Funding Circle
Half Year Results 2024

5th September 2024

Transcript

Lisa Jacobs: Good morning, and welcome to the Funding Circle Half Year 2024 Results presentation. I'm pleased with our performance in the first half. We're now a simpler, leaner, profitable business. We've seen strong growth in the first half and we remain on track to deliver against further growth and profitability. Today, I'll run through an overview of who we are, a summary of our H1 performance, and business updates before passing to Oliver for the financial review.

We're the UK's leading SME finance platform. To date in the UK, we have extended over £13.5 billion in credit to over 100,000 businesses. Our mission is to build a place where SMEs get the funding they need to win. When businesses like 15 grams coffee, featured on our front page, get finance, it has a big impact on the economy and communities through the UK. In 2023, lending through Funding Circle supported 95,000 jobs. We offer a quick and slick way to get finance to enable SMEs to borrow for the long term with our range of term loans, pay later with a line of credit to spread their bills and invoices, and spend using our newly launched Funding Circle cashback credit card. We offer our SMEs an amazing customer experience powered by data and technology, saving them time so they can get back to doing what they do best, running their business.

The market in which we operate is large and underserved. In the loan space, there are more than £80 billion in loans outstanding. In the payment space, there are over a trillion B2B SME payments made every year, of which £80 billion is on cards. Our customer experience continues to be strong, powered by our data and technology, and as we expand our product sets we're able to leverage the same quick and easy experience. 76% of businesses get an instant decision with applications taking six minutes, and that means our customer satisfaction levels are very high. Our MPS is 75. Our Trustpilot score is 4.6.

When it comes to assessing applications, our risk models are three times better at discriminating risk than the Credit Bureau Score. This level of risk discrimination enables us to say yes to more businesses and offer competitive rates whilst maintaining our strong loan returns. Our loan returns continue to deliver for our investors at 5 to 6% historically, with estimated net returns increasing in line with interest rates to about 10% in the last 12 months. Our consistent and resilient loan returns have attracted ongoing funding commitments in excess of £1.8 billion in our platform-funded loans business and a Citi facility of more than £150 million for our FlexiPay and card products.

The first half has been about reshaping the business to deliver an attractive business, simpler, leaner, and profitable with strong growth prospects. In March, we announced that we were in early stage talks for the sale of the US business in order to focus on nearer-term profitability and cash generation in the UK. The transaction closed on the 1st of July as we completed the sale to iBusiness funding for a gain on sale of 10 million pounds. I was pleased with both the speed and outcome of the deal. In addition, we restructured the business to deliver £15 million of annualised cost savings in 2025. As part of this, we removed about 120 roles in the UK business driven by focused actions on management layers, business prioritisation, and productivity, in part supported by GenAI tools. I was pleased with our execution against this and the benefits that we're starting to see flow through. We're now a simpler and leaner business.

Alongside these business changes, we have delivered well in the first half. Our total credit extended, the sum of our term loans and FlexiPay transactions was £918 million. This grew 25% half-on-half and over 60% year-on-year as we saw strong growth across products. Revenue growth continued the strong momentum we saw in 2023 with Group revenue growth of over 30% year-on-year and a profit of £0.5 million pre-exceptionals for the continuing business, achieving our profitability target a half early. Cash balances remain high at £164 million, roughly in line with the start of the year. We've improved our customer value proposition in both term loans and FlexiPay, delivering strong half-on-half momentum. In term loans, we've launched new products and product features. We also saw heightened market demand at the start of the first half. Combined, these contributed to a 17% origination growth from H2. In FlexiPay, our pay later line of credit products, we've crossed half a billion pounds in transactions with 57% growth since H2 '23 and have seen good traction with our linked pay later card, which is now responsible for about 10% of all FlexiPay transactions.

I remain excited about our future business. We've delivered well in the first half. Whilst the heightened demand we saw in the first quarter has normalised, we remain on track to deliver against our full year revenue guidance for both our loans and FlexiPay businesses. We've upgraded our full year profit guidance. On a group basis, we'll be profitable for the full year, not just the second half as previously guided. In the loans business, we have upgraded our PBT margin guidance to more than 12%, from 8 to 12%, and we remain on track to meet our medium-term 15 to 20% revenue growth per annum and profit guidance of more than 15% PBT margins. We have an attractive business with a strong growth outlook. We have seen a good share price reaction to the plan we set out and have been delivering against since March, but the board still believe that the share price undervalues the business. In March, I announced a £25 million share buyback. We are now £19 million through the programme and we expect it to conclude in Q4 this year. Today I'm announcing that following the conclusion of this £25 million share buyback program, we will launch a further program of up to £25 million, doubling our overall buyback programme.

Moving on to a business update. Two and a half years ago, I laid out our multi-product vision to enable businesses to borrow, pay later, and spend through Funding Circle. Our focus in the meantime has been on leveraging our existing strengths in SME credit, data, distribution, and brand to expand our product set to meet these objectives. This enables us to attract more businesses and have deeper relationships with them. Our business has grown over the last few years as we've expanded our product set from our term loan proposition into payment finance, and we're seeing the benefits of this expansion. We've added over 10,000 active FlexiPay customer accounts, our customers engage with us through FlexiPay more than once a month versus taking a term loan out every three to five years, and we're seeing both crossover in terms of customer groups and the ability to reach new audiences with different products.

Our product set is made up of three families, borrow, pay later, and spend. Our term loans business is where we started. We've been offering businesses term loans for 14 years, but we've not stood still over that period. Our Funding Circle loans have been supplemented with government-guaranteed loans, enabling us to serve a larger portion of businesses and attract a different type of lender, and our marketplace loans where we leverage our distribution and finance expertise by referring businesses that we cannot support to other lenders. Our term loans are the solution for our businesses who are looking to invest to expand their businesses, whether that is a climbing center in Hayes, expanding their space to include a cafe and fitness studio, or an Edinburgh-based foundry expanding their production and art gallery space.

FlexiPay is a pay later product and a solution for our customers' biggest pain point, cash flow management. It's the solution for our businesses faced with quarterly VAT bills that they want to spread, for our businesses with front-loaded cash flow needs like caterers, florists, for our businesses, dealing with long payment terms from their customers or for our businesses buying stock in bulk, whether seasonally or to extract volume discounts. Last year we launched a FlexiPay pay later card, giving customers another way to access their line of credit. It's been successful in driving FlexiPay volumes with about 10% of transactions coming from the card, with the remaining 90% coming from direct bank transfers to suppliers. Since the launch of our card, customer feedback has pointed us to the addition of a cashback credit card for everyday transactions. We launched this in Q3. With this product, we intend to capture a share of the over £80 billion in SME card transactions. We're excited about the potential of this product, and I'll share further updates as this product matures. For now, it provides another example of how we're expanding our product set to serve more customers' needs whilst leveraging our existing capabilities.

In each of these product families, we're expanding what we're doing and evolving our customer proposition to drive increased volume and growth. In our term loans business in the first half, we successfully launched new iterations to our loan offering, including launching the latest government loan guarantee programme. In marketplace, we continue to find ways to support businesses. We expanded the lenders that we work with, the product range we have, and the integrations that we have with them through marketplace, which now accounts for more than 10% of our term loan origination. Our intention is to say yes to as many businesses as possible through the combination of our products and our partners' products. In our FlexiPay business, we've continued to see strong growth. We've crossed through half a billion pounds of total transactions. Our pay later card is enabling businesses to expand the ways and places that they can pay later. We've continued to improve our product features such as by adding increased flexibility for our customers, allowing shorter and longer repayment terms, amongst other application and billing changes.

Diving into a bit more detail on FlexiPay, transaction growth continues at pace with transactions increasing over 150% year-on-year. Importantly, we continue to see ongoing engagement with our customers as they use the product at least once a month. Businesses have now FlexiPayed more than 140,000 times as they use their line of credit to spread the cost of bills, invoices or buy stock in bulk. Our unit economics continue to deliver in line with expectations as we target a 12 to 18 month payback. As we've shared before, our FlexiPay unit economics have a J curve. Marketing and Expected credit loss costs are front-loaded, with revenue coming subsequently as customers use the product on an ongoing basis. Our upfront acquisition costs benefit from our brand and existing customer base and have been trending down as we have honed our marketing messages and channels. Product losses have remained in line with expectations. On an ongoing basis, we continue to see very stable usage rates between cohorts, as you can see in the chart on the right. I've shown this chart a few times now, and the trend continues to be consistent. Aggregate FlexiPay transactions grow at a fast pace with over £225 million of transactions in the first half, but what excites me more is looking at the recurring transactions on a cohort basis, and this is shown in the different coloured bars. Once the customer tries FlexiPay, it becomes part of their regular cash flow management toolkit, and we see stable recurring transactions. We expect to see this trend continue.

Now, I'll pass over to Oliver to talk about the overall financial results in more detail.

Oliver White: Thank you, Lisa. Good morning, everyone. The successful execution that Lisa has spoken about is grounded in, and reflective of a good set of financial results.

The go-forward UK business, comprising term loans and FlexiPay, was 0.5 million PBT positive in the first half. This is ahead of our guidance of achieving profitability in half two. To ground us all in our financial presentation, I would like to draw out a few key items. Firstly, to minimise any confusion, we'll be referring to our Net Income as Revenue. This continues to be defined as Total Income plus Fair Value Gains or Losses, and less Cost of Funds.

Secondly, we are reporting the US business as a discontinued operation, given its successful sale, effective July the first. The loss of 10.1 million shown here reflects a H1 trading performance. The financial impact of the sale will be reflected in the full year results. The finance section of the press release includes a pro forma presentation. Finally, the results in this slide and in the following slides are presented before exceptional costs. £2.6 million of exceptional costs that are incurred in the half to support the actions taken to simplify and streamline the UK business. These exceptional costs primarily reflect redundancy in associated payments. I will now walk through these results in more detail.

Starting with the go-forward Group, revenue grows to £79.1 million, up 12%, half-on-half. H1 of '24 compared to H2 of '23, and is up 32% year-on-year. H1 '24 compared to H1 '23. Strong growth was seen in both term loans in FlexiPay. Adjusted EBITDA almost doubles half onhalf to £11 million, and the group is PBT positive of a profit of £0.5 million. As mentioned, this is before exceptionals. Term loans continue to be profitable, investment in FlexiPay scaling continues. I am pleased that the group has reached this important milestone of profitability earlier than originally anticipated. Net assets and cash remain robust, Funding Circle has a net asset value of £229 million, and unrestricted cash of £164 million, to which I'll come back to later.

The term loans business is a market leading platform from SME lending, has scale and is profitable and cash generative. Originations grew 17%, half-on-half, and 47% year-on-year.

Product innovation and launches, including the strength of the Marketplace offering, enabled continued growth in changing market conditions. As a reminder, we saw a significant step-up at originations in H2 of 2023 due to the actions we took in growth from product expansion. This included the successful reintroduction of our participation in the recovery loan scheme, alongside some post COVID market normalisation. H1 of 2024 has maintained the same momentum, with demand in the first quarter of 2024 being particularly strong. Loans under management or LuM stabilised as government guaranteed COVID scheme loans amortised down and were offset by new originations.

Revenue increased to £71.6 million, up 7%, half-on-half, and up 25% year-on-year. Transaction fee income growth matched originations, and servicing fee income tracked LuM with yields broadly constant half-on-Half. Term loans continues to be consistently profitable, demonstrating sustained margin improvement with continued operational leverage being seen. Profit growth is exceeding revenue growth with adjusted EBITDA up 46% at £18.3 million, half-on-half. PBT was up 80% at £9.2 million. PBT margins increased to over 12%.

Now, to FlexiPay. FlexiPay top-line growth continues. FlexiPay transactions have increased to £226 million, 1.6 times that of H2 of '23 and 2.5 times that of H1 of '23. End of month balances follow a similar pattern, growing to £81 million. This performance is driven by the customer growth we've seen in the past 12 months, with our borrower base increasing from 7,000 to 18,000. As Lisa has shown, we have seen continued repeat usage from previous cohorts and this has allowed us to scale in line with our customer growth.

This momentum has resulted in its significant revenue growth with revenue of £7.5 million. This is over double that of H2 '23 and almost four times the level and a H1 of '23. This is driven by the increased customer usage mentioned, along with the flow through of pricing actions taken in 2023 when we increased the fee from 3.5% to around 4.9% in response to the rising base rate environment. AEBITDA was £7.3 million negative and PBT was £8.7 million negative, as we continue to invest in and scale FlexiPay. We've invested in technology and the FlexiPay team. Additionally, and as discussed, Marketing spend and the Expected credit loss provision, front-run income. Profitability for FlexiPay comes from predictable repeat revenue, alongside its attractive unit economics.

Operating expenses continue to be actively and tightly managed according to the strategic needs of each segment. Cost management is and will continue to be a major area of our focus.

In May, we announced actions to simplify and streamline our UK business. A further example of this would be the decision taken to consolidate in one rather than the two floors in our London office. The loans business is the most established segment and demonstrates operational leverage as we grow. Loans in half one demonstrated continued cost efficiency, with costs growing 1%, whilst revenue increased by 7%, half-on-half. PBT margins reached over 12%. We continue to scale FlexiPay. FlexiPay is demonstrating a strong growth trajectory, and as discussed, we are investing behind the product with some costs front-running revenue. Revenue was up 127% and cost was up 49%, half-on-half. Overall group costs grew £5.7 million versus half two of 2023. Salaries were held flat, with other costs up £1.6 million, which were primarily higher share-based payment remuneration reflecting the higher share price. An additional £2.8 million was invested in Marketing, and FlexiPay Expected Credit loss provision grew £1.3 million in line with the growth of the product. Included in the half, was some limited benefit from early execution of some of the restructuring actions.

Let's now turn to our term loan performance and the returns provided to our platform investors. The overall book has remained very stable with circa five to 6% average annualised returns over base rate, despite the changeable macroeconomic environment. Our credit risk management is proven, our borrowers are resilient and the loan quality is good. It should be noted that we haven't relaxed the credit tightening introduced in the second half of 2022. The returns demonstrate the robustness through the cycle of the asset class that Funding Circle has developed and other capabilities built to originate, underwrite, and manage these loans. We have maintained a forecast of loan returns in each annual cohort with the exception of the 2022 cohort. We have seen some continued ongoing economic deterioration impacting this cohort, and accordingly, we have forecasted a further reduction in the expected returns of 50 basis points to 5.1%.

As you will recall, the economy began 2022 with some anticipated COVID recovery, but was impacted by stresses including the energy price shock and the mini budget. This impact is isolated to the 2022 cohort. 2023 and 2024 illustrates how we've responded to the changing base rate environment and have been able to reprice into a steepening yield curve to maintain returns. A reduction in returns in '24 has been seen as the yield curve, has started to reduce and investor return expectations are moderated and we have passed this onto borrowers in the form of lower pricing. The robustness through the cycle of the returns is evidenced in the ongoing support of our institutional investors. Going into H2, we have £1.8 billion of forward flow commitments with seven investors supporting term loans. With FlexiPay, we've successfully renewed or senior facility with Citibank, and this facility now includes the cash back credit card.

Our balance sheet remains robust. Net assets are £229 million. The decrease in net assets of £18 million is driven by the trading profits and losses of each business unit, including the £10.2 million H1 drag of the US, which obviously will not recur. Additionally, the buyback, although EPS enhancing reduces net assets given these shares are purchased and subsequently canceled.

Unrestricted cash is slightly decreased by £5 million since December '23 to £164 million. Term loans continues to be cash generative and covers FlexiPay cash burn, noting that FlexiPay cash outflow is less than its reported losses, given the expected credit loss provision is non-cash. The US' operating outflows are offset by the monetisation of legacy on balance sheet loans. £8.2 million of the share buyback programme announced in March had been executed by June 30th. As of today, we've bought back over £19 million pounds of shares. The balance sheet is before the impact of the US sale, effective July the first, and the impact of this would be to increase both net assets and cash by around £8 million. Since June, we have received £8 million of net proceeds from the US exit and expect outflows of £17 million to complete the share buyback announced in March, and up to £25 million for the intended further buyback.

Additionally, we maintain a management buffer that as of June was £40 million. As our capital allocation framework shows, we are fully funded to deliver on our growth strategy, supporting FlexiPay to profitability and funding FlexiPay lines of credit. We are stewards of our cash and capital, where we evaluate how best to invest our deployable capital. We have strong returns in our existing business and we'll seek attractive returns on future opportunities. We'll invest in further growth opportunities as these become apparent and we'll invest where it makes the platform stronger. We'll periodically reassess the need for capital throughout the business and consider further distributions to shareholders as appropriate. This can be seen in the further £25 million share buyback that Lisa has announced our intention to commence.

I'm very satisfied with funding circles financial performance in the first half of this year. We have delivered what we set out to do.

We've achieved a good set of results including delivering a profitable go-forward Group. Turning to our expectations for the full year. Term loans revenue growth remains at greater than 10% year-on-year. We expect to beat our margin guidance ahead of our previous expectations of 8 to 12%. I expect margins will continue or slightly improve on the H1 levels during H2. FlexiPay guidance remains unchanged. FlexiPay revenue growth will be three times out of the prior year, and FlexiPay losses will be similar to that of the prior year. Building on the H1 performance, the Group will be PBT profitable for the full year. I would now like to hand back to Lisa.

Lisa Jacobs: Thanks, Oliver. As we've announced this will be Oliver's last set of results for Funding Circle. So I'd like to take the opportunity to thank Oliver for all that he has done for the business over the last four years. I'm delighted that Tony Nicol, our current finance and IR director, will be stepping into the CFO role from the start of the new year. He is well known to many of you and will be joining me on the roadshow.

In summary, we've delivered well in the first half. We have simplified and streamlined the business. We have delivered strong growth alongside profitability. We're continuing to improve and expand our product range and proposition for our borrowers, leveraging our existing capabilities in SME credit, distribution, and our technology.

We are in a strong position from which to continue on our growth trajectory.

Looking ahead, I'm excited about where we are. We operate in a large and underserved market with a strong and defensible data and technology advantage. This enables us to offer our customers a superior customer experience as we've continued to deliver strong and sustainable returns to our loan investors. Over the last few years, we have significantly increased our product portfolio, enabling us to serve more customers and more of our customers' needs as SMEs borrow, pay later, and spend with us. This provides us with multiple growth pathways.

As we continue to execute against this plan, we are building an attractive business with strong top-line growth with a 15 to 20% revenue CAGR alongside improved PBT margins, hitting more than 15% over the medium term.

Thank you. We will now take questions.

Operator: Thank you. Ladies and gentlemen, if you wish to ask a question at this time, please signal by pressing star one on your telephone keypad. You wish to cancel your request, please press star two. It is star one to ask a question. And our first question comes from Rahim Karim from Investec. Please go ahead. Your line is open.

Rahim Karim: Good morning, guys. And congratulations on the very strong set of numbers and strategic deliveries year to date. If I could just ask three questions. The first was regarding the forward flow. Impressive increase since the start of the year. Could you just help us understand how much of that comes from existing partners and new arrangements, and whether there's been any impact of the change in government in terms of appetite from funders to have exposure to the asset class?

Second question is just regarding FlexiPay. The colour on the economics is super helpful. There seems to be reference to marketing costs, or cost of acquisition having trended downwards. Could you perhaps explain what's driven that, and whether you see scope for that to improve as you move forward?

And then the third question, if I can, is just to get clarification in terms of the £15 million cost savings that you're aiming to deliver. The cost to achieve, is that all being reflected in the first half and expect no further costs in the second half? And is the full benefit on a run-rate basis now being achieved, ie: you get £15 million in FY '25 and just under half of that in FY '24? Thank you.

Oliver White: I'll begin with your first question, Rahim. Hi. The bulk of the increase in the funding commitments has come from existing investors. We added one new investor in H1 with a £300 million commitment. We also, as we moved to participate in the government guarantee... sorry, the growth guarantee scheme, which is the successor to the recovery loan scheme, we re-signed the two bank partners we worked with on the RLS into the GGS. We've seen no impact of the change of government on the appetite of our institutional investors.

Lisa Jacobs: Hi, Rahim. I'll take this second question on FlexiPay in terms of the economics, and what's happening from an acquisition perspective. So one of the reasons that we launched FlexiPay was to expand our ecosystem of products to enable us to both serve existing customers with more of their product needs, but also to enter into a new segment that enabled us to attract new audiences. We've seen about 10,000 active FlexiPay customers, so very happy with the growth that we're seeing.

From the marketing cost particularly, we see benefit from two areas. One is our brand in the market and our current book of over 130,000 businesses who we've supported today, and really expanding our share of wallet with them in terms of offering them new products. And then secondly, the benefit that we're seeing is, as we've learned more as we've launched this product and honed our marketing messages, honed the marketing channels, that we're seeing the benefit there. And so, that's driven the improvement in CPA since we launched.

Going forward, we expect to manage that new and existing mix of customers, such that at an overall basis on the group, our marketing stays at a similar level in terms of marketing as a percentage of revenue.

Oliver White: Okay, and your third question was on cost.

Firstly in half one, we took an exceptional cost of £2.6 million. We did not expect to take any more in half two. I recognise this is lower than the initial indication back in the May RNS of up to £5 million. In half one, we had some small benefit of some early benefits, but under a million. As you said, we get the full run-rate benefit in 2025 of £15 million.

We have additional benefit coming through during half two, but it would be overly aggressive to assume we will get 7.5 million in half two. Additionally, you should probably note, there will be a partial offset with a small headwind as some central group costs previously allocated to the US, need to get absorbed and worked through in the go-forward UK business.

Rahim Karim: That's very clear, thank you both. And Oliver, thanks for all your help over the years.

Oliver White: You're welcome.

Operator: Our next question comes from Orson Rout from Barclays. Go ahead.

Orson Rout: Hi. Yeah, Orson here from Barclays, just two from my side.

First is on FlexiPay as well. Very helpful to again, have that cohort analysis, and obviously very encouraging progress we're seeing there. Was just wondering if you could give a bit of extra help on first of all, how you intend to monetise older cohorts more going forward than what the of churn expectations are, and to what extent you expect pricing to be an ongoing tailwind to the FlexiPay division, that's the first question.

Second is on profitability and on the cash build. So obviously very encouraging to see that the business is PBT positive earlier than expected. We obviously know you have the midterm guidance for 15% PBT margin. Do you expect this to be PBT positive for every half year going forward, or is there the potential for some volatility going into next year? For example, you turn more investments into FlexiPay, or should we really regard this as profitable on a go-forward basis every half year? And finally, how do you expect that to translate into free cash flow and cash build into 2025? Thank you.

Lisa Jacobs: So if we talk about FlexiPay, hi Orson, morning. So as you said, from a cohort perspective, we're really happy with what we've seen in terms of the cohort analysis and what you can see as you've mentioned, and as we spoke about, is that ongoing consistency in terms of the cohorts, the level of transactions that we see from each of those cohorts. If you think about the dynamics within that, there are some businesses who will default and will fall out of that cohort.

But what we're focused on is, trying to manage that such that we have ongoing customer relationship management such that we can... where we have businesses that are of good credit quality, that we are increasing their amount of spend, their lines that we offer them.

So we're managing that carefully through our credit risk management team, and we expect to see similar dynamics going forward as to what you see in this cohort chart. So that consistency of the recurring revenues by cohorts. I will pass on to Oliver for the second question.

Oliver White: I'll also just talk briefly about FlexiPay pricing, which I think was one of your questions as well, Orson. I think where you're coming from is, will we get a benefit from a decreasing base-rate environment with FlexiPay? The answer to that is potentially, but this is still a new product and we're looking to grow share. So I wouldn't assume any benefits from a reducing base rate environment, whilst keeping a borrower pricing constant.

In terms of profitability in cash. Yes, I can confirm as we've previously communicated, we would be profitable on a go-forward basis. Clearly we are very attuned to taking opportunities as they arise, but our intention and the actions we've taken, set ourselves well to do this, is to be profitable on a go-forward basis.

Again, as we've touched upon, term loans are cash generative, and going into '25, will continue to be. FlexiPay, we're investing behind the product and we're investing to grow the lines of credit, and FlexiPay will certainly continue to be cash consumptive in 2025.

Orson Rout: Okay, super helpful. Thank you and thank you for all the help over the years, Oliver.

Operator: Thank you.

As a reminder, to ask a question, please signal by pressing star one, and our next question comes from Edward Firth from ABW. Please go ahead.

Edward Firth: Yeah. Morning everybody. I just had two questions, if I may. The first one was, if I'm looking at the term finance business, the loans are still declining. And I'm just wondering, at what stage... are we now really at the bottom of that government runoff, new business growth-type balance? Should we now start to expect to see the volumes in that business start to grow from here? So I guess that's my first question.

The second one is, just looking at the revenue performance against the volume performance, there's a pretty significant step up in the margins. And I'm just wondering if you could talk a little bit about what drove that? How sustainable that is. Is this sort of upward trend, or should we now expect to see this as a of new margin level going forward in that business?

And then the final question was, yeah, just on your cash allocation style, which I thought was really interesting. The £19 million of deployable cash, is that effectively the cash that's available to grow the FlexiPay business? Is that the way we should look at that, or other usages for that cash that may draw down on it? Thanks so much.

Oliver White: Okay, so the first question was around the term loans and the loans under management. I would expect that to stabilise in half two, and to grow from 2025 onwards.

As you remember, there was a very large origination for some of the government-derived SBLC lending and that's going through its amortisation cycle, being offset by new lending coming on the book, but stabilise at Half Two, grow in 2025.

In terms of the margin performance on term loans, we're really seeing the benefit of the platform model in term loans coming through. So strong revenue growth falling through to profitability with great operational leverage being seen. I would expect the margin in Half Two to be equal to or slight improvement on Half One.

And thirdly, the capital allocation and the cash, the £90 million is effectively deployable cash and capital. We are fully funded for our present growth plans, both for term loans and for FlexiPay. Flexipay being both the investment in the J-curve of the product, and also in funding the lines of credit. And clearly FlexiPay, we hope there's some opportunity and a range of potential outcomes of how fast do we choose to grow that product.

However, over and above that we consider we have additional deployable capital and we make decisions on what to do with that in line with our capital allocation framework.

We think there's additional growth opportunities in the UK market. We're optimistic we will find those and that they will be attractive, and as we've proven, we'll also continue to consider distributions to shareholders as evidenced by the second £25 million buyback that Lisa announced earlier this morning.

Edward Firth: Great. Could I just come back on the revenue? I was thinking in terms of margins, I was thinking more in terms of the revenue margin, because if I look at the fee income line, the UK term loan, that's been steadily growing as UK loans under management have been steadily falling.

And I'm just trying to think what's driving that dynamic. Are you just able to charge more fees for it, and how much would we discontinue? I guess if you started to see the volumes grow as well, that number could grow very substantially, but maybe I'm getting overexcited there.

Oliver White: I think you are possibly are getting overexcited, Ed. So in the fee income, and clearly you make the great point term loans is a fee business, the transaction fees yield has been very constant Half One of this year compared to Half Two of last year. There's been a slight uptick in the marketplace yield, mainly driven by the product mix. The servicing fee, again, has a very marginal improvement, but nothing major.

We have benefited slightly but by one or two ad hoc costs. Occasionally we help some of our institutional investors securitise and we take some fee income for that, but all pretty marginal. So I see it more or less being consistent going forwards.

Edward Firth: Perfect. Okay, thanks so much.

Operator: Thank you. As there are no further questions in the phone queue, I will hand the call back over to Jack for any web questions, Jack over to you.

Jack Gault: So we have a few questions from Robert Noble at Deutsche Numis. I'll group them together by theme and ask them a couple at a time.

The first two are, "What should we expect in terms of ongoing capital distribution going forward? Do you currently see opportunities to invest excess cash and how flexible are you on investment versus distribution?"

Oliver White: Yeah. Well, first of all, we are fully funded to deliver the plans we've spoken about. We do see the ability to find additional attractive growth opportunities that we will pursue. However, as mentioned already, we will weigh that up versus distribution to shareholders. We frequently review our capital allocation and make the appropriate decisions at the time.

Jack Gault: Second couple of questions are, "How do you think the interest rate environment is affecting SME's demand for credit? Are there any signs of customers holding back, knowing that rates can fall further?"

Lisa Jacobs: Yeah, I mean, you can see in the first half that we've had a really strong half and demand has been there with managing £18 million of credit extended across our term loans and FlexiPay proposition. And good growth in revenue, up over 30% year-on-year.

In the first quarter we saw heightened demand, and this is somewhat normalised in the second quarter, but I'd say a couple of things to draw out over the last couple of years.

I guess over the last few years we've seen small businesses be really resilient through Brexit, through COVID, through the interest rate rises, that we've seen. And in our research we've found that businesses feel that they have become more resilient that supported them facing other challenges going forward. And we've shown that our business works in this higher interest rate environment, both in terms of being able to attract investors as we've increased prices but also demand for our loans.

As I said the second thing is that we have pivoted the business over the last couple of years to serve a much broader range of customer needs, and to focus on the shorter term working capital through our FlexiPay pay-later product, the everyday spend through our credit card products, such that we're covering the range of small business needs from the longer-term investment through to the shorter term working capital needs as well.

Jack Gault: And the final question from Robert is, "Given that you're a platform, what are the incremental costs in scaling up originations in the existing business? How much benefit have you already seen come through from cost actions?"

Oliver White: As mentioned, we've seen a small amount come through in Half One, but under the million. We expect to see some more to come through in Half Two. Though again, as mentioned, there will be a partial offset by having to absorb some headwinds from the US sale, and then the full benefit in 2025.

As a platform, we are scalable. I think we've demonstrated in the Half the great operational leverage that the UK loans business demonstrates. As we do grow, there will be some costs we need to add in. We have some variable costs off fulfilment. We're a digital platform, but we do employ a human touch sales teams, collections team, so there will be some cost, but we will see very powerful operational leverage as term loans continues to grow.

Jack Gault: And the next couple of questions come from Nik Lysiuk at Canaccord. He asks, "What needs to happen to get to the bottom of the J-curve in FlexiPay up into profit? Is that just a volume play and natural continued cohort usage?" And his second question is, "What other new products might interest you and would you build them from scratch?"

Oliver White: I'll handle the first part of that question, Nik. Yeah, effectively it is. It's a layering of the various J-curves as you build out to scale to get to profitability. So it's really, as we continue to test, to learn, to grow, to scale, and have that repeat usage pattern that Lisa spoke about, that momentum delivers FlexiPay profitability.

Lisa Jacobs: Morning, Nik. I'll take the second question in terms of other new products. So our mission is very much around building a place where small businesses go to get the funding they need to win. And we've leveraged over the last couple of years our expertise in SME credit and distribution in data and technology to expand into both FlexiPay and now the credit card as well.

We continue to respond to customer feedback, respond to customer needs as we see those come through. I'd say right now, as I look at our product set, we have a huge opportunity to grow. In terms of those markets, I spoke about it at the start of the presentation, but there's over a trillion pounds of SME B2B payments. We won't finance them all, but there is £80 billion of that which is done through credit cards, through charge cards, another £80 billion in loans outstanding. So we see a really sizable opportunity to grow over the coming years in the areas and we're very focused on improving our product offering, continuing to innovate and add new product features.

But over the longer term, where that leaves us in with a much more frequent interaction with our customers. We've moved from a place where we saw our customers every three to five years as they came back for a term lane, to one where we're seeing them on a monthly and now weekly basis with our latest products. I think that does open up opportunity for us to serve them more, to save them time from a financial perspective so they can get back to running their business.

In terms of how we build those, we've shown that we can build these organically and we've had great success in doing so. We also, through our marketplace business, which is about 10% of the originations we do through term loans now, we are partnering with other businesses. We're never going to offer every single product under the sun for SME financing. And we find that this is a good way to leverage our distribution, our finance expertise, to serve our customers more fully. So we are open to both building organically and through partnership.

Jack Gault: And the next question comes from Max Groves at Trium Capital. He asks, "How would you characterise the institutional investors that you source funds from? Are they generally pension funds?"

Oliver White: There's generally two types. So there's banks where we work with a number of challenger or specialty banks in the UK, and then there's fixed income asset managers are the other main category. It's typically not pension funds.

Jack Gault: And the final question on the web chat comes from Elias Abdullah at 1729 Capital. His question is, "When do you expect FlexiPay to be profitable?"

Oliver White: We continue to invest and scale FlexiPay, and it's a business model where certain costs front run revenue. We continue seeing impressive top-line growth and as Lisa mentioned, FlexiPay has got attractive unit economics. We've previously spoken about how we expect FlexiPay to reach EBITDA breakeven in 2025 and that's still our intention.

Jack Gault: And there are no further questions on the web chat, so I'll hand back to Lisa for any closing remarks.

Lisa Jacobs: Thank you all for joining us this morning. To reiterate, we're really pleased with performance, we've delivered well. We've executed against our plan to be a simpler, leaner, profitable business, and we're really excited about the attractive growth prospects going forward. Thanks all.