

Liverpool Cheese Company
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BUILDING THE PLACE WHERE SMALL BUSINESSES GET THE FUNDING THEY NEED TO WIN

Full Year Results Presentation

Year ended 31 December 2019



Liverpool Cheese Company
12 March 2020

Executive Summary

FINANCIAL PERFORMANCE

- Revenue of £167.4m (2018: £141.9m) up 18% with LuM up 19% to record £3.7bn (2018: £3.1bn) despite a challenging economic environment.
- Adjusted EBITDA of negative £27.5m (2018: negative £23.4m) with loss margin of 16% (2018: 16%).
- Loss before taxation and exceptional costs of £49.9m (2018: £45.0m). Loss before taxation of £84.2m (2018: £50.9m) including a non-cash exceptional write-down of £34.3m of goodwill and intangible assets related to the Developing Markets.
- Group accelerating on path to profitability: UK business delivered operating profit of £3.0m in H2 2019 (H2 2018: negative £5.4m). The UK business represents c.65% of Group revenue. US business following similar trajectory.
- Net assets of £319.0 million, (2018: £401.0 million), including a mix of cash and short and long term investments.

BUSINESS INITIATIVES

- Actions taken in 2019 to tighten lending in higher risk bands reduced conversion (loans/applications) but now show early signs of improving net returns for investors. Investor returns are expected to deliver 5.0-7.8% for loans originated in the UK and US in 2019, 10-30% higher than 2018.
- Completed initial build of new instant decision lending platform and rolled out initial pilots in Q4 2019 within the UK. The first loans took on average 6 minutes from application to approval. On track to roll out to c.50% of borrowers by the end of 2020.
- Reorganising German and Dutch businesses to originate loans for local lenders within each market compared to originating loans to institutional and retail investors. Centralised operations in London will drive a more efficient model and accelerate Group profitability – Adjusted EBITDA losses for Germany and The Netherlands to fall from c.£16m to low single digit millions.

OUTLOOK

- Focus on improving conversion across the platform, keeping net returns attractive and delivering profitable growth.
- Targeting Group Adjusted EBITDA break-even in H2 2020.
- Combined UK and US revenue to grow by c.15% in 2020.
- COVID-19: not seen an impact of the virus on recent trading, but continue to monitor closely.



SME Lending Continues to Represent a Unique Market Opportunity

GDP and employment
contribution of FC
borrowers

 **115,000** jobs¹

 **6.5** billion GDP contribution¹

SME lending as share
of banks' balance
sheets

 **<2%**¹

Current
addressable
TAM

 **£470** billion²



1. Based on data from the "The Big Business of Small Business" report from Oxford Economics – April 2019
2. OC&C analysis, aggregated and triangulated from >30 publically available sources (e.g. BoE, FDIC, Bundesbank, DNB, industry associations, government/bank survey data). Target addressable market excludes commercial mortgages, loans / debt products <5k and >500k in local currency and loans with APR >25%. Market sizes converted at USDGBP 0.72 and EURGBP 0.89. 2. In US, higher minimum threshold of \$25k

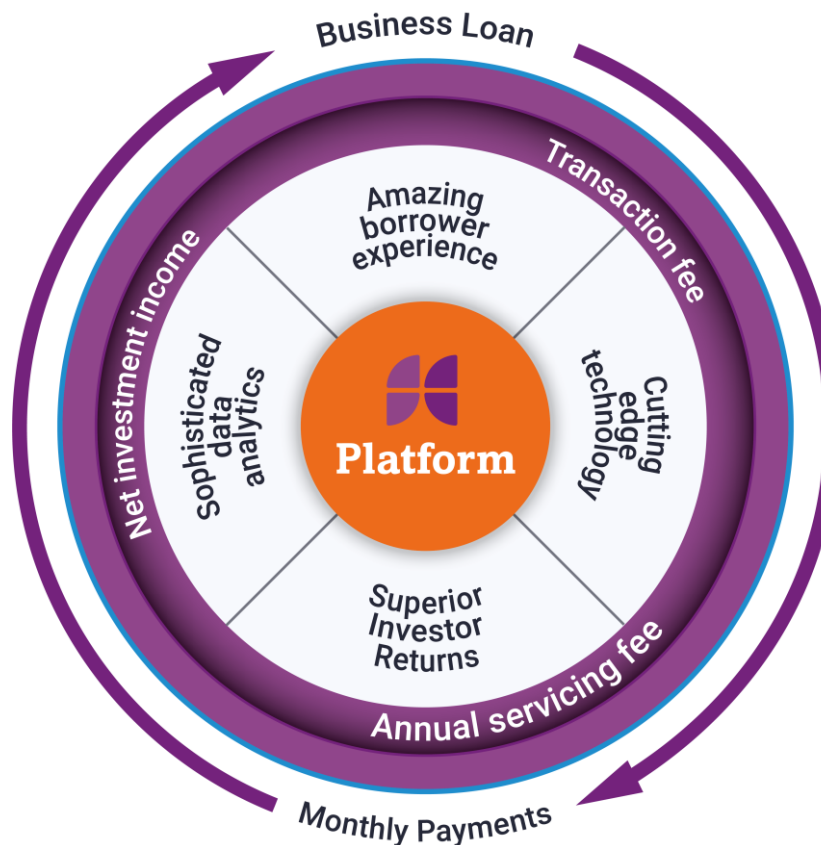
Platform Model

Our cutting edge technology and data platform enables SME borrowers to access finance directly from investors

Small businesses access fast, affordable finance

c.80,000 borrowers globally

- **10** years' trading history
- **7** employees
- **~£1m** revenue
- **~£80k** loan size
- **~50** months average term



Investors earn attractive returns

c.95,000 investors globally

c.8.5 billion lent by investors to borrowers

5.0-7.8% projected returns across UK and US¹

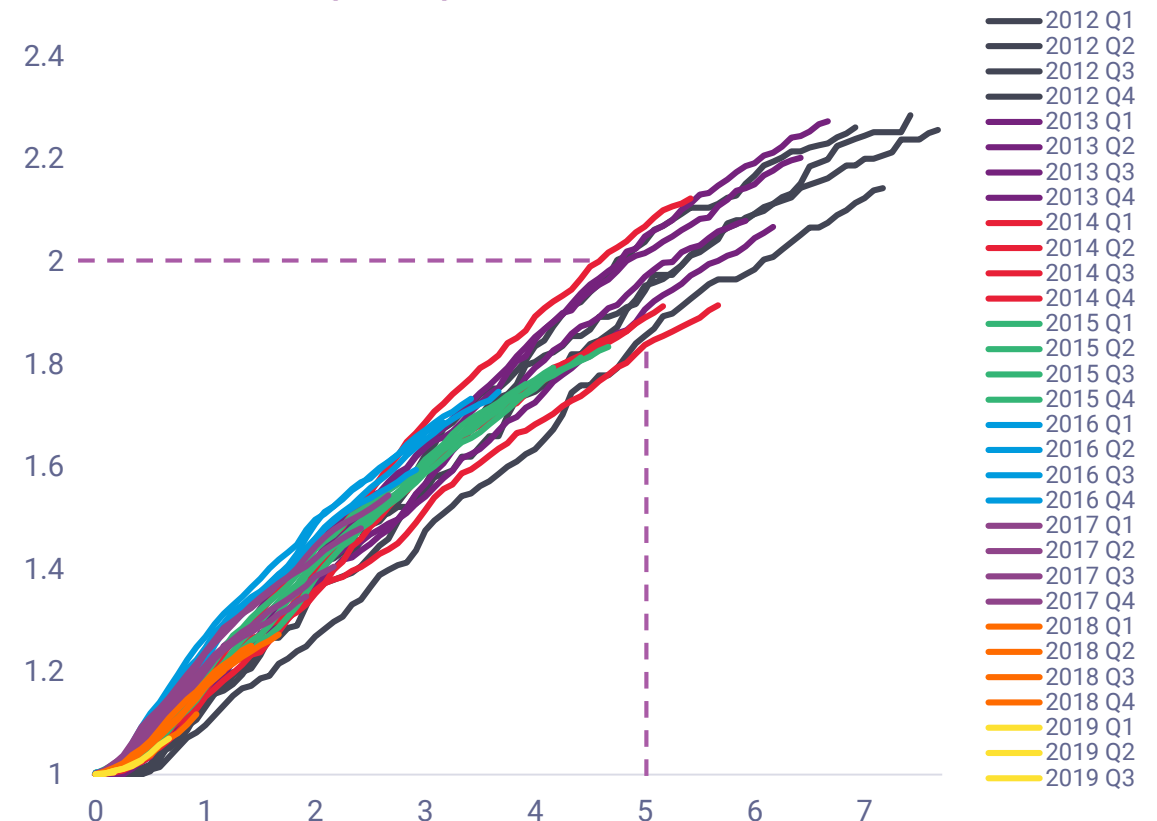


Better for Borrowers

Market leading customer satisfaction scores lead to strong repeat behaviour

- ✓ Net Promoter Score between 80-90 in UK and US
- ✓ 82% of borrowers would choose Funding Circle again in the future rather than their bank¹
- ✓ 70% would choose Funding Circle first because the process is too long or too inconvenient at a bank¹

UK: On average borrowers take out 2 loans every 5 years²



1. Based on data from the "The Big Business of Small Business" report from Oxford Economics – April 2019

2. Funding Circle data; cohort refers to the quarter in which the borrower first entered into a loan agreement. Only includes data points with a full cohort

Better for Investors

Investors gain exposure to the SME credit asset class that was previously inaccessible

- ✓ Projected annual returns of 5.0-7.8% across UK and US²
- ✓ Deep and diversified portfolio of loans across sectors, regions and risk bands
- ✓ Monthly repayments repaid directly to investors

Institutions

Institutional investors directly purchasing whole loans – including banks, assets manager, insurance companies.

Funds

Private and Public Funds purchasing whole loans.

Bonds

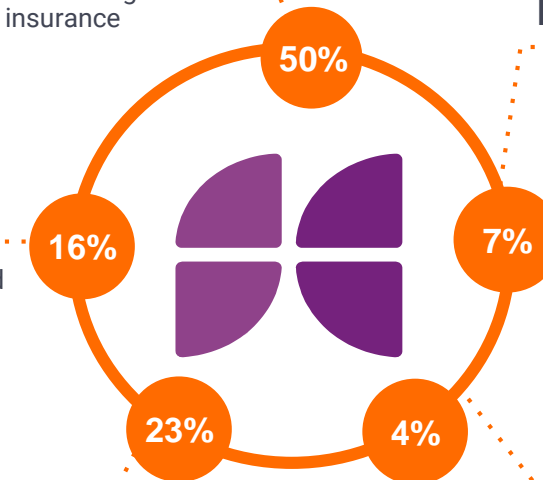
Funding Circle sponsored ABS bonds backed by a pool of whole loans

Retail

Individuals directly purchasing fractional loans.

National entities

National and Supranational entities, including the British Business Bank, purchasing loans as part of Government mandate to stimulate SME lending.



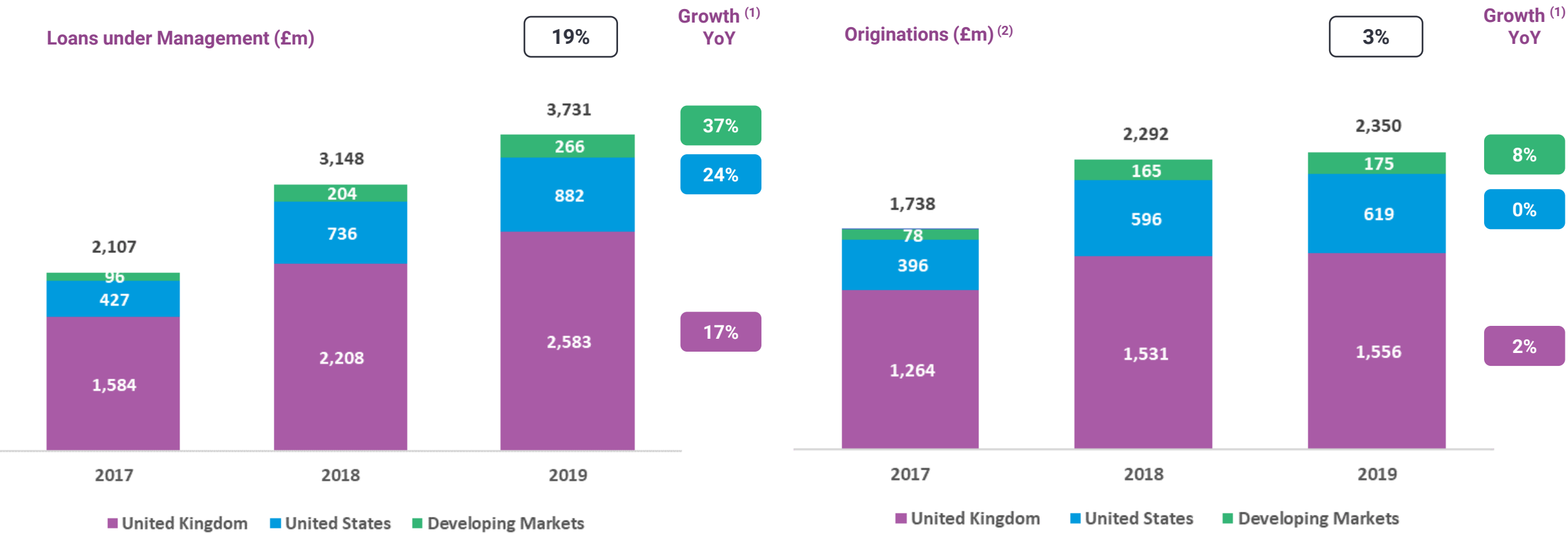
Group Financial Performance



Loans under Management (LuM) and Originations

LuM exceeded £3.7 billion

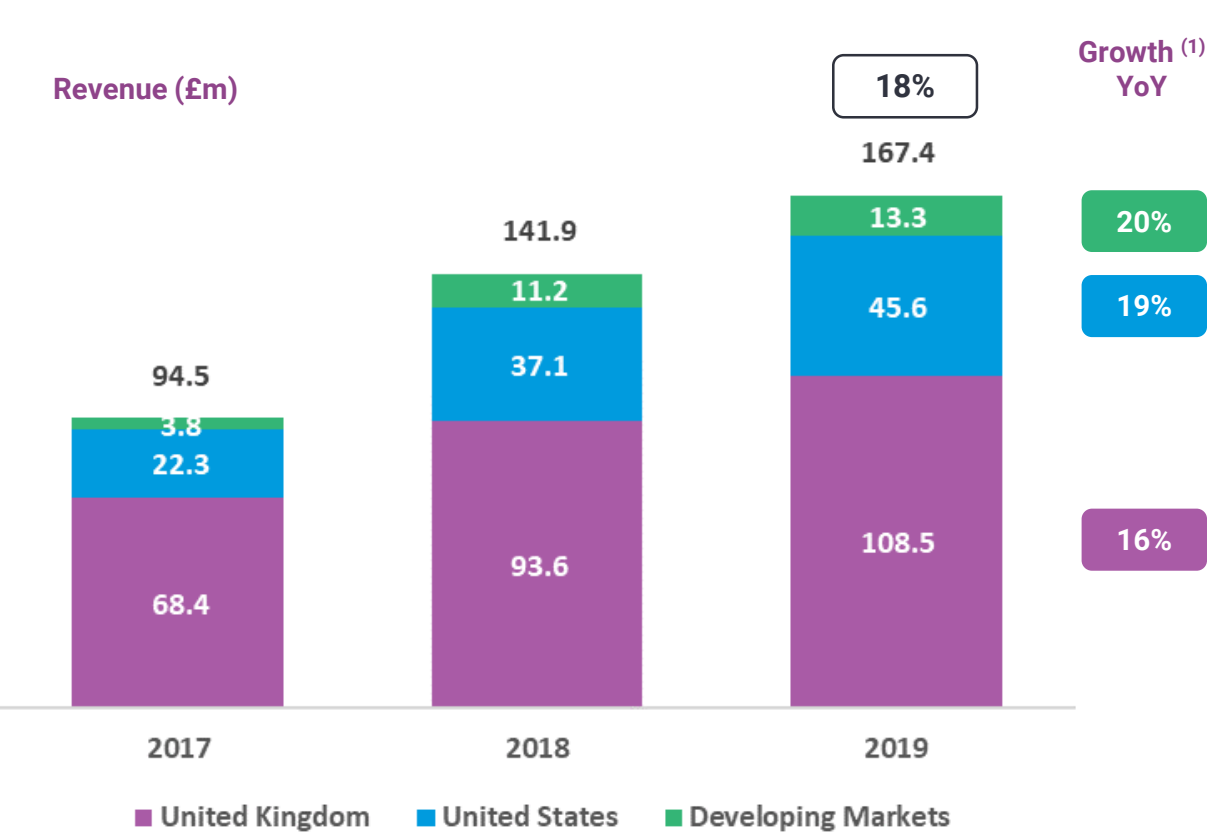
Originations at £2.35 billion



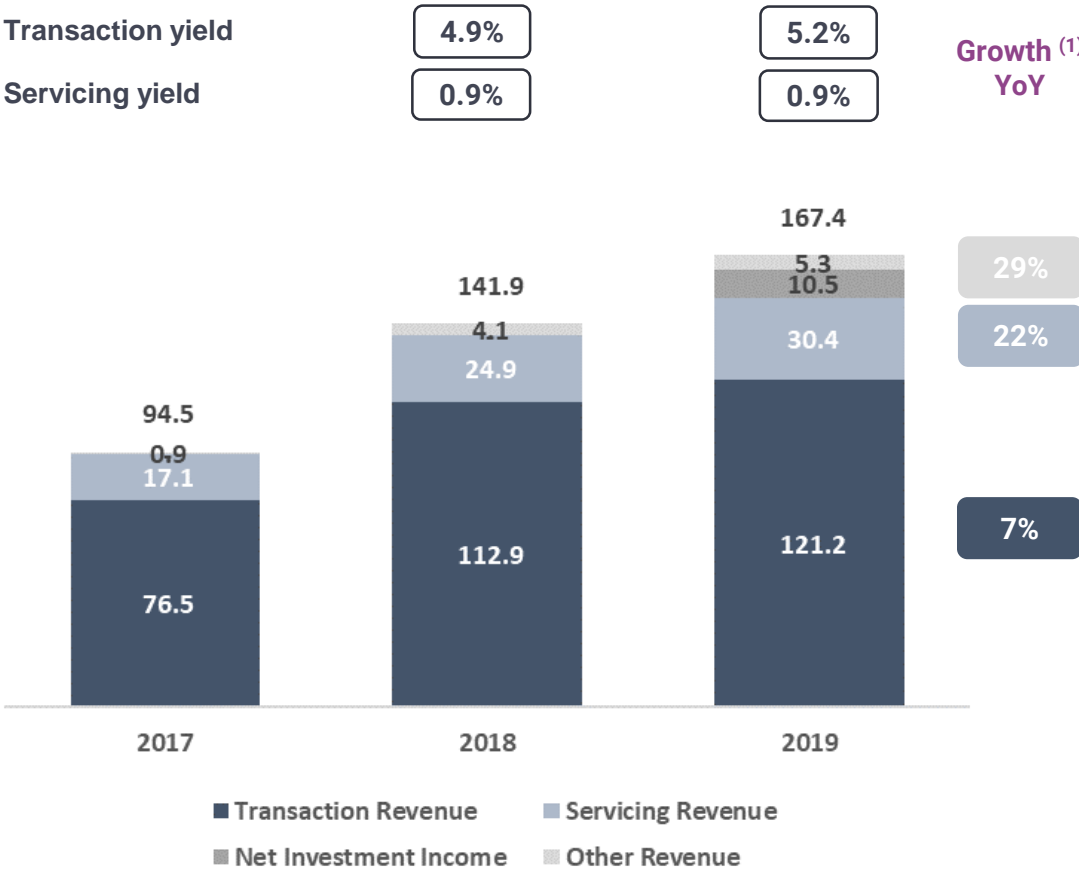
1. Geo segment growth stated in local currency to eliminate FX variations

Revenue

Revenue growth of 18%



Revenue by type



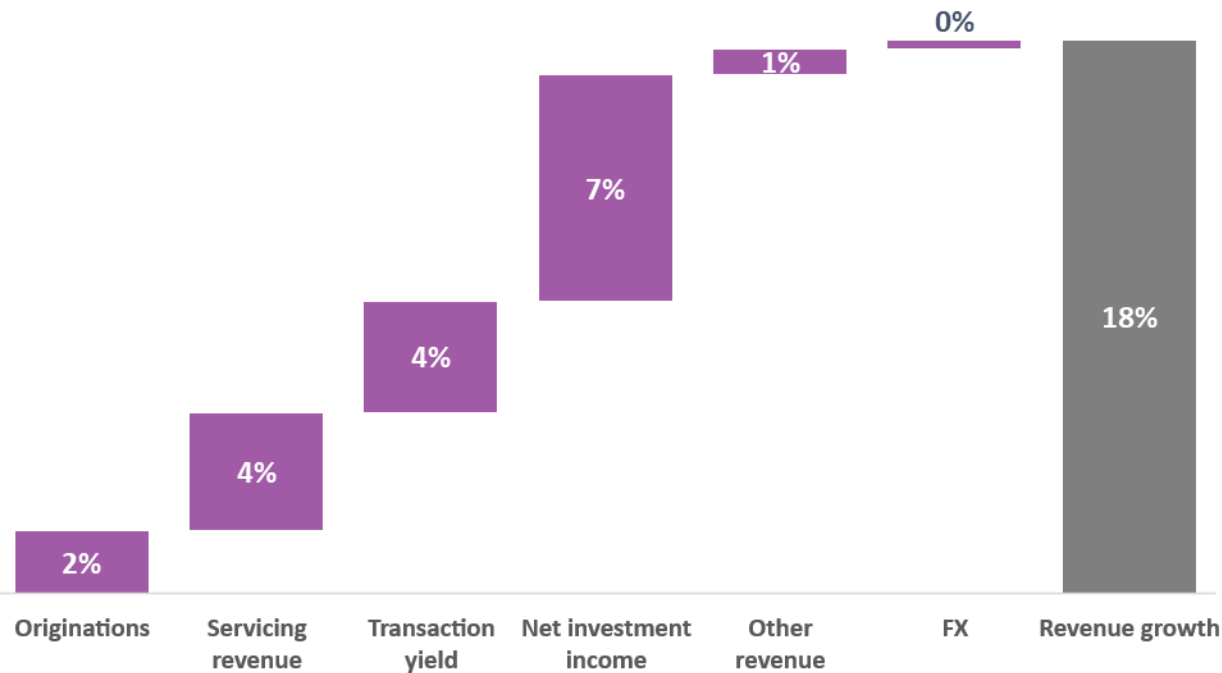
1. Geo revenue growth stated in local currency to eliminate FX variations

Revenue Growth Breakdown and Segment Adjusted EBITDA

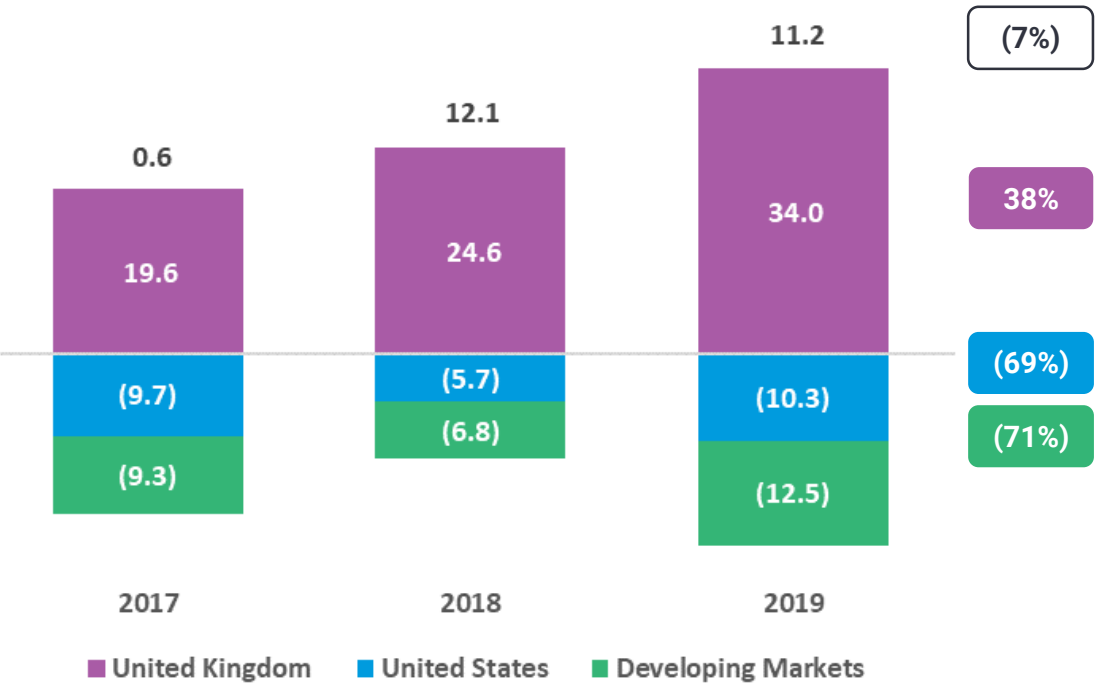
Revenue growth benefited from improving transaction yield, faster growing service revenue and investment in new investor products

UK Segment Adjusted EBITDA improvement with scale, and US continuing to invest in growth

Revenue growth breakdown (%)



Segment Result (£m)

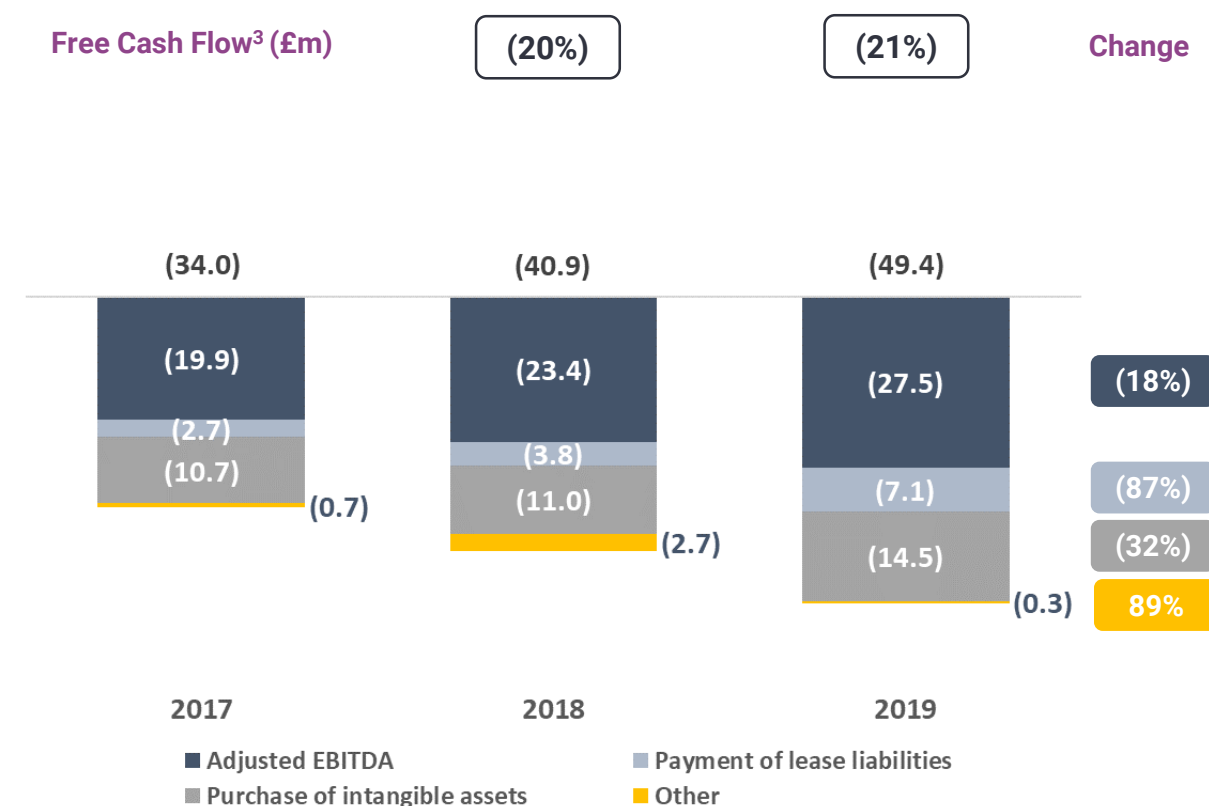
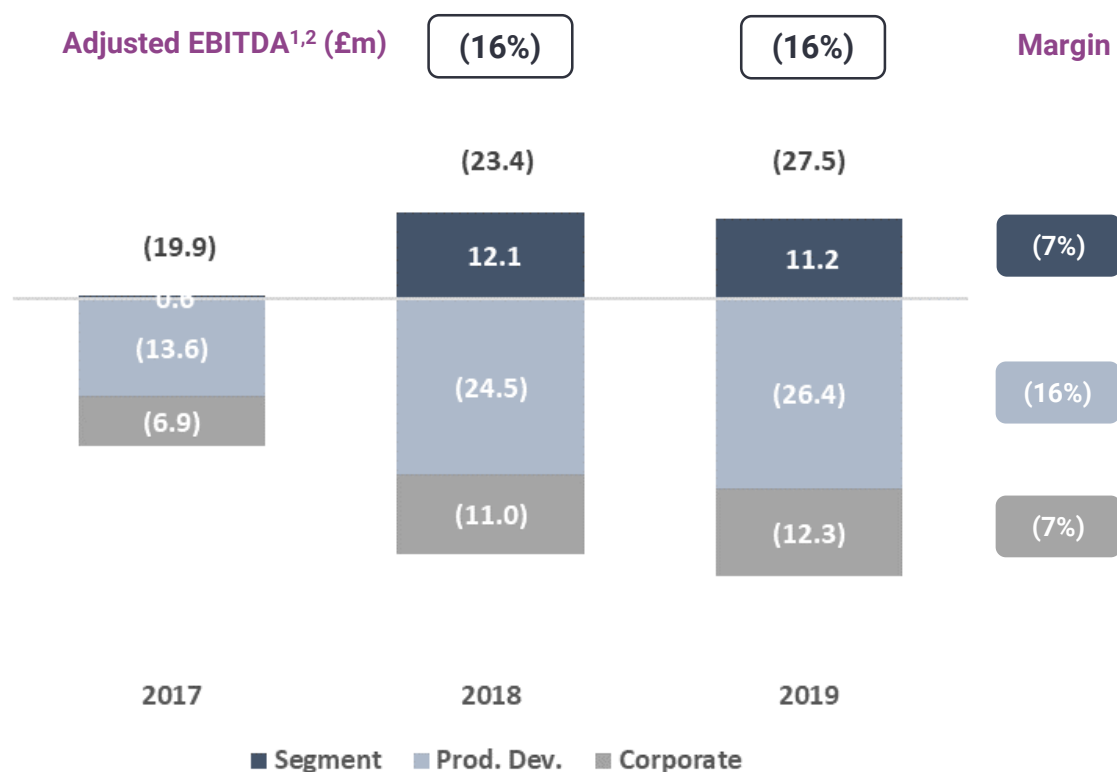


1. Geo revenue growth stated in local currency to eliminate FX variations

Adjusted EBITDA and Free Cash Flow

H2 2019 loss of £7.8m vs £19.7m in H1 2019

Free Cash Outflow broadly in line with Adjusted EBITDA outflow and fixed asset investments



1. Adjusted EBITDA represents EBITDA (Earnings before Interest, Tax, Depreciation and Amortisation) excluding share-based payments, exceptional items and foreign exchange gains or losses

2. 2018 Adjusted EBITDA been restated for IFRS16 "Leases"

3. Free Cash Flow represents net cash flows from operating and investing activities, including the payment of lease liabilities, but excludes net investment in new products and is stated before financing activities (a reconciliation is included within the Appendices)



Profit and Loss

Operating loss margin improved to 30% from 32% in 2018 (before exceptional items)

	2019 £m	2018 Restated ¹ £m	2017 Restated ¹ £m
Revenue	167.4	141.9	94.5
People costs	(90.3)	(79.2)	(47.4)
Marketing costs	(66.5)	(57.8)	(38.7)
Depreciation and amortisation	(14.9)	(12.5)	(11.3)
Loan repurchase charge	(6.5)	(2.6)	-
Impairment (exceptional)	(34.3)	-	-
IPO adviser costs (exceptional)	-	(5.9)	-
Other costs	(39.6)	(34.7)	(33.4)
Operating loss	(84.7)	(50.8)	(36.3)
Finance income / (costs) - net	0.6	(0.1)	(0.4)
Share of associate profit	(0.1)	-	-
Loss before taxation	(84.2)	(50.9)	(36.7)
Taxation	(0.5)	1.4	1.0
Loss for the year	(84.7)	(49.5)	(35.7)
Basic and diluted loss per share	(24.4p)	(18.2p)	(14.2p)



Segmental Reporting Changes

From 2020 all operating costs will be reported by geography

2019 £m	UK	US	DM	Total
Revenue				
Segment adjusted EBITDA				
Product and development				
Corporate costs				
Adjusted EBITDA				
Depreciation and amortisation				
Share based payments				
Exceptional items				
Operating loss				

Costs reported by geo

2019 £m	UK	US	DM	Total
Revenue				
Segment adjusted EBITDA				
Product and development				
Corporate costs				
Adjusted EBITDA				
Depreciation and amortisation				
Share based payments				
Exceptional items				
Operating loss				

- Organisational changes have led to greater product development spend being managed by geo. Global costs not managed locally have been apportioned to each geography. A full income statement view to Operating profit / (loss) will be reported from 2020 with the 2018 and 2019 comparatives restated.
- Segment adjusted EBITDA will no longer be shown.
- A bridge of the current to future segmental reporting format is shown in the appendices.



New Segmentation Reflects Local Operating Structures with Operating Costs Included in Geographic Segments

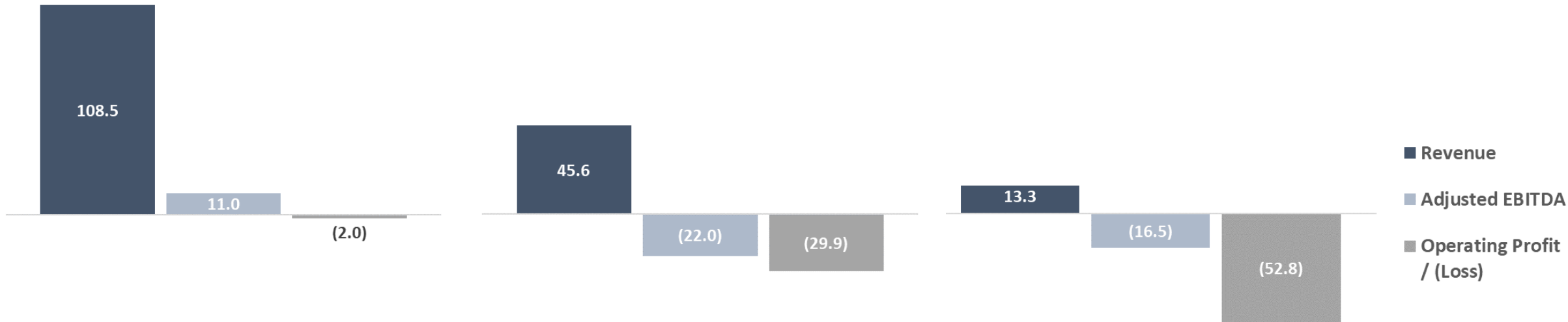
2019

£m

United Kingdom

United States

Developing Markets



Margin

10%

(2%)

(48%)

(66%)

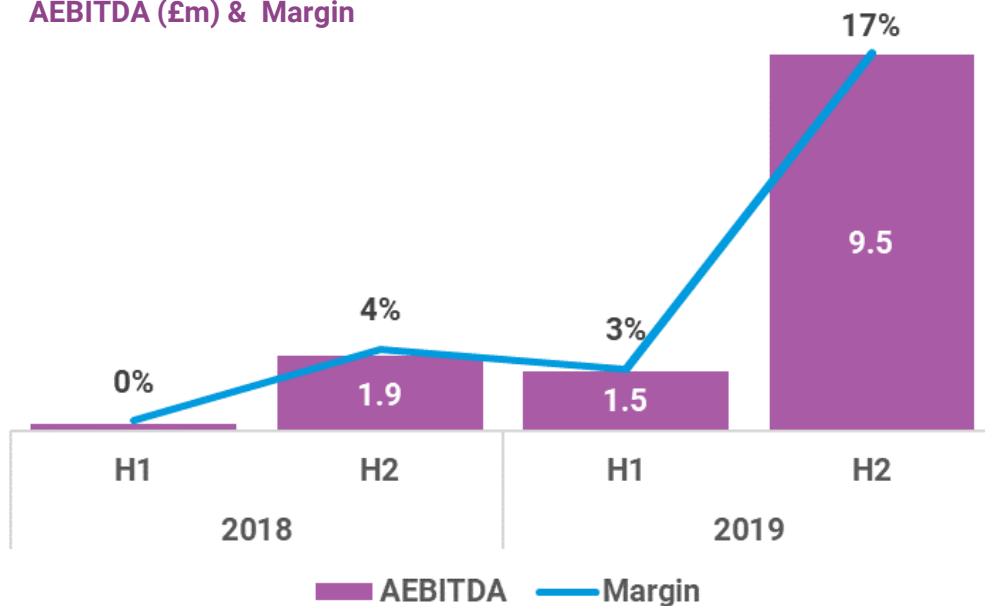
(124%)

(397%)

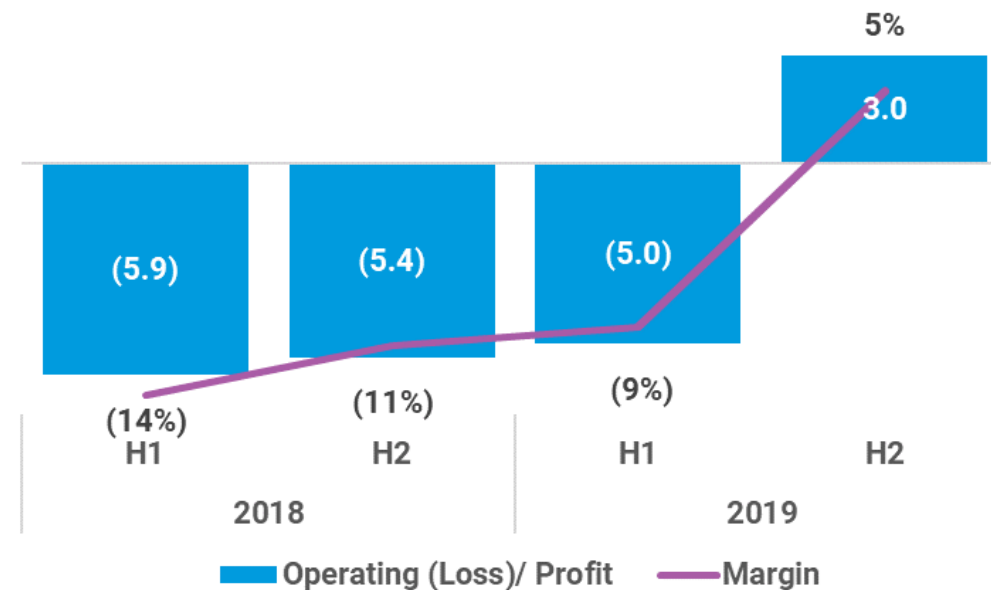


UK Shows Operating Profit in H2 2019

AEBITDA (£m) & Margin



Operating (Loss)/Profit (£m) & Margin



In 2019 we Launched the Funding Circle ABS Programme to Widen the Universe of Potential Investors

- The global ABS market is deep and diverse with c.£1.5 trillion of outstanding assets in the US and UK alone.
- ABS bonds help to increase Funding Circle's investor TAM 4x to c.2.5trn.
- The Funding Circle sponsored ABS Programme appeals to investors that want to gain access to Funding Circle SME loans but who can only, or prefer to, purchase bonds.
- We have successfully established ABS Warehouse programmes in the UK and US as well as completing two securitisations in 2019.

2019 FC Securitisations		
	US	UK
Date of transaction	August	November
Size of deal	\$210m	£250m
Number of new investors	18 (oversubscribed transaction)	12 (oversubscribed transaction)
Joint/sole deal	Sole	Joint w/ Waterfall Asset Management



Balance Sheet Presentation of New Products

Borrowings/Bonds bankruptcy remote from the core business

	Trading Business	Warehouse Stage	Securitisation Stage	Private Fund Investment	Group December 2019	Group December 2018
	£m	£m	£m	£m	£m	£m
Investment in SME Loans	1.7	342.0	366.6	13.2	723.5	5.0
Cash & Cash Equivalents	132.2	18.2	14.1	-	164.5	333.0
Borrowings/Bonds	2.8	(265.8)	(351.5)	-	(614.5)	-
Other receivables	-	-	8.4	-	8.4	-
CASH & INVESTMENTS	136.7	94.4	37.6	13.2	281.9	338.0
Tangible & Intangible FAs	73.9	-	-	-	73.9	89.0
Other Investments & Receivables	25.2	-	-	-	25.2	23.0
Payables & Provisions	(62.0)	-	-	-	(62.0)	(49.0)
NET ASSETS	173.8	94.4	37.6	13.2	319.0	401.0

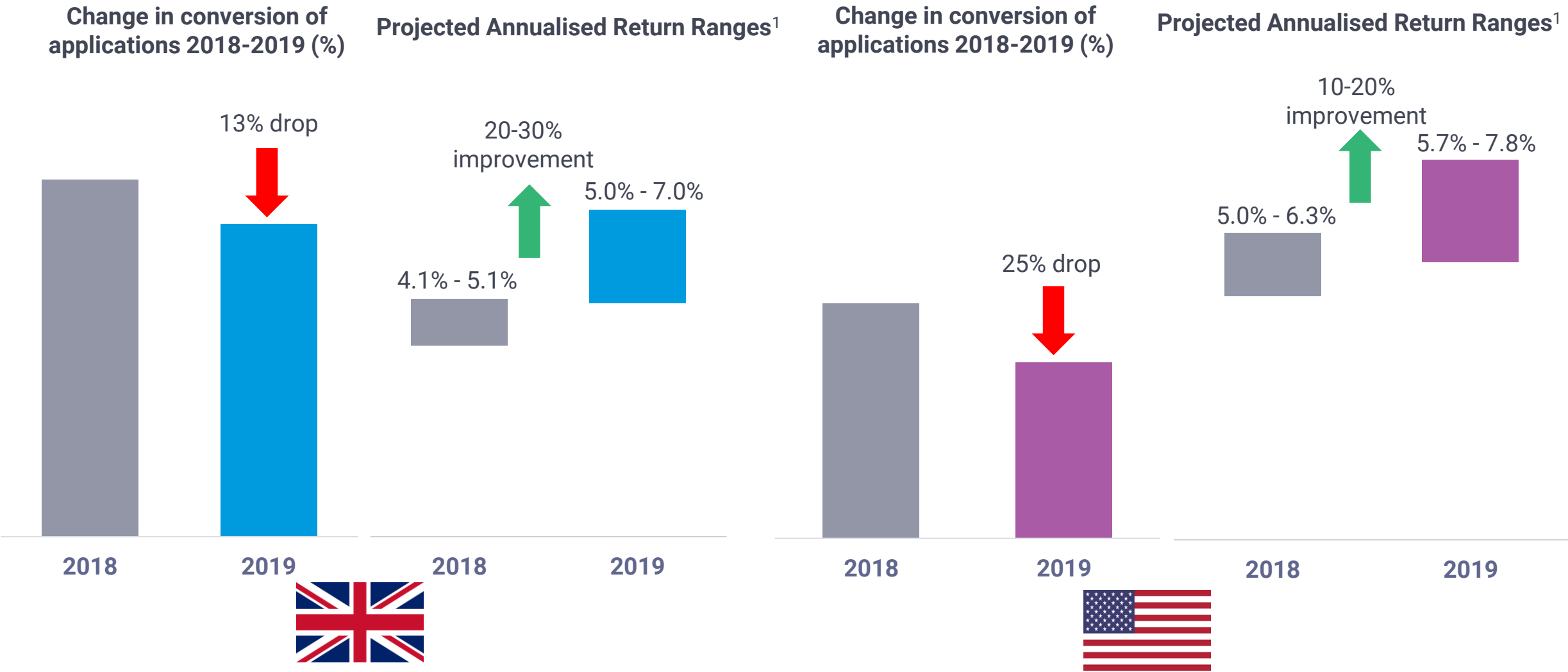
Working Capital and Investments of £145.2m



Strategy and Outlook



Actions Taken Reduced Conversion and Show Early Signs of Improved Net Returns to Investors



Improving Returns Attracts More Funds to the Platform



Banks

BancAlliance, a network of 250+ community banks, and Funding Circle are building a comprehensive program for US community banks to buy loans.

BancAlliance members are typically community banks with between \$100m and \$10 billion in assets. Collectively BancAlliance is one of the top 10 largest banks in the US by assets.



Successfully launched the Funding Circle ABS programme in the UK and US in 2019.

US SBIZ: \$210m oversubscribed transaction saw demand from 18 institutional investors.

UK SBOLT: £250m oversubscribed transaction together with WAM. Demand from 12 institutional investors.



Refining the Model in Germany and Netherlands to Better Serve SMEs and Accelerate Profitability

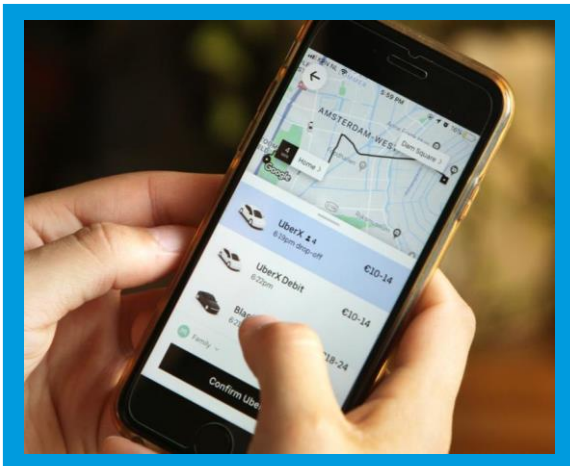


Existing model		New model
Marketplace focused on originating loans to institutional and retail investors	→	Marketplace focused on originating loans for local lenders
Low overall conversion	→	Better conversion
Income earned from transaction and servicing fee	→	Income earned from transaction fee only
c.150 based in Amsterdam and Berlin	→	c.25 people centralised in London
c.£16m annual losses	→	Accelerating on the path to profitability - low single digit million losses (exc. Q1 under existing model and £5m restructuring costs)



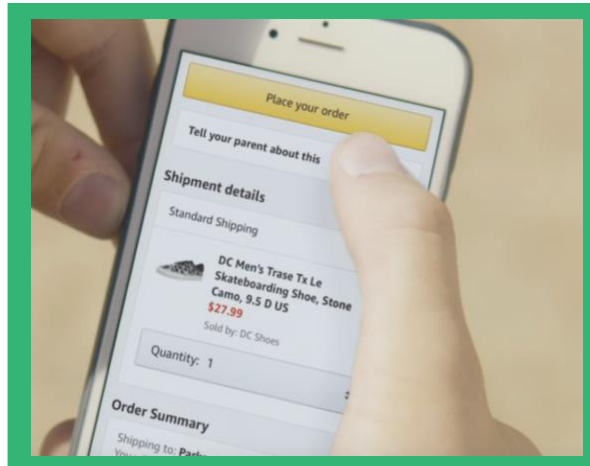
Instant Fulfilment is a Trend of our Time and has Transformed Other Industries

Transport and Food

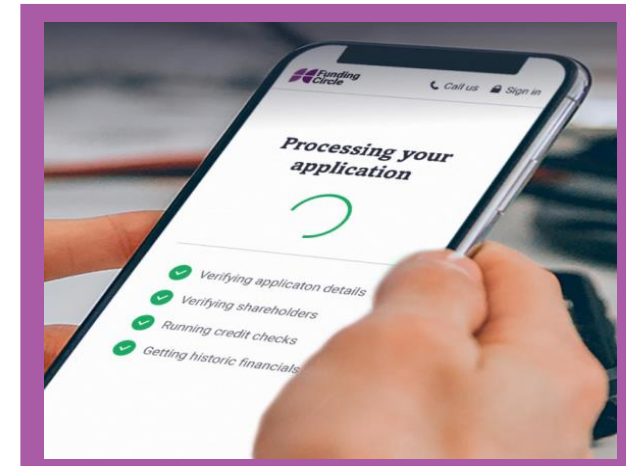


Instant taxis and food delivery anytime, anywhere

Ecommerce



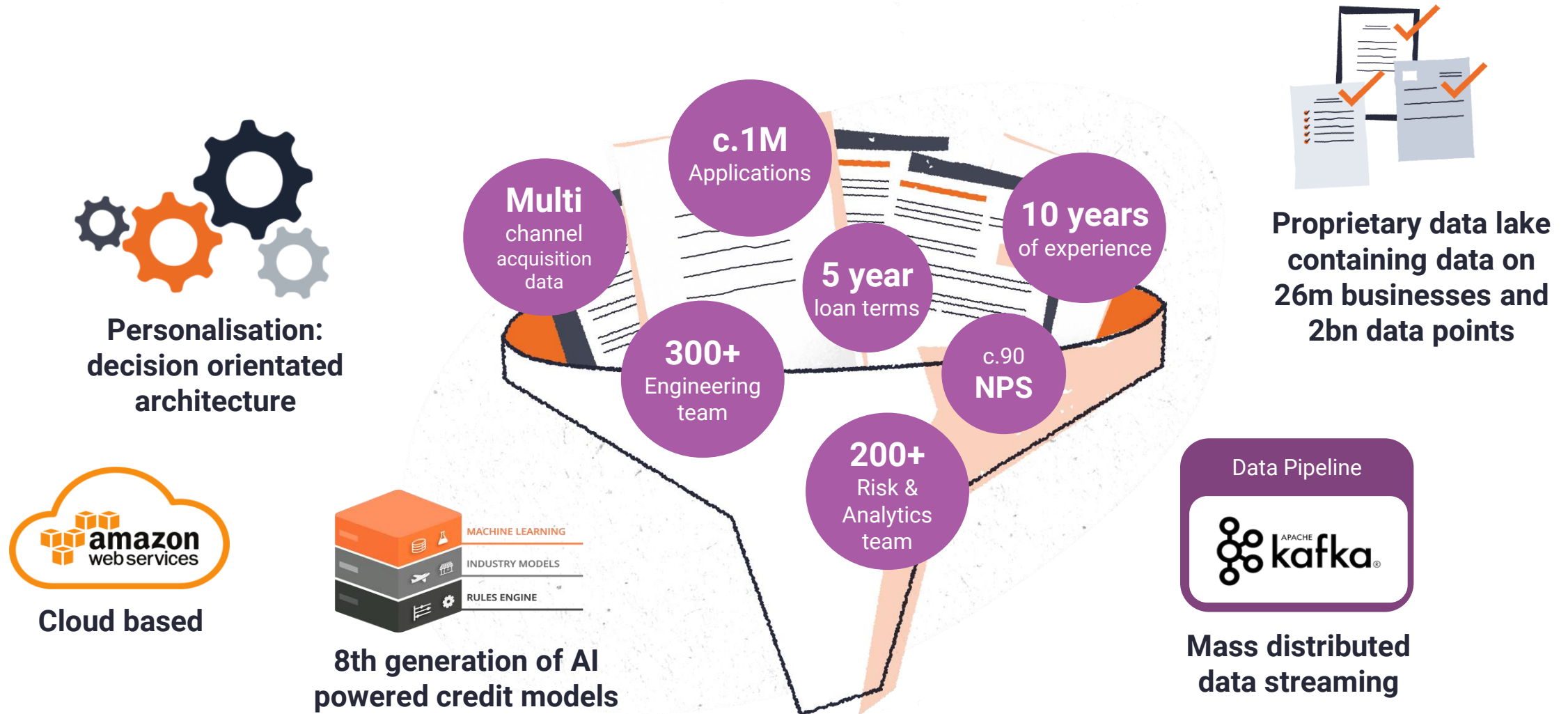
Instant ordering and fulfilment revolutionised e-commerce



Instant Decision drives a superior customer experience and competitive advantage



Uniquely Positioned to Deliver Instant Decision Platform Powered by State-of-the-Art Technology



From Application to Acceptance in c.6 minutes

0800 048 2467

Sign in

Funding Circle

Get started

Answer a few questions to check if you're eligible in 30 seconds.

✓

This check does not affect your credit score.

Is this the first time you've checked your eligibility with us?

Click yes if this is your first time filling in our online form.

Yes

No

Excellent ★★★★★

★ Trustpilot | 7420 reviews

90%

of our customers would come back to us first for a loan over a bank.


Trusted by

Over 52,000 businesses

Over 83,000 people lending

£150 million

The Government-owned British Business Bank is lending up to £150m through Funding Circle.

 BRITISH BUSINESS BANK

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Investment through Funding Circle involves lending to small and medium sized businesses, so your investment can go down as well as up.

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Pilots in 2020 to Support Core Platform Offer and Help More Small Businesses and Improve Conversion

Adding other lenders to our marketplace

- Adding other lenders to fund loans outside FC core loans (larger loans, higher risk etc.) helps more small businesses access finance.
- Pilot in Q4 2019 working with lenders in UK, US and Developing Markets.
- Funding Circle receives a transaction fee for arranging loans but no servicing fee.
- Lending expected to be modest during trial period.

Helping more businesses build credit

- Help smaller businesses access funding and build their credit profile.
- Companies typically looking for <£50k loan size and <12m duration.
- Leverages instant decision platform with lower processing costs.
- Borrowers graduate to core product and lower rates in due course.
- Lending to launch Q2 2020 and modest during trial.

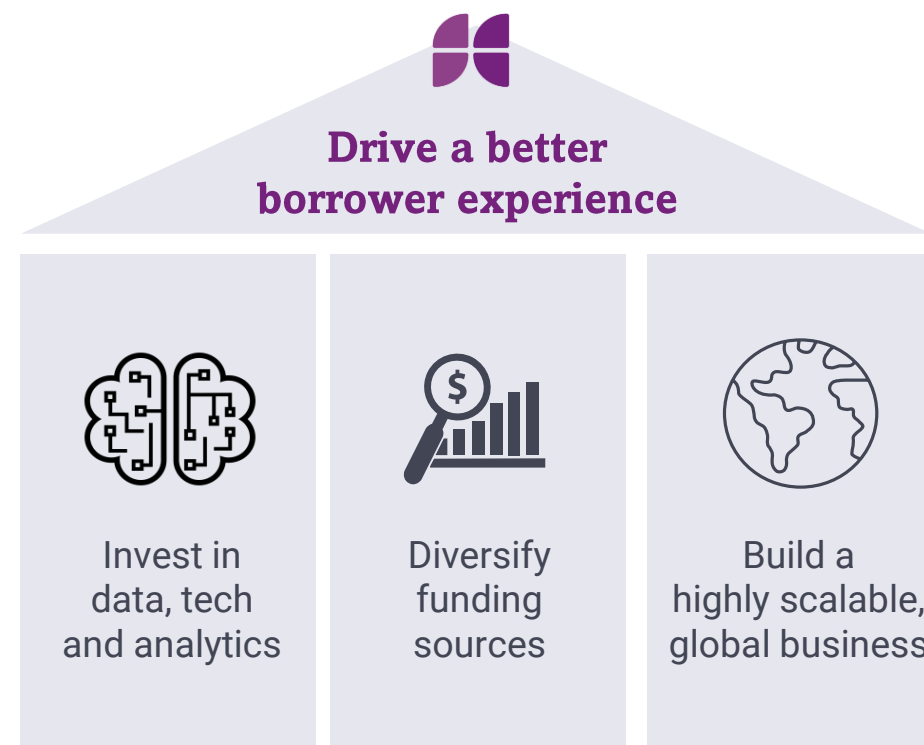


Summary

Outlook for 2020

- Focus on improving conversion across the platform, keeping net returns attractive and delivering profitable growth.
- Trading for the year has started well. We continue to assess the possible impact of COVID-19 on borrowers and investors. We have not seen an impact of the virus on recent trading, but we are monitoring the situation closely.
- Combined UK and US revenue to grow by c.15%, skewed to H2 due to seasonality and lapping credit tightening actions taken in H1 2019.
- The reorganised Developing Markets¹ contributing c.£7m of revenue in 2020, weighted to H1 from the wind-down of the existing model with H2 seeing the scaling of the new model from a low base.
- Targeting Group Adjusted EBITDA break-even in H2 2020 reflecting operational leverage as the business scales.
- Group Adjusted EBITDA losses for the year to halve benefiting from the new approach in the Developing Markets and marketing spend falling modestly as a percentage of revenue.

Our Strategic Plan



1. Expected Developing Markets exceptional cash restructuring costs of c.£5 million in 2020.

Q&A



Appendices



Disclaimer

Information regarding forward-looking statements

This Presentation includes forward-looking statements. These forward-looking statements involve known and unknown risks and uncertainties, many of which are beyond the Group's control and all of which are based on the Group's current beliefs and expectations about future events.

Forward-looking statements are sometimes identified by the use of forward-looking terminology such as "believe", "expects", "may", "will", "could", "should", "shall", "risk", "intends", "estimates", "aims", "plans", "predicts", "continues", "assumes", "positioned", "anticipates" or "targets" or the negative thereof, other variations thereon or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Presentation and include statements regarding the intentions, beliefs or current expectations of the Group concerning, among other things, the future results of operations, financial condition, prospects, growth, strategies, and dividend policy of the Group and the industry in which it operates.

These forward-looking statements and other statements contained in this Presentation regarding matters that are not historical facts involve predictions. No assurance can be given that such future results will be achieved; actual events or results may differ materially as a result of risks and uncertainties facing the Group. Such risks and uncertainties could cause actual results to vary materially from the future results indicated, expressed, or implied in such forward-looking statements.

Such forward-looking statements contained in this Presentation speak only as of its date. The Group expressly disclaims any obligation or undertaking to update these forward-looking statements contained in the document to reflect any change in its expectations or any change in events, conditions, or circumstances on which such statements are based unless required to do so by applicable law, the Listing Rules, the Disclosure Guidance and Transparency Rules of the FCA or the Market Abuse Regulation.



Balance Sheet

Total assets	2019 £m	2018 Restated ¹ £m	2017 Restated ¹ £m
Non-current assets			
Goodwill	11.3	42.3	41.3
Intangible assets	23.6	21.5	16.2
Property, plant and equipment	39.0	25.2	27.4
Investment in associates	13.2	-	-
Investment in loans (other)	1.7	0.3	0.3
	88.8	89.3	85.2
Current assets			
Investment in loans (curing)	-	4.7	3.1
Investment in SME loans (warehouse)	342.0	-	-
Investment in SME loans (securitised)	366.6	-	-
Trade and other receivables	33.6	23.0	13.4
Cash and cash equivalents	164.5	333.0	88.9
	906.7	360.7	105.4
Total assets	995.5	450.0	190.6

Liabilities & equity	2019 £m	2018 Restated ¹ £m	2017 Restated ¹ £m
Current liabilities			
Trade and other payables	19.7	19.3	9.6
Short-term provisions	3.1	3.8	2.2
Borrowings	265.8	-	-
Lease liabilities	8.5	5.0	3.8
Bonds	348.7	-	-
	645.8	28.1	15.6
Non-current liabilities			
Long-term provisions	0.9	0.8	0.4
Lease liabilities	29.8	20.1	22.4
	30.7	20.9	22.8
Total equity			
Share capital	0.3	0.3	0.3
Share premium account	292.3	291.8	278.0
Foreign exchange reserve	8.0	15.7	13.2
Share options reserve	11.9	6.0	13.9
Retained earnings / Accumulated (losses)	6.5	87.2	(153.2)
Total equity	319.0	401.0	152.2
Total liabilities & equity	995.5	450.0	190.6



Reconciliation to free cash flow

Consolidated statement of cash flows	2019 £m	2018 £m	2017 £m
Net cash outflow from operating activities	(27.0)	(30.6)	(19.9)
Investing activities			
Purchase of intangible assets	(14.5)	(11.0)	(10.7)
Purchase of property, plant and equipment	(2.7)	(2.3)	(1.3)
Purchase of SME loans (curing)	4.7	0.2	(1.3)
Purchase of SME loans (other)	(1.5)	(1.3)	-
Purchase of SME loans (warehouse phase)	(381.2)	-	-
Purchase of SME loans (securitised)	(414.5)	-	-
Cash receipts from SME loans (warehouse phase)	32.5	-	-
Cash receipts from SME loans (securitised)	37.4	-	-
Investment in associates	(13.9)	-	-
Interest received	1.9	0.9	0.6
Net cash outflow from investing activities	(751.8)	(13.5)	(12.7)
Financing activities			
Proceeds from bank borrowings	462.1	-	-
Repayment of bank borrowings	(192.7)	-	-
Proceeds from issuance of bonds	379.5	-	-
Payment of bond liabilities	(30.1)	-	-
Preferred dividend payment	-	(0.5)	-
Proceeds on issue of preferred shares	-	-	82.0
Preferred share issue costs	-	-	(0.1)
Proceeds on the issue of ordinary shares on IPO	-	300.0	-
Payment of IPO adviser costs	-	(9.1)	-
Proceeds from the exercise of share options	0.7	1.1	-
Payment of lease liabilities	(7.1)	(3.8)	(2.7)
Net cash inflow from financing activities	612.4	287.7	79.2
Net increase in cash and cash equivalents	(166.4)	243.6	46.6
Cash and cash equivalents at the beginning of the year	333.0	88.9	43.3
Effect of foreign exchange rate changes	(2.1)	0.5	(1.0)
Cash and cash equivalents at the end of the year	164.5	333.0	88.9

Reconciliation to free cash flow	2019 £m	2018 £m	2017 £m
Net cash outflow from operating activities	(27.0)	(30.6)	(19.9)
Purchase of intangible assets	(14.5)	(11.0)	(10.7)
Purchase of property, plant and equipment	(2.7)	(2.3)	(1.3)
IPO costs in operating activities	-	5.9	-
Interest received	1.9	0.9	0.6
Payment of lease liabilities	(7.1)	(3.8)	(2.7)
Free cash flow	(49.4)	(40.9)	(34.0)



Change to Segmental Reporting

Current Segmentation

2019 £m	UK	US	DM	Total
Revenue	108.5	45.6	13.3	167.4
Segment adjusted EBITDA	34.0	(10.3)	(12.5)	11.2
Product and development				(26.4)
Corporate costs				(12.3)
Adjusted EBITDA				(27.5)
Depreciation and amortisation				(14.9)
Share based payments				(8.0)
Exceptional items				(34.3)
Operating loss				(84.7)

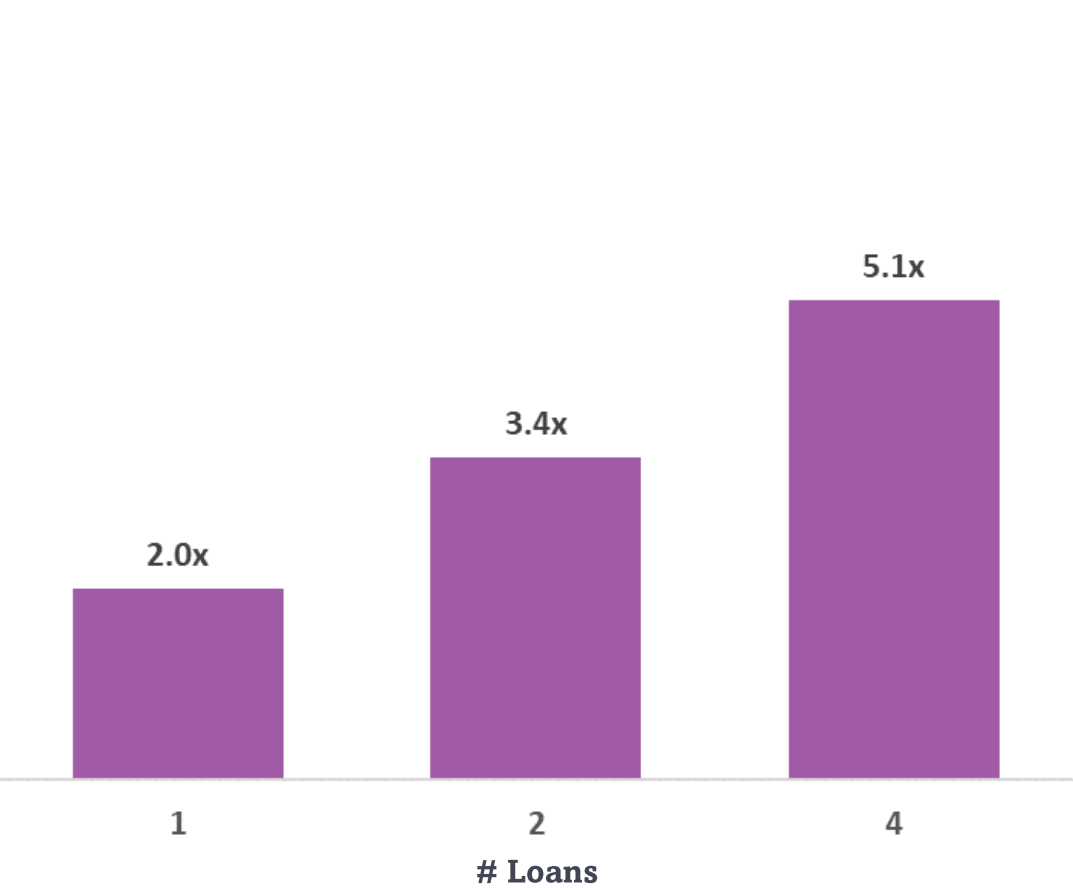


New Segmentation going forward

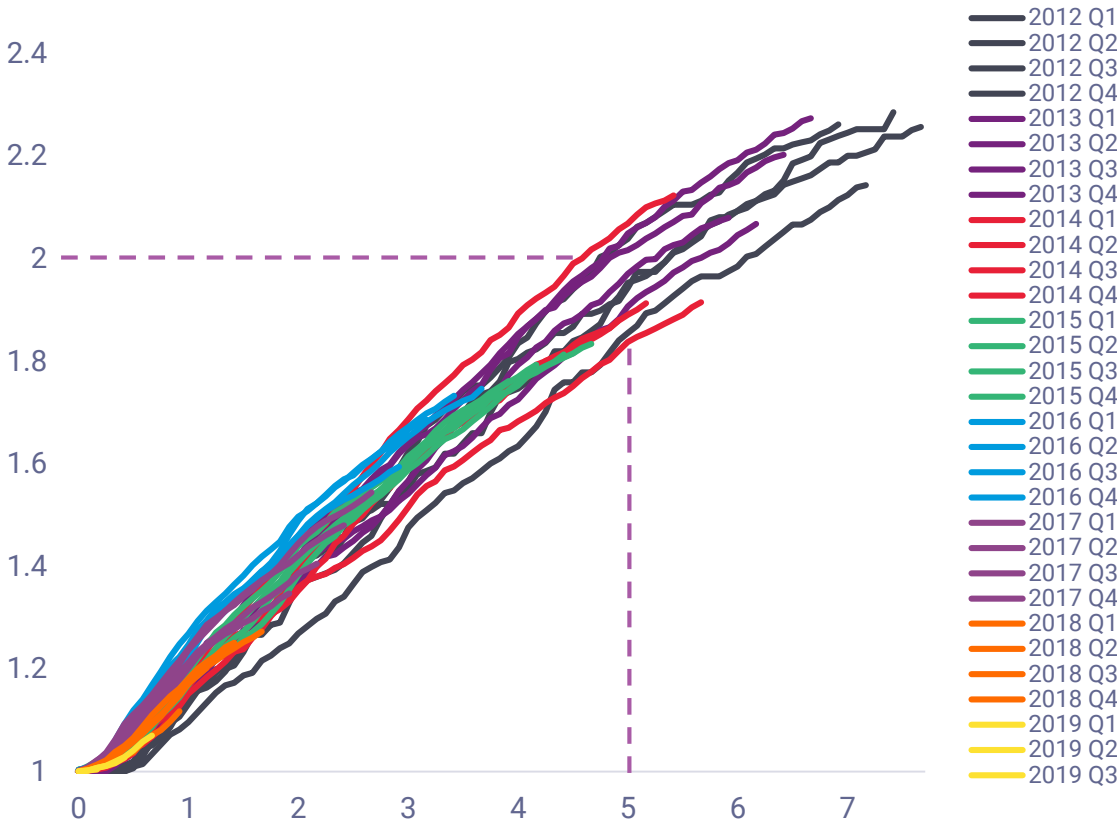
2019 £m	UK	US	DM	Total
Revenue	108.5	45.6	13.3	167.4
Segment adjusted EBITDA	34.0	(10.3)	(12.5)	11.2
Product and development	(23.0)	(11.7)	(4.0)	(26.4)
Corporate costs				(12.3)
Adjusted EBITDA	11.0	(22.0)	(16.5)	(27.5)
Depreciation and amortisation	(8.0)	(5.2)	(1.7)	(14.9)
Share based payments	(5.0)	(2.7)	(0.3)	(8.0)
Exceptional items	-	-	(34.3)	(34.3)
Operating loss	(2.0)	(29.9)	(52.8)	(84.7)

Funding Circle Borrowers Exhibit Strong Repeat Behaviour

LTV/CAC by number of loans per borrower



UK: On average borrowers take out 2 loans every 5 years²



Stress-test simulation shows resilience through the cycle

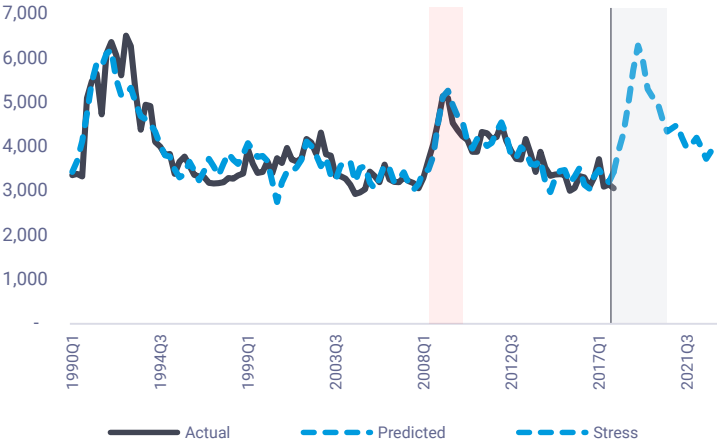
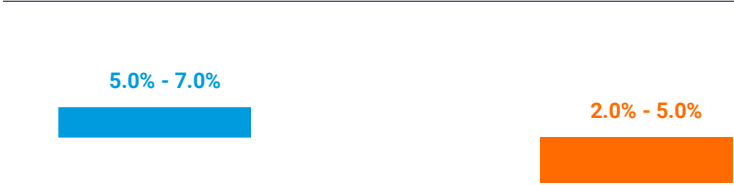
Simulated net yield impact

Stressed insolvencies simulation⁽³⁾



Base⁽¹⁾

Stress⁽²⁾

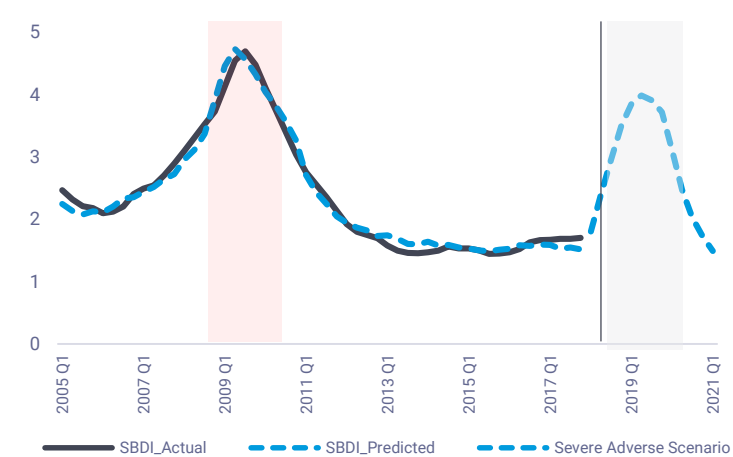
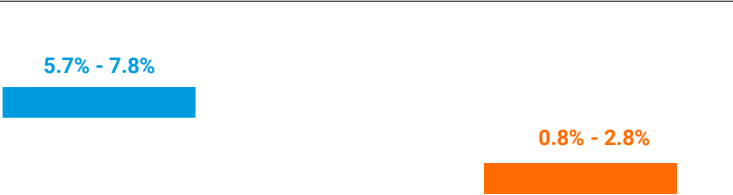


Bank of England 2019 Annual Cyclical Scenario (ACS)	
GDP	Falls to -4.7%
Unemployment	Rises to 9.2%
CPI	Rises to 4.9%



Base⁽¹⁾

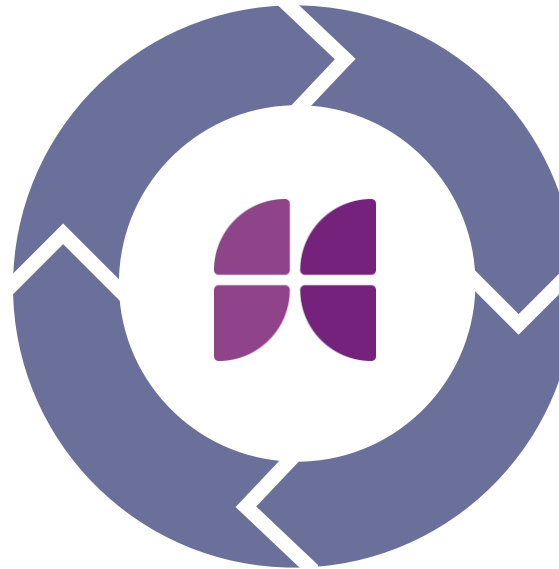
Stress⁽²⁾



Federal Reserve Board 2019 Severe Adverse Scenario	
GDP	Falls by -7.5%
Unemployment	Rises to 10%
House Prices	Falls by 30-40%

Virtuous Funding Circle Drives Continual Improvement And Competitive Advantage

...scale attracts
more investors to
the platform...



...funding more
loans and
generating more
data...

...creating more
predictive
models and targeting...

...generating higher
conversion, better
net returns and
more repeat
borrowers...

Notes



Notes



Notes



