

Funding Circle Holdings PLC

Half Year Results 2025

Conference Call

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Transcript



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Lisa Jacobs

Good morning, everyone, and thank you for joining us for our half-year results presentation. It's been a strong first half of Funding Circle. We've delivered profitable growth, continued to innovate for our customers, and made good progress against our strategic priorities, thanks to the hard work of our dedicated and passionate team of circlers. Today, I'm going to take you through our performance in the first half of the year, and then Tony, our CFO, will take you through the financials in more detail. After that, I'll wrap up with a look ahead, focusing on our strong position to deliver further growth and margin expansion. We're the UK's leading SME finance platform, enabling businesses to borrow, pay later, and spend. We operate in a large and underserved market, serving SMEs from popcorn manufacturers and design agencies to fine art foundries like Powderhall Bronze in Edinburgh, featured on the cover page. We deliver a superior customer experience to them and strong loan returns to our platform investors, powered by our proprietary data and technology. We've been backing small businesses for the last 15 years. Over that time, we've extended £16 billion of credit to over 110,000 UK businesses. The impact we have is significant, and one of the things of which I'm most proud.

When we back small businesses with finance, whether that's a bakery in Leeds, a chocolate manufacturer in Somerset, or a furniture maker in the Midlands, we play a small part in their lives, but it's an important one. Not only does it enable them to grow and run their business, but it also supports employment and economic growth. Last year alone, our financing supported over 87,000 jobs and contributed over £7.2 billion in GDP. We've had a strong start to the year with continued revenue and profit growth. Credit extended has grown over 20% year-on-year to £1.1 billion in the first half, whilst revenue has grown 17% to £92.3 million. In FlexiPay, revenue has more than doubled. PBT is £6 million versus £0.5 million a year prior and Term Loan PBT stands at £12.7 million, 38% year-on-year growth, showing continued operating leverage as the business scales. We're delivering against our plan to be a leaner, profitable, high growth business. Today, we're serving more businesses than ever before with our range of borrow, pay later, and spend products. Through our multi-product strategy, we are innovating with product expansion and product feature improvements. We've seen increased frequency of interaction with our customers alongside strong recurring usage in FlexiPay.

And we're delivering this with the same great customer experience for which we're known, resulting in high customer satisfaction scores. Our future is attractive with strong growth potential and further margin expansion. I'm confident in delivering against our medium term guidance, which remains unchanged at more than 200 million of revenue and more than 30 million of PBT in 2026, equating to more than 15% revenue growth since 2023 when guidance was set. In addition to delivering strong underlying performance and execution, our buyback programme is continuing. We've announced £75 million of share buybacks since March 2024 and a part way through our third £25 million buyback, having already bought back nearly 15% of our initial share capital.

We have a strong cash balance of £115 million. We've delivered these strong results thanks to our focus over the last few years in reshaping the business and expanding our product suite. Today, our borrow, pay later, and spend proposition serves more customer needs and drives increased frequency of engagement, increased share of wallet, and more entry points into the Funding Circle ecosystem. We are a more important part of our customers' lives. We're improving our operating leverage and laying the foundations for further growth.

Our term loans enable businesses to borrow for longer term investment or working capital; pay later is a line of credit facility that enables businesses to pay down in 1, 3, 6, 9, or 12 instalments. Our Credit Card offers an attractive cashback offer to reward businesses as they spend and borrow. When we expanded our product suite, we did so in response to customer feedback and the increased demand for working capital products. In addition, we focused on three additional outcomes: increased frequency of interaction, an increased share of our customers' financing, and new routes to acquire customers. We're seeing successful delivery against these outcomes. In H1, we have a customer transaction every 44 seconds, up from once every 92 seconds at the full year and once every half an hour in 2021, as more businesses begin and continue to use our FlexiPay and Card products to manage their day-to-day spend and cash flow. Over 70% of our FlexiPay revenue in H125 was from existing term loan customers as we increased the share of wallet of our customer base. At the same time, these new products are helping us reach new customer segments and address additional use cases. In H125, over 70% of our card customers were new to Funding Circle.

Our product offering is underpinned by our proprietary data and technology. It is this which drives our superior customer experience. We know that SMEs want quick and easy finance so they can focus on doing what they do best, running their business. When a business gets financed from Funding Circle, we're backing them to do just that, freeing up their time, helping them grow with confidence, and giving them peace of mind. Our risk models continue to discriminate risk three times better than the Bureau score. This enables us to say yes to more businesses whilst delivering robust and attractive returns to our investors. Our borrower experience combines a slick six-minute application, and 75% of our applications receive an instant decision. This experience delivers an industry-leading NPS of 81 and Trust Pilot score of 4.6. This is a significant achievement and testament to the strength of our proprietary technology, data, and AI-powered risk models. We're continuing to invest in these capabilities as the bedrock of our offering to deliver great customer outcomes. In H1 25, we utilise these capabilities to expand and enhance our product offering to new customer segments with our short-term loan offering. We're also investing in building Gen AI applications across the business to enhance customer experience and improve efficiency, maintaining a human in the loop policy throughout.

To share a small number of examples where we're using AI beyond our credit decisioning. In software engineering, we're employing Gen AI to accelerate product development. In our customer interactions, we're using Gen AI applications for sentiment analysis and to build customer profile tools. We're also using Gen AI-powered coaching models to enable more targeted and comprehensive feedback for our Account Managers. Our business continues to perform well in spite of the broader macroeconomic backdrop. As I look at the market today, it remains somewhat challenging. Inflation adjusted GDP is flat, consumer and business confidence low, and business insolvencies are still above their long term trend. In spite of the volatility, our business continues to perform well throughout the cycle, with robust loan returns, a strong funding pipeline, and continued growth in SME demand. This shows both our resilience and the resilience of our SME customer base who continue to show their agility in navigating challenges and finding opportunities. From a credit risk perspective, our portfolio continues to perform in line with our expectations, delivering loan returns of 5% over the cost of capital, thanks to our data and credit risk capabilities. In our FlexiPay and Card businesses, we also see continued performance in line with expectations.

As a result, we continue to see strong investor demand for our products, with £1.8 billion in total future funding commitments across loans and FlexiPay, with a strong pipeline of future investors. From an SME demand perspective, we've continued to see a consistent demand for business finance, reflected in credit extended, growing 20% year on year. Moving into the strategic highlights by business area. In our most mature product, term loans, we've delivered improving profitability and continued product development. We operate in a large and underserved market with more than £80 billion in SME loans outstanding. Profit has grown nearly 40% year-on-year to £12.7 million, driven by revenue growth, margin improvement, and operating leverage. We've continued to develop our product in response to customer feedback with our more flexible, shorter term product launched at the end of H1. This product expands our term loan offering, enabling us to serve a different segment of customers and a different customer need. We are in R&D phase with this product at the moment, and as such, we're currently doing the lending on balance sheet. We expect to be out of the R&D phase in early 2026 when we will migrate the product to a platform funding model in line with the rest of the term loans book.

Alongside this, our commitment to get to YES for our customers has driven an expansion in our marketplace product offering. In marketplace, we work with third-party lenders to offer loans to our customers that we are otherwise unable to support, whether that is due to product range or credit appetite. We currently have over 40 marketplace lenders across the UK on our panel, and to date, we've supported almost half a billion pounds in lending via the marketplace. In our cash flow products, FlexiPay and the Credit Card, we are addressing one of our customers' biggest pain points, cash flow management.

The market for SME Credit Card transactions is more than £80 billion, and there's more than £1.3 trillion in SME B2B payments made every year. We've seen the strong growth momentum continue with a more than doubling of revenue and 66% year-on-year growth in transactions to £375 million. I'm proud to say businesses have now FlexiPaid more than 270,000 times with a total value of transactions of more than £1 billion. Businesses are using FlexiPay to spread bills, supplier payments, and bulk purchases, releasing the cash they need to run their business. We have strong underlying unit economics with payback on target at 12-18 months.

FlexiPay has a J-curve as marketing and expected credit losses are incurred upfront and revenue is recognised as SME's FlexiPay and spend on the card. Our early cohorts are PBT-positive, and as you'll see on the next slide, we see strong recurring revenue from existing cohorts. This continuing usage has been supported by ongoing product improvements. In H1, we released a number of new product features. In FlexiPay, we enable businesses to not only pay directly to a supplier, but also to draw down from FlexiPay into their bank accounts, using it as a more traditional overdraft facility and therefore expanding the use cases. In the Credit Card, we continue to release product feature improvements, and we'll be ramping up marketing in the second half of the year as we move out of our early access phase. Alongside this, we continue to expand these products into new distribution channels, launching FlexiPay into our intermediated channels, and, following testing, launching the Credit Card into new distribution channels. When a business starts to use FlexiPay or the Credit Card, it becomes an important part of their ongoing cash flow management toolkit, and we see repeat usage. I've shown this chart a few times before.

It shows the end of period outstanding balances for our FlexiPay and Credit Card portfolio. The bars represent the balances at the end of each period, and the colours represent the cohort in which each business became a FlexiPay or Credit Card customer. What you can see here is that growth is driven by both the existing cohorts and new customers that were added each half year. We saw an increase in H1 across the balances in most cohorts, showing negative churn, which was as a result of the increased product features and our ongoing credit line management. As the book continues to grow, unit economics continue to form in line with our expectations. Our early FlexiPay cohorts are now profitable and were on track to turn profitable during 2026. Now, I'll pass to Tony to share the financial results.

Tony Nicol

Thank you, Lisa, and good morning, everyone. As Lisa said, we're really pleased with our performance in the first half of 2025. The group delivered 17% growth in revenue to 92.3 million, with only a 4% growth in operating costs, driven by variable marketing costs. Excluding marketing, costs were down 4% year on year and reflect the management actions taken last year to remove cost from the business. We're pleased to share that we achieved our target to take 15 million of costs out of the business on an annualised basis.

As you'd expect in a growing business, expected credit losses, which are required to be booked upfront under IFRS9 for FlexiPay and the Cashback Credit Card, increased in line with the growth in the book. The credit performance and loss rates remain broadly flat and within management expectations. With the strong operating leverage from the term loans business, profit before tax has grown from 0.5 million last year to 6 million for the half, and PBT margins are now at 6.5%. We continue to have a healthy balance sheet in cash position, and the term loans business is highly cash generative, supporting the investment in FlexiPay.

The reduction in the balance sheet in cash in the period was driven by previously announced share buybacks, as well as some R&D in a shorter term loan product, where we expect to bring on an institutional funder. To date, the buyback programmes have bought back over 50 million shares for £53 million, equating to 15% of the issued share capital. Looking at the trading businesses. The Term Loans business, our mature business, grew both top line and bottom line with attractive profit margins and cash generation. Originations grew 6% year on year through commercial term loans and loans under the government's growth guarantee scheme, as well as through our marketplace, which accounts for circa 10% of originations. We continue to listen to customer feedback to identify products that meet their needs. This is coupled with our data and credit analytics in being able to find additional segments we can lend to. This ongoing development, an iteration of products, and the size of the overall market is why I'm confident we will continue to grow the Term Loan segment into the future. Loans under management, or LuM, still includes the legacy COVID scheme loans that are amortising down, but now only account for 17% of the overall LuM, with commercial LuM growing and now accounting for 83%.

The legacy COVID scheme LuM reduced by 300 million in the first half, with growth in LuM from new originations of circa 250 million, leading to LuM at June of 2.7 billion. As the COVID loans fully amortise, we'd expect LuM to grow. Revenues grew to 75.9 million, mirroring the growth and originations. The cost base has remained tightly controlled, with growth driven only by the variable marketing costs, and this is driving operating leverage, helping grow profit before tax by 38% to 12.7 million, with margins of almost 17%. I'm really pleased with the ongoing growth we're seeing in FlexiPay and the Cashback Credit Card. For reporting purposes, we combine the two products and collectively refer to them as FlexiPay. The transactions from these products grew by over 40% to 375 million. And since launch, the transactions on these products have surpassed 1 billion in only three years. This is a combination of improving functionality with repeat usage from existing listing customers, as well as onboarding of new customers and across the two products, we now have over 25,000 customers spending on a daily, weekly, or monthly basis. The end-of-month balances have reached 169 million. What's really great about these products is their repeat nature, which gives more certainty to future revenues.

For the first half of 2025, over 80% of the revenue came from customers onboarded in 2024 or earlier. Revenue growth remains significant, with 119% growth year-on-year and over 60% growth on the second half of last year. Like term loans, operating expenses growth came from marketing costs, with other costs remaining flat. Expected credit losses, which we were required to book upfront, grew in line with the book, with a charge of 8.4 million in the six months. Importantly, the credit performance of the lines of credit remain in line with our expectations and have remained stable over the last couple of years. As we've mentioned before, the P&L dynamics of FlexiPay are different to Term Loans as we incur the upfront costs from marketing and expected credit losses when we onboard new customers. So as the business scales, the profit profile is like a J-curve. This means that in a strong growth phase, profits come later, and that is why the loss for the half was 6.7 million. We expect the business to turn profitable during next year, but if we chose to stop growing FlexiPay, it would be profitable right now. But there's still a lot to go after in terms of growth.

Looking at the cost base, group operating costs remain tightly managed with costs up only compared to revenue growth of 17%. On the left-hand side, the bar chart shows the cost categories. Cost growth came from the variable-based marketing costs, which we previously said we expect to remain around 30% of group revenue. The variable marketing costs arise from direct online marketing, direct mail, and brand spend on the premiership rugby sponsorship. We pay broker commissions to financial brokers for introducing borrowers, but we only pay this if a loan is originated. Non-marketing costs, which are more fixed base in nature, reduced following the restructuring exercise we undertook last year. As you can see on the right-hand side, our cost-income ratio has been improving steadily since the beginning of 2023. We expect this to continue to do so, given the term loans operating leverage and FlexiPay coming out of its J-curve. As a reminder, our business model is to remain capital light, which makes it scalable. We have a total of 2.8 billion in balances outstanding, covering term loans, FlexiPay, and the Cashback Credit Card. 94% of these balances are term loan balances, where we operate a platform model with the loans funded by a range of diverse institutional funders, being asset managers, banks, and insurers.

They own the loans, take the credit risk, and earn the interest, and we continue to see strong demand from them. We use our balance sheet minimally in the Term Loans business. For example, we co-invest a small 1% alongside our institutional funders to allow us to access and participate in the government's guarantee schemes, or for R&D on new loan products. Our total equity currently invested in both of these is £28 million. FlexiPay and the Cashback Credit Card are funded with a senior facility with Citi, together with our own equity. As I said, we fund Term Loans through institutions. Institutions like our product as it gives them access to a hard-to-reach asset class and they can deploy funds at scale. We have built up credit models over the last 15 years and are now on our ninth generation model. With the data we have built up, we're able to discriminate risk three times better than simply using credit bureau scores.

We have set out a table in the appendices which illustrates this. This means we can price that risk into the loan interest rates to reflect risk on any particular loan. This is incredibly important as it allows us to then deliver stable and attractive annualised net returns to our institutional funder portfolios, which have remained around 5% above the cost of capital.

This in turn means the institutions want to fund future originations. We've signed two new deals during the first half of the year, totalling over £900 million, and currently have over £1.6 billion future funding in place at 30th of June, and we're confident of further renewals. Flexipay and the Cashback Credit Card are funded by our equity, and we see this as an efficient use of capital. On the left-hand chart, you can see that transactions are about four times the end of period balances, meaning the credit cycles on average four times a year, i. e. every three months, so the capital is cycling quickly. As the graph in the middle shows, the annualised loss rate and credit performance of the products has been stable and is in line with our expectations. We have a 230 million credit facility with Citi, recently renewed, which gives us capacity for ongoing growth and the ability to upsize this in the future. We consider capital in a disciplined way to drive long-term value for shareholders. To remind you about how we think about capital usage, we consider four areas in our capital allocation framework. Firstly, delivering the medium term plan and strategy and the capital needed for that.

Secondly, investing where it makes the platform stronger. As I mentioned earlier, we co-invest alongside institutional investors in loans which are guaranteed under the growth guarantee scheme to be allowed to participate in the scheme. We also, from time to time, provide the capital for R&D of new credit products, allowing us to test and iterate them before we onboard institutional funders. This is important as it's harder to refine products once constrained by contracts. Thirdly, distributions to shareholders. We've announced £75 million worth of buybacks since March last year in three £25 million tranches, and the third tranche is ongoing. To date, we've bought back 15% of our share capital. We will also consider other forms of distributions, such as dividends, once we're generating sufficient levels of cash-backed profits. Finally, we consider future growth, whether this is organic or inorganic. We operate in a large market and we retain the opportunity to take advantage of these growth opportunities if and when they arise. To show this capital allocation framework in practise. The left-hand chart shows how cash has been deployed in the last six months. Under Delivering, you can see Term Loans converting its profits into cash and funding FlexiPay.

Under Investing, you can see that we are R&Ding the shorter term loan products before on selling. We expect to sell these loans and fund through an institutional funder. And under Distributing, we've brought back shares through the buyback programme and in Employee Benefit Trust Purchasing. On the right-hand side, you can see how we think about future deployment of cash with the remaining purchase of the current share buyback programme and the selling and monetising the R&D.

As we've talked about before, we hold a management buffer for operational risk events. This leaves over 60 million of future deployable cash, down from 90 million when we presented in March, driven by the share buyback we announced in May this year. To summarise on the results for the last six months, it's been a good first half, with group revenue up 17%, profit already at £6 million, costs are being tightly controlled, term loan margins are now nearly 17%, and FlexiPay continues to grow at pace. We remain on track to deliver in line with the market expectations in 2025 and are confident in delivering the 2026 guidance we set out in March 2024, that we would reach revenue of more than 200 million and profit of more than 30 million for 2026.

Now back to Lisa.

Lisa Jacobs

Thanks, Tony. Looking ahead, we continue to be focused on profitable growth in line with our guidance. The market's opportunity ahead of us is significant, with over £80 billion in SME credit card transactions each year and over £80 billion in loans outstanding. We will focus on driving growth through four levers. I've shared these before, and this is what we're focused on internally. We're making great progress against them. First, getting to YES. In H1 25, we expanded our Term Loan proposition and worked with a broader range of marketplace lenders to get finance into the hands of more of our customers, generating increased revenue, efficiency, and long-term relationships. We'll continue to drive credit innovation and product enhancements to bring the right product to the right customer. Second, expanding our audience. Through expanded product sets and going deeper in our distribution channels, we're broadening the customers we can serve. Third, we're continuing to scale our products. Term Loans is an established business, generating strong and improving margins with continued top-line growth. In FlexiPay and the Credit Card, we have significant opportunity for growth, and we're focused on moving these products to scale and profitability whilst balancing that against the significant opportunity ahead of us.

Our early cohorts are now delivering positive cash flow. We're showing strong recurring revenue, and we're on track to reach PBT positive during 2026. Finally, as our product suite has expanded, we have the opportunity to be a more important part of our customers' lives, serving them across their life cycle with the ability to borrow, pay later, and spend as a trusted financial partner. This enables us to capture a larger share of our customers' financing and learn more about them as we interact with them more frequently, enabling us to lay the foundations to solve more of their problems as we save them time and money.

In conclusion, we've had a strong start to 2025, carrying through the momentum that we saw through 2024. We're delivering what we said we would. We're growing both revenue and profit well and are on the path to continue with the strong trajectory. We are innovating in both our core and newer product set, delivering improved and expanded solutions for our customers.

We have an experienced team, great products, strong credit, data and analytics, and a significant market opportunity. We've made a good start to the year and remain confident in delivering against our medium-term guidance with an attractive growth and profitability trajectory, delivering significant value for our customers, partners, and shareholders.

Thank you. We will now take questions.

Operator

Thank you very much, ma'am. Ladies and gentlemen, if you'd like to ask any audio questions, please press Star 1 on your telephone keypad and just make sure that your line is not muted till I assume I reach your equipment. That is Star 1 for questions. Our very first question today is coming from Rob Noble, calling from Deutsche Bank. Please go ahead, your line is open.

Rob Noble

Morning. Thanks for taking my questions. Just a few for me. The short-term learning products that you've talked about here, what's the actual offering in terms of how's it different to what you already do, the term, the rate, et cetera? Why is it different to it? When you get an institution to fund it, have you got one lined up, I guess, first thing? Do you book a gain on sale when that happens? Then how should we think about all of these going forward? Are there more ideas in the pipeline? Then just on credit cards, the credit card customers which are new, which I think you said 70% of our credit card customers are new, are they boarding out into other products? Because you often talk about Term Loans, FlexiPay moving into other products, but the new credit card customers also moving the other way as well.

Thanks.

Lisa Jacobs

Thanks, Rob. Morning. Tony and I will split this between us, but I'll tackle your first and third question, and then pass to Tony for the second, where we talk a bit more about bringing an institution investor on board with the short-term learning products. The short-term learning products, How to think about that is it's an expansion to the term loan offering that we offer today. We received customer feedback about more flexibility in terms of the product offering, as well as identifying a segment within our base that we could serve with a shorter term higher rate product. For some of our businesses, this is to enable them to manage on a much more frequent basis. We have a festival business who borrowed short-term loan and then paid it back in a few weeks. The flexibility of the loan product enables them to do that. There is also a segment which is higher risk where we offer shorted loans to higher rates. In terms of how we think about this going forward, we consistently see opportunities to expand from a credit perspective. We're always looking at what are the ways that we can expand, what are the different customer segments? You've seen us do that before, both within Term Loans, but also as we've expanded FlexiPay. We'll continue to do that.

Outside of that, our focus is very much for the near term, for the next couple of years around the Term Loans proposition, FlexiPay and the Credit Card. We see really ample opportunity to grow in those markets. There's about 80 billion, as I said in the presentation, of SME card transactions every year, and there's over 80 billion in loans outstanding. So we'll be very focused on that. Beyond that, I think we are really excited to think about additional products that we can serve our customer base with. We have, over the last few years, shown the power of our brand, shown the power of the technology, the credit platform, and the great customer experience that we have in driving growth through new products. And we'll continue to do that beyond, but in the next couple of years, very focused on the products ahead of us.

Tony Nicol Hi, Rob. On the institutional investors, in terms of have we got people lined up? We are talking to a number of institutions, both existing and new. So that process will run over the next number of months, but really pleased with the conversations we're having. In terms of gains on sale, we would look for them to be funding the forward flow, but also looking to offload the existing book in terms of whether that's a gain on sale or not. I think that would be part of the commercial negotiations at the time.

Lisa Jacobs Your final question on the Credit Card. We absolutely intend that to be a way in which we can bring on customers who continue to be part of that fundings cycle ecosystem and can be customers for FlexiPay for term loans over the future. It's quite early days now. We've only got about 4,000 cards in issue, and so it's very preliminary at the at the moment, we're seeing some good signs, but I couldn't definitively give you data on that one.

Rob Noble Great. Thank you very much.

Operator Thank you for your question, sir. We're now moving to Rahim Karim of Investec. Please go ahead.

Rahim Karim Good morning, guys. Thanks for the chance to ask a couple of questions. The first is just to ask a little bit around the pipeline for forward flow. That number seems to track back since March. I appreciate there's lumpiness there, but it'd be helpful to understand how those discussions are going and at what point we might be able to get that above that 2. 1 billion number in terms of forward flow and possibly give us a sense of how important that is in the context of delivering origination growth and lump growth in the Term business. And then the second question for me was a bit more of a bigger picture. I mean, assuming that the uncertainty around the budget is causing slowing down of decisions. Are you seeing any evidence of that, I guess, in the Term Loan business on the acceleration of up taking FlexiPay as the flip side to that? And is there scope potentially for things to unlock as we get a bit of clarity closer to November. Thank you.

Tony Nicol

Hi, Rahim. In terms of funding, in the Term Loans business, our target is to be fully funded for at least a year. And as you say, it's always subject to the timing of signing new deals, a little bit lumpy. We've got a strong demand, great pipeline of deals. In fact, we expect a couple of renewals in the next month or so, at which point we'd be over the 2.1 billion that we were at the start of the year. On funding on FlexiPay, we recently renewed the Citi facility and have the ability to upsize that when needed. So very comfortable with where we are in terms of funding.

Lisa Jacobs

If I come to your last question, Rahim, morning, on what's happening in the macro environment. Generally, you're right, it is tough and there's a lot of uncertainty which isn't particularly helpful when making long-term investment decisions. That said, I've been happy with the overall growth that we've seen, 20% up in terms of the credit extended. I'm always very struck when I meet SMEs, actually how resilient they are and the opportunities that they find in challenges. Some of that is the working capital, some of that is in FlexiPay, where we see people using that to expand their business, either by buying assets that can continue to deliver growth for business or whether that's in bulk buying stock. We do continue to see good demand there, but it's very complementary to that term loan proposition as well, where we're seeing steady growth, but also, as you've seen, those expanded margins.

Rahim Karim

Very helpful. Thank you, guys.

Operator

Thank you, Rahim. Ladies and gentlemen, once again, if you have any questions or follow-up questions, please do press Star 1 at this time. We'll now move to Ed Farth of ADW. Please go ahead, sir.

Ed Farth

Yes, morning, everybody. Can I just ask you a little bit about the competitive environment? A lot of banks I talk to at the moment seem to be gearing up their focus now on growing, particularly mid-market and small business lending, which has been quite a change, I guess, over the last few years. I just wonder, are you seeing a more competitive environment, I guess, from incumbents and from other challenges? Then secondly, can we just ask you a bit more about AI and how you're seeing that roll out? It seems to me some of your data pool should be really very well suited to using some AI capabilities. I'm just thinking about how we might see that pan out both in terms of your cost base or opportunities on the revenue side going forward. Thanks very much.

Lisa Jacobs

Morning, Ed. Let me take those in each in turn. In terms of competitive environment, we've not really seen that. What we have seen over, I think the last decade has accelerated recently is actually there's more challenges in general versus the banks and the volume of loans to SMEs from challenges is now higher than from the main high street banks. Value is still higher from the main street banks. So I think what that shows is it highlights, again, I think where the Banks, our focus is probably a bit larger than the businesses that we serve. Our average turnover is in that £1-2 million range.

We don't see a significant change there in terms of banks. It's probably a bit noisier in terms of our direct marketing channels than when we started 10 years ago because there are a broader range. But as you can see, we've continued to grow really well through that period, and our brand awareness is very high, even relative to the high street banks. Some of that driven by the strong heritage that we have and also by the brand sponsorship that we have within the rugby premiership.

So nothing significantly different in this space, but we obviously are always paranoid about the competition and will continue to be so by making sure we're developing great products for our customers. In terms of AI, obviously, as we've talked about quite a lot in our core credit decisioning models, we've been using AI for many years to develop that differentiation in risk. And as a result of that, as I said in the presentation, our risk models still discriminate risk three times better than the Bureau score. In terms of what we're doing more broadly than that, as I said, there's a few areas where I see Gen AI supporting our business. I see it in customer experience, in productivity, and then in new innovative areas, which are transformational areas for the business.

In terms of that customer experience and productivity, we've already seen some of that come through in terms of some of the things that we're doing in software engineering. We've seen productivity improvements as a result of using various tools to support that, so things like K-Pilot to support with coding. We also see from a customer experience and productivity perspective, we're using Gen AI applications to measure customer sentiment, to improve our customer communications, and also to support our teams with that overall customer profile. Like you say, making use of all that data that we've got to make those customer interactions much better. And I think going forward, where do I see it playing out is very much in those two areas of customer experience and longer term in productivity and efficiency.

But we're also piloting, I guess, ideas of how else might we use it alongside? Can we use it more effectively in some of our underwriting? Those ones, I'd say, are much earlier stage, and they're not yet in production.

Ed Farth

Is there a potential to... In theory, I know we might be two or three years out, but to really transform the cost base in terms of how you process applications, how you do lending, etc.

Lisa Jacobs

Yeah, I think it's early days now, and even when I speak to people who are very deep in Gen AI industry, they're not quite sure how things will pan out.

But I do see a potential to increase efficiency further. What I would say is that we find that our customers really like the speed and ease of the application process, but they also really like being able to speak to a person. It adds that trust, and that's why we do have a team of account managers who work directly with our customer base.

So I think in answer to your question, yes, I see there is transformative potential. We are working hard at creating those pilots, testing those out within the business, and we're seeing some success in that already. But it would be too early to really say what the main impact is. I would say we feel that the data that we've accumulated, the insights that we've got, standards in really good stead to be able to benefit from it going forward.

Ed Farth Great. Thanks so much.

Operator Thank you for your question, sir. Ladies and gentlemen, once again, if you have any questions or follow-up questions, please press Start 1 at this time. We do not have any questions coming in at this time. Lisa, I'd like to call back over to you for the additional closing remarks. Thank you.

Lisa Jacobs Thank you all for joining the results presentation. We're really happy with the results. They show really good progress from a growth perspective, from an acceleration in profitability and continues to deliver against our strategy. We're very excited about the future and look forward to seeing some of you on the roadshow.