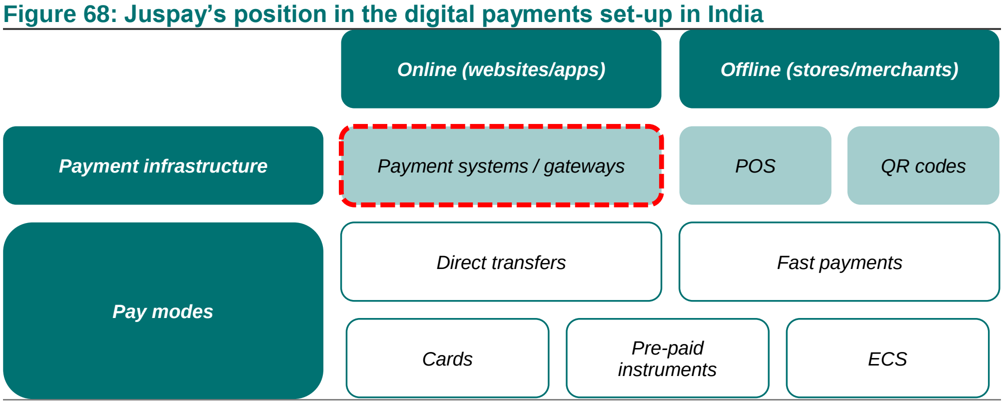
Konfio had a private market valuation of USD245m in Q2 2020

Juspay (6% of VEF's portfolio)

Founded in 2012, Juspay is one of India's leading payment fintechs and VEF's most recent addition to the portfolio. While India has one of the most advanced payment infrastructures, it is also one of the most complex, which creates payment frictions for merchants. Juspay offers a unifying layer of products and services around its payment gateways to reduce this onboarding friction for merchants, which improves pricing and conversion rates for all stakeholders in the value chain.

India's leading mobile payments platform for online merchants

Figure 68: Juspay's position in the digital payments set-up in India

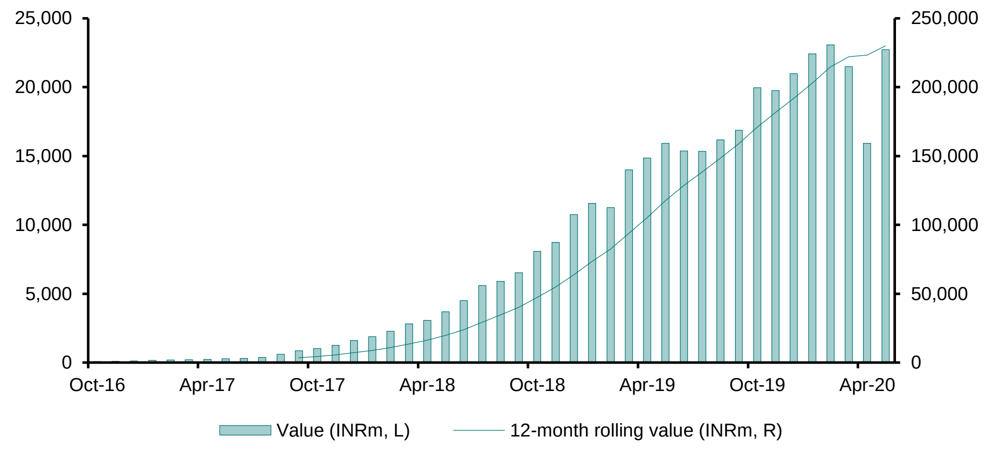


Source: DNB Markets

The payments market in India has expanded dramatically on the back of growing digital literacy, higher per capita transactions and an increase in the number of merchants accepting payments online, supported by the government's digital initiatives. India's push for cashless payments has accelerated as card and mobile payments comprised 20% of GDP in Q4 2019, up from 13% in Q4 2018. Popular mobile payments services in India are overlaid on Unified Payments Interface (UPI), a banking industry-sponsored protocol that lets people link their bank accounts with their phone numbers through payment apps to eliminate the need to enter bank details or other sensitive information each time a customer initiates a transaction.

India UPI payments are clocking at USD330bn+ in annualised payment value

Figure 69: Transaction value of UPI transactions in India (2016–2020)



Source: VEF

According to a report by JM Financial, digital payments in India processed by online gateways could amount to USD70bn–80bn, and since competition seems rather stiff from players such as Revolut, Extend, Instamojo, PhonePe, PayU, Paytm, etc., we believe it is reasonable to assume a ~5–10bp processing margin for payment gateway providers. This means, we believe the total addressable market for Juspay is today valued at ~35-80m on our estimates and should we assume a 10-20% market share, we believe its 2020e revenues could be ~USD10m (which is ~6x above its 2018 revenues).

We believe Juspay's addressable market is ~USD50m+ with the potential to increase five-fold in the coming five years given the government and regulatory drive to digital payments and bolstering of public payment infrastructure

As Juspay provides value-add services in addition to solving the two-factor authentication problem, in an otherwise commoditised payments ecosystem in India, some of the largest marketplaces and services use Juspay to get paid (Amazon, Flipkart, Uber, Swiggy, Ola, Cred, etc.). As of Q2 2020, Juspay had ["recorded"?] 200m+ downloads of its SDK and facilitated more than USD10bn of annualised payment volumes.

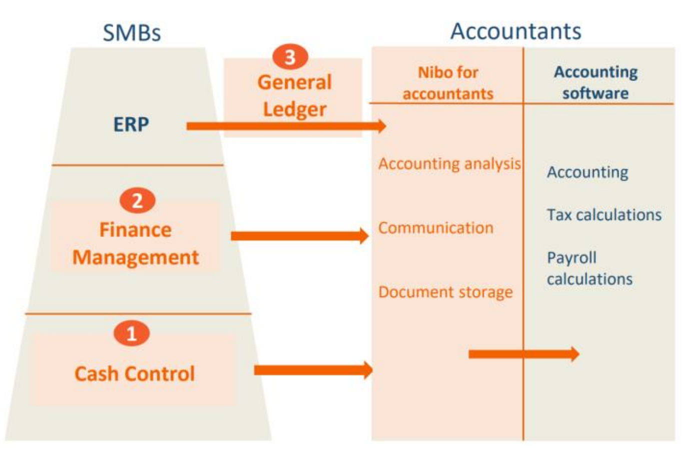
Nibo (5% of VEF's portfolio)

Leading accounting SaaS for Brazilian SMEs

The Brazilian tax environment is highly complex and SME business owners spend more time than in any other country filing taxes every year (1,500+ hours per year versus the world average of 234). This is why Nibo, founded in 2012, provides an accounting software-as-a-service (SaaS) platform targeting Brazil's 10m SMEs as well as 80,000+ accounting firms that still rely largely on manual processes to manage accounting data, which is time-consuming and prone to human error.

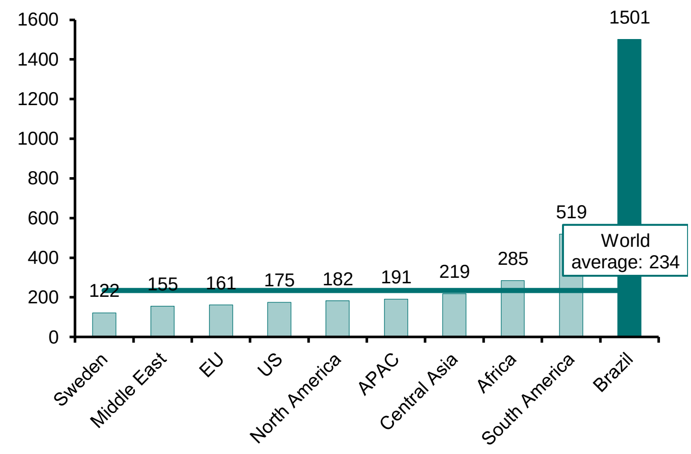
Brazilian accounting SaaS provider for SMEs and accountants…

Figure 70: Nibo SaaS dashboard



Source: Nibo

Figure 71: Hours per year business owners spend on taxes



Source: PwC – Paying taxes 2020

Brazil's 10m+ SMEs are legally required to have an accountant, and Nibo has enabled accountants to acquire more customers, allowing it to scale to up to 250,000 SME customers via 3,200+ accountant customers. Nibo's accounting software solution is also the source of value-added data on its SME customers, allowing it to cross-sell additional value-added financial services (accounts and bank reconciliation, payment of bills, cash flow projection tools, issuance of invoices, etc.), enabling new revenue streams and strengthening customer relationships.

…with a business model similar to Xero, Quickbooks, and Fortnox

Figure 72: Nibo's western comparables

Source: Source: DNB Markets

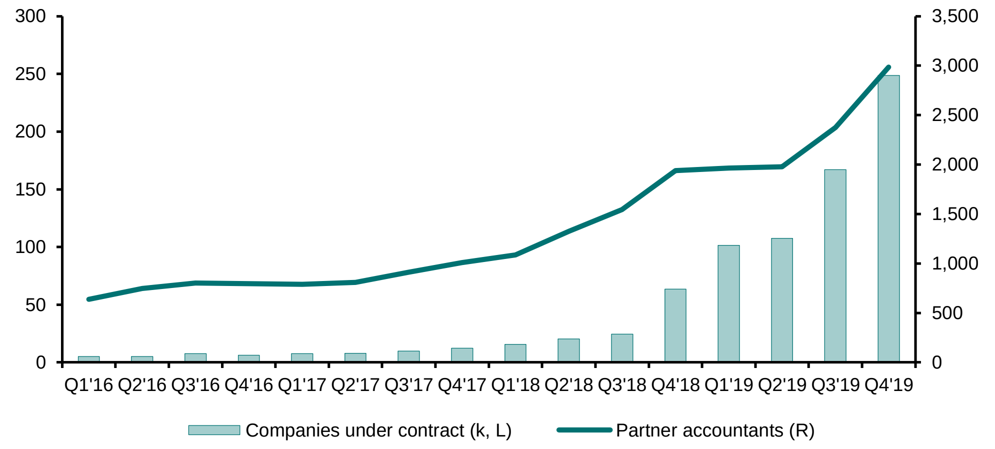
Figure 73: Nibo's local competitor

Source: DNB Markets

Nibo is led by co-founder Gabriel Gaspar, with a mission to empower SME accountants instead of replacing them with software. We have identified a USD3bn revenue opportunity for accounting SaaS for Brazil's SMEs (based on its BRL109 monthly subscription fee). In the past three years, Nibo's SME customer base has had a CAGR of 250%+ and its accountant customer base c55%. Based on ~10m SMEs and ~80,000 accountants in Brazil, we estimate that Nibo should have a 3–5% market share today in a fragmented market with the ambition to grow this to 10–20%, although we do not rule out that big listed fintechs such as Stone and PagSeguro could target this SME/accountant space further down the line give the large untapped potential. As VEF's valuation of Nibo is based on peers' EV/revenue (financial SaaS peers traded at a 2020e EV/Sales of ~12–15x by Q2 2020), we believe it aims to have 2020 revenues of USD3m–5m.

Potential for a broader array of financial services to extend Nibo's core offering

Figure 74: Nibo SME companies (k, L) and partner accountants (R) (2016–2019)



Source: DNB Markets (estimates), company (historical data), Arohatgi (data extraction)

In Q2 2020, VEF valued its 20.1% ownership stake in Nibo at USD11m (implying USD56m for 100% of the equity value) based on peers' EV/revenue. Based on Crunchbase data, Nibo has raised a total of USD6.6m (excluding a recent USD3.4m financing) since 2013. Having invested USD6.5m in Nibo, we calculate that VEF has generated an unrealised IRR of 18% and a CoC multiple of 1.7x.

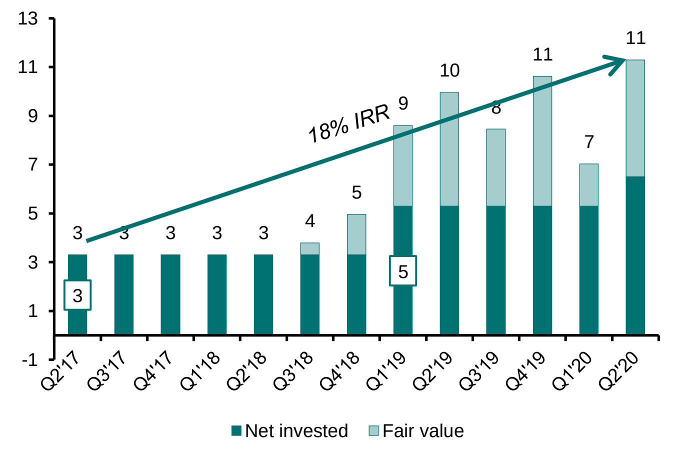
Nibo had a private market valuation of USD56m in Q2 2020

Figure 75: Nibo funding overview (USDm)

Date	Transaction	Money raised	Lead investors
Jun-19	Series B	3.4	Vostok Emerging Finance
May-17	Series A	6.6	Vostok Emerging Finance
Apr-13	Seed round		
	Total	**10.0**	

Source: Crunchbase (underlying data), DNB Markets (data structuring)

Figure 76: Nibo – VEF's investments and valuation (USDm)



Source: Vostok Emerging Finance (underlying data), DNB Markets (data structuring)

Magnetis (3% of VEF's portfolio)

Leading digital investment advisor in Brazil

Tailored automated investment portfolios based on clients' requirements

Founded in 2015, Magnetis is a fully CVM-registered (Brazilian Securities and Exchange Commission) digital investment advisor (often referred to as robo-advisor) in Brazil, offering clients a simple digital tool to manage their wealth. Brazil has more than 77m individuals with total investments exceeding USD720bn, across savings accounts, money market funds, retirement plans, etc.

This wealth is concentrated across the five largest incumbent banks that have historically been unwilling to change their wealth management offerings, while digital offerings are cannibalising their more lucrative existing models. The incumbent offerings are often characterised by high cost and low returns in a traditionally high-inflation market, which is why we believe Brazil represents an attractive market for digital wealth management.

Figure 77: Magnetis's solutions overview

Source: Magnetis

Similar business model as US robo-advisors Betterment and Wealthfront

With the emerging segment of younger, tech-savvy investors in mind, Magnetis democratises access to affordable and easy-to-use investment management by making recommendations for client portfolios (money market, insured fixed income, hedge funds, ETFs, etc.), using proprietary algorithms that take in account an individual's risk preferences.

Figure 78: Other robo-advisors in Brazil

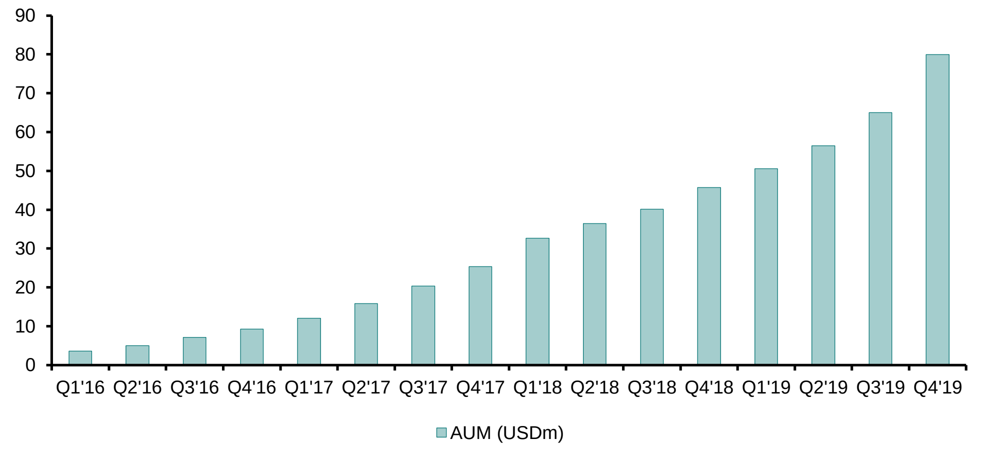
Source: DNB Markets

Figure 79: Magnetis' western comparables

Source: DNB Markets

Magnetis's systems are integrated via partnerships with Easyinvest (large Brazilian brokerage) and GPS Investimentos (one of Brazil's largest wealth managers), while it also has a discretionary mandate for clients with additional potential to expand to adjacent banking products. In terms of revenue streams, Magnetis charges a management fee of 0.4% for amounts exceeding ~USD1,000 per year and a fee of 0.3–0.5% for its own investment funds in a client's portfolio (banks and brokerages typically charge 0.8–1.0%).

Figure 80: Magnetis AUM (USDm, 2016-2019)



Source: DNB Markets (estimates), company (historical data), Arohatgi (data extraction)

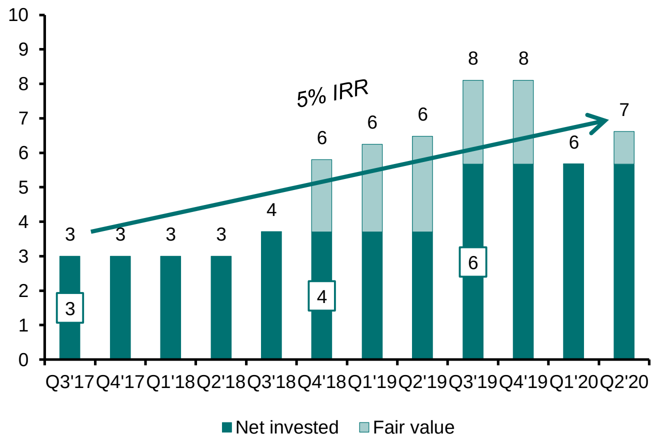
In a 2017 article in Reuters, CEO Luciano Tavares said he aimed to reach BRL1bn of assets under management (AUM) in 2019 (~USD320m using the April 2017 USD/BRL). However, based on a press release in May 2019 from Julius Bär, the company said Magnetis had BRL250m of AUM (~USD60m), which is why we believe it could reach ~BRL450m or USD80m–100m by 2020e, having grown AUM by a CAGR of 100%+ in the past three years.

Figure 81: Magnetis funding overview (USDm)

Date	Transaction	Money raised	Lead investors
Jul-20	Series B	11	Vostok Emerging Finance
May-19	Series A	Undisclosed	GPS Investimentos
Apr-18	Series A	5.4	Vostok Emerging Finance
Aug-15	Seed	1.0	Monashees Capital
	Total	**17.4**	

Source: Crunchbase & Pitchbook (underlying data), DNB Markets (data structuring)

Figure 82: Magnetis – VEF's investments and valuation (USDm)



Source: Vostok Emerging Finance (underlying data), DNB Markets (data structuring)

In Q2 2020, VEF valued its 17.5% ownership stake in Magnetis at USD7m (implying USD38m for 100% of the equity value) based VEF's calibration methodology. Based on Crunchbase and Pitchbook data, Magnetis has disclosed funding of a total of USD8m since 2015. Having invested USD6m in Magnetis, we calculate that VEF has generated an unrealised IRR of 5% and a CoC multiple of 1.7x.

Magnetis had a private market valuation of USD38m in Q2 2020

FinanZero (3% of VEF's portfolio)

Leading marketplace for consumer loans in Brazil

Founded in 2016, FinanZero is an independent aggregator of consumer loans that negotiates and compares personal loans, auto loans, refinancing of vehicles and property with several banks and credit institutions, to find the best terms and interest rates for the consumer.

Leading online broker of consumer loans in Brazil

FinanZero handles the lending process from start to finish with the customer and the banks integrated to its platform, making it possible for consumers to find all relevant credit providers via a single application, and helps credit providers with effective distribution, lower customer acquisition and administration costs, and better segmentation.

Figure 83: FinanZero's business model

Source: FinanZero

Given the concentrated banking ecosystem in Brazil, with little incentive to create consumer-friendly solutions, there is a significant market opportunity for consumer lending, where FinanZero is focusing on unsecured consumer loans, unsecured SME/payroll loans, secure car finance loans, as well as secure home equity loans.

Partners with 39 banks and credit institutions

We see clear similarities with proven business models elsewhere in the world, such as European market leader in loan brokerage Lendo (owned by Schibsted), from where the founding trio (Kristian Jacobsson, Siri Bengtsson, Olle Widén) has experience. In 2018, Lendo had loan volume of USD2.3bn, of which it receives ~5% of all loans paid out to consumers by the lender at the time of the transaction, and EBITDA margins north of 30%.

European peer Lendo has loan volumes of USD2bn+ and receives ~5% of all loans payed out via its brokerage

While KPI and financial disclosure remains limited, with a financing round in April 2019 CEO Olle Widén said FinanZero was growing at 50% per quarter (suggesting 1m+ unique platform visitors per month) and had received 3m+ loan applications since its inception.

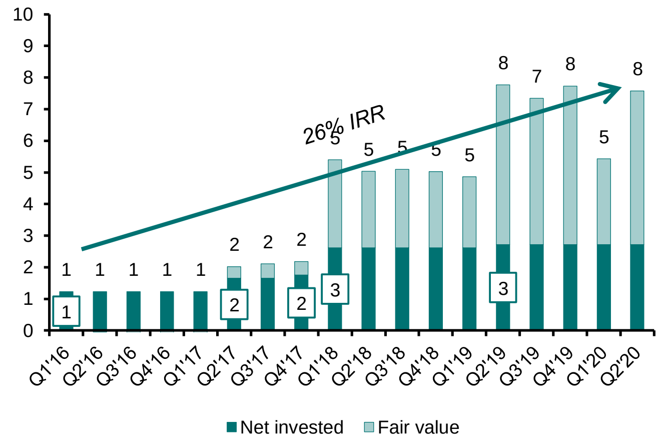
Founding team has a successful track record of launching Lendo in Sweden

Figure 84: FinanZero funding overview (USDm)

Date	Transaction	Money raised	Lead investors
Apr-19	Series B	11.0	Atlant Fonder
Mar-18	Series A	3.6	Vostok Emerging Finance
Mar-16	Seed round	1.2	
	Total	**15.8**	

Source: Crunchbase (underlying data), DNB Markets (data structuring)

Figure 85: FinanZero – VEF's investments and valuation (USDm)



Source: Vostok Emerging Finance (underlying data), DNB Markets (data structuring)

In Q2 2020, VEF valued its 18.0% ownership stake in FinanZero at USD8m (implying USD42m for 100% of the equity value) based on peer multiples. Based on Crunchbase data, FinanZero has raised a total of USD16m since 2016. Having invested USD3m in FinanZero, we calculate that VEF has generated an unrealised IRR of 25% and a CoC multiple of 2.8x.

FinanZero had a private market valuation of USD42m in Q2 2020

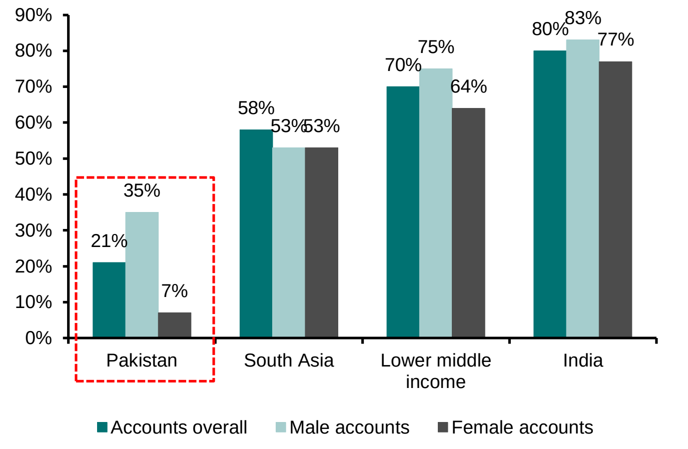
Finja (1% of VEF's portfolio)

Pakistan's leading mobile wallet and digital lending platform

Like Brazil, Pakistan is a scale market with a favourable macro and demographic trend, a population of 200m+, a rapidly growing middle class, and digitally savvy population with mobile subscriptions and smartphone penetration at 76% and 31% of the population, respectively, according to GSMA. Still, in terms of financial inclusion, it clearly lags behind many other emerging markets, with a large 'underbanked' population. Only 21% of the adult population had a bank account in 2017, and only 2% and 7% of SMEs received formal credits from financial institutions, according to the Global Findex Database.

Pakistan's fintech sector has just started, but is catching up

Figure 86: Account ownership in relation to Pakistan's peers



Source: Findex, World Bank

Figure 87: SimSim – Finja's mobile wallet

Source: Finja

Finja's SimSim is a leading mobile wallet in Pakistan focusing on merchants and consumers

Finja was founded in 2016 by tech- and banking veterans Qasif Shahid, Monis Rahman, and Umer Munawar. Its mission was to create a product that would play a leading role in changing payment behaviour and how the Pakistani population handles money digitally, by offering free, frictionless and real-time payments via its mobile wallet SimSim (software that stores payment details to facilitate purchases).

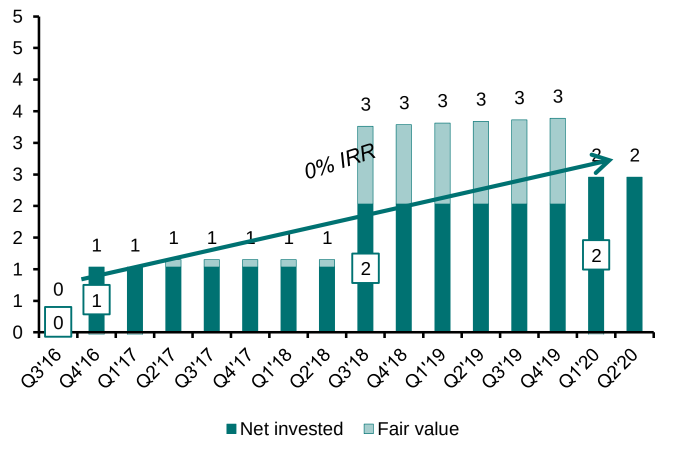
In addition to its integrated payments ecosystem, it offers a range of lending products via a freemium model focusing on consumers and SMEs. Having won key regulatory approval as an Electronic Money Institution (EMI), while being the only fintech in Pakistan with a Non-Banking Financial Institution (NBFI) licence, it can lend off- and on its balance sheet. By securing key partnerships with banks and financial institutions (FINCA Microfinance Bank and Descon Group to name a few) to lend capital on a risk-sharing basis, it is positioning itself to become a leading platform lender.

Figure 88: Finja funding overview (USDm)

Date	Transaction	Money raised	Lead investors
Nov-19	Convertible note	3.0	BEENEXT, Quona Capital
Oct-17	Series A	1.5	Vostok Emerging Finance
Aug-16	Seed round	1.0	Vostok Emerging Finance
	Total	**5.5**	

Source: Crunchbase (underlying data), DNB Markets (data structuring)

Figure 89: Finja – VEF's investments and valuation (USDm)



Source: Vostok Emerging Finance (underlying data), DNB Markets (data structuring)

Finja had a private market valuation of USD12m in Q2 2020

In Q2 2020, VEF valued its 20.4% ownership stake in Finja at USD3m (implying USD12m for 100% of the equity value) based on peer revenue multiples. Based on Crunchbase data, Finja has raised a total of USD6m since 2016. Having invested USD2m in Finja, we calculate that VEF has generated an unrealised IRR of 0% and a CoC multiple of 1.0x.

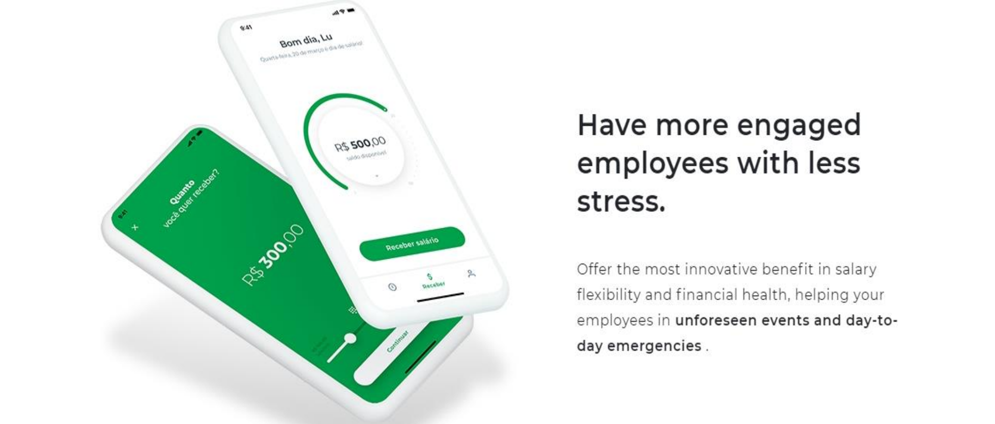
Xerpa (2% of VEF's portfolio)

Leading HR platform and salary-on-demand provider in Brazil

~60% of Brazilian workers struggle to make their pay cheque last, hence tens of millions resort to predatory credit products to meet their cash requirements until the next payday. Xerpa was founded in 2015 by Nicholas Reise and Paulo Ahagon to help Brazilian SMEs to navigate through the complex labour environment by developing a cloud-based service that aims to simplify and modernise HR administration for SMEs and their employees.

Xerpa provides modern, integrated HR software to corporates in Brazil, including products for recruitment, onboarding and performance evaluation

Figure 90: Xerpa's Xerpay



Source: Xerpa

Xerpa's HR software includes products for recruitment, onboarding and offboarding, performance evaluation as well as payroll management. Its salary-on-demand product, Xerpay (launched in September 2019) allows employees to withdraw a proportion of their salary before payday, as e.g. Wagestream does in the UK.

Salary-on-demand, Xerpay, allows employees to access earned wages instantly and at any time

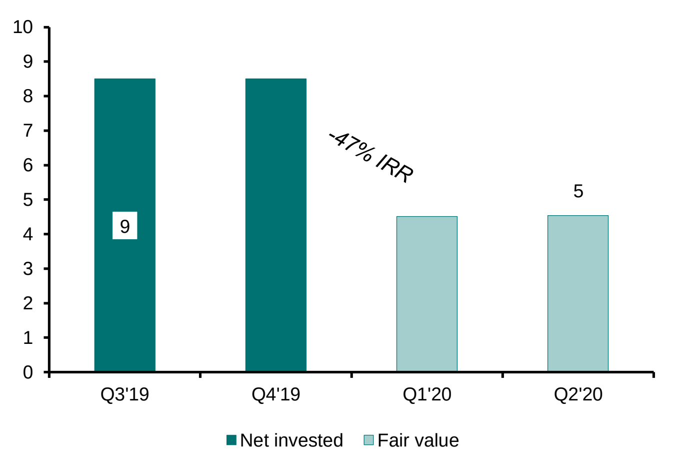
50,000+ workers use Xerpa's HR management platform including prominent clients such as CCR, Creditas, QuintoAndar, iFood, Mercado Libre and Nubank, which pay a subscription rate determined by the number of staff where minor fees arise when workers transfer funds to bank accounts or when overdrafts accrue (in April 2019, the overdraft charge was ~16%). This means employees can avoid a potential cumulative debt spiral or defaults from expensive traditional overdraft rates and credit cards, and allows SMEs to reduce financial stress among employees, increasing talent retention and productivity.

Figure 91: Xerpa funding overview (USDm)

Date	Transaction	Money raised	Lead investors
Sep-19	Series B	13.0	Vostok Emerging Finance
Jun-18	Series A	4.0	
May-17	Early stage VC	0.8	
Mar-16	Seed round	0.4	
Aug-15	Early stage VC	0.5	
	Total	**18.7**	

Source: Crunchbase & Pitchbook (underlying data), DNB Markets (data structuring)

Figure 92: Xerpa – VEF's valuation (USDm)



Source: Vostok Emerging Finance (underlying data), DNB Markets (data structuring)

In Q2 2020, VEF valued its 16.0% ownership stake in Xerpa at USD5m (implying USD28m for 100% of the equity value) based on a calibration methodology. Based on Crunchbase and

Xerpa had a private market valuation of USD28m in Q2 2020

PitchBook data, Xerpa has raised a total of USD19m since 2015. Having invested USD9m in Xerpa, we calculate VEF has generated an unrealised IRR of -47% and a CoC multiple of 0.5x.

JUMO (3% of VEF's portfolio)

Growing mobile money marketplace in Africa and parts of Asia

Founded in 2014, JUMO offers a full technology stack for partners to build savings, lending, and insurance products for consumers, and micro- and small business owners in emerging markets such as Ghana, Kenya, Pakistan, Tanzania, Uganda, and Zambia.

Attractive market opportunity given Africa's underdeveloped financial services ecosystem

In these 'underbanked' markets, the reliance on cash makes it difficult for small businesses to save and invest, where JUMO can facilitate access to financial services via mobile wallets (via basic unstructured supplementary service data (USSD), web or app), as mobile-centric solutions are bypassing traditional infrastructure in Africa given increased proliferation of mobile (44% penetration) and internet (36% penetration), according to GSMA and the "2019 Global Digital Report".

For 80% of JUMO's customers, its products are their first interaction with formal financial services

Figure 93: JUMO's technology stack for financial services

Loans built and run by JUMO	Partner	Country
Qwikloan	MTN & Letshego	Ghana
Xpressloan	MTN & Ecobank	Ghana
Kopa Cash	Airtel	Kenya
Easypaisa	Telenor and Telenor Microfinance bank	Pakistan
Nivushe	Tigo	Tanzania
Timiza	Airtel	Tanzania
Wewole	Airtel	Uganda
KASAKA loans	MTN & Barclays Africa	Zambia
Na Sova	Airtel	Zambia

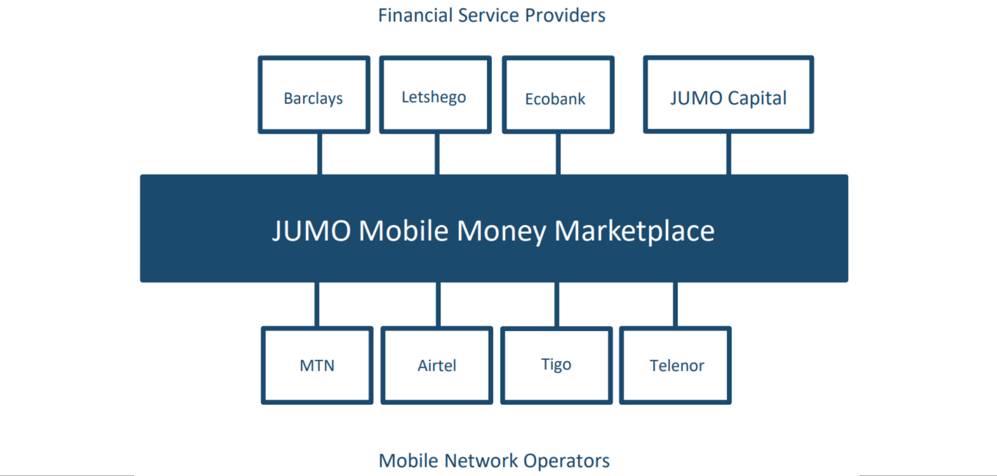
Savings built and run by JUMO	Partner	Country
Timiza Akiba	MTN & Letshego	Tanzania
KASAKA savings	MTN & Barclays Africa	Zambia

Source: JUMO

JUMO partners with mobile operators (MTN, Airtel, Tigo, etc.), local banks (Ecobank, Barclays, etc.), and technology companies to offer financial solutions for entrepreneurs who might not have credit histories or accounts, by using behavioural data from mobile usage to create financial identities for customers and connect them with financial products. Through these partnerships, JUMO has distributed USD1bn+, with 15m+ unique customers since its launch.

JUMO partners with banks and mobile network operators to provide a financial services marketplace to the 'unbanked' population on their mobile phones

Figure 94: JUMO's mobile money marketplace



Source: JUMO

Founder has a strong track record

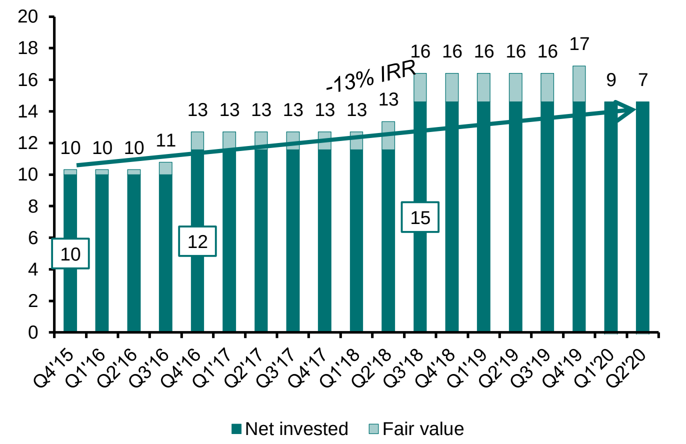
The entrepreneur behind JUMO is CEO Andrew Watkins-Ball who has a track record of building and selling various businesses, including Gateway Telecommunications, a satellite service provider sold to Vodafone in 2008 for USD700m. In addition, he has extensive experience from senior roles in investment banking and spent seven years at Salomon Brothers in London and New York.

Figure 95: JUMO funding overview (USDm)

Date	Transaction	Money raised	Lead investors
Feb-20	Venture round	55.0	
Dec-18	Venture round	12.5	Odey Asset Management
Sep-18	Venture round	52.0	Goldman Sachs
Apr-18	Venture round	3.0	PROPARCO
Nov-17	Debt financing	24.0	Finnfund
May-17	None-equity assistance	0.1	Google Launchpad
	Total	**146.7**	

Source: Crunchbase (underlying data), DNB Markets (data structuring)

Figure 96: JUMO – VEF's investments and valuation (USDm)



Source: Vostok Emerging Finance (underlying data), DNB Markets (data structuring)

JUMO had a private market valuation of USD110m in Q2 2020

In Q2 2020, VEF valued its 6.8% ownership stake in JUMO at USD7m (implying USD110m for 100% of the equity value) based on peers' EV/revenue. Based on Crunchbase data, JUMO has raised a total of USD147m since 2014, and VEF decided not to participate in its recent USD55m funding round, as there was good investor demand, which means VEF was slightly diluted. Having invested USD15m in JUMO, we calculate that VEF has generated an unrealised IRR of -13% and a CoC multiple of 0.5x.

REVO (5% of VEF's portfolio)

Financing options for merchants in Russia and Poland

REVO is the first mover in Russia, to deliver small-ticket instalment plans

REVO provides omni-channel (online and offline) point-of-sale lending options for leading merchants in Russia and Poland, allowing their customers to buy now and pay later. Similar business models are widely spread in developed economies (Klarna, Affirm, Afterpay etc.), but are only now becoming available in the markets REVO targets. According to REVO, it has 60 major retail partners, with 2.5m+ processed customer requests.

Figure 97: Selected key merchant partners

Source: REVO

Its strategy is to capture and analyse consumer data to drive growth and profitability of merchants

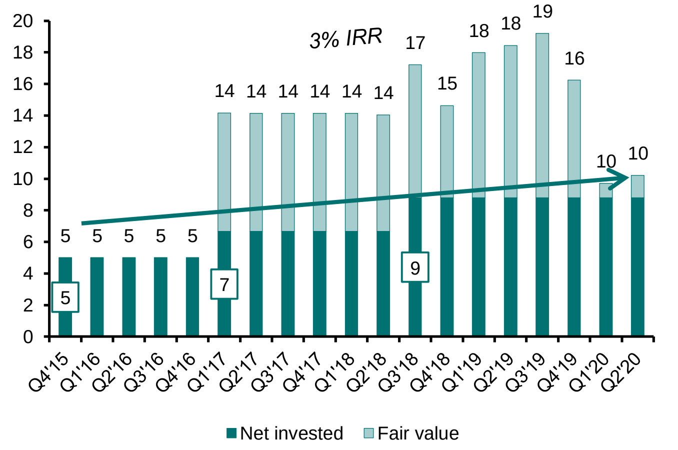
Targeting mainly small-ticket categories (apparel, toys, sporting goods, travel, electronics etc.), REVO provides accessible sales financing for consumers and helps merchants to increase conversion and basket size of purchases in a segment that in Russia generates revenues of USD100bn+. In addition, its sister company, Sorsdata (active in consumer data analytics) can leverage REVO's customer data to deliver personalised marketing services for merchants. In 2019, REVO partnered up with scale retailers such as MVideo, Ozon, and Eldorado, which is a key driver to grow volumes and thus revenues in our view.

Figure 98: REVO funding overview (USDm)

Date	Transaction	Money raised	Lead investors
Apr-18	Series B	2.0	
Jan-17	Series A	20.0	Baring Vostok
Sep-15	Early stage VC	5.0	Vostok Emerging Finance
	Total	**27.0**	

Source: Crunchbase (underlying data), DNB Markets (data structuring)

Figure 99: REVO – VEF's investments and valuation (USDm)



Source: Vostok Emerging Finance (underlying data), DNB Markets (data structuring)

REVO had a private market valuation of USD41m in Q2 2020

In Q2 2020, VEF valued its 25.0% ownership stake in REVO at USD10m (implying USD41m for 100% of the equity value) based on peers' EV/revenue and net interest income multiples. Based on Crunchbase data, REVO has raised USD27m since 2015. Having invested USD9m in REVO, we calculate VEF has generated an unrealised IRR of 3% and a CoC multiple of 1.2x.

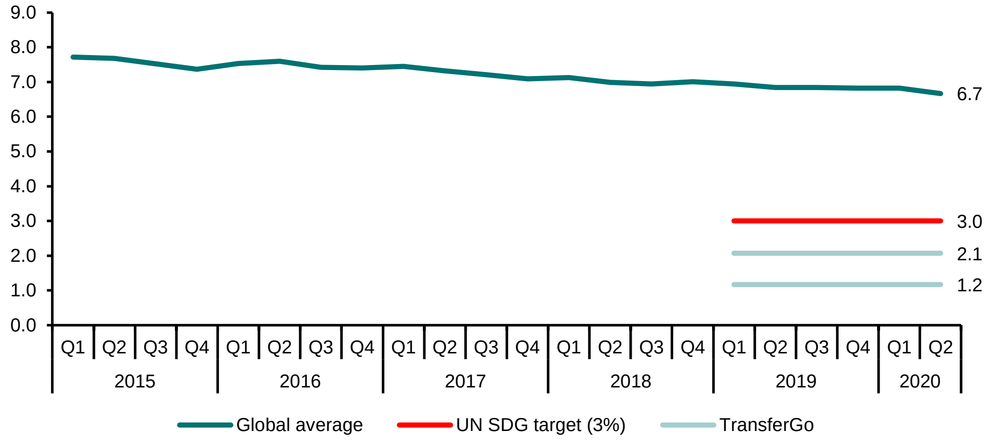
TransferGo (10% of VEF's portfolio)

Provider of European cross-border digital remittances

Rapidly growing, low-cost, digital cross-border remittance provider focusing on Western to Eastern Europe

There are more than USD690bn of annual remittance volumes globally, according to World Bank data, which are still characterised by high pricing and slow speed. Founded in 2012, TransferGo is a fast-growing provider of competitively priced and quick digital money transfers operating in more than 47 countries worldwide. It specialises in providing remittance services to individuals, particularly blue-collar workers (which are the most consistent and regular remittance customers in the world), that live in Europe, to allow them to transfer money to friends and family, typically in developing countries.

Figure 100: Transaction cost for sending USD200 (%)

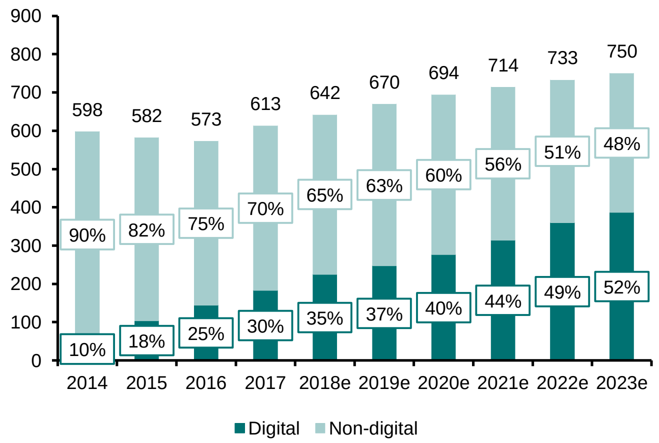


Source: The World Bank Remittance Prices Worldwide 2020, DNB Markets (further calculations)

Global remittances transaction pricing remains high and speed to slow

In Q2 2020, the global average cost of sending USD200 was 6.7% (according to the World Bank), whereas TransferGo's proprietary technology and infrastructure allows for 30-minute transfers and a relatively low transfer cost. It charges a fixed transfer fee (GBP0.99 in the UK, EUR0.99 in the eurozone, and SEK10 from Sweden), and a fee of 0.6% to 1.5% for the currency conversion per transaction, coming within the UN's Sustainable Development Goal of reducing to less than 3% of the transaction costs of migrant remittances by 2030.

Figure 101: Global remittance volume (USDbn)



Source: World Bank, Business Insider Intelligence estimates, Juniper Research

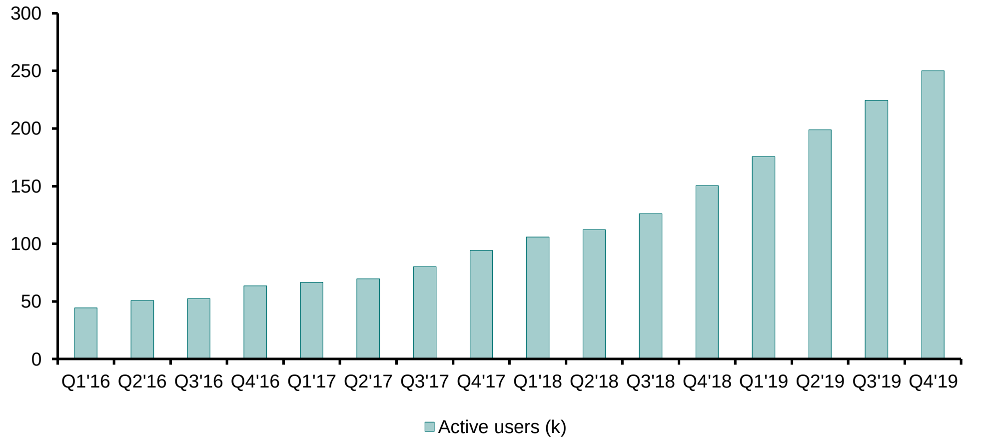
Figure 102: TransferGo's competitors

Source: DNB Markets

TransferGo says it has a 20% market share in Central and Eastern Europe…

The World Bank estimates annual European remittance flows to low- and middle-income regions amounted to USD60bn in 2019, and TransferGo co-founder and CEO Daumantas Dvilinskas said in a December 2018 interview with TechCrunch that the company had a 20% market share in Central and Eastern Europe. If we assume a 10% share of digital remittances in Central and Eastern Europe in 2020, a market share of 20%, and apply a 1.5% fee, we calculate potential annual revenues of ~USD20m.

Figure 103: TransferGo active users (k, 2016–2019)



Source: DNB Markets (estimates), company (historical data), Arohatgi (data extraction)

…and has seen a significant increase in remittances during the Covid-19 crisis

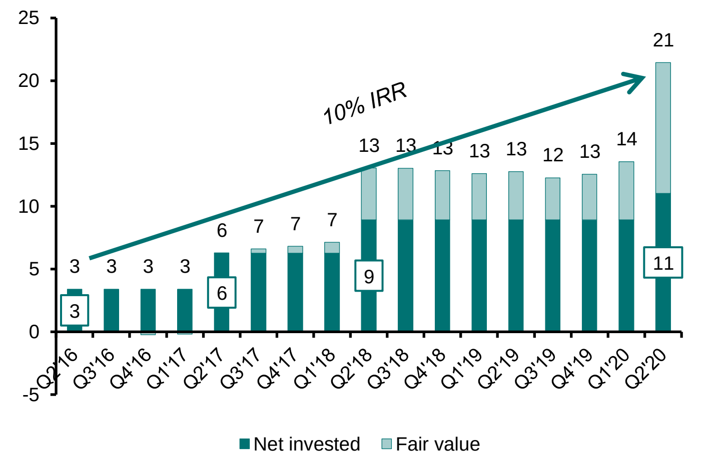
The number of remittances made daily increased significantly with the Covid-19 crisis when many countries went into lockdown earlier this year. TransferGo's CEO said in a TechCrunch interview from June 2020 that it had grown by 30% over the lockdown period, with a significant uptake from emerging markets such as India, Turkey, and Nigeria. TransferGo has also developed a 'remittances-as-a-service' API where it white-labels its business and allows third parties to leverage its rails for theircustomers.

Figure 104: TransferGo funding overview (USDm)

Date	Transaction	Money raised	Lead investors
Jun-20	Venture round	10.0	Seventure Partners, VEF
May-19	Series B	3.3	Vostok Emerging Finance
Dec-18	Series B	17.6	Vostok Emerging Finance
Oct-18	Equity crowdfunding	12.6	
May-18	Series B	10.0	
Aug-17	Series B	2.9	Vostok Emerging Finance
Jun-16	Series A	3.4	Vostok Emerging Finance
Dec-15	Seed round	2.5	Mark Ransford
Sep-13	Seed round	2.2	
	Total	**64.4**	

Source: Crunchbase (underlying data), DNB Markets (data structuring)

Figure 105: TransferGo – VEF's investments and valuation (USDm)



Source: Vostok Emerging Finance (underlying data), DNB Markets (data structuring)

TransferGo had a private market valuation of USD140m in Q 2020

In Q2 2020, VEF valued its 15.4% ownership stake in TransferGo at USD21m (implying USD140m for 100% of the equity value) based on peers' EV/sales multiples. Based on Crunchbase data, TransferGo has raised a total of USD64m since 2013. Having invested USD11m in TransferGo, we calculate that VEF has generated an unrealised IRR of 17% and a CoC multiple of 1.9x.

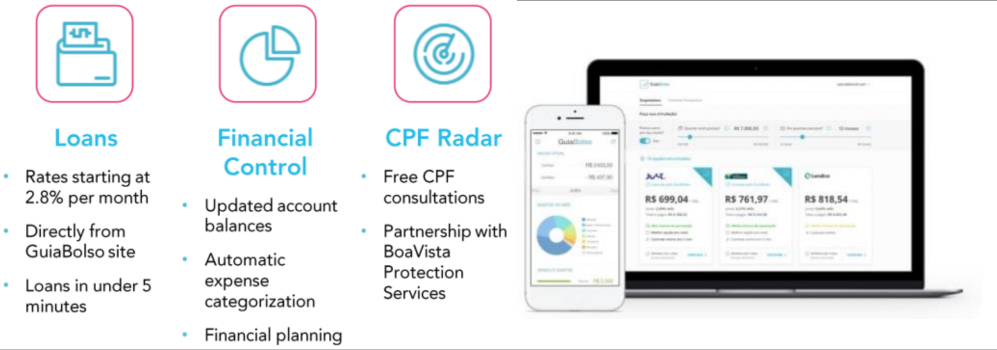
GuiaBolso (4% of VEF's portfolio)

Brazil's leading personal finance management platform

Free personal finance platform built on proprietary bank data aggregation technology

The combination of paying some of the highest interest rates in the world and a rather complex financial system with numerous credit products can make it hard for Brazilians to effectively manage their personal finances. GuiaBolso simplifies finances via an all-encompassing, easy-to-use personal finance management app and website where its proprietary bank data aggregation technology facilitates users' financial decision-making.

Figure 106: Guiabolso's personal financial management platform



Source: GuiaBolso

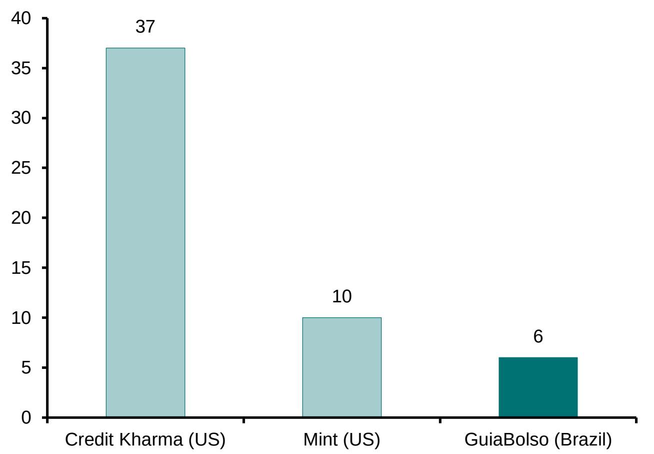
Although it does not hold cash like a bank, GuiaBolso can guide its users to a wide range of better-suited and lower-priced financial products, spanning from automated credit reports and financial education tools through to investment offerings as well as third-party credit products.

Also offers quick and easy loans to customers

In early monetisation efforts, GuiaBolso decided to originate credit by taking the balance sheet risk itself; however, from Q3 2018, 100% of the origination has been done via partners, creating an asset-light credit marketplace model. Thus, at this stage of its development, focus is on building its active user base rather than credit origination (pre-Q3 2018), which held back revenue generation somewhat in 2018–2019.

Via its marketplace lending platform, GuiaBolso can provide its partners and subsidiaries with a white-label solution to offer credit at lower rates

Figure 107: Personal finance management companies' number of active users (2019, m)



Source: Companies (underlying data), DNB Markets (graph structuring)
Note: figure for GuiaBolso is the number of app downloads

Figure 108: Guiabolso's western comparables

Source: DNB Markets

Created in 2012 by Thiago Alvarez and Benjamin Gleason, GuiaBolso now has 6m+ active users in Brazil (90%+ CAGR since 2014), and its revenue is generated via its consumer credit marketplace, with new segments including credit cards and investments to follow as well as GuiaBolso Connect, focused on the B2B market, giving companies access to financial data, previously authorised by users, to make more precise risk analysis and reduce fraud.

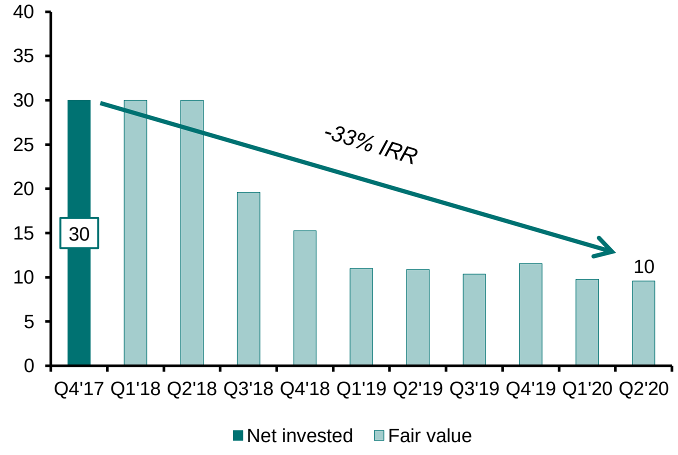
Similar business model to Credit Karma and Mint in the US, and Tink in Sweden

Figure 109: GuiaBolso funding overview (USDm)

Date	Transaction	Money raised	Lead investors
Oct-17	Series D	39.0	Vostok Emerging Finance
May-16	Series C	17.0	IFC, Ribbit Capital
Aug-15	Series B		Ribbit Capital
May-14	Series A		
Jul-13	Seed round		
	Total	**56.0**	

Source: Crunchbase (underlying data), DNB Markets (data structuring)

Figure 110: GuiaBolso – VEF's investments and valuation (USDm)



Source: Vostok Emerging Finance (underlying data), DNB Markets (data structuring)

In Q2 2020, VEF valued its 10.9% ownership stake in GuiaBolso at USD10m (implying USD88m for 100% of the equity value) based on peers' EV/revenue. Based on Crunchbase data, GuiaBolso has raised a total of USD56m since 2013. Having invested USD30m in GuiaBolso, we calculate that VEF has generated an unrealised IRR of -33% and a CoC multiple of 0.3x, mainly driven by the markdown in Q3 2018 owing to its change in strategy (part marketplace and part balance sheet lender to a pure marketplace financial hub model), which negatively affected its short-term revenue streams.

GuiaBolso had a private market valuation of USD88m in Q2 2020

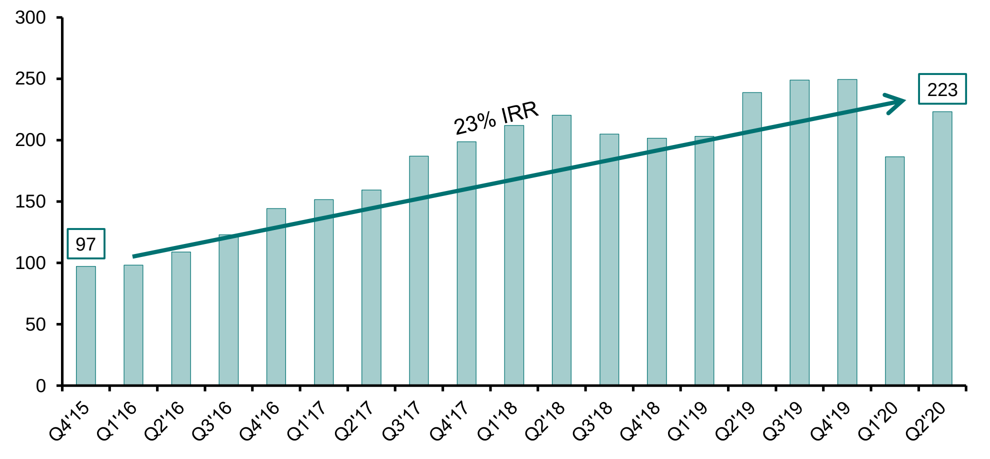
COMMISSIONED RESEARCH

Financials

Net asset value

VEF has increased its NAV from USD97m in Q4 2015 to USD223m in Q2 2020, giving an local currencies IRR of 23%

Figure 111: VEF NAV (USDm)

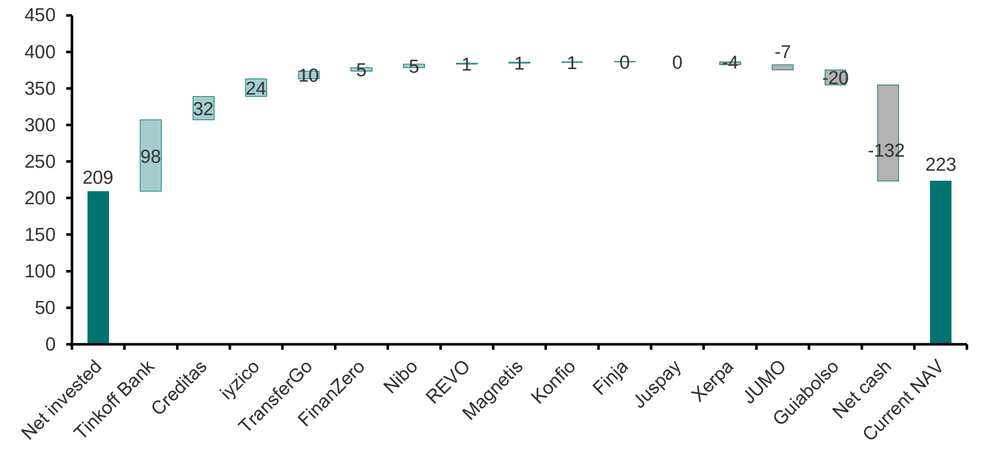


Source: Vostok Emerging Finance (underlying data), DNB Markets (graph structuring)

Main drivers of solid NAV growth have been Tinkoff Bank, Creditas, iyzico, and TransferGo…

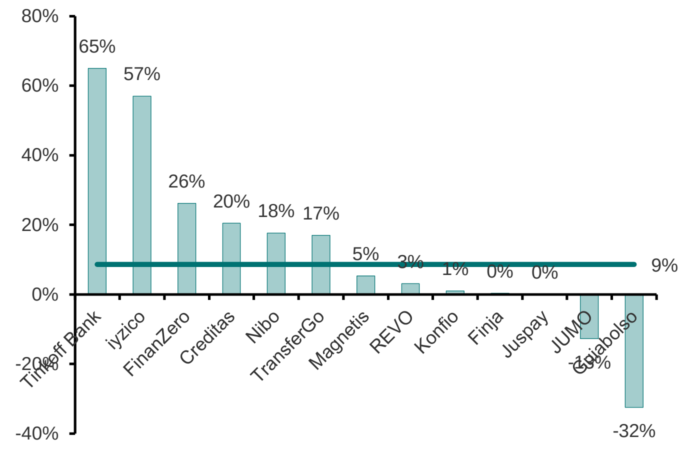
…and we believe its attractive exit returns reflect selling discipline

Figure 112: NAV growth constituents (USDm)



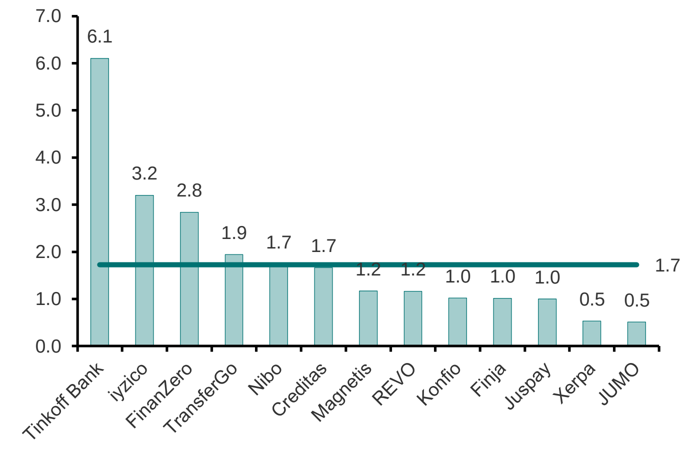
Source: DNB Markets

Figure 113: Portfolio IRRs



Source: DNB Markets

Figure 114: Portfolio CoC multiples



Source: DNB Markets

Figure 115: VEF NAV overview

NAV overview (USDm)	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20	Q2'20
Creditas	25.0	25.0	25.0	25.0	25.0	73.2	73.2	73.2	50.4	80.7
Konfio		15.0	15.0	15.0	15.0	25.0	41.6	41.6	32.4	28.1
Juspay									13.0	13.0
JUMO	12.7	13.4	16.4	16.4	16.4	16.4	16.4	16.9	9.0	7.5
REVO/Sorsdata	14.2	14.0	17.2	14.6	18.0	18.4	19.2	16.2	9.7	10.2
TransferGo	7.1	13.0	13.0	12.8	12.6	12.8	12.3	12.6	13.5	21.4
Guiabolso	30.0	30.0	19.6	15.3	11.0	10.9	10.4	11.5	9.8	9.6
Nibo	3.3	3.3	3.8	5.0	8.6	10.0	8.5	10.6	7.0	11.3
Xerpa							8.5	8.5	4.5	4.5
Magnetis	3.0	3.0	3.7	5.8	6.3	6.5	8.1	8.1	5.7	6.6
Finanzero	5.4	5.0	5.1	5.0	4.9	7.8	7.3	7.7	5.4	7.6
Finja	1.2	1.2	3.3	3.3	3.3	3.3	3.4	3.4	2.3	2.5
Tinkoff Bank	71.4	62.2	48.8	7.9						
iyzico	9.0	17.6	19.0	25.9	26.1	33.9	33.9			
Invested	**182.2**	**202.7**	**189.9**	**152.0**	**147.1**	**218.2**	**242.8**	**210.4**	**162.7**	**203.0**
Invested % of GAV	*86%*	*92%*	*92%*	*75%*	*72%*	*90%*	*95%*	*84%*	*87%*	*91%*
Liquidity management	23.5	9.5	9.4	44.9	45.4	13.1	6.5	34.5	20.8	18.0
Cash	6.6	8.5	6.6	5.5	11.2	12.1	5.2	5.6	3.2	2.5
Cash and liquid investments	**30.1**	**18.1**	**16.0**	**50.4**	**56.6**	**25.2**	**11.7**	**40.1**	**24.0**	**20.6**
Cash % of GAV	*14%*	*8%*	*8%*	*25%*	*28%*	*10%*	*5%*	*16%*	*13%*	*9%*
Other net liabilities	-0.5	-0.6	-0.9	-1.0	-0.7	-4.7	-5.5	-1.0	-0.3	-0.4
Net asset value	**212**	**220**	**205**	**201**	**203**	**239**	**249**	**249**	**186**	**223**
NOSH (fully diluted)	671.7	674.0	663.7	663.0	662.8	661.8	659.4	665.4	663.4	663.7
NAV/share (USD)	0.32	0.33	0.31	0.30	0.31	0.36	0.38	0.37	0.28	0.34
NAV/share (SEK)	2.56	2.83	2.76	2.75	2.81	3.41	3.62	3.60	2.83	3.13
VEF share price (SEK)	2.14	2.01	2.05	1.75	2.28	2.50	2.76	2.94	1.99	2.14
Market cap (SEKm)	1,437	1,355	1,361	1,160	1,511	1,655	1,820	1,956	1,317	1,420
Discount to NAV	16%	29%	26%	36%	19%	27%	24%	18%	30%	32%
NAV growth (YOY)	40%	38%	10%	1%	-4%	8%	21%	24%	-8%	-6%
NAV growth (QOQ)	7%	4%	-7%	-2%	1%	18%	4%	0%	-25%	20%
Net investments	-2	-18	-7	-1	6	-34	-13	46	0	0
Gearing (net debt/GAV)	-14%	-8%	-8%	-25%	-28%	-12%	-7%	-16%	-13%	-9%
Management costs	-1.3	-1.5	-1.4	-1.3	-0.8	-2.3	-1.3	-1.2	-0.5	-1.4
Management costs/NAV (LTM)	2.32%	2.45%	2.89%	2.74%	2.45%	2.41%	2.30%	2.26%	2.87%	1.99%
USD/SEK	8.1	8.7	8.9	9.0	9.2	9.4	9.6	9.6	10.1	9.3

Source: DNB Markets (forecasts), company (historical data)

Management costs

What goes on in holding companies' boardrooms forms the platform for value creation for shareholders of an investment company, in our view. Investment companies' management costs tend to be linked to the underlying portfolio, which is why companies with more unlisted holdings tend to require more resources from the owners in relation to NAV.

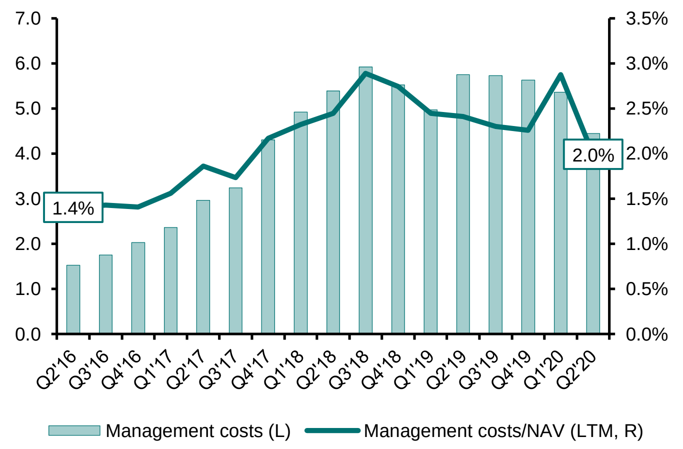
VEF screens as a low-cost option for investors wanting unlisted fintech and emerging market exposure…

In the Nordic sector, management costs relative to NAV in 2019 ranged from 0.03% in Latour to Vostok New Ventures (VNV) at 4.34%, which includes an extraordinary bonus to CEO Per Brilioth of USD15m, having been responsible for the Avito investment that generated net returns of USD579m to VNV (an IRR of 37% over 11 years).

VEF had annual operating expenses of USD5.6m in 2019 (2.29% of NAV), making it a low-cost option when benchmarked against international venture capital and private equity, which typically have a fee structure referred to as '2-and-2', implying 2% management fees per year to professionally manage the investment strategy (staff compensation), and a 20% carry (profit-sharing fees that give upside potential if it delivers).

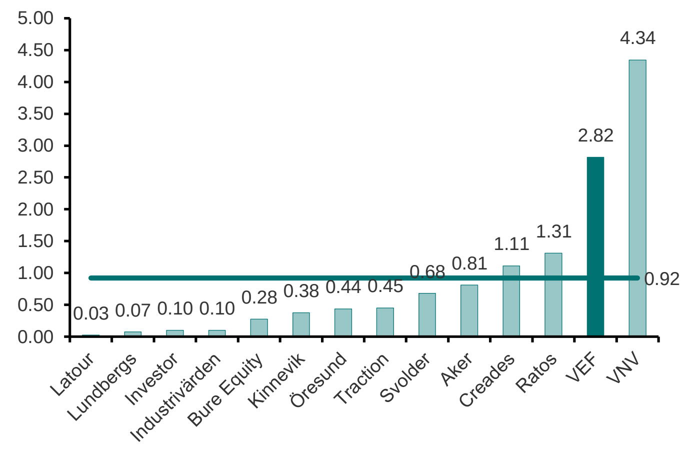
…when benchmarked against quoted investment companies on costs and the typical fees embedded in a VC/PE fund structure

Figure 116: Management costs (USDm)



Source: Vostok Emerging Finance (underlying data), DNB Markets (graph structuring)

Figure 117: Management costs/NAV (%)



Source: Companies (underlying data), DNB Markets (graph structuring)

VEF's USD5.6m annual operating expenses in 2019 comprised USD3.9m in general administrative expenses (salaries for its six-person team) and USD1.7m of employee incentive programmes.

Potential dilution of 4% if all its LTIP programmes hit the maximum target

Three long-term incentive programmes (LTIP 2018–2020) are running, with a 3-year vesting period based on VEF's NAV, with the NAV CAGR targets of 10%, 15%, and 20%+ where participants will receive 2x, 5x, or 10x the number of purchased depository recipients, respectively. This suggests a maximum dilution potential of 5.1% if all programmes hit the maximum target. For instance, the LTIP 2017 hit the maximum target (having achieved a 20% NAV CAGR in 2016–2019), with a dilution effect of 1.2% at the AGM in May 2020.

Figure 118: Summary of VEF's LTIP 2018–2020

	Saving DRs	2x	5x	10x
LTIP 2018	745,185	1,490,370	3,725,925	7,451,850
Dilution		*0.2%*	*0.6%*	*1.1%*
LTIP 2019	1,240,000	2,480,000	6,200,000	12,400,000
Dilution		*0.4%*	*0.9%*	*1.9%*
LTIP 2020	1,364,000	2,728,000	6,820,000	13,640,000
Dilution		*0.4%*	*1.0%*	*2.1%*
Additional shares	**3,349,185**	**6,698,370**	**16,745,925**	**33,491,850**
Dilution		***1.0%***	***2.5%***	***5.1%***
Current number of shares	*661,495,995*			

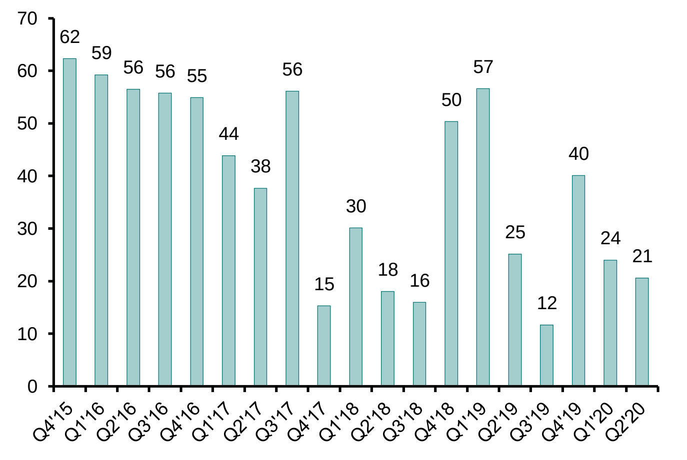
Source: Vostok Emerging Finance

Balance sheet and cash flow

Well capitalised with USD20m net cash and liquidity (~9% of its GAV)

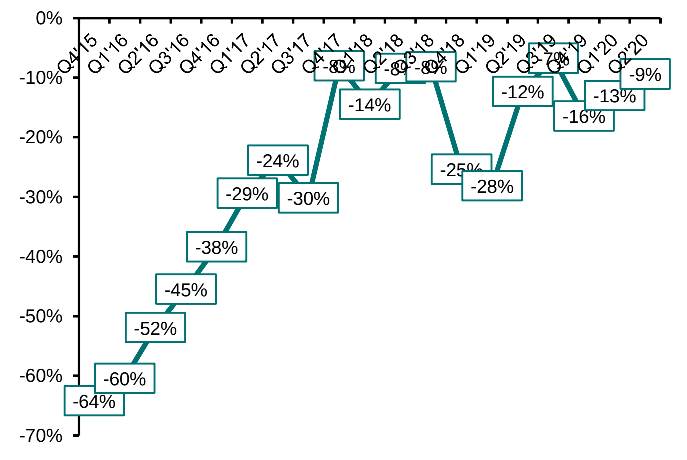
VEF was spun out from VNV in 2015 and raised USD69m via a rights issue to build a more diverse portfolio of fintech ventures. The capital has been deployed into a portfolio of 12 of what we consider attractive fintech holdings, whereas the cash position has varied depending on VEF's net investments (investments – exits). As of Q2 2020, VEF had USD20m of net cash on its balance sheet, of which USD3m in cash and USD18m in its liquidity management portfolio (consisting of liquid investments such as money-market funds with maturities of three months or less and a high-yield Tinkoff bond) to fund parts of its operating expenses.

Figure 119: Cash and liquidity investments (USDm)



Source: Vostok Emerging Finance

Figure 120: Gearing (net debt/GAV)

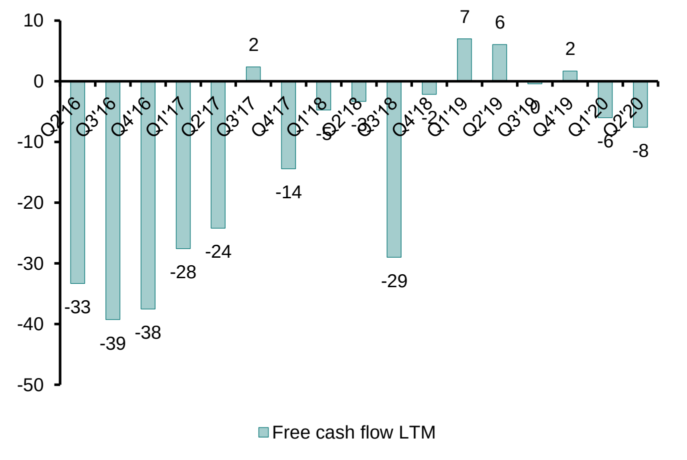


Source: Vostok Emerging Finance

The strong net cash position of USD20m, following its recent USD35m iyzico exit slightly offset by its USD13m investment in Juspay (-9% gearing in Q2 2020), suggests ample room to support its holdings in the current pipeline of future financing rounds. We expect VEF to have to commit ~USD20m–40m to its existing holdings in the coming 18 months. In addition, its free cash flow burn has come down significantly, averaging USD3m in the past two years, as opposed to USD13m if we take the 4-year average, as new investments are increasingly financed via exits.

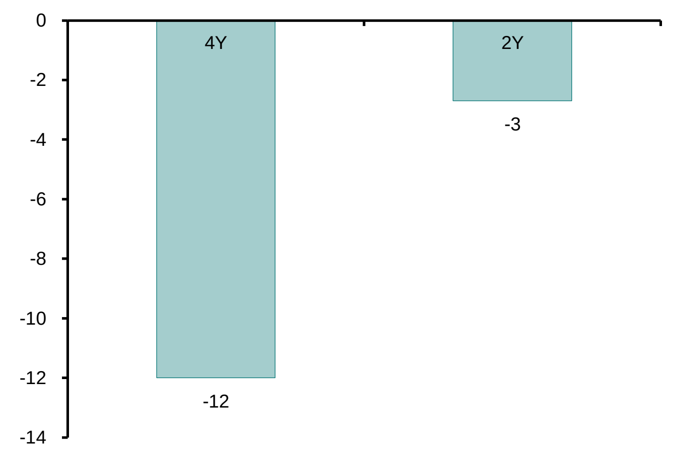
FCF burn has come down with balanced net investments…

Figure 121: Free cash flow (USDm)



Source: Vostok Emerging Finance

Figure 122: Free cash flow averages (USDm, 2016–2019)



Source: Vostok Emerging Finance

To us, this signals VEF's investment strategy is credible and self-sustainable, although we do not exclude further financing via bonds or equity if it wants to add sizeable new investments.

…suggesting VEF has an increasingly self-sustainable investment strategy

Figure 123: VEF cash flow model

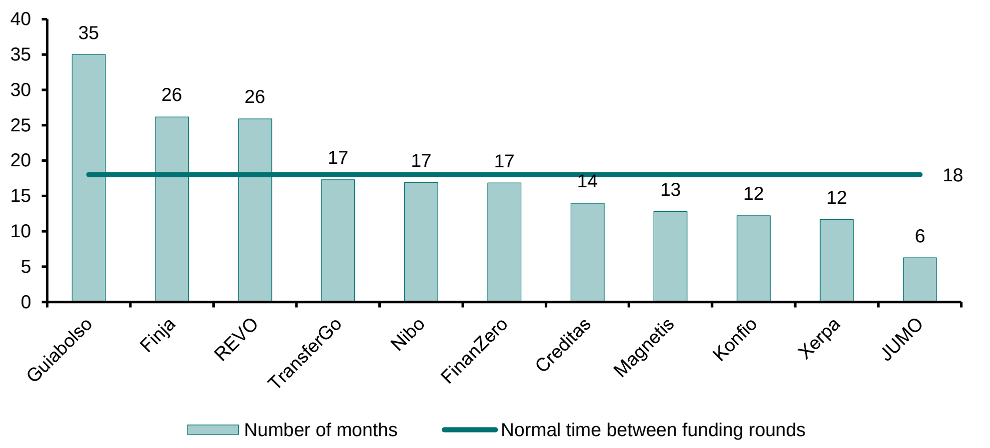
Simplified cash flow model	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20	Q2'20
Operating profit	14.3	9.6	-12.2	-2.4	2.2	37.9	11.9	1.9	-61.7	37.9
Operating expenses	-1.3	-1.5	-1.4	-1.3	-0.8	-2.3	-1.3	-1.2	-0.5	-1.4
Financial net	0.0	-0.1	0.0	-0.1	0.1	0.1	0.0	0.1	0.0	0.3
Profit before tax	13.0	7.9	-13.6	-3.8	1.6	35.7	10.5	0.7	-62.2	36.7
Non-cash items	-14.2	-9.1	13.1	3.0	-2.3	-37.0	-11.9	-1.5	60.7	-37.6
Investments	-18.9	-17.7	-6.9	-37.2	-2.3	-30.1	-12.0	-4.5	-13.4	-3.3
Divestments	16.7	19.0	7.1	36.6	8.7	32.5	6.7	6.1	13.0	3.5
Dividend & coupon income	0.1	1.8	0.6	0.5	0.2	0.1	0.2	0.1	0.1	0.1
Interest received				0.0				0.1		
Tax paid	0.0	0.0	0.0	0.0	0.0	-0.2	0.2	0.0	0.0	0.0
Cash flow from operations	**-3.2**	**2.0**	**0.3**	**-1.0**	**5.9**	**1.0**	**-6.3**	**1.0**	**-1.8**	**-0.6**
Cash flow from investments	**0.0**	**0.0**	**-0.1**	**-0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Cash flow from financing	**0.0**	**0.0**	**-2.1**	**0.0**	**-0.1**	**-0.1**	**-0.7**	**-0.6**	**-0.6**	**0.0**
Free cash flow	-3.2	2.0	0.2	-1.1	5.9	1.0	-6.3	1.0	-1.8	-0.6
Cash flow	**-3.2**	**2.0**	**-1.9**	**-1.1**	**5.8**	**0.9**	**-6.9**	**0.4**	**-2.5**	**-0.6**
Cash in the beginning of the period	9.8	6.6	8.5	6.6	5.5	11.2	12.1	5.2	5.6	3.2
FX	0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash at the end of the period	6.6	8.5	6.6	5.5	11.2	12.1	5.2	5.6	3.2	2.5

Source: DNB Markets (forecasts), company (historical data)

Financing rounds generally take place every 18 months in VEF's holdings, where it tends to participate in two rounds in general. Thus, we believe the holdings closest to new capital raises in VEF's portfolio are TransferGo, Finja, Nibo, FinanZero, and Creditas (based on current improved business momentum), where VEF's participation in previous rounds has averaged ~USD2m. We do not expect a near-term capital raise in Guiabolso, since its USD39m funding in October 2017 was the largest-announced VC funding to date.

We expect new financing rounds in TransferGo, Finja, Nibo, FinanZero and Creditas in H2 2020–H1 2021

Figure 124: Months since latest funding round



Source: DNB Markets (forecasts), company (historical data)

Valuation

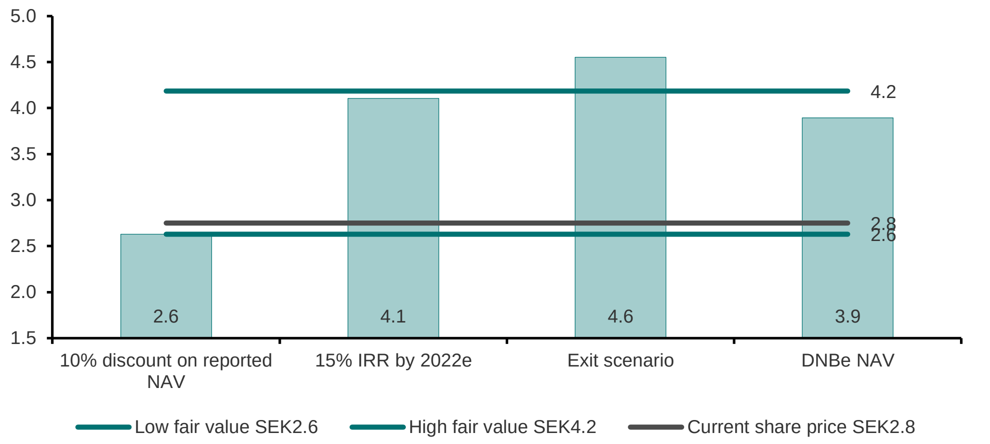
Overview

It is no easy task to value VEF given the early-stage nature (funding/execution risks, etc.) of its fintech holdings. Our SEK2.6–4.2/share fair value is based on:

- 10% discount to reported NAV.
- Target IRR of 15% by end-2021e for its holdings (versus its 30% IRR target).
- Multiple on invested capital of 4x and 20% cost of capital using an exit period six years from its initial investment
- DNB Markets' NAV based on individual holdings' peer multiples. We apply a 10% discount to our NAV targets in all valuation scenarios (current discount to NAV 6%), as recent exits validate investment success (~60%+ IRRs), while we identify further value catalysts for 2020–2021e.

Fair value of SEK2.6–4.2/share, suggesting -4 to +52 upside potential from the current share price

Figure 125: Valuation overview (SEK/share)



Source: DNB Markets

NAV overview

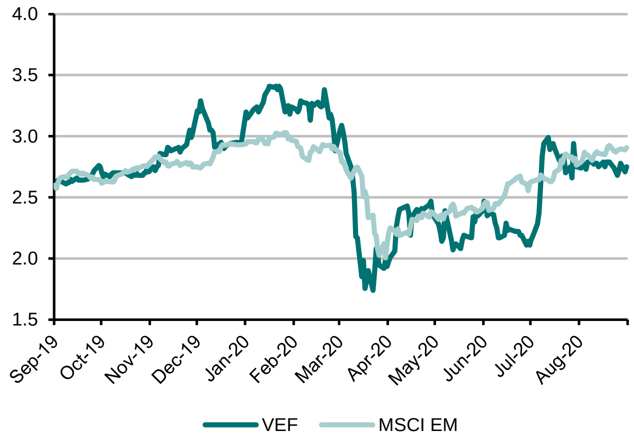
Figure 126: VEF NAV overview

Share price (SEK)	2.8	**NAV/share (DNB)**	2.9	**DNB discount to NAV**	5.8%
DNB fair value (low)	2.6	**NAV/share (rep)**	4.3	**Rep. discount to NAV**	36.5%
DNB fair value (high)	4.6			**DNB discount target**	10.0%

Investment portfolio	**DNB rec.**	**Rep. MV (USDm)**	**DNB value (USDm)**	**Rep. MV (SEKm)**	**DNB value (SEKm)**	**Value (SEK/share)**	**Weight (%) of NAV**	**% of cap/votes**
Creditas	NO COV	81	149	701	1,294	1.1	36%	9.7
Konfio	NO COV	28	64	244	557	0.4	13%	11.4
REVO Technology	NO COV	10	10	89	89	0.1	5%	25.0
JUMO	NO COV	7	7	65	65	0.1	3%	6.8
TransferGo	NO COV	21	25	186	221	0.3	10%	15.4
Guiabolso	NO COV	10	15	83	130	0.1	4%	10.9
Xerpa	NO COV	5	5	39	39	0.1	2%	16.0
Nibo	NO COV	11	18	98	157	0.1	5%	20.1
Magnetis	NO COV	7	11	57	93	0.1	3%	17.5
FinanZero	NO COV	8	8	66	66	0.1	3%	18.0
Finja	NO COV	2	2	21	21	0.0	1%	20.4
Juspay	NO COV	13	13	113	113	0.2	6%	9.9
Liquidity management		18	18	157	157	0.2	8%	
Total unlisted		**221**	**346**	**1,919**	**3,002**	**2.9**	**99%**	
Other								
Cash and equivalents		3	3	22	22	0.0	1%	
Other net liabilities		0	0	-3	-3	0.0	0%	
Other assets/liabilities		0	0	0	0	0.0	0%	
Summary NAV								
Total assets		243	368	2,114	3,196	3.2		
Current net cash		-20	-20	-175	-175	-0.3		
Gearing		-8.3%	-5.5%	-8.3%	-5.5%	0.0		
Net asset value		**223**	**348**	**1,938**	**3,021**	**2.9**		

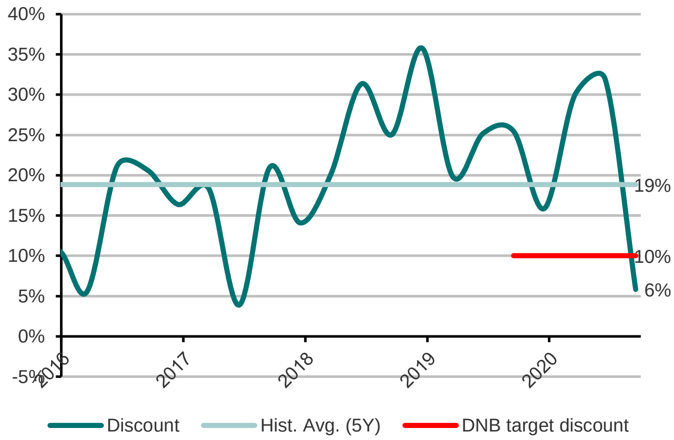
Source: DNB Markets (forecasts), company (historical data)

Figure 127: VEF share price (SEK) versus MSCI EM index



Source: Bloomberg

Figure 128: VEF discount to NAV



Source: DNB Markets

Figure 129: Additional information

Other data	2017	2018	2019	Current	Owners	% of cap	% of votes	5Y track record	
Market cap	1,409	1,138	1,927	1,819	Libra Fund	26.7	26.7	Ann. TSR	16.3%
NAV	1,635	1,806	2,325	1,938	Ruane, Cunniff & Goldfarb	21.4	21.4	NAV CAGR	19.3%
NAV growth		11%	29%	-17%	Swedbank Robur	8.7	8.7		
Net cash	75	40	44	20	Fidelity	8.1	8.1		
Gearing	-4.8%	-2.3%	-1.9%	-10.0%	Wellington	4.8	4.8		
DPS	0.00	0.00	0.00	0.00	GADD & Cie	2.4	2.4		
Dividend yield	0.0%	0.0%	0.0%	0.0%					
Management costs	35	49	54	54	Number of shares (m)				
to NAV	2.16%	2.72%	2.34%	2.81%	VEF		663.7		
Analyst: Joachim Gunell (+468 597 91 201, joachim.gunell@dnb.se)					**Total**		**663.7**		

Source: DNB Markets (portfolio views), company (historical data), Holdings (owner data)

Valuation methodology

VEF's valuation policy follows IFRS13 and the International Private Equity and Venture Capital Valuation Guidelines, and it categorises its fair valuation methods in three categories:

Valuation policy based on IFRS13 and International Private Equity and Venture Capital Valuation Guidelines

- Level 1 – listed prices in active markets for identical assets or liabilities (such as the money market funds in its liquidity management and its previous holding Tinkoff Bank).
- Level 2 – valuations based on companies' latest transaction (financing round). FinanZero, TransferGo, Magnetis, Xerpa, Creditas and Konfio are considered level 2.
- Level 3 – inputs for the asset or liability are not based on observable market data. For Jumo, REVO, GuiaBolso, Nibo, and Finja, VEF forms its valuation based on listed fintech peers' EV/revenue (many of which highlighted in Figure 131).

VEF applies IFRS accounting principles in its fair value estimations (which are vetted by its auditor PricewaterhouseCoopers), and historically the key valuation uplifts of its holdings have been new capital raises. On average, VEF's holdings have experienced valuation uplifts of 50–60% on average each time it changes valuation methodology or after a new financing round. Still, the spread is wide, from the ~35% writedown of Guiabolso's fair value, to value changes upwards of 100% QOQ (Creditas, Konfio, Finja, etc.).

New capital raises have driven substantial valuation uplifts for VEF, as the companies tend to have grown several times since their latest funding

As the validity of transaction-based valuations will erode over time (given it reflects the value at the time of the transaction), transaction-based valuations are usually unchanged for 12 months unless there is cause for a material change in valuation. On average there has been ~18 months between funding rounds in VEF's holdings (it tends to participate in two rounds).

In general 18 months between funding rounds

If we look at VEF's funding pipeline, we believe TransferGo, Finja, FinanZero, Nibo and Creditas could be close to new financing rounds (REVO has reached EBITDA-breakeven), acting as potential short-term value catalysts.

Short-term potential NAV catalysts: TransferGo, Finja, Nibo, FinanZero and Creditas

Figure 130: Potential NAV catalysts from new capital raises (holding and % of GAV)

2020		2021	
transferGo	10%	creditas	36%
FINJA	1%	FinanZero	3%
revoplus sorsdata	5%	magnetis	3%
nibo	5%	konfio	13%
		XERPA	2%

Source: DNB Markets

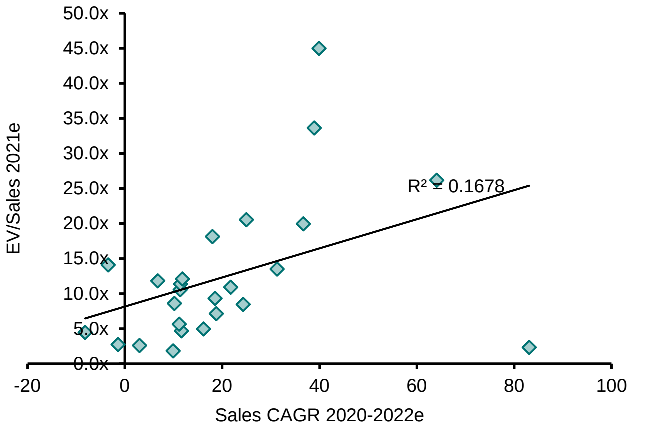
Peer group multiples

Figure 131: Fintech peer multiples overview (x)

	Mkt. cap.	P/E (x)		EV/EBITDA (x)		EV/Sales (x)		Gross	EBIT	FCF	CAGR 2020–2022e (%)		
	(SEKbn)	2021e	2022e	2021e	2022e	2021e	2022e	margin	margin	margin	Sales	EBIT	EPS
Payments													
Pagseguro	119	35.3	25.9	23.7	18.7	8.4	7.1	49.7	32.8	-2.0	24	33	39
Stone	134	54.2	38.5	36.7	24.8	19.9	14.9	81.4	48.7	44.7	37	46	54
Tyro	11	n.a.	n.a.	n.a.	n.a.	7.1	5.7	n.a.	n.a.	-17.9	19	n.a.	n.a.
Adyen	445	n.a.	78.6	87.0	60.3	45.0	32.3	17.7	51.3	52.8	40	46	51
QIWI	10	9.0	7.0	4.8	4.0	1.8	1.6	100.0	39.4	6.4	10	24	31
Square	612	n.a.	88.4	n.a.	n.a.	11.8	9.5	37.7	-3.2	0.2	7	n.a.	89
Afterpay	152	n.a.	n.a.	n.a.	n.a.	26.1	17.0	82.8	-2.9	-75.8	64	n.a.	n.a.
PayPal	2,070	45.2	37.2	34.4	28.2	9.3	7.9	54.0	25.2	25.9	19	22	21
Worldline	149	37.0	32.4	22.9	18.6	4.9	4.6	42.4	17.5	12.3	16	36	23
Average		**36.1**	**44.0**	**34.9**	**25.7**	**14.9**	**11.2**	**58.2**	**26.1**	**5.2**	**26**	**35**	**44**
Median		**37.0**	**37.2**	**29.1**	**21.7**	**9.3**	**7.9**	**51.8**	**29.0**	**6.4**	**19**	**34**	**39**
Lending													
GreenSky	7	12.0	8.6	9.5	8.7	1.5	1.3	47.6	12.0	-19.0	14	25	43
Alteryx	69	n.a.	87.3	n.a.	n.a.	13.5	9.9	91.6	9.2	1.9	31	63	80
Q2 Holdings	45	n.a.	n.a.	n.a.	n.a.	10.9	8.9	54.3	-22.6	-6.0	22	n.a.	134
LendingClub	3	n.a.	5.0	n.a.	n.a.	2.3	1.2	n.a.	n.a.	-126.0	83	n.a.	n.a.
On Deck	1	16.5	3.3	n.a.	n.a.	2.6	2.0	n.a.	n.a.	n.a.	3	n.a.	n.a.
Average		**14.2**	**26.1**	**9.5**	**8.7**	**6.1**	**4.7**	**64.5**	**-0.5**	**-37.3**	**31**	**44**	**86**
Median		**14.2**	**6.8**	**9.5**	**8.7**	**2.6**	**2.0**	**54.3**	**9.2**	**-12.5**	**22**	**44**	**80**
Financial SaaS													
Intuit	781	41.1	36.5	29.4	25.5	10.5	9.4	82.1	33.1	28.9	11	15	15
Xero	91	n.a.	n.a.	n.a.	n.a.	18.1	15.3	85.1	5.9	3.1	18	68	100
Fortnox	18	76.5	59.2	52.7	44.1	20.5	16.5	100.0	37.0	27.8	25	24	28
Guidewire Software	81	n.a.	79.5	n.a.	n.a.	11.3	9.9	57.1	9.7	6.7	11	36	26
Temenos	103	40.1	35.2	34.8	29.4	12.0	10.9	82.6	34.5	33.2	12	12	12
SimCorp	45	38.4	34.2	30.1	26.7	8.6	7.9	61.1	24.3	18.2	10	20	21
Lemonade	29	n.a.	n.a.	n.a.	n.a.	33.6	20.9	n.a.	n.a.	-105.2	39	n.a.	n.a.
Average		**49.0**	**48.9**	**36.8**	**31.4**	**13.5**	**11.6**	**78.0**	**24.1**	**19.6**	**15**	**29**	**34**
Median		**40.6**	**36.5**	**32.5**	**28.0**	**11.7**	**10.4**	**82.4**	**28.7**	**23.0**	**12**	**22**	**24**
Online banking & wealth													
Tinkoff Bank	43	9.0	7.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	15	n.a.	26
XP	236	69.3	48.2	55.2	36.5	11.6	8.4	68.6	27.5	117.3	37	41	37
Evestnet	39	31.3	27.3	42.1	24.1	4.6	4.1	69.3	7.3	7.8	12	61	22
TD Ameritrade	179	14.9	16.6	11.2	11.5	4.4	4.6	n.a.	42.2	30.0	-8	n.a.	n.a.
Charles Schwab	396	18.8	18.1	6.7	6.3	2.7	2.7	n.a.	39.5	-53.0	-1	n.a.	n.a.
Assetmark	15	22.8	19.3	62.1	n.a.	5.6	5.0	37.7	4.0	17.9	11	n.a.	16
Banco Inter	24	n.a.	57.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	40	n.a.	n.a.
Avanza	25	35.8	35.4	n.a.	n.a.	14.0	13.4	n.a.	n.a.	n.a.	-3	n.a.	n.a.
Average		**28.8**	**28.7**	**35.5**	**19.6**	**7.2**	**6.4**	**58.5**	**24.1**	**24.0**	**13**	**51**	**25**
Median		**22.8**	**23.3**	**42.1**	**17.8**	**5.1**	**4.8**	**68.6**	**27.5**	**17.9**	**11**	**51**	**24**
Total average		**33.7**	**36.9**	**34.0**	**24.5**	**11.1**	**8.9**	**65.1**	**21.5**	**5.6**	**21**	**36**	**43**
Total median		**35.5**	**34.7**	**32.3**	**24.8**	**9.9**	**8.1**	**64.8**	**24.7**	**7.3**	**16**	**34**	**30**

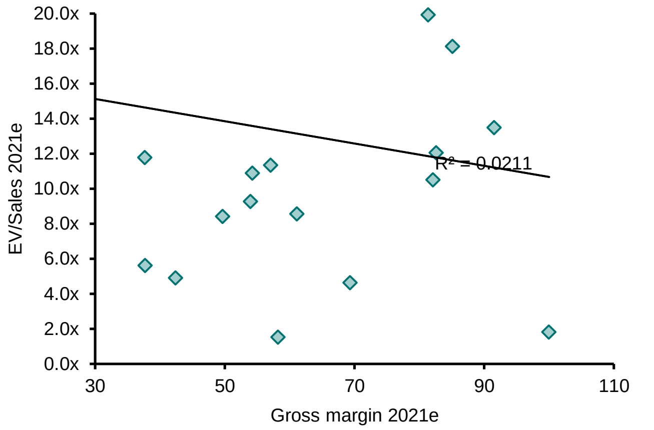
Source: Bloomberg (underlying data), DNB Markets (further calculations)

Figure 132: Sales growth versus 2021e EV/Sales



Source: Bloomberg (underlying data), DNB Markets (further calculations)

Figure 133: 2021e EV/sales versus gross margin

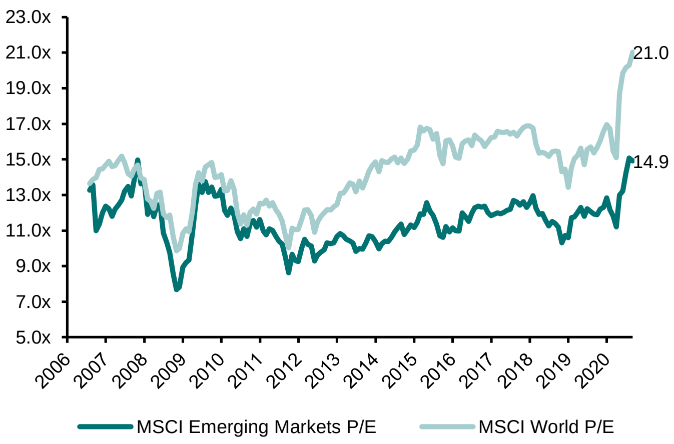


Source: Bloomberg (underlying data), DNB Markets (further calculations)

In the past 15 years, the MSCI Emerging Markets index, tracking large and mid-caps across emerging markets, has traded at an average discount to MSCI World of ~20%. The MSCI Emerging Markets index is currently trading at a 12-month forward P/E of 15x versus MSCI World at 21x.

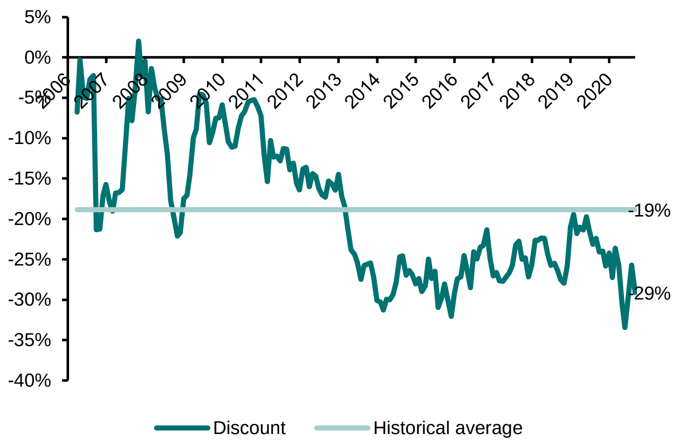
Historically, emerging market shares have traded at a ~20% to MSCI World

Figure 134: P/E 12-month forward MSCI Emerging Markets versus MSCI World



Source: Bloomberg (underlying data), DNB Markets (further calculations)

Figure 135: Discount P/E 12-month forward MSCI Emerging Markets versus MSCI World

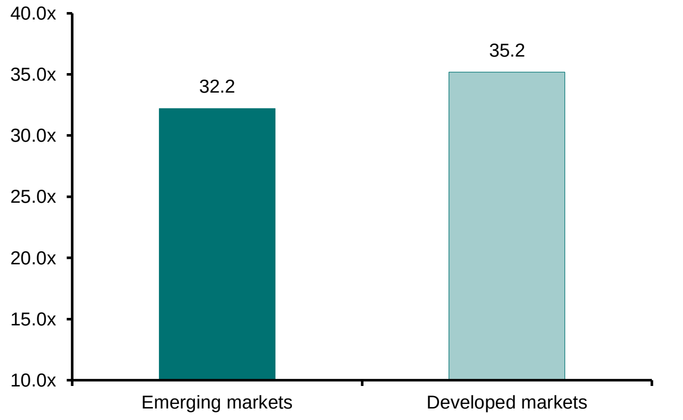


Source: Bloomberg (underlying data), DNB Markets (further calculations)

While the sample of publicly listed emerging market fintechs is slim (Pagseguro, Stone, QIQI, Tinkoff Bank, XP, and Banco Inter), the valuation discount to developed markets fintechs is slightly lower with a 2021e P/E median for emerging market fintechs of 32x (versus developed markets of 35x) and a 2021e EV/sales of 8x (versus 9x).

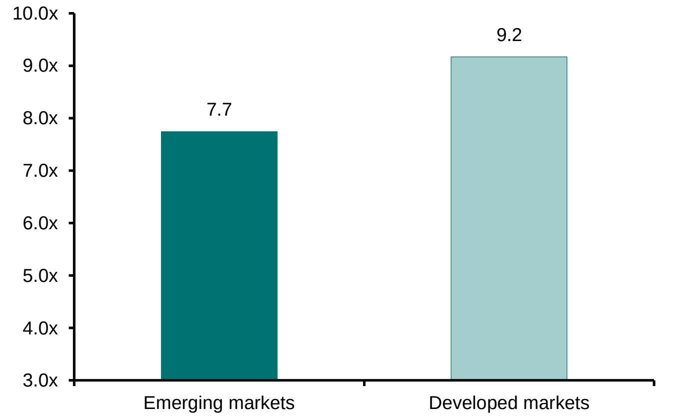
Still, the valuation discount for emerging market fintech is lower

Figure 136: Fintech 2021e P/E



Source: Bloomberg (underlying data), DNB Markets (further calculations)

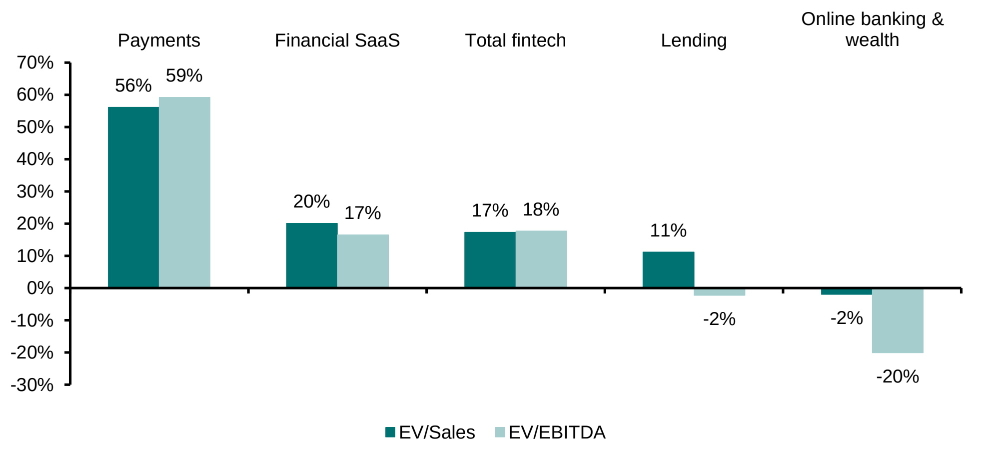
Figure 137: Fintech 2021e EV/sales



Source: Bloomberg (underlying data), DNB Markets (further calculations)

Still, we note that since end-2019, median fintech peer multiples have expanded by 17–18%, mainly driven by a material multiples expansion for listed payment fintechs.

Figure 138: Fintech multiples contraction since 31 December 2019



Source: Bloomberg (underlying data), DNB Markets (further calculations)

Discount to NAV

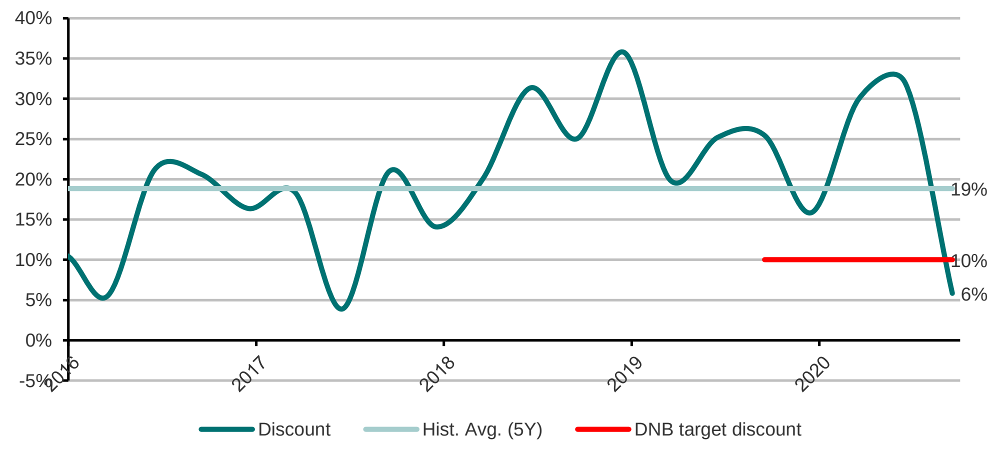
In general, our view of an investment company's discount to NAV trajectory is based on its ability to create shareholder value through active ownership, its underlying portfolio (listed versus unlisted assets and stage of maturity), management costs, and shareholder remuneration (dividends, buybacks, etc.). Moreover, the free float tends to affect the discount to NAV, where in the case of a low free float (owing to strong owner families) the discount to NAV volatility is higher in general, suggesting that larger inflows tend to narrow the discount (as seen with Swedish holding companies Latour, Lundbergs, and MSAB before its de-listing).

NAV track record, investment strategy, shareholder remuneration, management costs, and free float tend to be key drivers of discount to NAV, in our view

Since VEF's listing in July 2015, its discount to NAV has ranged between 4% and 36%, with an average of 19%. It experienced a re-rating in 2019 after a year of strong value creation from its Tinkoff Bank and iyzico exits, and we believe such value catalysts will be the main drivers of a future de-rating. The stock is trading at a 6% discount to NAV, which we believe is evidence that it holdings could handle the Covid-19 stress-test, while the sector as a whole has re-rated in recent months.

VEF is trading at a 6% discount to NAV

Figure 139: VEF – discount to NAV



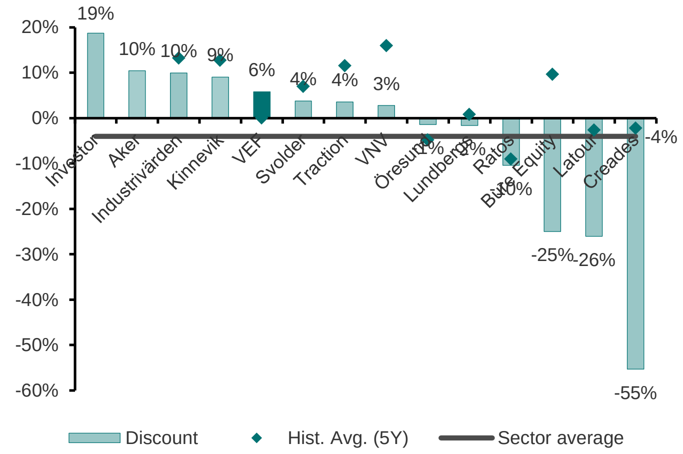
Source: VEF (underlying data), DNB Markets (further calculations)

We apply a 10% discount to NAV target for VEF…

We apply a 10% discount to NAV target to reflect VEF's strong track record (23% NAV IRR in the past four years despite Covid-19), while we believe that VEF will continue to make share buybacks when its shares trade at a 20–25%+ discount to NAV. Still, as seen with VC-focused and technology-tilted investment companies, the lack of financial disclosure (thus valuation uncertainty) and higher execution and funding risk in its VC-stage portfolio warrants a discount, in our view. The Nordic investment companies sector is trading at an average premium to NAV of 4%, whereas VC and tech-focused investment companies' are trading at a 5% discount to NAV.

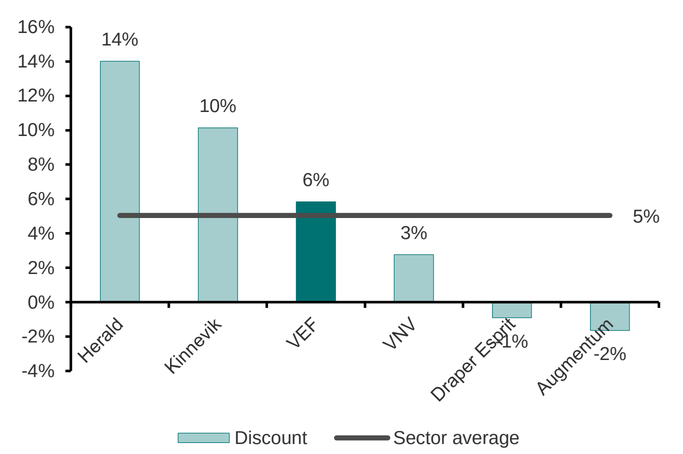
In general, we do not believe premium valuations are here to stay as NAVs are already experiencing steep multiples expansion, and partly attribute the ATH NAV valuations to passive flows along with a thin free float, and factors hindering short-selling in some names.

Figure 140: Nordic investment companies – discount to NAV



Source: Companies (underlying data), DNB Markets (further calculations)

Figure 141: VC and tech-focused investment companies – discount to NAV



Source: Companies (underlying data), DNB Markets (further calculations)

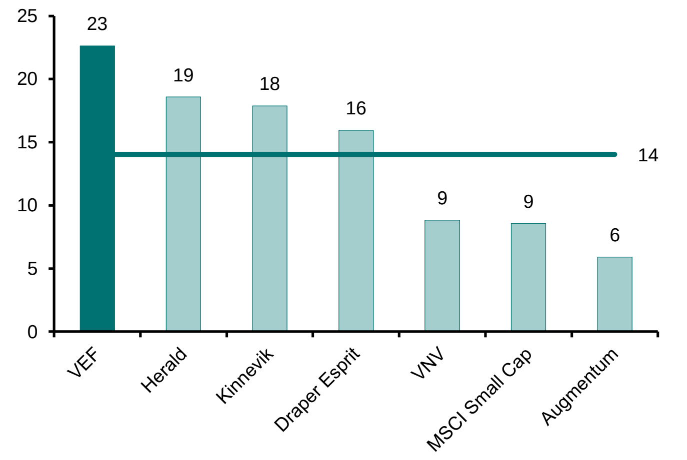
…our research suggests that discounts to NAV still only comprise ~10–15% of investment companies' total shareholder returns, hence NAV growth is the key driver of TSR

For our peer group of VC- and tech-focused investment companies, we have chosen peers that have a meaningful share of growth-stage private technology holdings such as:

- **Vostok New Ventures,** which invests in unlisted companies benefitting from network effects in the mobility, classifieds, and digital health sectors.
- **Kinnevik,** investing in listed and unlisted assets in its target sectors e-commerce, TMT, financial services, and healthcare.

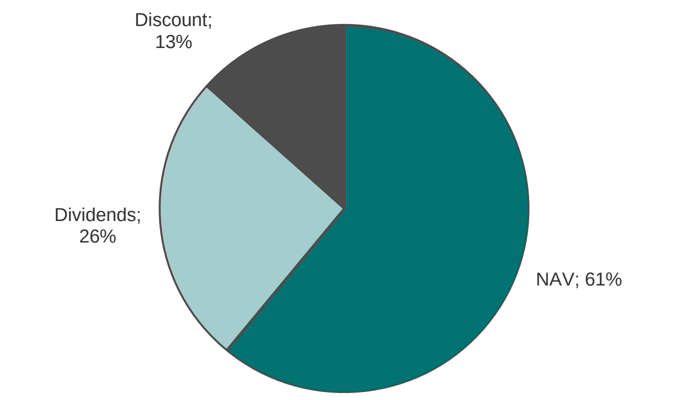
- **Augmentum Fintech**, a fintech-focused VC fund investing in private fintech businesses that are disrupting the banking, insurance, asset management and wider financial services sectors.
- **Herald**, investing in small-cap listed technology companies globally.
- **Draper Espirit,** a VC investor in the technology sector backed by the Irish state investment fund.

Figure 142: Annualised total shareholder returns since January 2016 (TSR, %)



Source: Bloomberg

Figure 143: Drivers of investment companies' TSR – evidence from Nordic sector over 15 years



Source: DNB Markets

Fair valuation of VEF

Approach 1 – 10% discount to last reported NAV

We apply a 10% discount to NAV target on VEF's latest reported NAV of USD223m as of end-Q2 2020, which implies a fair value/share of SEK2.6, lending 4% downside potential.

10% discount to its current NAV corresponds to a fair value of SEK2.2/share

Figure 144: VEF – fair value approach 1

10% discount to last reported NAV	
Current NAV	223.2
Target discount to NAV	10%
Implied fair equity value	201
Number of shares (m)	664
Implied fair value (USD/share)	0.3
Implied fair value (SEK/share)	**2.6**
Current share price (SEK/share)	**2.8**
Implied fair value potential	*-4%*

Source: DNB Markets

Approach 2 – 15% IRR on its investments by end-2022

As VEF's recent portfolio exits in 2019 (yielding 57–65% IRRs) clearly outperformed its 30% internal IRR target for when evaluating new investments, we argue that it is increasingly providing clarity on the long-term value-creation potential from its investment strategy.

15% on invested capital in its current portfolio holdings by 2021e, suggests a fair value of SEK4.1/share

To take a prudent approach, we expect VEF to generate an IRR of 15% on the majority of its portfolio holdings by end-2022 (clearly below recent track record). For Guiabolso, we use a 0% IRR target (current IRR of -32%) to reflect that it could take time for its change in strategy to drive a further de-rating. This valuation approach corresponds to an implied fair value of SEK4.1/share, or a 49% valuation upside potential.

Figure 145: 15% IRR on portfolio holdings by end-2021e

	Investment Date	Net invested	Fair value	IRR	CoC return	Holding period	Current date	Target date	Time to target	Target IRR	Target NAV
Creditas	Dec-17	49	81	20%	1.7	2.8	Sep-20	Dec-22	5.1	15%	99
Konfio	Jun-18	28	28	1%	1.0	2.3	Sep-20	Dec-22	4.6	15%	52
REVO Technology	Sep-15	9	10	3%	1.2	5.0	Sep-20	Dec-22	7.3	15%	25
JUMO	Oct-15	15	7	-13%	0.5	4.9	Sep-20	Dec-22	7.3	15%	40
TransferGo	Jun-16	11	21	17%	1.9	4.3	Sep-20	Dec-22	6.6	15%	28
Guiabolso	Oct-17	30	10	-32%	0.3	2.9	Sep-20	Dec-22	5.3	0%	30
Xerpa	Sep-19	9	5	-46%	0.5	1.0	Sep-20	Dec-22	3.3	15%	14
Nibo	Apr-17	7	11	18%	1.7	3.4	Sep-20	Dec-22	5.8	15%	15
Magnetis	Sep-17	6	7	5%	1.2	3.0	Sep-20	Dec-22	5.3	15%	12
FinanZero	Mar-16	3	8	26%	2.8	4.5	Sep-20	Dec-22	6.8	15%	7
Finja	Jul-16	2	2	0%	1.0	4.2	Sep-20	Dec-22	6.5	15%	6
Juspay	Mar-20	13	13	0%	1.0	0.4	Sep-20	Dec-22	2.8	15%	19
Average		**15**	**17**	**0%**	**1.2**	**3.2**			**5.6**		**346**
Other assets/liabilities											0
Current net cash											20
Operating expenses until 2021e											-17
Target NAV											**349**
Target discount to NAV											**10%**
Implied fair equity value											314
Number of shares (m)											664
Implied fair value (USD/share)											0.5
Implied fair value (SEK/share)											**4.1**
Current share price (SEK/share)											**2.8**
Implied fair value potential											*49%*

Source: DNB Markets

In the table below, we calculate the fair value per share of VEF given assumed IRRs and cost-of-equity scenarios. The table spans from the 30% IRR target that forms the basis for each of its investment decisions, as well as 20% cost of capital, where we use 2022e as the target year (as it equates to VEF's targeted investment horizon of 5–7 years per holding).

Figure 146: Sensitivity analysis to IRR and cost of equity by 2022e – fair value/share

		IRR								
		10%	15%	20%	25%	30%	35%	40%	45%	50%
Cost of capital	10%	2.0	2.6	3.3	4.1	5.2	6.5	8.0	9.8	11.9
	15%	1.5	2.0	2.5	3.2	4.0	5.0	6.2	7.6	9.2
	20%	1.2	1.6	2.0	2.5	3.2	3.9	4.8	5.9	7.2
	25%	1.0	1.2	1.6	2.0	2.5	3.1	3.8	4.7	5.7
	30%	0.8	1.0	1.3	1.6	2.0	2.5	3.0	3.7	4.5

Source: DNB Markets

To put its historical performance into the context of the tables provided, VEF generated a NAV IRR of 27% between Q4 2015 and Q4 2019 (including successful exits in Tinkoff Bank and iyzico at 57–65% IRRs), while in its existing portfolio, the current average IRR is 9%.

Figure 147: Sensitivity analysis by 2022e – implied fair value potential

		IRR								
		10%	15%	20%	25%	30%	35%	40%	45%	50%
Cost of capital	10%	-27%	-7%	19%	51%	89%	135%	190%	255%	332%
	15%	-44%	-27%	-8%	17%	46%	82%	124%	175%	234%
	20%	-56%	-43%	-27%	-8%	15%	42%	76%	115%	161%
	25%	-65%	-55%	-43%	-27%	-9%	13%	39%	70%	106%
	30%	-72%	-64%	-54%	-42%	-27%	-10%	11%	36%	65%

Source: DNB Markets

Approach 3 – Exit scenario with 4x CoC multiple after six years

Our exit scenario corresponds to a fair value of SEK4.5/share

We assume that VEF will be able to exit its existing portfolio holdings after six years from its initial investment with a return on invested capital of 4x (except 2x on Guiabolso). In our view, this makes sense as VEF's management aims to have an investment horizon of five to seven years, and applying a 30% IRR target would correspond to a target CoC multiple of 5x. Moreover, this fits well with recent portfolio exits in Tinkoff Bank (6.1x CoC return) and iyzico (3.2x CoC return), corresponding to an average CoC multiple of 4.7x.

We discount the implicit exit values of each portfolio holding with a cost of capital of 20% and apply a 10% discount to target NAV, which suggests a fair value of SEK4.5/share (or a 66% upside potential).

Figure 148: Exit scenario with 4x CoC multiple after six years

	Investment Date	Net invested	Years until exit	Exit Date	Exit CoC multiple	Exit value	Cost of capital	Discount factor	Present Value
Creditas	Dec-17	49	3.2	Nov-23	4.0	194	20%	1.8	107
Konfio	Jun-18	28	3.7	May-24	4.0	110	20%	2.0	56
REVO Technology	Sep-15	9	1.0	Aug-21	4.0	35	20%	1.2	29
JUMO	Oct-15	15	1.1	Sep-21	4.0	58	20%	1.2	48
TransferGo	Jun-16	11	1.7	May-22	4.0	44	20%	1.4	32
Guiabolso	Oct-17	30	3.1	Sep-23	2.0	60	20%	1.8	34
Xerpa	Sep-19	9	5.0	Aug-25	4.0	34	20%	2.5	14
Nibo	Apr-17	7	2.6	Mar-23	4.0	26	20%	1.6	16
Magnetis	Sep-17	6	3.0	Aug-23	4.0	23	20%	1.7	13
FinanZero	Mar-16	3	1.5	Feb-22	4.0	11	20%	1.3	8
Finja	Jul-16	2	1.8	Jun-22	4.0	10	20%	1.4	7
Juspay	Mar-20	13	5.6	Mar-26	4.0	52	20%	2.8	19
Average		**15**	**2.8**		**3.8**				**384**
Other assets/liabilities									0
Current net cash									20
Operating expenses until 2022e									-17
Target NAV									**387**
Target discount to NAV									10%
Implied fair equity value									348
Number of shares (m)									664
Implied fair value (USD/share)									0.5
Implied fair value (SEK/share)									**4.6**
Current share price (SEK/share)									**2.8**
Implied fair value potential									*66%*

Source: DNB Markets

Approach 4 – DNBe NAV for respective portfolio holding

Valuing VEF's holding is an imprecise science given little or no disclosure

With little disclosure on VEF's portfolio holdings, it is obviously difficult to value them on an individual basis, which makes the valuation an imprecise science. Still, we have made simplified peer group-based valuations for the majority of the portfolio holdings based on what little KPIs or financial data we have found in order to assess how our estimated values compares to the portfolio values VEF uses.

- **Creditas (36% of VEF's portfolio).** In our portfolio overview section, we estimated that Creditas could reach origination volumes of ~USD150m by 2020e and ~USD35m in revenues based on a 23% revenue margin. Having grown revenues origination by 12x in the past two years (and ~3x in 2019), we estimate it could achieve a 200% revenue CAGR until 2022e, corresponding to ~USD310m in revenues by 2022e. Applying the fintech lending peer group (GreenSky, Alteryx, Q2 Holdings, LendingClub, and On Deck) 2022e EV/Sales of 5x, suggests an EV of USD1.6bn (versus its USD840m valuation based on VEFs valuation methodology), or USD149m for VEF's 9.6% ownership stake.

Figure 149: Creditas – DNB valuation (USDm)

Valuation assumptions (USDm)	
Origination volumes 2020e	150
Revenue % of origination volumes	23%
2020e revenues	35
YOY growth	200%
2021e revenues	104
YOY growth	200%
2022e revenues	311
Peer group multiple	5.0
Creditas EV	**1,553**
VEF's ownership	9.6%
VEF's NAV	**149**

Source: DNB Markets

- **Konfio (13%).** In our portfolio overview section, we estimated that Konfio could generate USD100m in origination volumes by 2020e, corresponding to ~USD15m in revenues. Konfio sustained a high revenue growth rate of 4x in 2019 and, given its USD250m debt financing and USD100m credit facility from Goldman Sachs, we believe it could achieve origination volumes north of USD750m by 2022e (south of 2x growth per year). Applying a 15% net interest margin would correspond to USD113m of revenues in 2022e, to which we apply a 5x EV/Sales using the same fintech lending peer group as for Creditas. This would correspond to an EV of USD563m (versus USD364m as of Konfio's funding round in Q3 2019 or USD245m in VEF's Q2 NAV), or USD64m for VEF's 11.4% ownership stake.

Figure 150: Konfio – DNB valuation (USDm)

Valuation assumptions (USDm)	
Origination volumes 2020	100
YOY growth	200%
Origination volumes 2021	300
Net interest margin	15.0%
2021e revenues	45
YOY growth	150%
2022e revenues	113
Peer group multiple	5.0
Konfio's EV	**563**
VEF's ownership	11.4%
VEF's NAV	**64**

Source: DNB Markets

- **TransferGo (10%).** With a basis in transactions and funding rounds for TransferGo's peers Transferwise (May 2019) and WorldRemit (June 2019), we have calculated the market cap per customer. For Transferwise (valued at USD3,500m, with ~5m customers), the value per customer equated to 0.07% of its valuation, for WorldRemit (valued at USD900m with ~4m customers) to 0.02%, and for Azimo (valued at USD100m with ~1.5m customers) to 0.01%. We believe it is reasonable to apply a 50% discount to the implied peer group average customer/value of 0.03%, since TransferGo has the smallest client base of 1m (or ~250k active users). This approach suggests a potential equity value of USD165m (versus USD140m based on its recent capital raise in Q2 2020), or USD25m for VEF's 15.4% ownership stake.

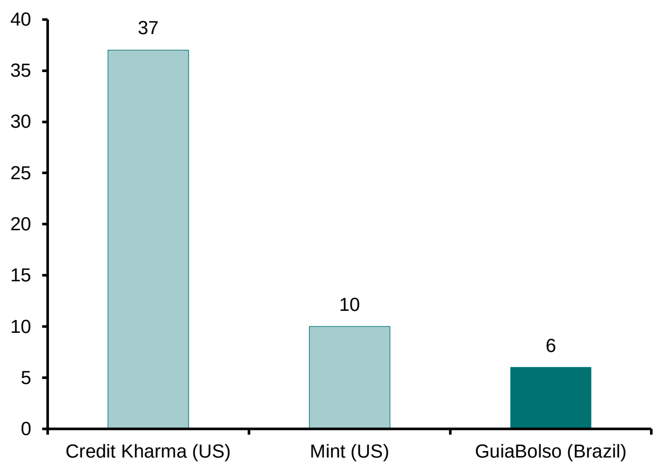
Figure 151: TransferGo – DNB valuation (USDm)

Valuation assumptions (USDm)	
Transferwise (May 2019)	3,500
Number of customers	5,000,000
Value per customer	0.07%
WorldRemit (June 2019)	900
Number of customers	4,000,000
Value per customer	0.02%
Azimo (May 2015)	100
Number of customers	1,500,000
Value per customer	0.01%
Implied value per customer	0.03%
TransferGo customers	1,000,000
TransferGo value	331
Discount	50%
TransferGo value	**165**
VEF's ownership	15.4%
VEF's NAV	**25**

Source: DNB Markets

- **GuiaBolso (4%).** We compare GuiaBolso to similar personal finance software services and financial data aggregators such as Credit Karma and Mint, based on the value per active customer. In February 2020, Intuit – the US leader in accounting, tax filing and financial planning software, acquired Credit Karma for USD7.1bn, making it one of the largest transactions amongst private fintech globally. Prior to this, Intuit also acquired Mint for USD170m in November 2009. At the time of the transactions, Credit Karma had 37m active customers (with more than 100m registered total users), and Mint had 1.5m active customers. This implied an equity vale per active customer of USD192m for Credit Karma and USD113m for Mint, suggesting an average of USD153m. As of 2019, GuiaBolso had over 6m customers whereas more than 3.6m had linked their bank data to its platform (forming our basis for active customers). Still, we believe it makes sense to use a hefty discount of 75% to such multiple as VEF themselves has de-valued its reported value of GuiaBolso by 60%+ since its investment in October 2017. Thus we identify a potential equity value of USD137m for GuiaBolso (versus USD88m based on VEF's EV/revenue peer multiples valuation model as of Q2 2020), or USD15m for VEF's 10.9% ownership stake.

Figure 152: Number of active users among personal finance management peers (2019)



Source: Factset (underlying data), DNB Markets (further calculations)

Figure 153: GuiaBolso – DNB valuation (USDm)

Valuation assumptions (USDm)	
Credit Karma value/active customer	192
Mint value/active customer	113
Implied multiple	153
GuiaBolso number of active customers (m)	3.6
Discount	75%
GuiaBolso multiple	38
GuiaBolso value	137
VEF's ownership	10.9%
VEF's NAV	15.0

Source: DNB Markets

- **Nibo (5%).** In our portfolio overview section, we estimated that Nibo could achieve 2020e revenues of USD3m–5m (having reverse engineered from Financial SaaS peers EV/Sales multiples). Having experienced a SME customer base and accountant customer base CAGR of 250%+ and 55%+, respectively, in the past three years we believe it is not overly optimistic to assume that it can grow revenues by a CAGR of 75% until 2022e, which would correspond to 2022 revenues of USD9m. We then apply a financial SaaS 2022 EV/Sales multiple (from Intuit, Xero, Fortnox, Guidewire Software, Temenos, etc.) of 10x, suggesting an EV of USD90m (versus USD56m based on VEF's EV/revenue peer multiples valuation model as of Q2 2020), or USD18m for VEF's 20.1% ownership stake.
- **Magnetis (3%).** We compare Magnetis to similar digital investment advisors (often referred to as robo advisors) such as Wealthfront, Betterment, Acorns, Personal Capital, and Ellevest based on Price/AUM multiples using the peer group average of 0.2x (although we highlight that the spread is wide, ranging from 3% to 72%). We forecast that Magnetis could reach USD300m in AUM by 2022e, and by using the peer average price/AUM multiple of 0.2x, we estimate an EV of USD61m (versus USD38m based on VEF's Q2 NAV), or USD11m for VEF's 17.5% ownership stake.
- **For the remaining portfolio (Juspay, REVO, JUMO, Xerpa, FinanZero, and Finja)**, we do not have nearly enough KPI data or financial disclosure on these companies to make an independent valuation, and use VEF's latest reported NAV. Still, in due course, we would not be surprised to see these holdings providing a source of meaningful NAV growth for VEF.

Figure 154: DNB NAV based on peer group multiples

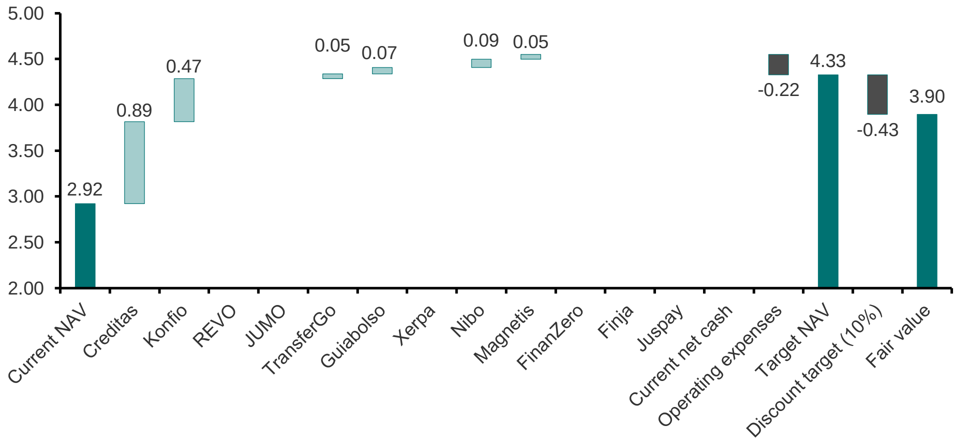
	Current NAV (USDm)	NAV growth (USDm)	DNBe 2021e (USDm)
Creditas	81	68	149
Konfio	28	36	64
REVO	10	0	10
JUMO	7	0	7
TransferGo	21	4	25
Guiabolso	10	5	15
Xerpa	5	0	5
Nibo	11	7	18
Magnetis	7	4	11
FinanZero	8	0	8
Finja	2	0	2
Juspay	13	0	13
Total	**203**	**125**	**328**
Other assets/liabilities			0
Current net cash			20
Operating expenses until 2021e			-17
Target NAV			**331**
Target discount to NAV			10%
Implied fair equity value			298
Number of shares (m)			664
Implied fair value (USD/share)			0.4
Implied fair value (SEK/share)			**3.9**
Current share price (SEK/share)			**2.8**
Implied fair value potential			*42%*

Source: DNB Markets

This valuation approach suggests a 2022e target NAV of SEK3.9/share, with the key NAV growth engine being Creditas and Konfio, to which we apply a 10% discount to target NAV, which suggests a fair value of SEK3.9/share (or 42% upside potential).

Our NAV corresponds to a fair value of SEK3.9/share

Figure 155: DNB 2022e NAV bridge (based on peer multiples)



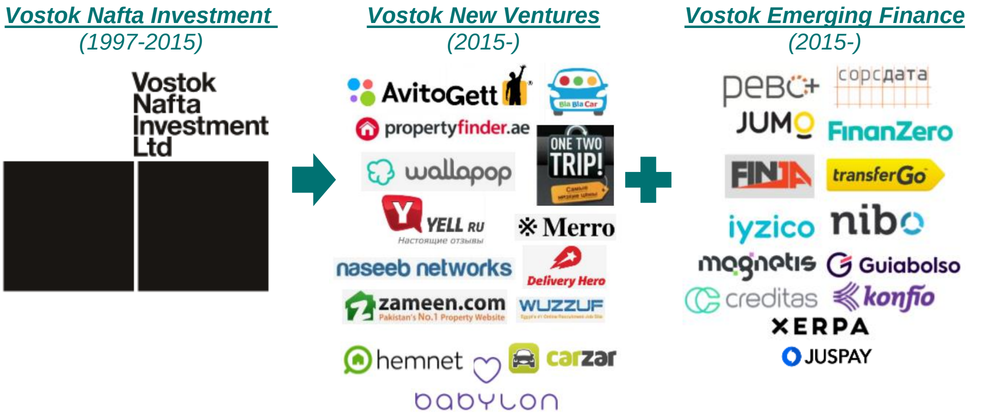
Source: DNB Markets

Appendices

Company history

VEF was founded and incorporated in June 2015 as Vostok New Ventures (previously Vostok Nafta) spun out its Tinkoff Bank investment to create a holding company entirely dedicated to the emerging modern financial services sector in frontier markets. A USD69m capital raise in December 2015 formed the basis and a strong liquidity position to build its portfolio, which today consists of 12 holdings, having started to realise some of the values it has built up since inception via its recent exits of Tinkoff Bank and iyzico.

Figure 156: VEF emerged from the Vostok Nafta company and share split



Source: Company

Management and board

VEF has rather a light organisational set-up, with six employees, of which five are represented in the management team. We argue that this is reflected in a more concentrated portfolio (currently 12 holdings) than traditional VCs with larger teams, and thus a larger number of holdings. Still, we highlight that VEF's management has extensive experience from the financial services sector in emerging markets, with investment banking and TMT backgrounds adding deep research, M&A, and financing expertise, complemented by corporate law competence, which is vital for complex legal documentation in emerging markets VC transactions. According to Holdings, VEF'S management owns ~2.4% of outstanding shares.

In addition to VEF's management, its board of directors also has strong combined experience from financial services as well as emerging markets. VEF leverages on the combined width of its management's and board's network to identify and source new investment ideas, where its active board of directors also acts as investment committee.

Management team

- **David Nangle – CEO since 2015**, has spent his entire career focusing on the financial sector in emerging markets. He comes from an equity research background as he joined ING Baring's Emerging Markets Research team in 2000 and left by 2006 as the head of EMEA Bank research to join Renaissance Capital. He spent almost ten years with Renaissance Capital, initially heading their financial services research offering before combining this with the role as Head of Research, and helped the firm develop from its Russia base to a leading pan-EMEA and frontiers franchise. Mr Nangle has also received several awards in institutional client research rankings; most noteworthy are no. 1 rankings for Russia and EMEA from Institutional Investor. According to Holdings, he owns 13,419,440 VEF SDRs (2.03% of the company).
- **Henrik Stenlund – CFO since 2017**, has an extensive background from the media sector, with a number of senior positions within the Modern Times Group (MTG), most recently as CEO of its production companies Strix Television and Strix Drama. Prior to take the role as CFO of VEF, he spent one year as COO, sharing his time between Pomegranate

Investment, Vostok New Ventures and Vostok Emerging Finance. According to Holdings, he does not own any shares in the company.

- **Helena Caan Matsson – General Counsel since 2017**, has a deep background in M&A and corporate law from several law firms in Sweden and abroad. Most recently, Mrs Matsson held the position of Associate at the law firm Cederquist. Previously, she has held positions at the law firms Baker & McKenzie in Sydney, Australia and Roschier in Stockholm, focusing on domestic and cross border M&A, including emerging markets, as well as general corporate and contracts law. According to Holdings, she owns 455,549 VEF SDRs (0.07% of the company).
- **Alexis Koumoudos – Investment Partner since 2016**, where he primarily focuses on sourcing new investment opportunities and assists with portfolio management. Prior to joining VEF, Alexis was a partner at Skyline Capital Management, an emerging market-focused hedge fund, where he invested across the region for five years. According to Holdings, he owns 1,951,281 VEF SDRs (0.29% of the company).
- **Elisabet Hultén – Deputy CFO since 2018**, and belongs to VEF's Finance and Legal team. Prior experience includes Business Controller at DIBS Payment Services as well as Consultant at Deloitte. According to Holdings, she owns 50,000 VEF SDRs (<0.01% of the company).
- **Éire Smith – Associate since 2017**, where she is a member of the investment research and portfolio management team coming straight out of university, graduating with a BA in Business and Economics from Trinity College, Dublin.

Board of directors

- **Lars O Grönstedt – Chairman of the board.** Having spent most of his professional life at Handelsbanken, as the CEO during 2001–2006 and Chairman during 2006–2008, Mr Grönstedt has unrivalled experience in the Swedish financial sector and a broad network. In addition, he is also currently senior advisor to Nord Stream, Chairman of Scypho, Vostok New Ventures and East Capital Explorer, Vice Chairman of the Swedish National Debt Office, speaker of the elected body of representatives of Trygg Foundation, and is a director at Pro4U, and the Institute of International Economics at Stockholm University. According to Holdings, he owns 130,000 VEF SDRs (0.02% of the company).
- **Per Brillioth – board member.** As a veteran participant in the Russian stock market, with experience as the head of Emerging Markets at Hagströmer & Qviberg between 1994 and 2000, and currently a board member and the Managing Director of Vostok New Ventures, Mr Brillioth has deep knowledge of the VC landscape in emerging markets. He was actually the person behind the idea that VEF should be spun out from VNV to become a pure play on the emerging market fintech opportunity, and managed VEF until the new management team came into place in 2015. Thus, we believe that his track record as a VC investor and strong personal network with entrepreneurs globally could benefit VEF's sourcing of new investment ideas. According to Holdings, he owns 2,790,000 VEF SDRs (0.42% of the company).
- **Ranjan Tandon – board member**, is the founder and Chairman of Libra Advisors, a top-100 New York hedge fund, according to Baron's, established in 1990, which was converted to a family office in 2012. Mr Tandon has held several operating positions with DCM in India and Halliburton in Europe; was CFO of InterMarine in Texas; and a financial Executive with Merrill Lynch before following his passion for investing. He is also a Board Member of the NYU Tandon Engineering School (5,500 students), the Carl Schurz Park Conservancy and has made leadership gifts to the Harvard Business School and Yale University. According to Holdings, he owns 179,336,674 VEF SDRs via Libra Fund (27.11% of the company).
- **Milena Ivanova – board member.** Mrs Ivanova has extensive investment banking experience from over eight emerging markets having operated as Deputy Head of Equity Research at Renaissance Capital, and was the company's Russia strategist based in

Moscow, Head of the Research and Equities for Central Asia, Equity Research Analyst covering banks at UniCredit Markets & Investment Banking (CAIB), FIG-banker with CAIB Corporate Finance specialising in financial institutions in Central and Eastern Europe, as well as an advisor to clients regarding banking M&A and IPO matters. Between 1997 and 2002, Mrs. Ivanova had various positions at TMP Worldwide (monster.com) in Central and Eastern Europe, where she was also a member of the management committee responsible for business development. According to Holdings, she owns 1,332,000 VEF SDRs (0.20% of the company).

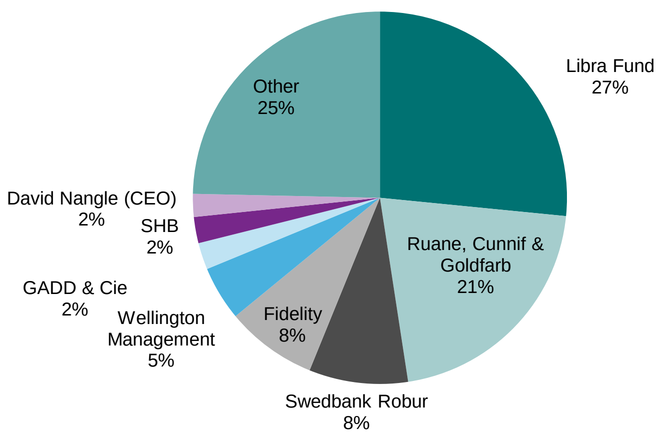
Ownership

Listed on Nasdaq First North in Stockholm, which means it is not subject to as extensive rules and regulations as listed companies on the main market

Vostok Emerging Finance is listed on Nasdaq First North in Stockholm, which means it is not subject to as extensive rules and regulations as listed companies on the main market, which also suggests a slightly higher liquidity risk, in our view. Still, in the semi-annual review of the First North 25 Index, VEF was included, suggesting that it is of the largest and most traded shares listed on the Nasdaq First North Growth Market. Today, the ownership base is rather concentrated to renowned US institutions with foreign ownership ranging between 71–78% in the past years while the free float is 100%.

- **Libra Fund (27%)**, a New York family office founded by Ranjan Tandon, is the largest shareholder. Previously, the fund was categorised as a hedge fund with a long/short focus on domestic and emerging market equities, and was ranked as a top 100 hedge fund by Barrons.
- **Ruane, Cunnif & Goldfarb (21%)** is an investment advisor best known for managing Sequoia Fund (a value-oriented concentrated, long-only equity fund that invests primarily in domestic mid- and large-capitalisation companies, founded in 1970). Its investment strategy is based on the belief that it could outperform the stock market by investing in great businesses selling at reasonable prices and staying with them as long as they remained attractive.
- **Swedbank Robur Fonder (8%)** via its European small cap fund. Swedbank Robur is one of Scandinavia's largest asset managers and a strong investment partner.
- **Fidelity International (8%)** is Fidelity's investment management service including mutual funds, pension management and fund platforms to private and institutional investors.
- Other larger shareholders are mainly blue-chip institutional investors such as Wellington Management (5%), GADD & CIE (2%), and Svenska Handelsbanken (2%), etc.

Figure 157: VEF ownership structure (2020)



Source: Holdings as of 31 July 2020

In the table below, we have highlighted recent insider transactions in VEF (this excludes CEO David Nangle's increased ownership stake on Friday August 28, when he exercised 1.9m outstanding warrants). We believe recent insider sales have related to covering tax liabilities under incentive programmes, which in our view sends a positive signal; that said, we do not believe that main shareholder Ranjan Tandon's minor divestment (<1% of his total holding via Libra Fund) was for tax reasons.

Figure 158: Insider transactions in VEF (May 2018 to present)

Reported	Insider	Position	Type	No of shares	Price (SEK/share)	Value (SEKt)
2020-08-28	Libra Fund	Board Member	Sell	-2,904,001	2.7	-7,928
2020-08-28	Elisabet Hultén	Deputy CFO	Buy	10,000	2.7	27
2020-08-03	Helena Caan Matsson	General Counsel	Buy	27,040	2.7	74
2020-07-30	Alexis Koumoudos	Investment Manager	Sell	-68,802	2.8	-193
2020-06-24	Helena Caan Matsson	General Counsel	Buy	58,408	2.2	131
2020-06-18	Alexis Koumoudos	Investment Manager	Sell	-148,927	2.2	-333
2020-06-11	Milena Ivanonva	Board Member	Buy	262,000	2.3	597
2020-05-08	David Nangle	CEO	Sell	840,000	2.2	-1,827
2020-03-11	Helena Caan Matsson	General Counsel	Buy	8,000	2.8	22
2020-03-03	Helena Caan Matsson	General Counsel	Buy	7,101	2.9	21
2020-02-12	Helena Caan Matsson	General Counsel	Buy	15,000	3.1	47
2019-12-18	Helena Caan Matsson	General Counsel	Buy	30,000	2.9	88
2019-12-14	Elisabet Hultén	Deputy CFO	Buy	15,000	2.9	44
2019-12-09	Henrik Stenlund	CFO	Buy	14,250	3.1	45
2019-10-02	Henrik Stenlund	CFO	Buy	12,450	2.7	34
2019-09-26	Helena Caan Matsson	General Counsel	Buy	5,906	2.7	16
2019-09-26	Libra Fund	Largest shareholder	Buy	16,526,000	2.5	41,315
2019-09-09	Henrik Stenlund	CFO	Buy	13,300	2.6	34
2019-08-19	Helena Caan Matsson	General Counsel	Buy	14,094	2.5	35
2019-08-16	Henrik Stenlund	CFO	Buy	32,000	2.5	78
2019-07-14	Helena Caan Matsson	General Counsel	Buy	85,000	2.5	208
2019-07-12	Alexis Koumoudos	Investment Manager	Buy	335,000	2.4	816
2019-07-11	Elisabet Hultén	Deputy CFO	Buy	10,000	2.5	25
2019-07-11	Milena Ivanonva	Board Member	Buy	470,000	2.4	1,128
2019-07-10	Henrik Stenlund	CFO	Buy	78,815	2.4	192
2018-12-07	Henrik Stenlund	CFO	Buy	14,000	1.8	25
2018-09-05	Helena Can Mattsson	General Counsel	Buy	25,000	2.0	49
2018-08-24	Elisabet Hultén	Deputy CFO	Buy	25,000	1.9	47
2018-08-23	Henrik Stenlund	CFO	Buy	13,225	1.9	25
2018-07-11	Helena Can Mattsson	General Counsel	Buy	20,000	2.0	40
2018-07-09	Henrik Stenlund	CFO	Buy	12,560	2.0	25
2018-06-04	Savvas Koumoudos	Relative to insider	Buy	120,200	2.0	239
2018-06-01	Henrik Stenlund	CFO	Buy	12,460	2.0	25
2018-05-17	Henrik Stenlund	CFO	Buy	12,500	2.0	25

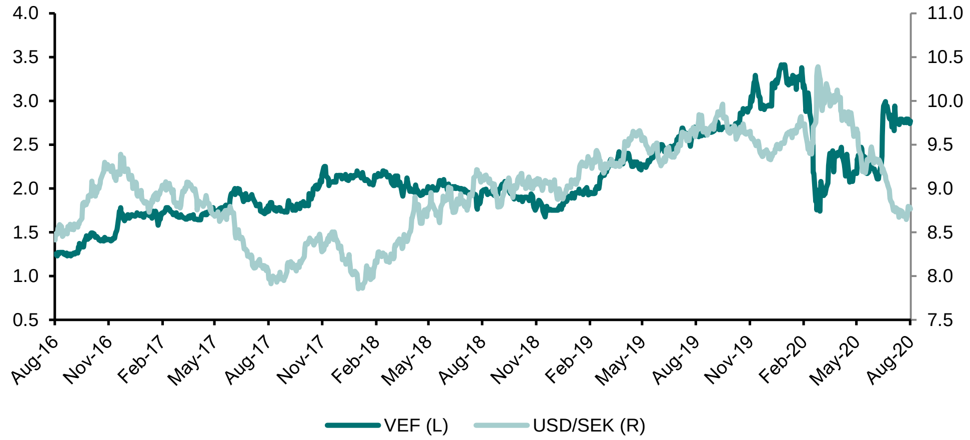
Source: Holdings

FX and sensitivity analysis

We also believe that adverse FX effects (stronger USD versus BRL, MXN, RUB, EUR, and ZAR) could have impact on VEF's results, as we do not believe that VEF engages in any hedging. Also, as it invests and reports in USD, while its share price is in SEK, a weaker USD (and stronger SEK) should have a negative impact, in our view.

Emerging markets carry greater FX risks

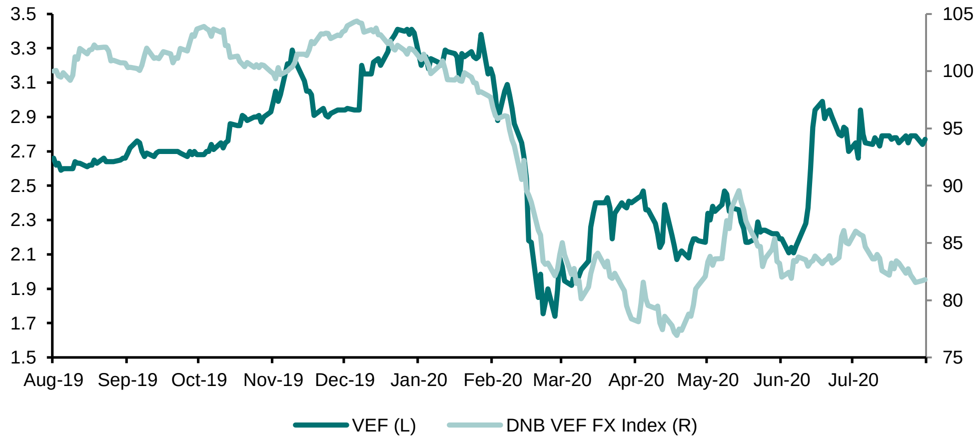
Figure 159: VEF share price (SEK) versus USD/SEK (2016–2020)



Source: Bloomberg (underlying data), DNB Markets (further calculations)

In the chart below, we show an index we have constructed from VEF's weighted portfolio exposure to BRL/USD, MXN/USD, RUB/USD, EUR/USD, and ZAR/USD. Since VEF's Q2 report, the basket of emerging market currencies has remained roughly flat, while the strong SEK and weak USD should hurt its NAV by ~6%.

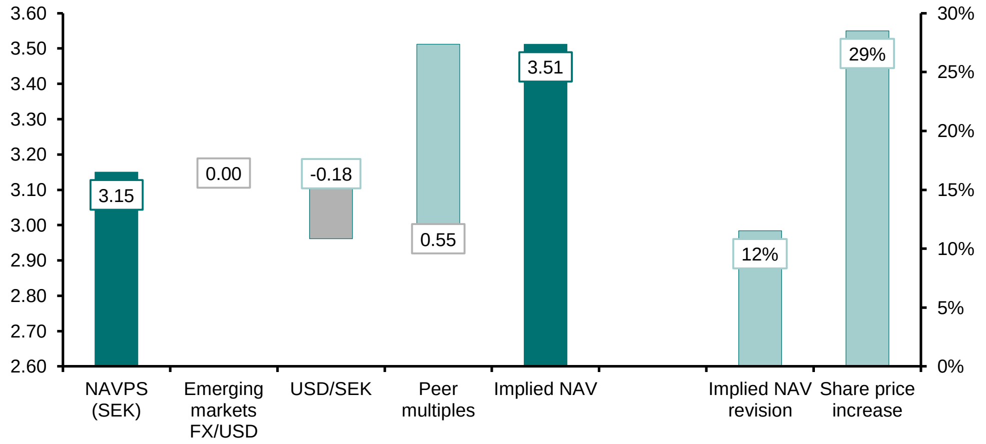
Figure 160: VEF share price (SEK) versus weighted emerging market FX (2019–2020)



Source: Bloomberg (underlying data), DNB Markets (further calculations)

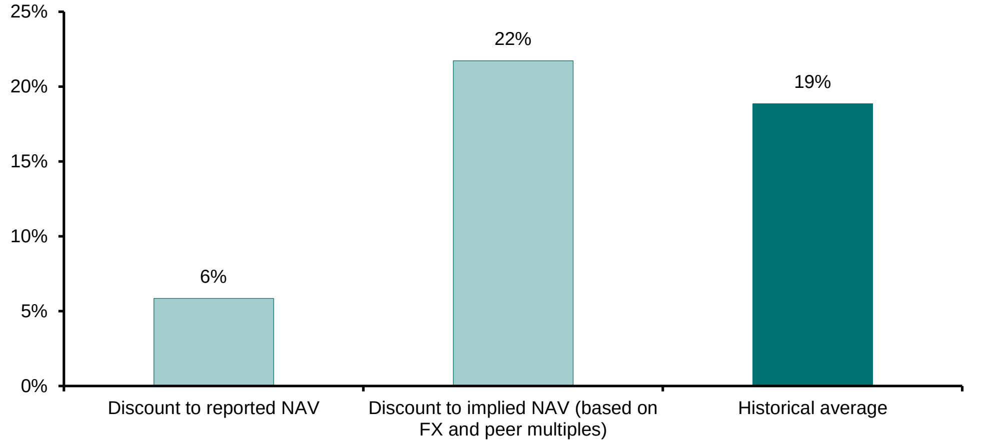
The net effect from FX movements and peer group multiple contractions since VEF's Q2 2020 report is in our view 12% while the shares are up 29% since end-Q2 2020.

Figure 161: VEF sensitivity analysis (FX and peer multiples)



Source: DNB Markets

Figure 162: Implied discount to NAV based on DNB sensitivity analysis



Source: DNB Markets

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Company: Vostok Emerging Finance
Coverage by Analyst: Joachim Gunell
Date: 01-9-2020

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