Enova International (NYSE:ENVA)

Financials Coverage

May 6th, 2017

"Closing the World's Credit Gap, Profitably"

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Initiating Coverage – BUY Report

1-year Target Price: US$23.00, **representing 64% upside**

Current Price : US$14.05

Capitalization Table

Price (May 5th, 2017)	US$14.05
Dil. Shares Outstanding (thousands)	34,036
Market Cap. (US$m)	$478.2
(+) Debt	631.1
(-) Cash & equiv.	(97.0)
Enterprise value (US$m)	$1,012.3

Key data

In thousands

FY	2016A	2017P	2018P
Sales	745.6	851.6	910.4
EBITDA	137.0	160.7	153.3
EPS	0.99	1.38	1.67
EV / EBITDA (x)	7.5	6.4	6.7
P / E (x)	14.2	10.2	8.4

LTM price chart (US$)

Company Description

Enova International is an online non-prime consumer and small-business lender based in Chicago, IL. The Company operates in the US, the UK, and Brazil.

Investment Thesis

Enova's financial and operating leadership, first mover advantage, and experienced management team will enable it to weather competitive pressures from VC and PE-backed unprofitable companies. Enova's resilience during the GFC, as well as its reliably accurate proprietary credit algorithms, will allow it to keep outperforming peers in the growing online non-prime lending industry.

Catalysts

- Donald Trump's election in November removed general fears of regulation, but we see a larger catalyst in the potential reform of the CFPB under the Financial Choice Act (FCA).
- With scandals at Prosper and LendingClub, as well as shareholder pressures at OnDeck Capital, we believe that the unprofitable or unethical players in the industry will have to change their practices, leaving room for Enova.

Valuation

Our US$23.00 one-year target price is based on an equal-weighted average between a 10x PE multiple on FY2018 EPS, an 8x EV/EBITDA multiple on FY2018 EBITDA, and a DCF with a 1.5% terminal growth rate and 7x exit multiple, discounted at a WACC of 12.6%.

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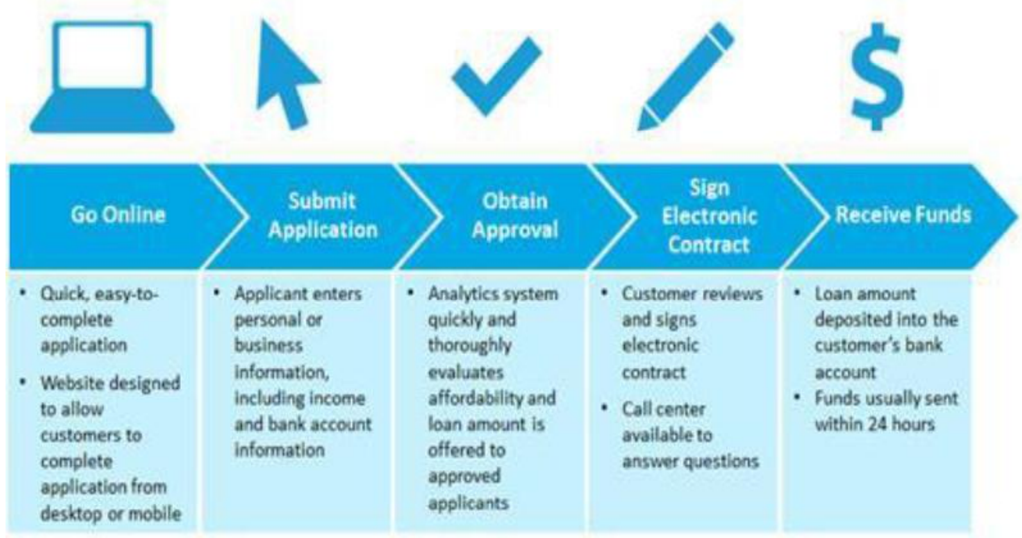
Company Overview

Understanding the Business

Enova International is a technology and analytics company focused on providing online financial services to consumers and businesses typically underserved by the traditional banking system. Founded in 2004, it is one of the first movers in the online lending industry. Its 6 growth vectors are located in the United States, the United Kingdom and Brazil. Each business focuses on serving a specific type of customer, ranging from subprime and near-prime customers to small businesses. Different products, such as short-term loans, lines of credit, installment loans, and receivable purchase agreements (RPA's) are offered within each business. It uses its proprietary technology, analytics and customer service capabilities to quickly evaluate, underwrite and fund loans or provide financing usually within 1 business day.

Exhibit 1

Online Loan Process



Source: Company Filings

Enova International has a variety of products: through its diversified revenue mix of short-term loans, lines of credit, installment loans and RPA's, Enova makes sure that it keeps a diversified customer base and fulfills its vision of closing the world's credit gap.

Short-Term Loans

Short-term loans are written to individuals with a duration of 7 to 90 days. These are unsecured and written by Enova or a 3rd party lender. It offers this product in 18 states in the US and the UK. Due to the high credit risk and high transaction costs of serving individuals, the interest Enova charges for this product is considered to be higher than the interest charged to customers with superior credit histories by banks. This business' share of Enova's revenue mix has been decreasing consistently, but may have bottomed out in Q1 2017, growing at 1.1% YoY.

Line of Credit Accounts

Line of credit accounts are offered in 7 states in the U.S. for individuals and 24 states in the US for businesses. This product allows customers to draw on their unsecured line of credit in increments of their choosing up to their credit limit. As long as customers' accounts are in good standing and have credit available, they can continue to borrow funds. Customers can pay off their account balance in full at any time or make required minimum payments according to the terms of their contract.

Installment Loans

Installment loans are longer term unsecured loans that usually range from 2 to 60 months and generally require the outstanding principal balance to be paid down in multiple installments over the course of the loan. These loans usually have higher principal amounts than short-term loans and can be repaid early at any time with no prepayment charges. This product is offered in 17 states in the US and in the UK and Brazil.

Receivables Purchase Agreements (RPA's)

RPA's are offered to small businesses only and are offered in all 50 states of the US. This product is an agreement between Enova and a small business that in exchange for funds, Enova will receive a portion of the business's future receivables at an agreed upon premium.

Enova's Customer Base

Consumers

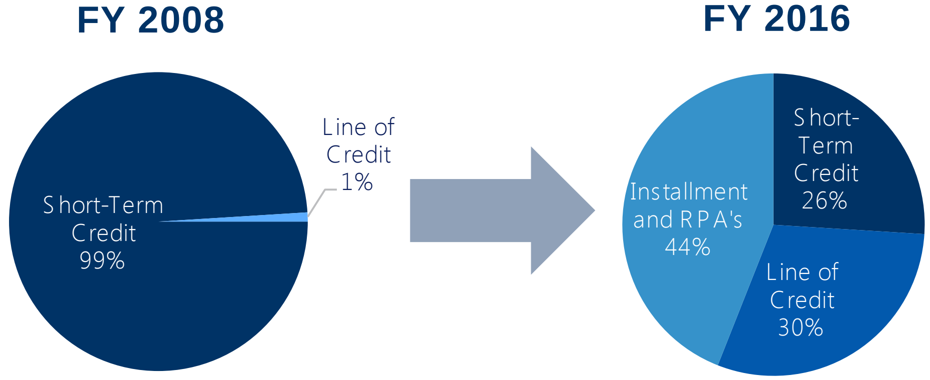
In the US, Enova's sub-prime addressable market is comprised largely of individuals living in households that earn an average annual income of $41K with an average age of 42, which represents **32% of homeowners**. The UK sub-prime consumer earns an average annual income of £25K with an average age of 33, which represents **14% of homeowners**. As for the US near-prime customer, he/she earns an average annual income of $61K, has an average age of 46 and represents **46% of homeowners**. The most common use of a loan for the near-prime consumer includes debt consolidation, monthly bills, car repair and medical/dental expenses. Enova believes their potential customer base to be around 68M and 7M individuals in the US and UK respectively with an estimated $69B consumer lending opportunity in the US market (Appendix G).

Small Businesses

On the US small business side, the total small business loan market opportunity is around $193B. Tighter regulations forced banks to vacate the market for loans under $1M, and loans under $100K are the fastest growing loan segment. Customers who enter into RPA agreements with Enova average $1.5M in annual sales and have 10 years of operating history, while those who obtain a line of credit account average $450K in annual sales and have 7 years of operating history.

Exhibit 2

Revenue Distribution by Product



Source: Company Filings

Business Lines and Geographies

United States

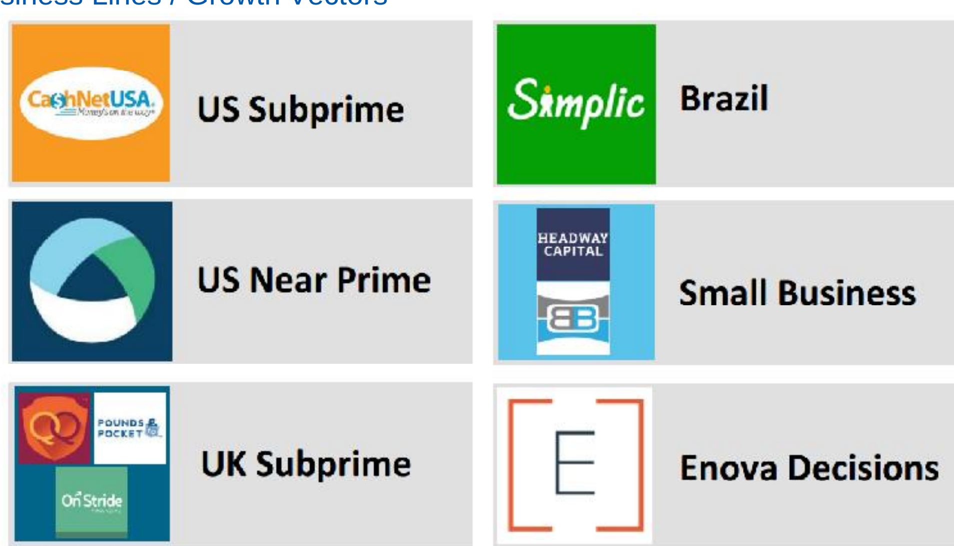
Enova currently has 5 different brands in the US, each catering to slightly different markets. Enova draws 84% of its revenue from the US. Enova's flagship brand in the US is CashNetUSA, one of the leading online lenders in the country. It is licensed to extend short-term and installment loans to consumers in 30 states. NetCredit is Enova's new brand focusing on near-prime consumer installment loans, a very profitable and growing segment for the company. NetCredit loans are usually used for debt consolidation to help consumers reduce their total cost of debt. Additionally, NetCredit extends some loans (<36% APR) on the behalf of Republic Bank, a small US Regional Bank looking for exposure in that space. Headway Capital and The Business Backer are Enova's 2 small business lending brands. The Business Backer was acquired by Enova in June 2015 for a total consideration of $27M, including $18M in cash. Jim Salters, co-founder and CEO, is still with Enova as a VP of Operations. The Business Backer has funded $375M in loans since its inception in 2008, and focuses on more personal, advice-driven customer relationships and better credit. Enova's other business lending brand, Headway Capital, is more focused on a quick and easy process for lines of credit. Finally, Enova Decisions is a new initiative from Enova, aiming to leverage its existing state-of-the-art technology platform to provide data analytics and consulting services to companies across several industries. It still represents a microscopic portion of revenues, but it makes good business sense for Enova to go commercialize their technology IP since they have built tremendous databases and models since 2004.

United Kingdom

CashEuroNetUK is Enova's UK subsidiary, and manages Enova's two main UK brands, QuickQuid and Pounds to Pocket. QuickQuid is Enova's oldest UK brand, being founded in 2007. It focuses on short-term lending, just like CashNetUSA. The business has been negatively impacted by rate caps introduced by the UK's financial regulator, the FCA, in 2015, but has since then adapted and even grown market share in a heavily contracted market. Pounds to Pocket is CashEuroNetUK's installment lending brand and was launched in 2010. It focuses on installment loans repaid over 6 to 12 months. Lastly, On Stride Financial operates outside of the CashEuroNetUK umbrella. It provides lower-APR loans under £10K repaid over long periods of time (1-5 years). Overall, Enova's business has been hurt by regulation, but as seen in Exhibit 4, its relative competitive positioning remains rock solid.

Exhibit 3

Business Lines / Growth Vectors



Source: Company Filings

Brazil

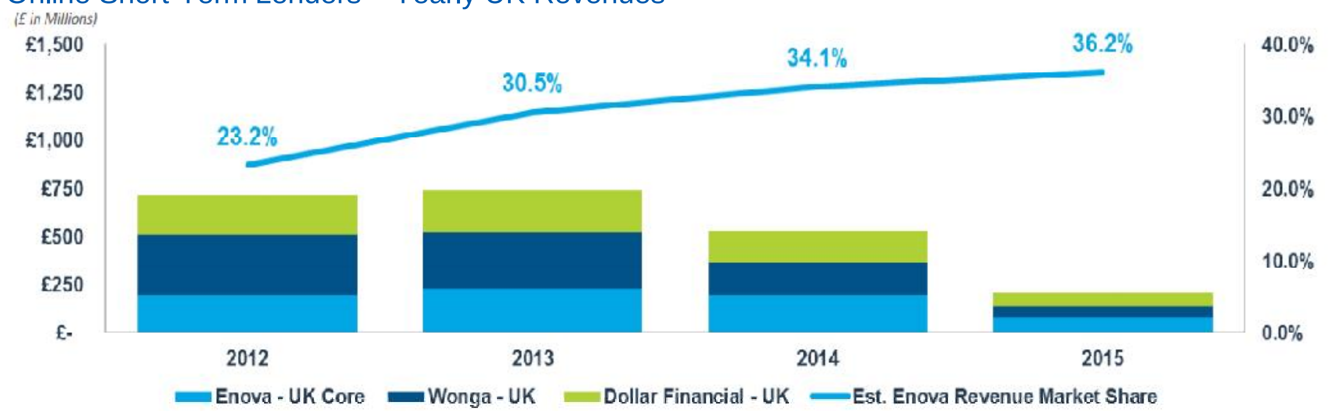
Enova's brand in Brazil is Simplic, the first mover in online-only consumer lending in Brazil. The company estimates there are 74M class C and D consumers and a $42B consumer loans market in Brazil. The details on the customer breakdown are presented in Exhibit 5, and it is clear that Brazil's social structure is an optimal one for Enova. Short-term and installment lending has become a part of Brazilians' monthly routine in the C & D social classes, which is Enova's target market. Additionally, Enova works in accord with the Central Bank of Brazil to extend credit to those in need in an orderly and regulation-friendly fashion. Simplic's growth has been tremendous in 2016 – the year-end receivables balance was 3x higher than at the 2015 year-end. **Overall, Enova expects a $100M EBITDA boost from Simplic in the next 3-5 years**, which is similar to the growth rate seen in the UK between 2010 and 2013.

Canada & Australia

Enova's brand in Canada and Australia was DollarsDirect. The company has closed down the brand to focus its efforts in its 6 growth drivers outlined in Exhibit 3.

Exhibit 4

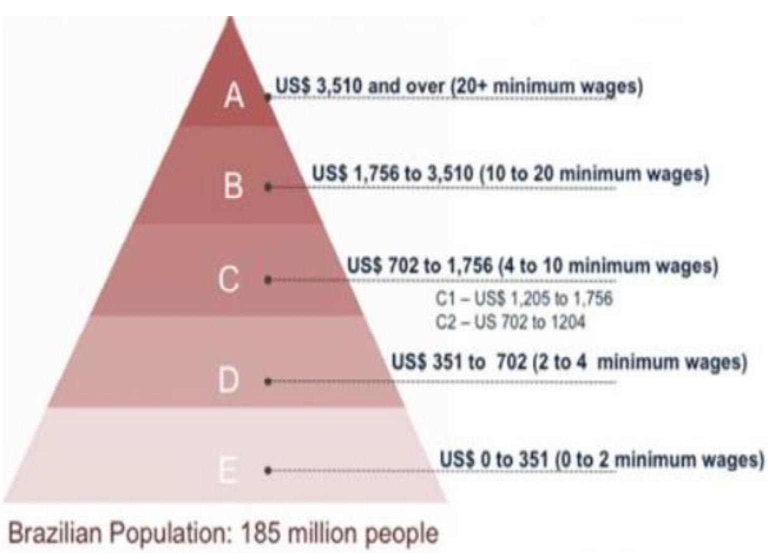
Top 3 Online Short-Term Lenders – Yearly UK Revenues



Source: Company Presentation

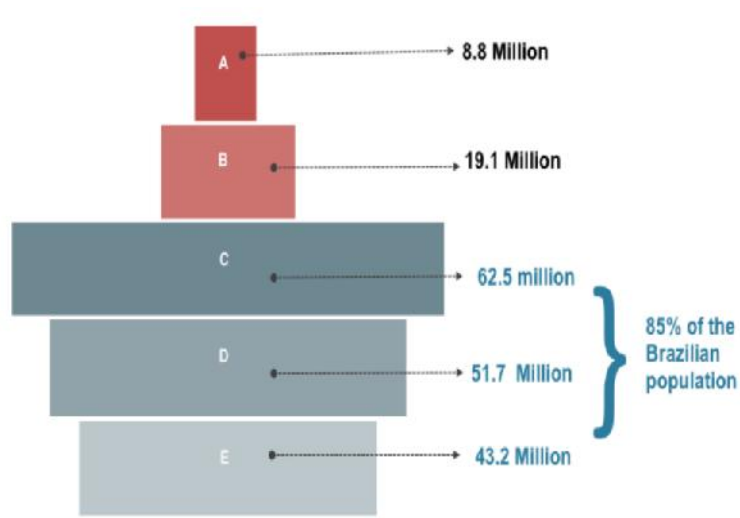
Exhibit 5

Brazilian Social Classes – Monthly HH Income in USD



Source: Plano CDE Study based on the consolidation of IBGE data and the PNAD 2002 and 2009

The Brazilian Social Structure



Source: Plano CDE Study based on the consolidation of IBGE data and the PNAD 2002 and 2009

Thesis

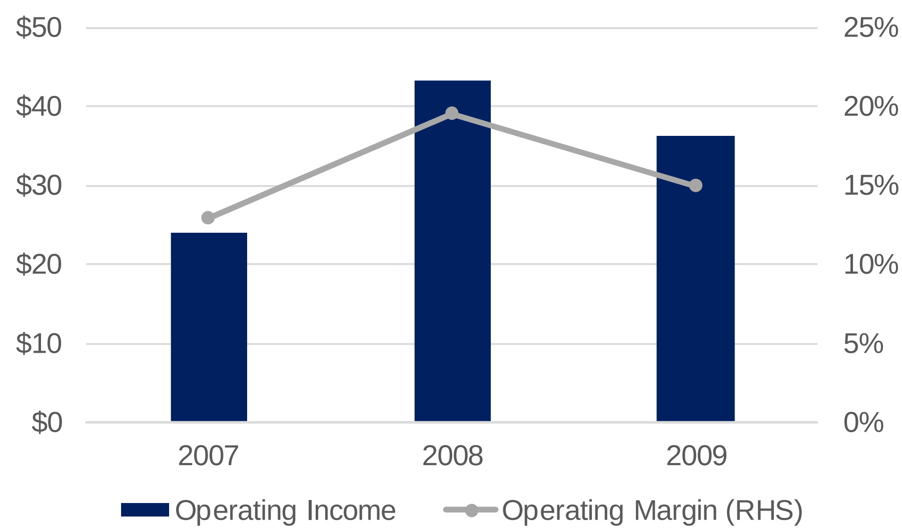
“ We believe that Enova’s strength during the crisis is due to the nature of short-term lending, as well as Enova’s competitive advantage and data-driven mindset. ”

Credit Cycle Resilience

A common pushback around subprime lending stocks is that their levered and “unsafe” asset base wipes out any cumulative gains during a credit downturn. This point of view has been largely created by the media’s portrayal of the Global Financial Crisis, and how it is widely argued that subprime lending is what created the GFC. Initially, we were just as fooled as anyone else – we thought that companies like Enova would do terribly in a GFC-type of environment. However, we were pleasantly surprised to find exactly the opposite – Enova Financial, as a subsidiary of Cash America, **performed extraordinarily well during the height of the GFC (2008-09)** as seen in Exhibit 6 – it even performed better than in 2007, before most of the damage was done to the US and Global economies.

Exhibit 6

Operating Performance during the GFC



Source: CashAmerica Company Filings

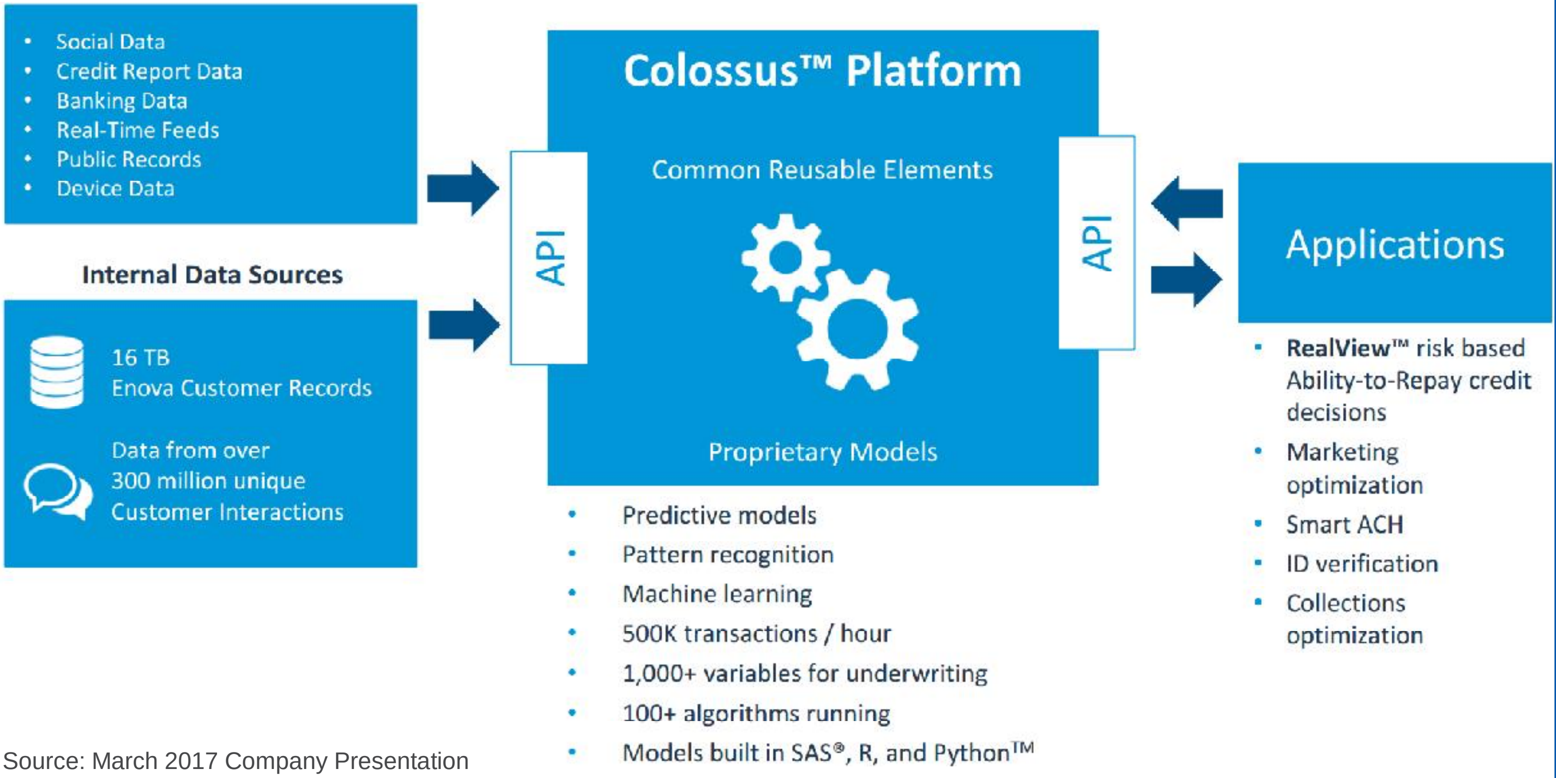
We believe that Enova’s strength during the crisis is due to the nature of short-term lending, as well as Enova’s competitive advantage and data-driven mindset. Short-term lending volumes should rise in tougher times, since people’s credit ratings tend to fall during those times of stress. This enables Enova to charge higher rates and compensate for higher losses and lower credit quality. Additionally, Enova’s technology allows it to have even more of a performance gap with competitors when times are tough, because of the robustness of the models used, as explained in the next section. Overall, we are confident that should the US and the global economy falter, Enova will keep generating very attractive shareholder returns.

Proprietary Credit Algorithms

Enova's key strength is its technological expertise. Built since 2004, its technology platform has been accumulating boatloads of data, and has learned from itself through Enova's available data and credit decisions, leveraging 300M customer interactions and 16 TB of existing customer records. These customer records are so instrumental in making credit decisions that the difference in the cost of credit between new customer and existing customer originations is sizeable enough to affect company-wide gross margins by several percentage points. Presented in Exhibit 7 is the structure of the Colossus platform. What sets the model apart is that it uses **1,000+ variables and 100+ algorithms using social, credit report, banking and device data as well as real-time feeds and public records to make credit decisions.** We believe that this extreme commitment to technology is what allows Enova to maintain or gain market share while being the only public consistently-profitable player in the online-only lending space.

Exhibit 7

Enova's Tech Platform - Colossus

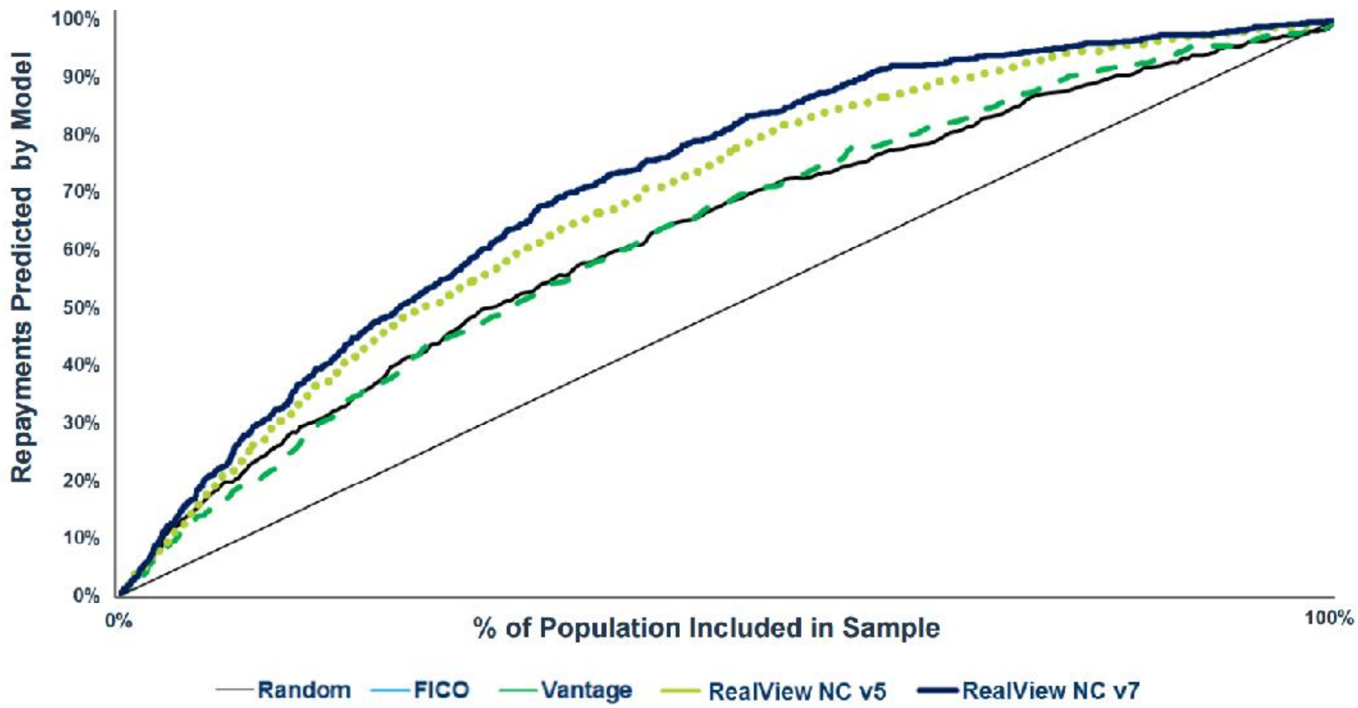


Source: March 2017 Company Presentation

NetCredit is a significant contributor to Enova's growth in the US, being Enova's main installment loan brand. As seen in Exhibit 8, the model has improved significantly between v5 and v7, and is more predictive than the commonly-used FICO and Vantage scores by a wide margin. The model used to assess the effectiveness and predictiveness of the RealView model is the Receiver Operating Characteristic Curve, or ROC Curve. The ROC Curve is an analytical tool used in Machine Learning and Data Mining that usually looks at predictiveness as a binary event that can be classified as a true positive/negative or as a false positive/negative. Enova uses this method in Exhibit 8 to assess the predictiveness of credit models vs. the % of the population included in a given sample of the NetCredit applicant pool. The population is arranged under creditworthiness so that at the bottom left of the graph, only the most creditworthy customers are included in the population, and at the top right, the entire population is included. As we can see, at the midpoint of the graph, where approximately 50% of the population of applicants is included, the latest model Realview NetCredit v7 is ~15% more predictive than the FICO and Vantage scores used by the non-tech focused segment of the industry. **A 15% difference in repayment predictability, in the installment lending business, can easily make the difference between profitable and unprofitable lending.** We therefore believe that a big part of Enova's success comes from the Colossus platform, and it should only improve going forward.

Exhibit 8

NetCredit Model Predictiveness – ROC Curve



Source: March 2017 Company Presentation

Competitive Environment

At first glance, the already crowded online consumer lending industry seems to be getting increasingly competitive. Due to fintech's rise into the limelight, funding for ventures in this growing industry has been more than ample. However, as seen in many other "disrupted" industries, new companies are focusing on one thing only: customer acquisition at any cost. However, we believe that taking such an approach in the online lending industry is extremely risky due to the already highly levered and risky nature of the business. OnDeck Capital's funding issues earlier this year and Marathon Partners' shareholder letter requesting lower costs and a sale of the Company, shows how destroying shareholder value, as is common in other technology fields, is extremely dangerous in industries like online lending. A bank run is likely in these unprofitable companies as soon as something minor goes wrong. As seen in Exhibit 9, all direct, online-only Enova competitors are currently unprofitable, and we can safely assume that because of their continuous funding rounds, most of the private competitors presented in the table are also unprofitable, even though that information is not public. The industry dynamics that we see currently see is one of the most important reasons why we like Enova; **even with competitors that are spending boatloads of money on marketing, offering aggressive pricing and destroying shareholder value, Enova has been able to keep growing its business at double-digit rates, profitably.** We therefore see Enova as being the industry leader going forward, as companies like OnDeck, Kabbage, Elevate and Avant will have to either:

A. reduce their marketing spend, which will lead to lower user growth,
B. hike their rates and fees, which will inevitably drive repeat customers away if they see better pricing elsewhere since money is the most commoditized product there is, or,
C. tighten their lending standards.

We see all three scenarios as positives for Enova, as they are the only public player that has achieved to maintain a balance between these three factors in order to grow profitably and responsibly.

Exhibit 9

Private Competitors

	AVANT	CAN CAPITAL	LendUp	Ace Cash Express	Kabbage
Description	Founded by Enova's founder, provides users with personal loans online.	Provides working capital and data services to businesses.	A fintech company that offers several types of credit products including loans and credit cards.	Provides financial services that include payday loans and auto insurance.	Provides online financing services to small and medium sized businesses.
Capital Raised	$1.78B	$744.5M	$361.5M	$421M Bond: $350M with an 11% coupon rate	$1.1B
Funders	General Atlantic KKR & Co. Victory Park Capital	Wells Fargo Capital	Google Ventures Victory Park Capital Susa Ventures	JLL Partners Fund	BlueRun Ventures Scotiabank ING Group

Source: Crunchbase.com, Company Filings, Bloomberg

Public Competitors

	OneMain Financial	Elevate	ondeck	First Cash	World Acceptance Corporation
Description	Provides unsecured and auto-secured personal loans.	Provides online credit products for non-prime consumers in the US and UK.	Technology-enabled financial platform that provides loans to small and medium sized businesses.	Owns and operates more than 2000 pawn stores throughout the US and Mexico.	Offers short and medium term loans and credit insurance to individuals.
Capital Raised	Mature Company	Pre- IPO: 615M IPO: $92M	Pre-IPO: $175.7M IPO: $230M Bonds: $38.5M with a 7.63% coupon $211.5M with a 4.21% coupon	Mature Company	Mature Company
Profitability	✓	✗	✗	✓	✓

Source: Crunchbase.com, Company Filings, Bloomberg

Management Team

Enova's smart and experienced management team is also a factor that sets the company apart in the competitive industry of online lending. As proven by LendingClub's troubles in early 2016, it is paramount for companies in the online lending business to have a responsible management team like Enova's.

David Fisher, CEO

David Fisher has a history of building tremendously successful companies and generating very attractive returns for shareholders. After completing his JD at Northwestern, Fisher joined Prism Financial, an online mortgage broker that was bought by RBC for $115M in 2000, as an SVP. Then, Fisher became OptionsXpress' CEO, leading the online options broker to an acquisition by Charles Schwab. Mr. Fisher has been Enova's CEO since February 2013, and has led it to its IPO in 2014. While he is not Enova's founder (the founder went on to create Avant, a competitor), we firmly believe that David Fisher's proven business acumen will lead Enova to new heights while playing by the rules.

Greg Zeeman, COO

Harvard Business School. BCG. HSBC. Greg Zeeman's pedigree is tough to beat. The HSBC veteran was with the Company for 16 years, rising all the way up to being COO of HSBC US. He joined Enova in October 2015, after a year-long stint as CEO of Main Street Renewal, a company focused on buying, renovating, and leasing homes across the US.

Kirk Chartier, CMO

Kirk Chartier, a former Marine Corps Officer and combat helicopter pilot, joined Enova at the same time as David Fisher. Fisher and Chartier got to know each other at OptionsXpress, where Chartier was CMO. Prior to OptionsXpress, Chartier was a Senior Managing Principal at an MDC Partners subsidiary, serving in contract roles at Safeco Insurance and Electronic Data Systems. Mr. Chartier was also SVP of Business Services & eCommerce at CommerceQuest (now OpenText) in 2002-04.

Steve Cunningham, CFO

Steve Cunningham is a true veteran of the consumer finance industry. He started his career at the FDIC, working his way up to the head of the Insurance division. He then went on to Capital One, where he held various roles including CFO. He then served as CFO of Harley-Davidson Financial Services, and then as SVP, Treasurer and Chief Risk Officer of Discover Financial Services. Overall, Cunningham's background shows that he is a seasoned veteran of the consumer finance business.

Nick Drew, Managing Director - CashEuroNetUK

With more than 17 years of experience in the fintech industry, mostly focusing on ePayments, Nick Drew has plenty of experience navigating the UK's fintech regulatory environment. He spent a large part of his career at BT in the ePayments division, and then moved on to ClickandBuy as an Executive Director, focusing on the Company's regulatory strategy.

John Thirlwell, Chairman - CashEuroNetUK

Mr. Thirlwell has 40+ years of experience in financial services and 15+ years serving on various boards in the City of London. He is well-connected in the UK financial services industry, with roles in the Worshipful Company of International Bankers and the Institute of Operational Risk. He previously was a Director of the British Bankers' Association, with a focus on risk and regulation. He also served as a negotiator for Basel II.

Regulatory Environment

The regulatory environment is a crucial factor for Enova's business. Governments on a Federal and State level have the authority to introduce laws such as caps on interest rates, fees and other constraints such as advertising laws that could deeply affect Enova's business and where it chooses to operate. These laws also affect the bottom line, as businesses have to hire more personnel to make sure they are compliant, and analysts to identify opportunities where they can operate profitably. Regulations don't only affect the bottom line, but the top line as well. The environment can be so stringent that it makes it impossible for lenders to make loans to consumers who need them, thus reducing the market size and overall revenues. For Enova, the regulatory environment in the US and abroad is always a risk, but it can also lead to very attractive opportunities.

Exhibit 10

Regulatory Overview By Country

Source: March 2017 Company Presentation

US Federal Regulation

As seen in Exhibit 10, the main regulator on the Federal level is the Consumer Financial Protection Bureau (CFPB). Born out of Title X of the 2010 Dodd-Frank Act, the CFPB is "an independent entity within the Federal Reserve System that will assume responsibility for most consumer protection laws". With the Bureau's main focus on the consumer finance markets, Enova's business falls well within the CFPB's purview. In fact, in 2013, Enova was under investigation from the CFPB and was fined by the Bureau. It came after Enova with charges of robo-signing court documents in a debt collection lawsuit, violating the Military Lending Act, and destroying records in advance of a CFPB examination. This case was the Bureau's first public enforcement action against a payday lender which resulted in Enova having to refund $14M to consumers and pay a $5M fine for their wrong doing. Lately, the Bureau has been wanting to increase regulation in this space by proposing rules to end payday debt traps, when the consumer is put into a position where they can not repay the loan because the loan repayments are too high.

“ The regulatory environment in the US and abroad is always a risk, but it can also lead to very attractive opportunities. ”

For short term loans, the CFPB found “that more than four-in-five short-term loans are re-borrowed within a month. The majority of short-term loans are borrowed by consumers who take out a least ten loans in a row”. To try and avoid this problem, the Bureau is proposing to implement a “Full-Payment Test” which would require lenders “to make an upfront determination of a consumer's ability to repay the loan”. This would be done by having the lender determine if the borrower has enough income to afford the loan and meet the consumer's major financial obligations. Furthermore, if the borrower returns within 30 days of paying off their last loan, the lender would not be able to offer the consumer a similar loan. They would only be able to offer them similar loans if their financial situation has considerably improved and even if the lender determines that they are in a better financial position, they would be capped to 3 loans before a mandatory cooling off period of 30 days. These types of regulations pose are the largest risk faced by Enova and the industry as a whole, as this proposal would considerably decrease the market size and the amount of loans consumers may take out.

US State Regulation

State regulation is also a large part of the regulatory environment in the US. Each state has its own laws which means that even if we see some deregulation on the Federal level, on a state level it could remain just as strict. Enova is licensed to offer consumer loans in 33 states. In the next few years management has said it wants to expand its operations to 40 states but whether the number of states they operate in will increase or decrease is based heavily on the regulatory environment. According to Enova's management, we will see some tightening of regulations in some states and loosening in others. For example, Maryland has been a state in which Enova has operated in for many years but recently a legislation has been written to cap interest rates to 33% on line of credit products. If this becomes law, then Enova has said they would not be able to operate in the state anymore. On the other side, management has said they have seen some possible loosening of regulations in states such as Oklahoma, where a bill which would give lenders access to small-dollar lending is close to becoming law.

“ The Financial Choice Act is a major positive catalyst for Enova. ”

CFPB Reform

The CFPB has been the center of many discussions in Washington since President Trump has taken office. Many politicians, including Mr. Jeb Hensarling, a Republican from Texas who currently chairs the House Financial Services Committee, have taken decisive action against the CFPB and want to **fundamentally reform it**. The reform of Dodd-Frank and the implementation of the Financial Choice Act (FCA) are the biggest threats to the CFPB. The Financial Choice Act, which is headed by Mr. Hensarling, is a bill that aims to roll back on some of the regulations imposed by Dodd-Frank. The bill passed through a vote in the House Financial Services Committee on May 4th, 2017 after many days of markup, and will be headed to the House of Representatives possibly **later this month**. Considering that the American Health Care Act passed in the House on May 4th, the timeline for the FCA passing through might be **sooner rather than later**.

If passed into law, this Act would aim to: rename the agency, restructure the agency, eliminate some of its functions and make sure funding comes from congressional appropriation. The newly named "Consumer Law Enforcement Agency" (CLEA) would have two missions: consumer protection and ensuring competitive markets. Headed by a single Director, the structure of the CFPB has been found to be **"unconstitutional"** by a Federal court of appeals in the "PHH v. CFPB" case. The Act proposes to leave the structure unchanged, but would remove the need for the Director to behave in "unfair or deceptive acts or practices" in order to get fired and would **allow the President to fire the Director at will**. The Agency would become a part of the Executive Branch and would be subject to congressional appropriation instead of receiving funding from the Federal Reserve. The Act would also eliminate some functions of the CFPB, such as their Unfair, Deceptive or Abusive Acts and Practices (UDAAP), which allows them to go after companies which they deem to have unfair practices. It also would remove the CFPB's complaints section on their website among other functions. With the CFPB having so much regulatory power over the consumer lending sector, **the FCA is a major positive catalyst for Enova.**

UK Regulation

The regulatory environment in the UK is just as crucial to Enova's operations as it is in the US. Established in 2013, the regulatory agency in the UK is the Financial Conduct Authority (FCA). Its mission is to "make markets honest, fair and effective for individuals, businesses and the economy as a whole". The FCA enforces the rules given by the FCA Handbook, the Financial Services and Markets Act of 2000 (FSMA), the Consumer Credit Act 1974 (CCA) and any secondary legislation under the CCA. Some of the regulatory restrictions imposed by the FCA include mandatory affordability checks on borrowers, restrictions on advertising and limiting the number of rollovers on short term loans to two. In 2015 the FCA's actions adversely impacted Enova's total revenue by nearly 20%. The decrease occurred because of an extreme tightening of regulations. On January 2nd, 2015, the FCA put a cap on the total costs of short term debt, which included a maximum rate of 0.8% of principal per day, limits to the total fees, interest and charges (capped at £15) to an aggregate amount not to exceed 100% of the principal loan amount. This change caused Enova to discontinue their line of credit accounts in the UK market. Furthermore, concerns from the FCA in Enova's ability to comply with the changing regulatory environment has led Enova to make significant changes in their operations such as modifying affordability assessments and underwriting standards, reducing maximum loan amounts and changing loan collection processes. This has all led to an overall YoY decrease in loan volumes, balances and revenue in 2015. As for the future of FCA regulation, their 2017/18 business plan outlines the following about the retail lending industry: "We will continue to focus on high-cost credit as it is a high-risk area that affects vulnerable consumers". It is also keeping up its studies of the industry when it issued a call for input in November 2016 "covering high cost products, overdrafts, the high-cost short-term credit (HCSTC) price cap, and repeat and multiple HCSTC borrowing". This all shows that they are taking a proactive approach to regulation and the marketplace going forward will be heavily dictated by the regulations they implement. While further regulation in the UK remains a concern, we do not see the impact on Enova being nearly as significant as in 2015, especially considering that the UK's current revenue share of Enova's total revenue has severely contracted since 2015.

Brazil Regulation

On January 26th, 2017, Brazil's financial services regulator, the National Monetary Council, approved restrictions on revolving lines of credit offered by credit card companies when consumers do not pay off their balances on time. These revolving loans must now have lower rates. The rules will be coming into effect on April 3rd. The rules were taken positively by the Brazilian banking community, and David Scharf, from JMP Securities, believes that these new regulations may drive people to Enova as their lending options are reduced. Overall, Enova maintains a direct relationship with regulators, and the National Monetary Council's stable and reasonable nature should ensure that there are no excessively harsh regulations introduced in Brazil.

Ownership Analysis

Institutional Ownership

Enova is very well-owned via passive instruments, specifically small-cap and value ETF's. Additionally, 25% of its outstanding shares are owned by Hedge Funds (HF), with most of them adding significant positions after the Trump election in November 2016. Therefore, many of these funds are sitting on very attractive returns. The largest HF position is held by Empyrean, a $2B+ LA-based HF founded by ex-Goldman Sachs traders. An honorable mention goes to Renaissance Technologies, likely the most successful HF in the history of HFs. Renaissance doubled its position in Enova in December. This goes to show that some high-performing and accomplished HFs are on our side of the trade, as they have maintained their position in Q1.

Exhibit 11

Top Holders

Holder Name	Position	Latest Chg	Filing Date	% Out	Institution Type	Cost (Avg.)	Ret % (Avg)
BLACKROCK	4,082,853	933,585	31/12/2016	12.2	Investment Advisor	18.4	-20.9
EMPYREAN CAPITAL PARTNERS LP	2,278,828	886,795	31/12/2016	6.8	Hedge Fund Manager	10.0	45.0
BLACKROCK FUND ADVISORS	2,105,956	311,727	31/12/2016	6.3	Investment Advisor	19.4	-25.1
PRESCOTT GROUP CAPITAL MGMT	2,024,018	0	31/03/2017	6.0	Hedge Fund Manager	10.7	36.0
CASH AMERICA INTERNATIONAL INC	1,618,988	-658,968	18/11/2016	4.8	Corporation	23.2	-37.3
WELLS FARGO & COMPANY	1,580,137	472,713	31/12/2016	4.7	Investment Advisor	14.0	3.9
WELLS FARGO MGMT LLC	1,579,500	208,900	31/03/2017	4.7	Investment Advisor	13.4	8.6
NAKULA MANAGEMENT LTD	1,576,864	-273,847	26/01/2017	4.7	Unclassified	12.3	18.5
BLACKROCK INSTITUTIONAL TRUST	1,533,003	435,437	31/12/2016	4.6	Investment Advisor	15.5	-5.9
WELLS CAPITAL MANAGEMENT INC	1,512,260	415,560	31/12/2016	4.5	Investment Advisor	12.8	13.5
DIMENSIONAL FUND ADVISORS LP	1,317,461	199,755	31/12/2016	3.9	Investment Advisor	17.7	-17.9
VANGUARD GROUP	1,222,788	18,054	31/03/2017	3.7	Investment Advisor	21.8	-33.2
VANGUARD GROUP INC	1,221,924	17,190	31/12/2016	3.7	Investment Advisor	21.8	-33.2
683 CAPITAL MANAGEMENT LLC	1,130,300	-25,600	31/12/2016	3.4	Hedge Fund Manager	8.3	74.7
BLACKROCK FUND ADVISORS	1,019,150	1,888	01/05/2017	3.0	Investment Advisor	12.7	14.3
ROYCE AND ASSOCIATES LLC	972,927	-81,100	31/12/2016	2.9	Investment Advisor	18.0	-19.2
RENAISSANCE TECHNOLOGIES LLC	904,200	464,400	31/12/2016	2.7	Hedge Fund Manager	9.8	48.3

Source: Bloomberg, 13-F Filings

Cash America Ownership

Enova's IPO was the result of a spin-off from Cash America International, which had acquired CashNetUSA (Enova) in 2006 for a total consideration of $35M. As a result, Cash America, now owned by First Cash, still owns a large portion of the outstanding shares, and will likely be offloading them as the stock rises. While it is a slight overhang on the stock, Cash America only owns 4.8% of the company now that they sold about a quarter of the position in November.

Insider Ownership

Insiders own 4.6% of Enova. The net amount of insider selling vs. buying is slightly skewed towards selling, but not in a significant or indicative amount. The top insider holders are Daniel Feehan, ex-Cash America Chairman (0.94%), David Fisher, CEO (0.72%), James Gray, OptionsXpress co-founder (0.45%) and Greg Zeeman, COO (0.43%).

Financial Overview

Income Statement

$ in thousands	Actual								Projected							CAGR	
	2009A	2010A	2011A	2012A	2013A	2014A	2015A	2016A	2017P	2018P	2019P	2020P	2021P	2022P	2023P	2009-2016	2017 - 2023
Revenue	254,977	378,317	480,340	660,928	765,323	809,837	652,600	745,569	851,649	910,358	979,525	1,116,027	1,232,229	1,264,737	1,414,906	16.6%	8.8%
CoS	109,174	164,957	201,687	288,474	286,291	262,811	216,858	327,966	378,155	411,121	442,199	507,259	559,418	564,576	629,040	17.0%	8.9%
Gross Profit	**$145,803**	**$213,360**	**$278,653**	**$372,454**	**$479,032**	**$547,026**	**$435,742**	**$417,603**	**$473,494**	**$499,237**	**$537,326**	**$608,767**	**$672,811**	**$700,161**	**$785,865**	16.2%	8.8%
Revenue Growth		*48.4%*	*27.0%*	*37.6%*	*15.8%*	*5.8%*	*(19.4%)*	*14.2%*	*14.2%*	*6.9%*	*7.6%*	*13.9%*	*10.4%*	*2.6%*	*11.9%*		
Gross Margin	*57.2%*	*56.4%*	*58.0%*	*56.4%*	*62.6%*	*67.5%*	*66.8%*	*56.0%*	*55.6%*	*54.8%*	*54.9%*	*54.5%*	*54.6%*	*55.4%*	*55.5%*		
Opex	106,081	158,991	202,364	258,277	307,675	328,042	311,355	296,126	333,397	367,378	395,687	450,917	498,210	511,346	572,001	15.8%	9.4%
EBIT	**$39,722**	**$54,369**	**$76,289**	**$114,177**	**$171,357**	**$218,984**	**$124,387**	**$121,477**	**$140,097**	**$131,859**	**$141,640**	**$157,851**	**$174,601**	**$188,815**	**$213,864**	17.3%	7.3%
EBIT Margin	*15.6%*	*14.4%*	*15.9%*	*17.3%*	*22.4%*	*27.0%*	*19.1%*	*16.3%*	*16.5%*	*14.5%*	*14.5%*	*14.1%*	*14.2%*	*14.9%*	*15.1%*		
Interest expense	11,900	15,500	17,400	21,000	19,800	38,500	52,900	65,600	61,896	58,687	53,269	54,343	53,346	40,878	40,506	27.6%	(6.8%)
EBT	**$27,822**	**$38,869**	**$58,889**	**$93,177**	**$151,557**	**$180,484**	**$71,487**	**$55,877**	**$78,201**	**$73,172**	**$88,370**	**$103,507**	**$121,254**	**$147,937**	**$173,358**	10.5%	14.2%
Income tax expense	10,205	14,183	21,350	33,967	43,594	64,828	26,527	22,834	31,280	14,634	13,256	15,526	30,314	36,984	43,339	12.2%	5.6%
Net Income	**$17,617**	**$24,686**	**$37,539**	**$59,210**	**$107,963**	**$115,656**	**$44,960**	**$33,043**	**$46,920**	**$58,538**	**$75,115**	**$87,981**	**$90,941**	**$110,953**	**$130,018**	9.4%	18.5%
Net Margin	*6.9%*	*6.5%*	*7.8%*	*9.0%*	*14.1%*	*14.3%*	*6.9%*	*4.4%*	*5.5%*	*6.4%*	*7.7%*	*7.9%*	*7.4%*	*8.8%*	*9.2%*		
Tax Rate	*36.7%*	*36.5%*	*36.3%*	*36.5%*	*28.8%*	*35.9%*	*37.1%*	*40.9%*	*40.0%*	*20.0%*	*15.0%*	*15.0%*	*25.0%*	*25.0%*	*25.0%*		
Diluted Shares Outstand	33,000	33,000	33,000	33,000	33,000	33,008	33,026	33,462	34,036	35,000	35,000	35,000	35,000	35,000	35,000	0.2%	0.5%
EPS	**$0.53**	**$0.75**	**$1.14**	**$1.79**	**$3.27**	**$3.50**	**$1.36**	**$0.99**	**$1.38**	**$1.67**	**$2.15**	**$2.51**	**$2.60**	**$3.17**	**$3.71**	9.2%	18.0%
D&A	7,297	8,559	11,263	13,272	17,143	18,732	18,388	15,564	20,614	21,442	23,467	26,827	29,963	30,746	34,337	11.4%	8.9%
EBITDA	**$47,019**	**$62,928**	**$87,552**	**$127,449**	**$188,500**	**$237,716**	**$142,775**	**$137,041**	**$160,711**	**$153,301**	**$165,107**	**$184,677**	**$204,564**	**$219,561**	**$248,201**	16.5%	7.5%
EBITDA Margin	*18.4%*	*16.6%*	*18.2%*	*19.3%*	*24.6%*	*29.4%*	*21.9%*	*18.4%*	*18.9%*	*16.8%*	*16.9%*	*16.5%*	*16.6%*	*17.4%*	*17.5%*		
Capex	12,360	12,687	15,073	17,872	14,872	13,284	32,241	14,396	26,080	27,877	29,995	34,175	37,734	38,729	43,328	2.2%	8.8%
Taxes	10,205	14,183	21,350	33,967	43,594	64,828	26,527	22,834	31,280	14,634	13,256	15,526	30,314	36,984	43,339	12.2%	5.6%
Free Cash Flow	**$24,454**	**$36,058**	**$51,129**	**$75,610**	**$130,034**	**$159,604**	**$84,007**	**$99,811**	**$103,351**	**$110,789**	**$121,856**	**$134,976**	**$136,517**	**$143,847**	**$161,534**	22.3%	7.7%

Short-Term Loan Schedule	Actual				Projected							CAGR	
	2013A	2014A	2015A	2016A	2017P	2018P	2019P	2020P	2021P	2022P	2023P	2013 - 2016	2017 - 2023
Revenue	389,706	257,169	204,893	196,255	181,400	176,692	171,636	166,308	160,698	154,797	148,595	(20.4%)	(3.4%)
Cost of revenue	135,957	69,906	62,294	69,621	69,220	70,605	72,017	73,457	74,926	76,425	77,953	(20.0%)	2.0%
Average consumer loans and fees receivable	149,543	93,717	82,496	81,658	82,558	84,209	85,893	87,611	89,363	91,150	92,973	(18.3%)	2.0%

Line of Credit Accounts Schedule	Actual				Projected							CAGR	
	2013A	2014A	2015A	2016A	2017P	2018P	2019P	2020P	2021P	2022P	2023P	2013 - 2016	2017 - 2023
Revenue	170,496	305,118	185,521	220,462	263,002	298,987	358,785	430,542	516,650	619,980	743,976	8.9%	20.0%
Cost of revenue	43,547	88,489	43,547	88,489	92,154	110,584	132,701	159,242	191,090	229,308	275,169	26.7%	20.0%
Average consumer loans	86,101	117,708	86,101	117,708	146,562	175,875	211,050	253,260	303,912	364,694	437,633	11.0%	20.0%

Installment Loans Schedule	Actual				Projected							CAGR	
	2013A	2014A	2015A	2016A	2017P	2018P	2019P	2020P	2021P	2022P	2023P	2013 - 2016	2017 - 2023
Revenue	203,924	246,700	260,507	327,375	406,049	433,279	447,504	517,377	552,881	487,760	519,934	17.1%	3.7%
Cost of revenue	106,787	104,416	111,017	169,856	216,781	229,931	237,480	274,561	293,402	258,844	275,918	16.7%	3.7%
Average installment loans and fees receivable	139,276	183,593	257,635	400,248	501,811	534,912	552,474	638,738	682,569	602,173	641,894	42.2%	3.7%

Debt Schedule	Actual				Projected							CAGR	
	2013A	2014A	2015A	2016A	2017P	2018P	2019P	2020P	2021P	2022P	2023P	2013 - 2016	2017 - 2023
Long-term debt	424,100	494,200	541,909	649,911	618,960	586,870	532,691	543,432	533,465	408,776	405,065	15.3%	(7.1%)
Interest expense	19,800	38,500	52,900	65,600	61,896	58,687	53,269	54,343	53,346	40,878	40,506	49.1%	(7.1%)
Loans outstanding	374,920	395,017	426,231	599,614	730,931	794,996	849,417	979,608	1,075,844	1,058,018	1,172,501	16.9%	8.1%
Internal funding generated				39,900	72,071	96,155	108,600	119,450	106,203	106,863	118,194		4.2%
Total internal funding					111,971	208,126	316,726	436,176	542,379	649,242	767,436		29.8%
Internal + External funding					730,931	794,996	849,417	979,608	1,075,844	1,058,018	1,172,501		8.1%
Interest % of LT Debt	4.7%	7.8%	9.8%	10.1%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	29.3%	0.0%
Debt % of loans outstanding	113.1%	125.1%	127.1%	108.4%	84.7%	73.8%	62.7%	55.5%	49.6%	38.6%	34.5%		
Debt/EBITDA	2.25x	2.08x	3.80x	4.74x	3.85x	3.83x	3.23x	2.94x	2.61x	1.86x	1.63x		

Exhibit 12

WACC Calculation

Debt Cost	10.1%
A-T Debt Cost	6.1%
Beta	2.00
Market Return Assumption	7.0%
Risk-Free Rate	2.3%
Cost of Equity	21%
Discount Rate	13%

Valuation

Target Price

Our US$23.00 one-year target price is based on an equal-weighted average between a 10x PE multiple on FY2018 EPS, an 8x EV/EBITDA multiple on FY2018 EBITDA, and a DCF with a 1.5% terminal growth rate and 7x exit multiple, discounted at a WACC of 12.6%. Our WACC was determined using the CAPM, with the parameters outlined in Exhibit 12. We consider the multiples used in our valuation conservative given that:

A. As seen in Appendix B, the industry median PE is 11.5x for the next 12M and 9.3x for the next 24M,
B. The industry median NTM EV/EBITDA is 8.2x,
C. As seen in Appendix A, Enova's financial performance places it amongst the leaders in its peer group – and that is not a fluke, as seen in the Financial Overview,
D. The peer group is mainly composed of brick-and-mortar short-term lenders with lower or minimal online presence, and due to online businesses' **significant operating leverage,** Enova should trade at a premium to the lenders with lower online exposure.

Tax Talk

While we see a 40% tax rate for Enova in 2017, the recently announced Trump tax plan should send US corporate taxes lower to 15%, one of the lowest tax rates in the World. Since we are uncertain of the timing of the tax cut, especially considering that Gary Cohn mentioned post-announcement that it was meant to be negotiated with the House, we are confident that the corporate tax cut will materialize. To reflect our uncertainty regarding the timing of the cut, we have assumed a 20% effective tax rate for 2018, a 15% rate for 2019-2020, and then, for conservativeness due to election risk, we have assumed a 25% tax rate for 2021-2023 since we don't believe that the US will return to a 40% rate given the global tax rate context seen in Exhibit 13.

Exhibit 13

Select DM Corporate Tax Rates

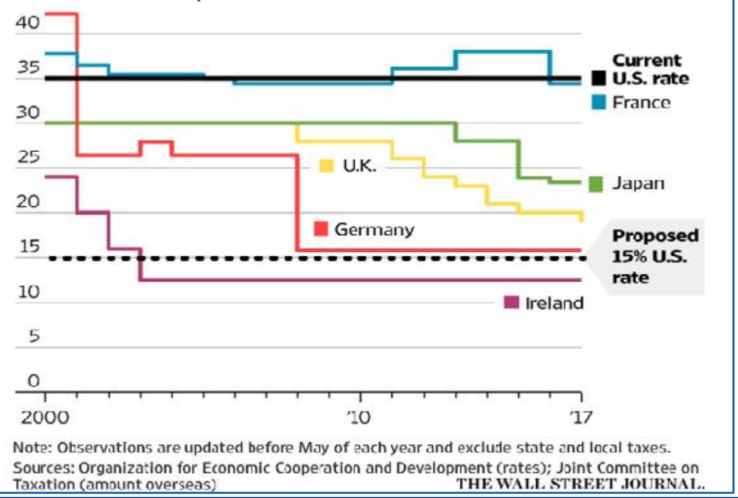
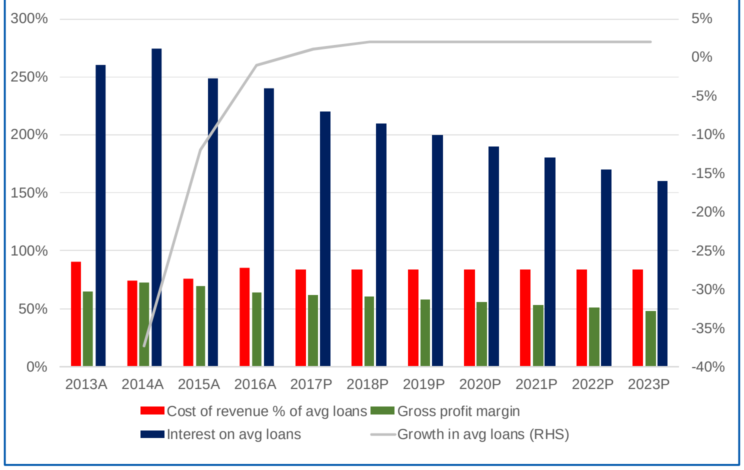
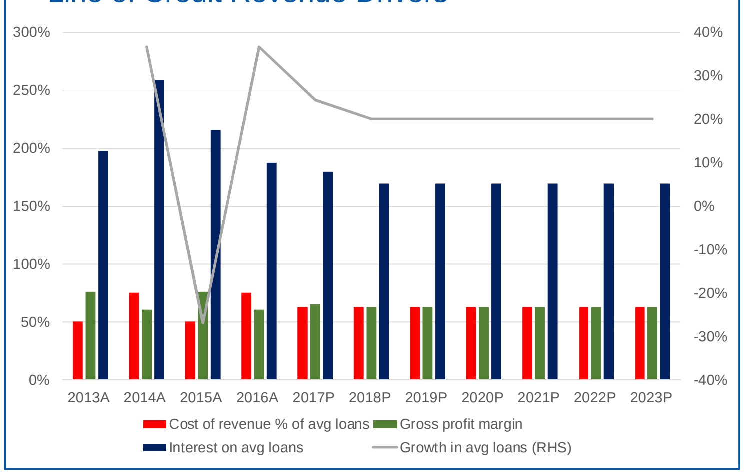


Exhibit 14

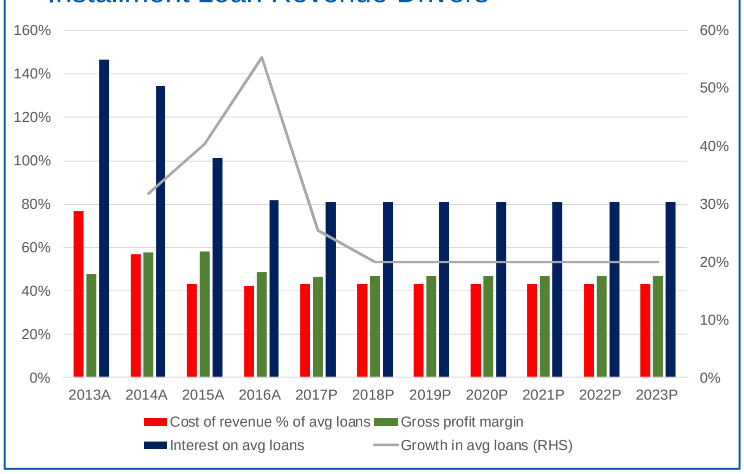
Short-Term Loan Revenue Drivers



Line of Credit Revenue Drivers



Installment Loan Revenue Drivers



Revenue Drivers

Enova's business is relatively simple. The Company extends loans to consumers, and charges a rate and fees. Some loans are paid back, and some aren't. This results in the Company incurring fairly high credit costs – which are more than made up for via high interest rates, north of 100%. Credit costs are equivalent to cost of revenue, and are a mixture of provisioned and realized losses.

Since we do not have the expertise to accurately forecast provisioned vs. realized losses, we have decided to take the approach of projecting the cost of revenue conservatively and based on historical trends, as a % of loan balances. New client originations are dilutive to margins, because the provisions need to be higher for these loans since Enova's models show higher delinquency on those loans. Therefore, growth comes at a cost for Enova: margin dilution. However, that cost is made up after the first loan, when provisions come down for the same reason. Due to this dynamic, we have determined that it would be accurate to flatline the cost of revenue as a % of average loans based on a year with considerably lower margins due to new client originations because of the strong loan growth we are forecasting.

Our forecasted revenue hinges on 2 assumptions: YoY growth in average loan balances, and the interest and fees as a % of these same average loan balances. Short-Term Loans, once the bread-and-butter of Enova through CashNetUSA, have decreased significantly in terms of revenue share. The introduction of new regulations in the UK was the main factor for the contraction in 2014-15, but we see growth normalizing at 2% going forward with some pricing erosion. As for the Line of Credit product, the tremendous growth in 2016 was due to Enova's acquisition of The Business Backer. We believe that The Business Backer's strong brand will allow it to keep growing its loan base while maintaining pricing stable due to a pullback in pricing aggressiveness from unprofitable competitors. Finally, Installment Loans are Enova's star product. With lower rates and lower credit costs, they pose less regulatory risk. We believe that Enova will keep growing its loan base in this product as it is currently very attractive for both the company and consumers.

Appendices

Appendix A – Comparables – Business Fundamentals

Company Name	Market Cap	Profit Margin	LTM ROE	NTM ROE	ROA	Cost of Debt
OneMain Holdings Inc	$3,155	5.5%	7.9%	13.1%	1.2%	6.1%
FirstCash Inc	2,509	5.5%	8.3%	6.2%	5.7%	4.8%
Enova International Inc	**476**	**4.6%**	**16.2%**	**20.4%**	**4.1%**	**10.1%**
World Acceptance Corp	465	15.7%	18.2%	22.7%	8.1%	6.2%
On Deck Capital Inc	342	-28.5%	-28.5%	-11.2%	-9.2%	4.1%
Elevate Credit Inc	326	-3.9%	-95.6%		-4.6%	
Marlin Business Services Co	320	17.3%	10.7%	12.4%	2.1%	
Regional Management Corp	230	10.0%	11.6%	11.8%	3.6%	4.1%
Median		**5.5%**	**9.5%**	**12.4%**	**2.8%**	**5.5%**
Enova vs. peers		-0.9%	6.7%	8.1%	1.2%	4.6%

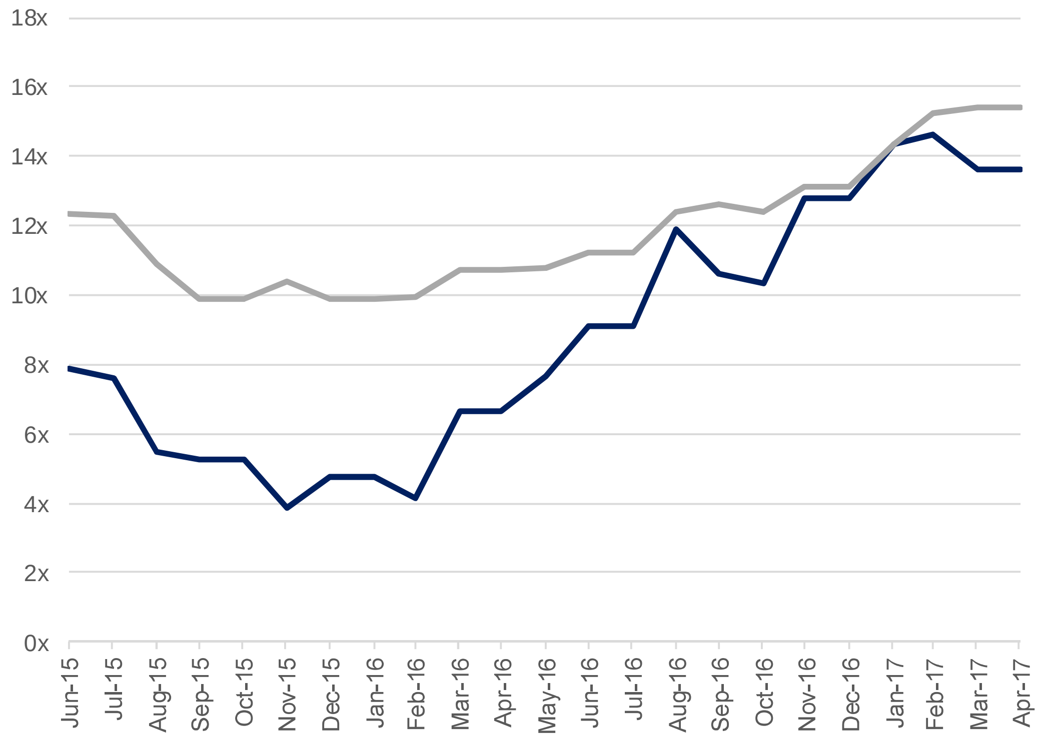
Source: Bloomberg

Appendix B – Comparables – Valuation

	P / E			EV / EBITDA		Price /
Company Name	LTM	NTM	N24M	LTM	NTM	BV
OneMain Holdings Inc	19.30x	5.88x	5.11x	9.32x		1.03x
FirstCash Inc	20.47x	18.96x	16.42x	14.08x	10.04x	1.69x
Enova International Inc	**13.02x**	**9.89x**	**9.28x**	**7.22x**	**6.07x**	**1.87x**
World Acceptance Corp	6.48x	7.58x		6.65x		1.10x
On Deck Capital Inc		430.17x	14.43x		21.31x	1.30x
Elevate Credit Inc		13.09x			6.34x	
Marlin Business Services Co	21.03x	14.82x		5.30x		1.91x
Regional Management Corp	9.71x	7.69x	6.73x	12.03x		1.12x
Median	**16.16x**	**11.49x**	**9.28x**	**8.27x**	**8.19x**	**1.30x**
Enova vs. peers	-3.1x	-1.6x	0.0x	-1.0x	-2.1x	0.6x

Source: Bloomberg

Appendix C – Historical LTM PE Ratio



Source: Bloomberg

Appendix D – Historical LTM P/B Ratio

Source: Bloomberg

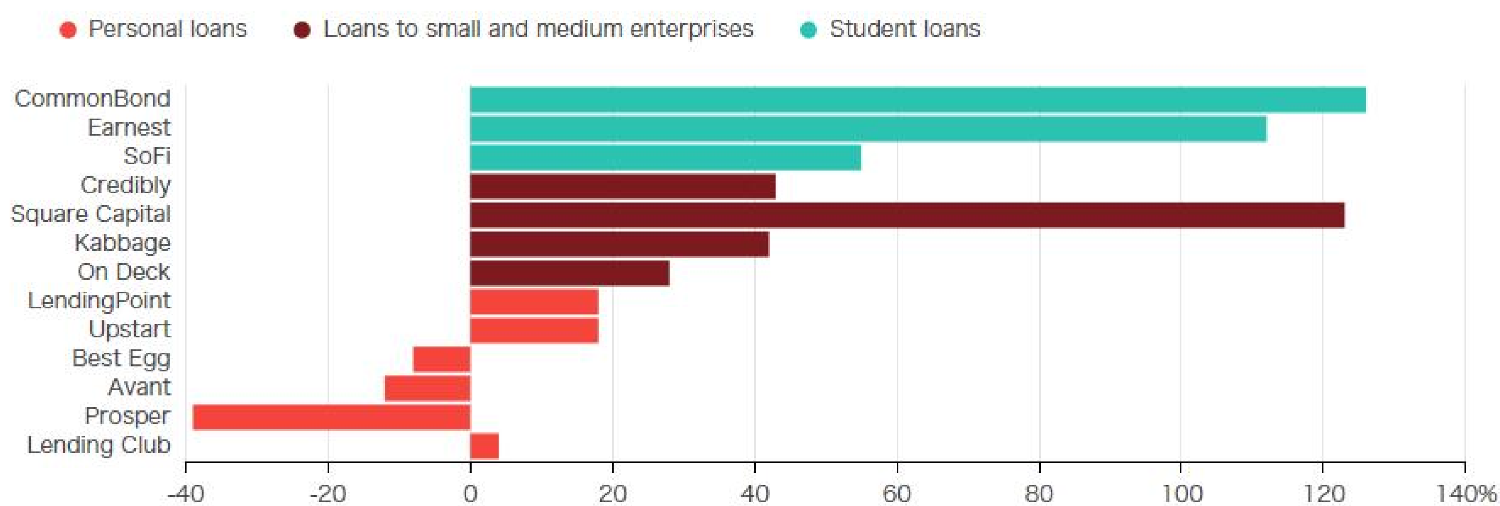
Appendix E – Sensitivity Analysis

Discount Rate	Terminal Growth Rate: 0.00%	1.00%	1.50%	2.00%	2.50%	3.00%
15%	$17.17	$18.44	$19.15	$19.91	$20.74	$21.63
14%	$19.46	$20.99	$21.85	$22.78	$23.80	$24.92
13%	$22.12	$23.99	$25.05	$26.21	$27.48	$28.89
12%	$25.24	$27.56	$28.89	$30.35	$31.98	$33.80
11%	$28.97	$31.88	$33.58	$35.48	$37.61	$40.02

Discount Rate	Exit Multiple: 3.0x	5.0x	7.0x	8.0x	9.0x	10.0x
15%	$12.94	$20.13	$27.32	$30.91	$34.51	$38.10
14%	$13.81	$21.32	$28.83	$32.58	$36.34	$40.10
13%	$14.72	$22.57	$30.42	$34.34	$38.27	$42.19
12%	$15.67	$23.88	$32.09	$36.20	$40.30	$44.41
11%	$16.68	$25.27	$33.85	$38.15	$42.44	$46.73

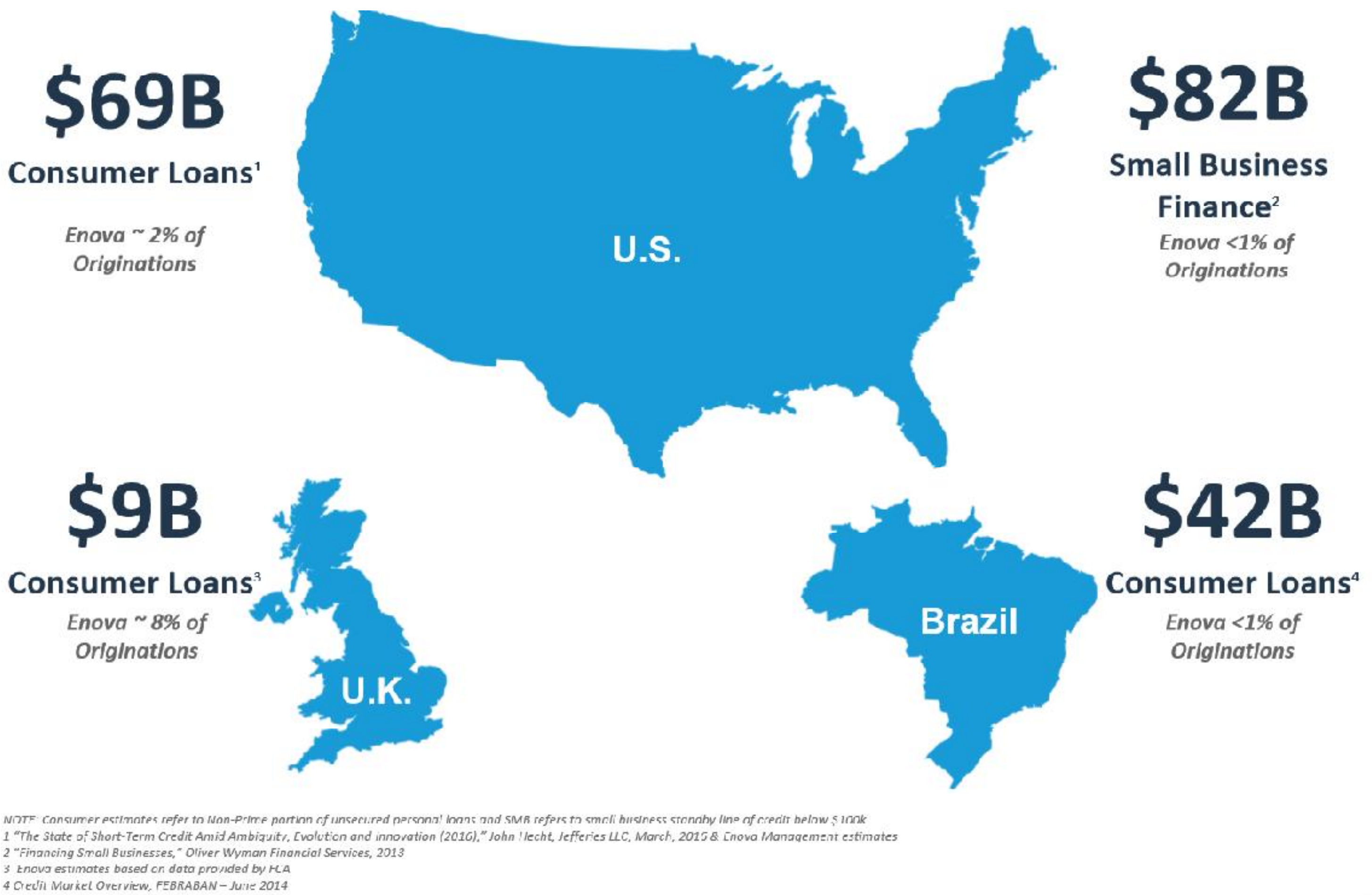
Interest on avg loans	Cost of revenue as a % of average installment combined consumer loans: 39.0%	41.0%	43.0%	45.0%	47.0%	49.0%
91%	$30.26	$27.95	$25.63	$23.32	$21.01	$18.69
86%	$29.97	$27.65	$25.34	$23.03	$20.71	$18.40
81%	$29.67	$27.36	$25.05	$22.73	$20.42	$18.11
76%	$29.38	$27.07	$24.75	$22.44	$20.13	$17.81
71%	$29.09	$26.77	$24.46	$22.15	$19.83	$17.52

Appendix F – 2016 Loan Originations, Online Lenders



Source: S&P Global Market Intelligence, Bloomberg Gadfly

Appendix G – Market Opportunity



Source: March 2017 Company Presentation

Appendix H – ESG Overview

Sustainability Reporting	
Report:	Yes
Years of Reporting:	5
Web Presence:	Yes

Risk Assessment

Risks	S-T	L-T
Regulatory	🟡	🔴
Operational	🟢	🟢
Headline	🟢	🟢
Public Perception	🟡	🟡

Momentum

Factors	vs. History	vs. Peers
E	Neutral	Neutral
S	Neutral	Neutral
G	Worse	Neutral

Source: Bloomberg