



Freedom Holding Corp.(FRHC)

Initiate Coverage Of Freedom Holding Corp. With An \$76 Price Target

| | 2019 | 2020 | 2021E | 2022E |
|------|----------|--------|---------|--------|
| June | (\$0.12) | \$0.14 | \$0.42A | \$0.82 |
| Sep. | 0.03 | 0.15 | 0.40A | 0.91 |
| Dec. | 0.15 | 0.07 | 0.72A | 1.02 |
| Mar. | 0.06 | 0.02 | 0.72 | 1.14 |
| EPS | \$0.12 | \$0.38 | \$2.25 | \$3.88 |
| P/E | | | 20.8x | 12.1x |

Note: NR = Not Rated. Risk Ratings: H = Highly risky; M = Moderately risky. Sum of quarterly EPS may not equal full-year total due to rounding or changes in share count. The shares trade on the Nasdaq Capital Market under the ticker FRHC and also are listed on the Kazakhstan Stock Exchange (KASE) and the St. Petersburg Stock Exchange (SPB Exchange). Freedom Holding Corp. shares are included in the MSCI U.S. Small Cap 1750 and MSCI U.S. Investable Market 2500 indices. NC = Not covered by Sidoti & Company, LLC.

| Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021E | 2022E |
|------------|------|------|------|------|--------|--------|--------|---------|---------|---------|
| Rev.(Mil.) | N/A | N/A | N/A | N/A | \$19.4 | \$57.8 | \$74.3 | \$121.9 | \$336.6 | \$588.5 |
| GAAP EPS | N/A | N/A | N/A | N/A | \$0.56 | \$0.54 | \$0.12 | \$0.38 | \$2.25 | \$3.88 |

Company Description: Freedom Holding Corp. (freedomholdingcorp.com) is a financial services company operating primarily in Kazakhstan in Central Asia and Russia. The company is registered in Nevada as a U.S. corporation. The company has offices in Kazakhstan, Russia and the U.S. Headquarters are located in Kazakhstan.

Freedom Holding Corp. (FRHC) is a financial services company providing a broad range of services to a growing client base. FRHC conducts its operations primarily in Eastern Europe and Central Asia. Reflecting strong economic growth in its operating footprint, expansion of its branch network, the launch of an online platform and strategic acquisitions, FRHC has nearly doubled its customer base from about 115,000 at March 2019 to about 229,000 at December 2020.

Russia and Kazakhstan, FRHC's home markets, have each enjoyed strong economic growth that has been accompanied by an expansion of the middle class. Rising per capita GDP has boosted interest in the emerging securities industries and led to growing demand for retail trading capabilities. FRHC has an ambitious growth strategy to benefit from these trends by expanding the range of services and products it offers and its operating footprint.

In 2017-2020, revenue advanced at a CAGR of about 86%, from organic growth and M&A. The company derives revenue primarily from fee and commission income from brokerage and investment banking services, as well as trading and interest income. Customer accounts have increased from both organic growth and strategic M&A. Many of Freedom's operating subsidiaries rank among the largest competitors in their respective markets.

In 2014, FRHC began offering its customers the opportunity to participate in IPOs of large foreign issuers, including U.S. blue chip companies. Since then, the company has participated in more than 196 IPOs for its customers; this business represents an important component of the company's business and will likely contribute to growth in the quarters ahead.

To complement organic growth, FRHC has made several strategic acquisitions to expand its geographic physical and online operating footprint and grow its client base. In 2018, the company purchased Tradernet, an electronic trading platform that enables customers to open accounts online and buy, sell and trade securities, among other financial services. The company views Tradernet as an integral component of its growth strategy.

FRHC's 2021 acquisition of U.S. broker dealer Prime Executions is potentially transformative, in our view. Prime, founded in 1986, marks FRHC's entry into the U.S. market. Prime trades an average of more than 630 million shares per month, and its newly-appointed CEO has extensive experience in the U.S. securities industry. FRHC expects to achieve synergies with the purchase of Prime. We think Prime could serve as the company's

NR

Price Target: \$76

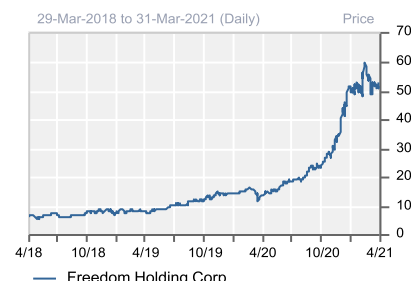
Price: \$46.86

Risk Rating: M

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Key Statistics

| | |
|-------------------------------|---------|
| Analysts Covering | 1 |
| Market Cap (Mil) | \$2,740 |
| Enterprise Value | \$2,179 |
| 52-Week Range (NASDAQ) | 62-14 |
| 5-Year EPS CAGR | N/A |
| Avg. Daily Trading Volume | 891,000 |
| Shares Out (Mil) | 58.451 |
| Float Shares (Mil) | 15.922 |
| Insider Ownership | 73% |
| Institutional Holdings | N/A |
| Annualized Dividend | Nil |
| Dividend Yield | N/A |
| FCF Per Share (2022E) | \$15.66 |
| FCF Yield (2022E) | 33.4% |
| Net Cash Per Share (2022E) | \$26.50 |
| Price to Book Value | 13.7x |
| Return on Equity (2022E) | 20.8% |
| Total Debt to Capital | 50% |
| Interest Coverage Ratio | 8.77 |
| Short Interest % | 5.9% |
| Short Interest Days To Cover | 1.1 |
| Russell 2000 | 2,221 |
| Russell 2000 - Last 12 Months | 92.6% |
| FRHC - Last 12 Months | 178.3% |



Source: FactSet Prices

lynchpin to expand its footprint and grow a presence in the U.S., as well as facilitate certain service offerings to customers in its home markets.

Kazakhstan created three special economic zones (SEZs) since 2017 to offer more relaxed regulatory oversight and encourage investment and business activity. FRHC formed a subsidiary in 2020, Freedom Finance Global PLC, in the Astana International Financial Centre (AIFC) SEZ to offer its customers services under a less restrictive regulatory environment that nevertheless still has government oversight. FRHC is migrating its customers from accounts initially established in other markets to Freedom Finance in the AIFC. Freedom Finance Global is also expected to facilitate the growth of customer accounts.

We model EPS to grow nearly five-fold year over year in F2021 to \$2.25 and to increase 72% to \$3.88 in F2022. We model revenue growth of 176% and 75% in each respective year as the securities and banking sectors in FRHC’s home markets continue to emerge. We note that revenue was up 147% in the first nine months of F2021. We also expect FRHC to realize some operating leverage in F2022, as operating expenses decline on synergies achieved following the integration of Prime.

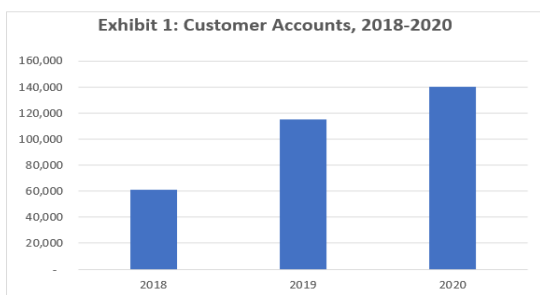
The balance sheet is solid, in our view. Total assets were \$1.5 billion at the close of 3Q:F21, compared to \$1.1 billion in 2Q:F21 and \$0.5 billion in 3Q:F20. In the same periods, cash and restricted cash was \$1.0 billion compared to \$0.6 billion and \$0.1 billion, respectively. Free cash flow (FCF) per share was \$11.88 compared to \$5.03 and \$1.06, respectively. We model \$13.19 and \$15.66 in F2021 and F2022, respectively. FRHC had a debt-to-equity ratio of 30% at the end of 3Q:F21, compared with 56% at the close of F2020.

We initiate coverage of Freedom Holding Corp. (FHRC) shares with an \$76 price target and a Moderately Risky rating. FRHC shares were up 178% in the past 12 months. Despite this strong performance, we see significant prospects for further growth, as the company leverages the economic development in its core markets and integrates Prime Executions. We think revenue growth, margin expansion and operational leverage will serve as catalysts for the shares. The \$76 price target is based on about 20x our F2022 EPS estimate of \$3.88; this multiple is significantly below the company’s growth rate and the multiple of stocks of certain other high-growth companies based in FRHC’s markets. In the past three years, FRHC shares traded at 16x-50x estimated earnings per share, with an average of 33x. Our comfort with the potential economic and currency risk in the company’s core markets, that could impact near-term growth prospects, support the Moderately Risky rating.

Company Overview

Founded in 2008 in Moscow, Freedom Holding Corp. is a financial services company headquartered in Kazakhstan in Central Asia and registered in Nevada as a U.S. corporation. The company’s operations are regulated by the SEC.

The company’s business is conducted primarily in Eastern Europe and Central Asia, where FRHC provides a broad range of financial services to a growing base of clients. FRHC operates about 80 customer branch locations in Kazakhstan, Russia, Uzbekistan, Ukraine and other markets and has administrative offices in Russia, Cyprus and the U.S. FRHC also operates an online and mobile banking presence.

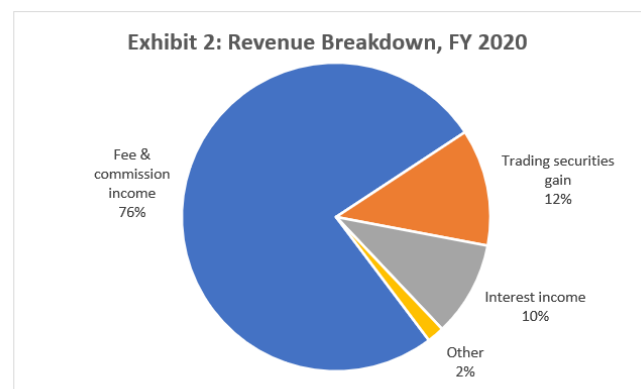


Source: Company reports

The company’s online securities retail presence enables

customers to purchase stocks and other securities and to participate in IPOs. Freedom opens an average of 700 new accounts online each month.

Reflecting strong economic growth in its operating footprint, FRHC has nearly doubled its customer base from about 115,000 at March 2019 to about 229,000 at December 2020. This growth also mirrors the company’s



Source: Company reports

expansion of its branch network and launch of an online banking and trading platform in 2018.

Growing Customer Base. As the customer base has increased, FRHC has had strong revenue gains, reaching \$121.9 million in F2020 (FRHC’s fiscal year ends in March), up from \$74.3 million in F2019, an increase of 64% year-over-year; the growth is attributed to a combination of organic means and strategic M&A. In

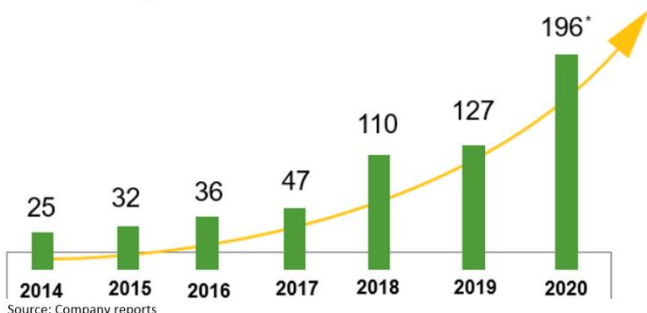
F2020, FRHC serviced more than 140,000 client accounts, which represents an increase of about 25,000 accounts, or 21.7%, compared to F2019.

Reflecting its growing customer base and footprint, many of Freedom's operating subsidiaries rank among the largest competitors in their respective markets. For instance, IC Freedom Finance LLC, a FRHC broker dealer subsidiary, ranks among the ten largest brokers in the Russian federation, according to management.

Fee and commission income earned from retail brokerage clients and investment banking services accounted for over 75% of total revenue in F2020. Net gains from trading activities in FRHC's proprietary trading accounts represented another 12% of total revenue, with interest and other income accounting for the balance.

Broad Range of Services in Emerging Markets...Freedom has used organic initiatives and M&A to build an integrated financial services portfolio that encompasses banking, broker-dealer (BD) and complementary offerings. Freedom provides a broad range of financial services, as the financial sectors in the company's home markets continue to expand. In addition to banking and broker-dealer services such as accepting deposits, extending collateralized credit to customers, providing money transfers and foreign currency exchange, and enabling securities trading, among other services, the company also offers customers the opportunity to participate in the IPO market.

Exhibit 3: Growing IPO Business



...Including A Growing IPO Business. In 2014, FRHC began offering its customers the opportunity to participate in IPOs of foreign issuers, including U.S. *blue chip* companies. Since then, FRHC has participated in more than 196 IPOs for its customers. We think this business represents an important component of FRHC's business and likely contributor to ongoing growth in the quarters ahead.

Strategic M&A. The growth in FRHC's customer base has come from both organic measures and strategic M&A. For instance, to expand its operating footprint, FRHC organically has opened new branches throughout Kazakhstan, the Ukraine, Russia and Uzbekistan and currently has an operating footprint of about 80 branches and offices. FRHC also launched a new subsidiary, FF Global, in 2020 discussed in more detail below.

Online Banking And Trading Presence. FRHC also made several strategic acquisitions to complement organic growth and expand its geographic footprint and customer base. For example, in 2018, Freedom acquired Nettrader Brokerage Company, adding about 16,000 new clients in Russia. Nettrader also operated an electronic trading platform, Tradernet, that gives clients a desktop and/or mobile trading application, enabling them to access a range of international financial trading exchanges to trade and manage their accounts. The company expects Tradernet to be an important competitive advantage that it can roll out to other FRHC subsidiaries over time.

To expand its portfolio of financial services offerings in Kazakhstan, in 2020 FRHC acquired Kazakhstan-headquartered Bank Kassa Nova. Founded in 2009, Bank Kassa Nova operates nine branches across Kazakhstan. Freedom also acquired IC Zerich Capital Management in 2020.

Zerich Capital began operations in 1995 and, according to management, ranks as Russia's 19th largest brokerage firm measured by its client base. FRHC expects that Zerich will be able to leverage the Tradernet technology platform to improve its customer interface, increase customer convenience and potentially grow market share.

Freedom also acquired a 20% interest in the Ukrainian exchange and a 13% stake in the St. Petersburg stock exchange. These investments reflect the company's view that these emerging securities markets will enjoy strong growth, as continued economic expansion in their respective markets leads to a rising level of investor participation.

Acquisition of Prime Executions

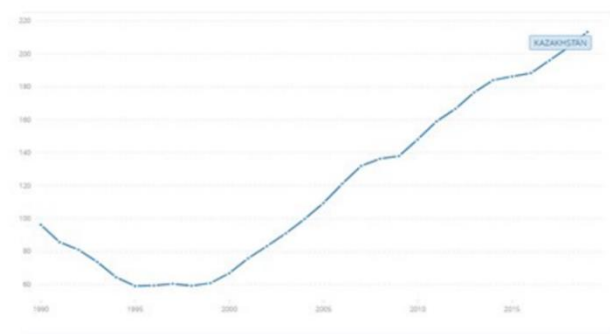
We think the company's most recent acquisition might also be one of its most transformative. Earlier this year, FRHC completed the purchase of Prime Executions, a U.S. BD and member of the New York Stock Exchange. Prime is FRHC's first entry into the U.S. market. Prime Executions was founded in 1986. It trades an average of more than 630 million shares monthly for its clients. FRHC expects to achieve synergies with the purchase of Prime. FRHC's newly-appointed CEO of Prime, Robert Wotczak, has extensive experience within the U.S. securities industry. We think Prime could serve as the company's lynchpin to expand its footprint and presence in the U.S. over time, as well as facilitate certain service offerings to customers in its home markets.

Home Markets: Economic Development

Russia and Kazakhstan, respectively, are the largest and second largest republics of the former Soviet Union. Kazakhstan is also the largest economy in Central Asia. Each nation has enjoyed strong economic growth and diversification from prior high reliance on the export of oil and related products. Russia and Kazakhstan have the world's eighth and ninth largest quantities of oil reserves, according to the World Bank. Economic growth has also created a growing middle class.

Kazakhstan. Situated primarily in Central Asia, Kazakhstan has a population of more than 18.5 million, according to the World Bank. Kazakhstan was part of the former Soviet Union and attained its independence in December 1991. Since achieving independence and implementing economic reforms, the country's economy has grown. Specifically, from 1998 to 2007, Kazakhstan GDP increased 9% per annum in US dollar terms (KPMG data), with continued growth throughout the following decade, as illustrated below by World Bank data.

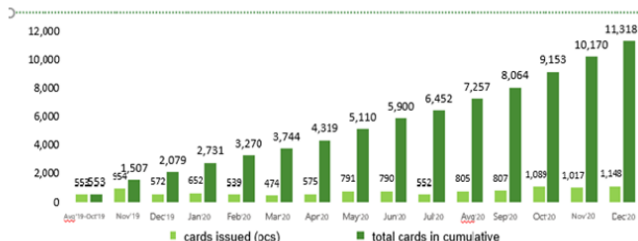
Exhibit 4: Kazakhstan GDP (constant 2010 US\$)



Source: Data from the World Bank

... **and Russia.** Similarly, Russia, which is a BRIC (a group of developing nations comprised of Brazil, Russia, India and China) country, has also experienced significant economic growth since the end former Soviet Union and an expanding middle class and growing demand for retail trading capabilities, although growth has slowed in recent years, partially reflecting lower oil prices.

Exhibit 5: Growth in Investment Cards to FRHC Customers



Source: Company reports

In both Russia and Kazakhstan, economic growth has produced an expanding middle class, although estimates of the sizes vary. Economic growth and expanding middle class has been accompanied by rising interest in the emerging securities industry.

The stay-at-home measures mandated by the global pandemic accelerated this trend. For instance, the Moscow Exchange added almost five million new retail investors in 2020, according to Reuters, nearly doubling the number of registered accounts. Of the roughly R\$6 trillion (\$79 billion in USD) invested in Russian financial market instruments, nearly 75% have less than R\$10,000 (\$131.64 USD), according to data from the National Association of Stock Market Participants (NAUFOR), a Russian self-regulatory organization, implying significant retail participation. In Kazakhstan, the number of retail investors is also growing substantially off a small base. In the first seven months of 2020, the growth rate of new retail accounts doubled

compared to the same period in 2019, according to the KASE. Only about 1.4% of the Kazakhstan population were categorized as retail investors at the end of March 2020, according to the KASE, but we think the growing numbers and volume of trading by retail investors implies upside prospects for FRHC. We think the growth of investor cards FRHC has issued to customers can be viewed as a proxy for rising retail interest in the securities markets.

Special Economic Zones (SEZs)...In Kazakhstan and Russia, some restrictions imposed on securities trading and other financial services differ from regulations in more mature markets such as the U.K. or the U.S. and place somewhat onerous rules on participating in the emerging securities sectors. To offer a more relaxed regulatory environment and still maintain legal oversight while simultaneously encouraging investment activity, including from foreign entities, Kazakhstan created three special economic zones (SEZs) in 2017 and 2018: Astana-Technopolis International Financial Centre (AIFC), ICBC Khorgos and Turkestan.

... **Led FRHC To Launch Freedom Finance Global.** The opening of the SEZs was designed to facilitate investment and business activities. With the creation of the AIFC SEZ in 2018, FRHC formed a subsidiary, Freedom Finance Global PLC (FF Global), and obtained a securities license in 2020 to operate in the AIFC in order to offer a range of financial services to its clients. The AIFC is a financial hub Kazakhstan where the core focus is on the capital markets, asset management and banking; the legal platform is modeled on standards in leading global financial centers. Certain requirements related to taxes, employment and securities are less restrictive than in Kazakhstan generally. FRHC commenced opening accounts for customers at FF Global in in July 2020.

FRHC has garnered some negative commentary in the financial press regarding the way the company conducts its important IPO business. We think that the FF Global initiative illustrates certain factors behind the criticism. Specifically, prior to Kazakhstan's creation of the AIFC SEZ, Freedom conducted its IPO business primarily via entities that were not domiciled in its primary markets because the securities regulations of Russia and Kazakhstan placed a cumbersome requirement on retail investors interested in this business. FRHC can now offer its customers its IPO services via FF Global in the AIFC. This streamlines the process.

FRHC is in the process of migrating its customers from accounts initially established in Belize and other international markets to accounts in the AIFC. FRHC had also garnered criticism for requiring that customers hold IPO shares for a period of time. The company noted that, given the early stages of retail participation in its markets, the holding requirement is consistent with efforts by KASE "to improve the financial literacy of the [Kazakhstan] population."

Management

CEO. Timur Turlov founded the company and has been its CEO and board chairman since November 2015. He

has more than ten years of experience in various areas in the international securities industry. From May 2012 through January 2013, he served as chairman of the board of JSC Nomad Finance and Vice Director of International Sales of Nettrader LLC from July 2010 to August 2011. He also owns interests in other businesses that are not subsidiaries of the company, including in other securities brokerage firms.

CFO. Evgeniy Ler has been FRHC's CFO since November 2015. Prior to that time, he served in executive capacities, including CFO, of BMB Munai, Inc., the predecessor of the company.

Through a reverse merger, the company's shares began trading on the OTCQX in July 2018 and were uplisted to the Nasdaq Capital Market under the ticker FRHC on October 15, 2019. FRHC shares also are listed on the KASE and the St. Petersburg Stock Exchange (SPB Exchange). As of July 2020, executives and directors held over 72% of the shares, making FRHC a controlled company.

Recent Results

In F2020, FRHC generated revenue of roughly \$122 million compared to \$74.3 million in F2019, or up 64.2% year-over-year. Net income and EPS were \$22.1 million and \$0.38 compared to about \$7.1 million and \$0.12, respectively, in F2019. Much of this growth was driven by the increase in registered customer accounts. FRHC ended F2020 with 140,000 accounts, up nearly 22% from 115,000 at the end of F2019.

In addition to organic growth during the period, FRHC also benefited from its launch of Freedom Finance Global PLC and the acquisitions of Bank Kassa Nova and IC Zerich Capital Management in 2020.

Balance Sheet And Cash Flow

We consider FRHC's balance sheet solid. Total assets were \$1.5 billion at the close of 3Q:F21 (December 2020), compared to \$0.5 billion just one year earlier and \$1.1 billion in 2Q:F21. In the same periods, cash and restricted cash was about \$1.0 billion compared to \$0.1 billion and \$0.6 billion, respectively. Free cash flow (FCF) per share was \$11.88 compared to \$1.06 and \$5.03, respectively. Total assets grew from \$0.4 billion at the end of F2019 to \$1.5 billion at the end of 3Q:F21, or nearly a four-fold increase through organic means and M&A.

Book value per share was \$3.86 at the close of 3Q:F21, up 28% from \$3.01 in 2Q:F21. FRHC had a debt-to-equity ratio of 30% at the end of 3Q:F21, compared with 56% at the close of F2020. The company's debt-to-equity ratio fluctuates as FRHC takes advantage of the low interest rate environment to enhance liquidity.

Earnings Outlook

We expect FRHC to continue to benefit from economic growth in its home markets, its expansion efforts and the integration of Prime Executions. We model a revenue advance of 176% in F2021 and note that revenue was up

147% in the first nine months of F2021. We think that the stay-at-home orders mandated by the COVID-19 pandemic likely accelerated interest in trading activities in F2021 and do not expect F2022 to exhibit growth at the same level. Nevertheless, we anticipate that the underlying economic trends in Russia and Kazakhstan will contribute to continued increases in retail participation in the securities markets. Moreover, FRHC will integrate Prime in F2022. We model a year-over-year revenue increase of 75% in F2022.

Our EPS forecasts for F2021 and F2022 are \$2.25 and \$3.88, respectively, up from \$0.38 in F2019. Cumulative EPS through the first nine months of F2021 was \$1.54 compared to \$0.36 in the corresponding prior year period. We model an 237% increase in assets in F2021 (following a gain of 182% in the first nine months of F2021) and a 40% increase in F2022.

Risks

General economic risk. FRHC's growth strategy is reliant on expanding the customer base in its primary markets.

Limited operating history. FRHC became listed in 2018; there are limited historical financials and data.

Interest rate risk. FRHC and all financial services companies are subject to interest rate risk.

Competition, including from other financial institutions, could hurt FRHC's market share and strategy.

Political and market risk. As FRHC's business is conducted primarily in Eastern Europe and Central Asia, the company is subject to political and market risk in those markets.

Currency risk. Since the company's operations are international, FRHC also is subject to currency risk.

Controlled company. FRHC's CEO holds over 72% of the shares and has control over voting matters.

Valuation

We initiate coverage of Freedom Holding Corp. (FRHC) with a Moderately Risky rating and \$76 price target. FRHC shares were up 178% in the past 12 months. Despite this strong performance, we think there is significant further appreciation potential, as the company leverages the economic development in its core markets and integrates Prime. We view the shares as undervalued, trading at only 14x our F2022 EPS forecast of \$3.88. We think revenue growth, margin expansion and operational leverage will serve as catalysts for the shares. The \$76 price target is based on about 20x our F2022 EPS estimate of \$3.88; this multiple is significantly below the company's growth rate and the multiple of stocks of certain other high-growth companies based in FRHC's markets. In the past three years, FRHC traded at 16x-50x estimated earnings per share, with an average of 33x. Our comfort with the potential economic and currency risk in the company's core markets that could impact near-term growth prospects support the Moderately Risky rating.

FREEDOM HOLDING CORP.

Freedom Holding Corp. Income Statement & Projections (\$000s)

| | Mar-17 | Mar-18 | Mar-19 | Jun-19 | Sep-19 | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Mar-22 | | | |
|--------------------------------------|---------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|----------|-----------|-----------|-----------|-----------|
| | FY 2017 | FY 2018 | FY 2019 | 1Q:FY20 | 2Q:FY20 | 3Q:FY20 | 4Q:FY20 | FY 2020 | 1Q:FY21 | 2Q:FY21 | 3Q:FY21A | 4Q:FY21E | FY 2021E | 1Q:FY22E | 2Q:FY22E | 3Q:FY22E | 4Q:FY22E | FY 2022E |
| Fee and commission income | \$4,090 | \$12,174 | \$44,316 | \$22,592 | \$26,363 | \$20,583 | \$23,130 | \$92,668 | \$43,339 | \$54,277 | \$74,333 | \$81,766 | \$253,715 | \$94,031 | \$103,434 | \$113,778 | \$125,156 | \$436,399 |
| Net gain on trading securities | 10,806 | 34,227 | 20,162 | 2,562 | 3,947 | 6,448 | 1,966 | 14,923 | 9,084 | 8,302 | 18,944 | 20,838 | 57,168 | 23,964 | 26,361 | 28,997 | 31,896 | 111,218 |
| Interest income | 2,006 | 8,835 | 13,925 | 4,131 | 1,805 | 3,063 | 3,135 | 12,134 | 4,249 | 4,948 | 7,374 | 8,111 | 24,682 | 9,328 | 10,261 | 11,287 | 12,416 | 43,292 |
| Net FX (loss)/gain | 274 | 643 | - | (36) | 875 | (1,080) | 103 | (138) | (248) | 3,020 | (1,413) | (1,554) | (195) | (1,787) | (1,966) | (2,163) | (2,379) | (8,296) |
| Other | 2,210 | 1,878 | (4,118) | - | - | 556 | 1,759 | 2,315 | (9) | (837) | 995 | 1,095 | 1,244 | 1,259 | 1,385 | 1,523 | 1,675 | 5,842 |
| Total revenue | 19,386 | 57,757 | 74,285 | 29,249 | 32,990 | 29,570 | 30,093 | 121,902 | 56,415 | 69,710 | 100,233 | 110,256 | 336,614 | 126,795 | 139,474 | 153,422 | 168,764 | 588,454 |
| Interest expense | 3,807 | 14,735 | 14,649 | 3,163 | 2,737 | 2,713 | 3,786 | 12,399 | 3,744 | 4,699 | 6,649 | 7,314 | 22,406 | 8,045 | 8,689 | 9,384 | 10,135 | 36,253 |
| Fee and commission expense | 346 | 2,288 | 6,238 | 4,031 | 4,512 | 5,525 | 7,868 | 21,936 | 9,769 | 20,021 | 20,278 | 22,306 | 72,374 | 24,536 | 26,499 | 28,619 | 30,909 | 110,564 |
| Operating expense | 9,251 | 21,700 | 43,134 | 13,130 | 14,385 | 17,062 | 15,413 | 59,990 | 14,426 | 15,867 | 21,921 | 24,113 | 76,327 | 26,524 | 28,646 | 30,938 | 33,413 | 119,522 |
| Provision/(recovery) for impairments | | 423 | 1,498 | (1,073) | (395) | 152 | 152 | (1,164) | (378) | 1,044 | 1,109 | 1,220 | 2,995 | 1,342 | 1,449 | 1,565 | 1,690 | 6,047 |
| Other | 210 | (4) | 251 | 308 | 249 | 118 | (66) | 609 | (27) | (68) | 244 | 268 | 417 | 295 | 319 | 344 | 372 | 1,330 |
| Total expense | 13,614 | 39,142 | 65,770 | 19,559 | 21,488 | 25,570 | 27,153 | 93,770 | 27,534 | 41,563 | 50,201 | 55,221 | 174,519 | 60,743 | 65,603 | 70,851 | 76,519 | 273,716 |
| Operating income | 5,772 | 18,615 | 8,515 | 9,690 | 11,502 | 4,000 | 2,940 | 28,132 | 28,881 | 28,147 | 50,032 | 55,035 | 162,095 | 66,052 | 73,872 | 82,571 | 92,245 | 314,739 |
| Income tax (expense)/benefit | 524 | (418) | (1,368) | (1,476) | (2,866) | 50 | (1,710) | (6,002) | (4,605) | (4,584) | (7,711) | (8,482) | (25,382) | (13,210) | (14,774) | (16,514) | (18,449) | (62,948) |
| Net income | 6,296 | 18,197 | 7,147 | 8,214 | 8,636 | 4,050 | 1,230 | 22,130 | 24,276 | 23,563 | 42,321 | 46,553 | 136,713 | 52,841 | 59,097 | 66,057 | 73,796 | 251,791 |
| EPS / LPS | \$0.56 | \$0.54 | \$0.12 | \$0.14 | \$0.15 | \$0.07 | \$0.02 | \$0.38 | \$0.42 | \$0.40 | \$0.72 | \$0.72 | \$2.25 | \$0.82 | \$0.91 | \$1.02 | \$1.14 | \$3.88 |
| Average shares outstanding | 11,214 | 33,394 | 58,237 | 58,053 | 58,309 | 58,392 | 58,253 | 58,252 | 58,456 | 58,462 | 58,451 | 64,296 | 64,396 | 64,496 | 64,596 | 64,696 | 64,796 | 64,896 |

| Operating | 30% | 32% | 11% | 23% | 48% | 53% |
|-----------|-----|-----|-----|-----|-----|-----|
| Net | 32% | 32% | 10% | 18% | 41% | 43% |

| Fee and commission income | 198% | 264% | 109% | 174% | 72% |
|--------------------------------|------|------|------|------|-----|
| Net gain on trading securities | 217% | -41% | -26% | 283% | 95% |
| Total Revenue | 198% | 29% | 64% | 176% | 75% |
| Operating Income | 223% | -54% | 230% | 476% | 94% |
| Net Income | 189% | -61% | 210% | 518% | 84% |
| EPS | -3% | -77% | 210% | 493% | 72% |

Sources: Company Data, Sidoti & Company, LLC estimates

FREEDOM HOLDING CORP.

Freedom Holding Corp. Cash Flow Statement & Projections (\$000s)

| | FY 2019 | | | | FY 2020 | | | | FY 2021 | | | | |
|--|---------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|------------------|------------------|------------------|------------------|------------------|
| | Mar-19 | Jun-19 | Sep-19 | Dec-19 | Mar-20 | Jun-20 | Sep-20 | Dec-20A | Mar-21E | Jun-21E | Sep-21E | Dec-21E | Mar-22E |
| Net income | 7,147 | 8,214 | 16,850 | 20,900 | 22,130 | 24,276 | 47,839 | 90,160 | 136,713 | 52,841 | 111,938 | 177,995 | 251,791 |
| Depreciation and amortization | 2,034 | 530 | 1,382 | 1,925 | 2,658 | 700 | 1,655 | 2,548 | 2,675 | 2,809 | 2,950 | 3,097 | 3,252 |
| Noncash lease expense | - | 1,483 | 2,628 | 4,684 | 6,298 | 1,606 | 3,302 | 4,502 | 4,727 | 4,963 | 5,212 | 5,472 | 5,746 |
| Loss on sale of fixed assets | 30 | - | 201 | 202 | 201 | - | - | - | - | - | - | - | - |
| Change in deferred taxes | (580) | 466 | 670 | 1,001 | 545 | 943 | 1,465 | 2,868 | 3,011 | 3,162 | 3,320 | 3,486 | 3,660 |
| Stock compensation expense | 3,498 | 773 | 2,390 | 2,936 | 3,677 | 525 | 1,055 | 1,607 | 1,687 | 1,772 | 1,860 | 1,953 | 2,051 |
| Gain / loss on trading securities | 5,373 | 2,479 | 247 | 5,251 | 7,847 | 2,206 | (263) | (7,695) | (8,080) | (8,484) | (8,908) | (9,353) | (9,821) |
| Net change in accrued interest | 322 | 173 | 530 | (233) | (816) | (1,230) | (328) | - | - | - | - | - | - |
| Allowance for receivables | 1,498 | (1,073) | (1,468) | (1,316) | (1,164) | (378) | 666 | 1,775 | 1,864 | 1,957 | 2,055 | 2,158 | 10,788 |
| Changes in working capital | 39,153 | 100,867 | 39,076 | 34,047 | 2,895 | 664,390 | 240,760 | 604,225 | - | - | - | - | - |
| Other | - | (346) | - | (752) | - | (2,312) | 885 | (1,036) | (1,088) | (1,142) | (1,199) | (1,259) | (1,322) |
| Cash from operations | 58,475 | 113,566 | 62,506 | 68,645 | 44,271 | 690,726 | 297,036 | 698,954 | 775,947 | 724,037 | 816,694 | 917,988 | 1,017,741 |
| Purchase of fixed assets | (4,987) | (721) | (1,903) | (3,608) | (4,631) | (1,488) | (2,129) | (3,072) | (3,226) | (3,387) | (3,556) | (3,734) | (3,921) |
| Proceeds from sale of fixed assets | 264 | 7 | 245 | 468 | 285 | 214 | 271 | 227 | 238 | 250 | 263 | 276 | 290 |
| Purchase/proceeds securities sales | 231 | - | (8,560) | (7,455) | (6,508) | 6,508 | 6,437 | 6,437 | 6,759 | (7,097) | (7,452) | (7,824) | (8,215) |
| M&A activity including cash assumed | (2,240) | - | - | - | - | - | 16,711 | 94,826 | 99,567 | (104,546) | (109,773) | (115,262) | (121,025) |
| Cash from investing activities | (6,732) | (714) | (10,218) | (10,595) | (10,854) | 5,234 | 21,290 | 98,418 | 103,339 | (114,779) | (120,518) | (126,544) | (132,871) |
| Repurchase of securities | (59,663) | (16,919) | (1,404) | (15,285) | (16,730) | 5,275 | 138,149 | 63,166 | 66,324 | (69,641) | (73,123) | (76,779) | 80,618 |
| Proceeds from issuance of debt securities | 34,287 | 1,194 | 2,909 | 17,722 | 62,970 | 1,045 | 1,991 | 3,554 | 3,732 | 3,918 | 4,114 | 4,320 | 4,536 |
| Repurchase of debt securities | (14,786) | (9) | (4,441) | (7,256) | (9,578) | (7,300) | (8,196) | (8,186) | (8,595) | (9,025) | (9,476) | (9,950) | (10,448) |
| Capital contributions | 225 | (3,916) | (3,919) | - | - | - | - | - | - | - | - | - | - |
| Net proceeds from loans received | (2,406) | - | - | (4,008) | - | - | - | 3,300 | 124 | 130 | 137 | 143 | 151 |
| Other | 20 | 99 | 99 | 455 | (3,553) | - | - | 118 | - | - | - | - | - |
| Cash from financing activities | (42,323) | (19,551) | (6,756) | (8,372) | 33,109 | (980) | 131,944 | 61,952 | 61,585 | (74,617) | (78,348) | (82,265) | 74,856 |
| FX | (8,693) | 2,616 | (1,900) | 5,281 | (25,141) | 13,890 | (28,451) | 3,787 | 3,938 | 4,096 | 4,260 | 4,430 | 4,607 |
| Changes in cash | 727 | 95,917 | 43,632 | 54,959 | 41,385 | 708,870 | 421,819 | 863,111 | 944,809 | 538,736 | 622,087 | 713,609 | 964,333 |
| Beginning cash | 87,693 | 88,420 | 88,420 | 88,420 | 88,420 | 129,805 | 129,805 | 129,805 | 129,805 | 1,074,614 | 1,074,614 | 1,074,614 | 1,074,614 |
| Ending cash (including restricted cash) | 88,420 | 184,337 | 132,052 | 143,379 | 129,805 | 838,675 | 551,624 | 992,916 | 1,074,614 | 1,613,350 | 1,696,701 | 1,788,223 | 2,038,947 |
| FCF | 49,990 | | | | 35,963 | | 293,852 | 694,275 | 771,034 | | | | 1,011,769 |
| FCF/share | \$0.86 | | | | \$0.62 | | \$5.03 | \$11.88 | \$13.19 | | | | \$15.66 |

Sources: Company Data, Sidoti & Company, LLC estimates

FREEDOM HOLDING CORP.

Freedom Holding Corp. Balance Sheet & Projections (\$000s)

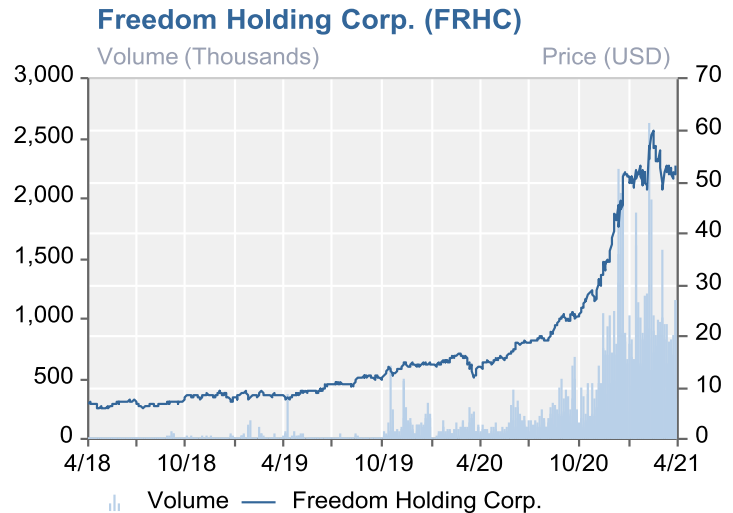
| | <u>Mar-19</u> | <u>Jun-19</u> | <u>Sep-19</u> | <u>Dec-19</u> | <u>Mar-20</u> | <u>Jun-20</u> | <u>Sep-20</u> | <u>Dec-20A</u> | <u>Mar-21E</u> | <u>Jun-21E</u> | <u>Sep-21E</u> | <u>Dec-21E</u> | <u>Mar-22E</u> |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Cash and cash equivalents | \$49,960 | \$141,900 | \$80,875 | \$93,653 | \$63,208 | \$199,303 | \$443,439 | \$624,572 | 702,586 | \$1,237,602 | \$1,317,196 | \$1,404,922 | 1,651,814 |
| Restricted cash | 38,460 | 42,437 | 51,177 | 49,726 | 66,597 | 639,372 | 108,185 | 368,344 | 372,027 | 375,748 | 379,505 | 383,300 | 387,133 |
| Trading securities | 167,949 | 161,021 | 163,823 | 164,145 | 156,544 | 177,084 | 311,832 | 345,313 | 293,516 | 146,758 | 148,226 | 149,708 | 151,205 |
| Available-for-sale securities | 2 | 2 | 8,588 | 7,483 | 6,438 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Brokerage and other receivables | 73,836 | 43,191 | 76,883 | 157,217 | 113,687 | 102,522 | 157,701 | 59,082 | 59,673 | 60,270 | 60,872 | 61,481 | 62,096 |
| Loans issued | 2,525 | 2,616 | 6,756 | 10,775 | 10,461 | 9,958 | 9,695 | 11,655 | 11,772 | 11,889 | 12,008 | 12,128 | 12,250 |
| Deferred tax assets | 1,265 | 822 | 599 | 281 | 570 | - | - | - | - | - | - | - | - |
| Fixed assets | 5,563 | 6,011 | 6,001 | 6,619 | 6,384 | 7,553 | 6,976 | 17,989 | 18,169 | 18,351 | 18,534 | 18,719 | 18,907 |
| Intangible assets | 4,226 | 4,012 | 3,821 | 4,430 | 3,422 | 3,690 | 6,883 | 10,356 | 10,460 | 10,564 | 10,670 | 10,776 | 10,884 |
| Goodwill | 2,936 | 2,956 | 2,914 | 2,969 | 2,607 | 2,795 | 2,670 | 6,202 | 6,264 | 6,327 | 6,390 | 6,454 | 6,518 |
| Right-of-use asset | - | 14,281 | 14,472 | 15,748 | 14,543 | 15,527 | 13,648 | 14,391 | 14,535 | 11,628 | 11,744 | 11,862 | 11,980 |
| Other assets | 4,189 | 9,852 | 9,732 | 10,195 | 9,062 | 11,751 | 15,488 | 15,749 | 39,786 | 18,994 | 68,786 | 67,243 | (164,927) |
| Total assets | 350,911 | 429,101 | 425,641 | 523,241 | 453,523 | 1,169,556 | 1,076,518 | 1,473,654 | 1,528,788 | 1,898,131 | 2,033,933 | 2,126,595 | 2,147,861 |
| Debt securities issued | 28,538 | 29,772 | 3,631 | 39,150 | 72,296 | 67,584 | 66,462 | 68,400 | 69,084 | 131,260 | 249,393 | 324,211 | 327,453 |
| Customer liabilities | 82,032 | 174,143 | 150,615 | 192,754 | 168,432 | 808,752 | 525,929 | 967,256 | 972,092 | 1,030,418 | 1,040,722 | 1,051,129 | 1,061,641 |
| Trade payables | 32,695 | 12,600 | 9,000 | 56,130 | 8,398 | 38,879 | 92,964 | 19,201 | 19,393 | 87,269 | 88,141 | 89,023 | 89,913 |
| Deferred distribution payments | 8,534 | 8,534 | 8,534 | 8,534 | 8,534 | 8,534 | 8,534 | 8,534 | 8,619 | 43,097 | 43,528 | 43,963 | 44,403 |
| Securities repurchase agreements | 73,621 | 56,566 | 70,717 | 57,875 | 48,204 | 58,582 | 182,848 | 144,402 | 145,846 | 233,354 | 235,687 | 238,044 | 240,424 |
| Current income tax liability | 754 | 1,602 | 2,609 | 165 | 1,407 | 4,571 | 5,135 | 3,936 | 3,975 | 4,015 | 4,055 | 4,096 | 4,137 |
| Lease liability | - | 15,856 | 15,979 | 17,270 | 14,384 | 15,484 | 13,565 | 14,195 | 14,337 | 14,480 | 14,625 | 14,771 | 14,919 |
| Loans received | 4,008 | 92 | - | - | - | - | 790 | 3,680 | 3,717 | 3,754 | 3,792 | 3,829 | 3,868 |
| Other liabilities | 3,132 | 4,121 | 30,437 | 9,452 | 2,831 | 4,628 | 4,575 | 18,492 | 18,677 | 74,708 | 75,455 | 76,209 | 76,971 |
| Total liabilities | 233,314 | 303,286 | 291,522 | 381,330 | 324,486 | 1,007,014 | 900,802 | 1,248,096 | 1,255,741 | 1,622,353 | 1,755,398 | 1,845,276 | 1,863,729 |
| Common stock | 58 | 58 | 58 | 58 | 58 | 58 | 58 | 58 | 58 | 58 | 58 | 58 | 58 |
| Additional paid in capital | 99,093 | 99,965 | 101,247 | 102,149 | 102,890 | 103,415 | 103,945 | 104,615 | 105,661 | 106,718 | 107,785 | 108,863 | 109,951 |
| Retained earnings | 41,498 | 48,201 | 56,966 | 62,007 | 66,335 | 90,188 | 113,878 | 156,252 | 203,048 | 205,079 | 207,129 | 209,201 | 211,293 |
| AOCL | (23,052) | (22,409) | (24,458) | (21,618) | (37,974) | (29,270) | (40,189) | (33,338) | (33,671) | (34,008) | (34,348) | (34,692) | (35,039) |
| FRHC shareholder equity | 117,597 | 125,815 | 133,813 | 142,596 | 131,309 | 164,391 | 177,692 | 227,587 | 275,096 | 277,846 | 280,624 | 283,430 | 286,264 |
| Non-controlling interest | - | - | 306 | (685) | (2,272) | (1,849) | (1,976) | (2,029) | (2,048) | (2,069) | (2,089) | (2,110) | (2,131) |
| Total shareholder equity | 117,597 | 125,815 | 134,119 | 141,911 | 129,037 | 162,542 | 175,716 | 225,558 | 273,048 | 275,777 | 278,535 | 281,319 | 284,132 |
| Liabilities & shareholder equity | 350,911 | 429,101 | 425,641 | 523,241 | 453,523 | 1,169,556 | 1,076,518 | 1,473,654 | 1,528,788 | 1,898,131 | 2,033,933 | 2,126,595 | 2,147,861 |
| Balance Sheet Metrics: | | | | | | | | | | | | | |
| Total Debt/Equity | 24% | 24% | 3% | 28% | 56% | 42% | 38% | 30% | 25% | 48% | 90% | 115% | 115% |
| Net Cash (Debt) | 59,882 | 154,565 | 128,421 | 104,229 | 57,509 | 771,091 | 485,162 | 924,516 | 1,005,530 | 1,482,091 | 1,447,308 | 1,464,011 | 1,711,494 |
| Net Cash (Debt) per Share | \$1.03 | \$2.66 | \$2.20 | \$1.79 | \$0.99 | \$13.24 | \$8.30 | \$15.81 | \$17.20 | \$23.05 | \$22.48 | \$22.70 | \$26.50 |
| Return on Equity (ROE) | 6.1% | 6.5% | 6.4% | 2.9% | 1.0% | 13.6% | 13.8% | 10.4% | 15.5% | 16.9% | 49.1% | 18.8% | 20.8% |

Sources: Company Data, Sidoti & Company, LLC estimates

Appendix Required Disclosures

Required Disclosures

Freedom Holding Corp. (FRHC-\$46.86) NR Price Target: \$76 Risk Rating: M



Source: FactSet Prices

Risks

General economic risk. FRHC's growth strategy is reliant on expanding the customer base in its primary markets.

Limited operating history. FRHC became listed in 2018; there are limited historical financials and data.

Interest rate risk. FRHC and all financial services companies are subject to interest rate risk.

Competition, including from other financial institutions, could hurt FRHC's market share and strategy.

Political and market risk. As FRHC's business is conducted primarily in Eastern Europe and Central Asia, the company is subject to political and market risk in those markets.

Currency risk. Since the company's operations are international, FRHC also is subject to currency risk.

Controlled company. FRHC's CEO holds over 72% of the shares and has control over voting matters.

Valuation

We initiate coverage of Freedom Holding Corp. (FRHC) with a Moderately Risky rating and \$76 price target. FRHC shares were up 178% in the past 12 months. Despite this strong performance, we think there is significant further appreciation potential, as the company leverages the economic development in its core markets and integrates Prime. We view the shares as undervalued, trading at only 14x our F2022 EPS forecast of \$3.88. We think revenue growth, margin expansion and operational leverage will serve as catalysts for the shares. The \$76 price target is based on about 20x our F2022 EPS estimate of \$3.88; this multiple is significantly below the company's growth rate and the multiple of stocks of certain other high-growth companies based in FRHC's markets. In the past three years, FRHC traded at 16x-50x estimated earnings per share, with an average of 33x. Our comfort with the potential economic and currency risk in the company's core markets that could impact near-term growth prospects support the Moderately Risky rating.

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