Funding Circle

Full Year Results | Audio Webcast

7th March 2024

Transcript

Lisa Jacobs: Good morning and welcome to the 2023 Funding Circle full year results. I'm going to kick off with the highlights and an overview of our go-forward strategy, and we'll then pass to Oliver for the financials.

2023 was a good, solid year for Funding Circle despite the continued challenging macroeconomic environment. At a Group level, we delivered in line with expectations. Group income grew 7% to 162 million pounds. Our EBITDA loss of 3.9 million pounds was in line with expectations. Our cash balance continues to be high at 170 million pounds roughly in line with the start of the year as legacy investments paid down, offsetting the operating cash outflow in the US and FlexiPay.

We've seen good momentum and delivery in our two UK businesses, UK Loans and FlexiPay. Our more mature UK Loans business is profitable with increasing margins half on half. In 2023, we delivered 21.3 million pounds in EBITDA and 6.5 million pounds in PBT. We're showing the scalability of the platform even at a low point in the cycle. Our newer FlexiPay business delivered strong growth in 2023 with transactions nearly quadrupling in the year to 234 million pounds. We continued to innovate and expand our product with the launch of our integrated card in the second half of the year. We're pleased with the progress in our UK business. Looking ahead, we'll be focused on this, our UK business.

We're currently in discussion with third parties and have received expressions of interest for the US business. As such, we're limited in terms of what we can say and we will make further comments in due course. We've made good progress in the US. We saw good growth in the first half of 2023. We've strengthened the leadership team and were successful in receiving the intent to award the SBA license. However, we are at an inflection point in the US where future growth will require significant cash for operating cash flow, as well as now for investment in loans as required under the SBA programme.

We believe that a simpler, more profitable combined UK business will deliver greater shareholder value with improved profitability and cash generation. This means we will accelerate Group profitability. The go-forward UK business will be profitable in the second half of 2024. And over the next three to four years, we expect a net income growth CAGR in the range of 15 to 20%, with profit margins improving year-on-year to greater than 15%. Given the strength of our business today, our balance sheet, and the go-forward growth and profitability profile, we believe that our current share price materially undervalues the business. As such, we're announcing a share buyback of up to 25 million pounds.

We're excited about the future of the combined UK business as a simpler profitable market leader. With a UK-focused business, our mission remains the same. We exist to help small businesses get the funding they need to win. We are the UK's leading online SME lending platform. We have originated over £16.9 billion to over 150,000 businesses from nearly 150 investors. For our loan investors, we offer access to an attractive asset class with robust and attractive returns. For SMEs, we offer a slick and easy way for them to access finance.

Whenever I meet one of our borrowers, it is clear the impact that our finance has had. Businesses like Anna's Cake Couture in Bristol, who featured on the front page and Grace & Thorn in London, featured on this page. We provide the finance to fuel their businesses, whether that's for expansion, asset purchase, or working capital. When SMEs win, so too do our communities and the overall economy. Lending through Funding Circle UK last year supported nearly 7 billion pounds in GDP, nearly 100,000 jobs, and £1.6 billion in tax receipts.

Our UK business is already sizable and our products meet a range of our customers' needs whilst delivering improving income and profit growth over the medium term. In 2023, UK Loans and FlexiPay had combined originations of 1.29 billion pounds and 129 million pounds of total income with nearly 7 million pounds in EBITDA. In the last two years, we've transitioned from a single product business to one that today enables businesses to not only borrow over the long term, but also pay and spend. We're realising our multi-product vision and becoming a more important part of our customers' lives.

As part of this expansion, we've successfully expanded our addressable market, increased the level of engagement with our customers, and strengthened the platform from which we can continue to grow. Over the medium term, our UK business has an attractive growth and profitability profile. Over the next three to four years, we expect a net income growth CAGR of 15 to 20% and PBT margins in excess of 15% as we continue to see steady growth and improving margins in our UK Loans business and strong growth and a move to profitability in our FlexiPay business.

We are operating in a large market. There is over 80 billion pounds of outstanding debt in the UK SME markets and £1.3 trillion of B2B SME payments each year. In the loans market, we are relatively small with a share of less than 5%, which gives us further room for growth. And we've just begun to tackle the SME B2B payments market through FlexiPay.

When we were founded in 2010, it was because small businesses were underserved and they continue to be so today because credit assessing a carpet retailer versus a cake store versus a manufacturer is hard. The market is underserved as data is sparse, SMEs have limited assets, and the ticket sizes are often small. We've solved this problem and achieved a market leading position in the UK by using our proprietary technology and data.

We've accumulated a significant amount of data over the last 13 years from a combination of publicly available data on businesses, application data, as well as proprietary data. This includes information on loan purpose and how a business performs after being offered a loan or FlexiPay facility, such as their payment performance and their specific transactions.

This advantage is clear in our credit assessments and our application process. Our models are three times better at discriminating risk than bureau scores, and 80% of our UK applicants receive an instant decision. This delivers superior results for our customers. Our SMEs love our six-minute application as they can get back to doing what they do best, running their business. And it's why we have such a strong Net Promoter Score of 79 and see strong repeat usage, particularly within FlexiPay.

Our investors like our attractive and robust loan returns. We've delivered 6% historical annualised returns. It's why in 2023, we agreed a further four forward flow agreements and have £1.1 billion of forward flow capital committed. These give us good foundations from which to grow. We continue to make good progress against the three pillars of our growth plan. We are attracting more businesses through expanded and strengthened distribution channels alongside an expanded product set. We are saying yes to more businesses, and this doesn't mean irresponsible lending, but rather expanding into segments and delivering the right product to the right business, whether our own or through our third-party lenders. And we're building products where we can achieve market-leading positions with FlexiPay.

Despite facing a more challenging macroeconomic environment than we'd expected, I'm proud of the progress we've achieved against our strategy as highlighted on this slide. We are attracting more businesses through an expanded product set, focused brand investment, and continued strengthening of existing channels. We've expanded our reach through our multi-product strategy, increasing our relevance to a broader set of customers. This enables us to go deeper in marketing channels and attract more applications and more customers as a result.

We're into our second season of rugby sponsorship and seeing improved brand metrics. We want to say yes to as many businesses as possible by expanding our end-to-end conversion. We continue to expand our product set through third parties in our marketplace with over 100 million pounds originated in 2023. In 2023, we also started participating in the latest iteration of the Recovery Loan Scheme, the government-backed guarantee product. We continue to find new ways to serve small businesses using our deep data lake.

Our third pillar relates to new products. And as a reminder, FlexiPay is the name for our working capital products that enable customers to manage their cash flow by spreading payments over three months. In 2023, we continued to grow FlexiPay. We ended 2023 with nearly 300 million pounds of transactions since launch. Our card launch in 2023 now enables businesses to borrow, pay and spend, and for the first time, puts Funding Circle in the pockets of our customers for day-to-say spend.

Given FlexiPay is earlier in its maturity, I wanted to spend a couple of minutes explaining why we continue to be so excited by the trends that we are seeing. As you'll have seen, our income was £8 million against the £10 million guidance that we've shared. However, I'm pleased with our 2023 progress and remain excited by the long-term opportunity and the encouraging underlying customer dynamics. Growth continues to be strong with transactions increasing fourfold in the year. Businesses have now FlexiPayed more than 80,000 times. The unit economics are attractive. There is an 18-month payback as the marketing and ECL costs are taken upfront.

Our integrated card launch is testament to the continued innovation we're seeing and expands our revenue streams with the interchange fee in addition to the transaction fee. Our risk performance is in line. Whilst the product dynamics are different, we've been able to use our existing data to build our credit models and continue to refine them with FlexiPay specific data.

What I'm really excited about, however, is this chart on the left. I've shown this chart before. What it shows is the number of transactions in each half split by the half-yearly cohort in which a business joined FlexiPay. What you can see is the increasingly predictable repeat behavior. Once a business tries FlexiPay, it becomes an essential and ongoing part of their cash flow management toolkit. An average user is FlexiPaying more than once a month. Through FlexiPay, we are building on our existing foundations to expand our product sets, our frequency of interaction, and our revenue streams to serve more customer needs.

In summary, the go-forward UK business is attractive. We're the UK's leading online SME lender, we use our data and technology to deliver a superior customer experience to our borrowers through our instant decision technology and continued innovation, and to our investors through robust and attractive returns even at a low point in the cycle. We're focused on delivering against our strategic growth plan to deepen distribution, improve end-to-end conversion, and expand our product sets. We continue to see the impact of this multi-product strategy. I'm really excited about the future of the UK business. It will be a simpler, more focused business. In the second half of this year, we will be profitable and we will expand margins further over the next three to four years. We have attractive growth prospects ahead of us and will continue to deliver against our mission of helping more

SMEs get the funding they need to win. I'll now pass over to Oliver to share the financial results.

Oliver White: Thank you, Lisa, and good morning everyone. The strategy that Lisa outlined is grounded in a solid set of financial results. Our financial performance in 2023 was in line with expectations. Total income was up 7% to £162.2 million with growth from each of our business units. Income growth is testament to the strength and to the agility of our business even in changing macroeconomic environments and with the tighter underwriting standards introduced in the second half of 2022. This income growth is also net of the £9.9 million drag from the continued and anticipated reductions in investment income.

Adjusted EBITDA was £3.9 million negative and PBT was a loss of £33.2 million. Of this loss, £23.3 million was due to the US business. As we have previously guided to and spoke about at the half year, we anticipate losses near term as we choose to invest in growth, scaling and establishing FlexiPay and growing the US Loans business. Our established UK Loans business is profitable at the PBT level. Net assets and cash remain strong. Funding Circle has a net asset value of £247 million and unrestricted cash of £170 million.

Our Group results are in line with guidance. UK and US Loans businesses total income is £153.9 million in the midpoint of our £150 to £160 million range. EBITDA is £10.7 million ahead of our upper guidance of £10 million. FlexiPay income is £7.9 million compared to guidance of £10 million. FlexiPay has continued to show momentum during 2023, as Lisa spoke to. The variance is primarily due to decisions on the right speed for scaling up and introducing new product features including the business card for a nascent product in changing economic conditions. FlexiPay EBITDA for 2023 was negative £14.4 million and in the midpoint of the range guided to. I will now walk through each business unit in more detail.

The UK Loans business delivered improved EBITDA and PBT in '23, improving margins half-on-half and is well positioned for continued growth. It is a market-leading platform for SME lending, has scale, and is PBT profitable. Commercial originations grew despite the impact of the continued discipline approach to underwriting with changes having been made in September 2022. In terms of the year-on-year comparison, half one of '22 still contained a significant level of government-guaranteed lending.

Loans under management reduced as the government-supported lending book continued to amortise down, commercial lending continued to increase. Total income was £121.4 million up from £118.8 million, reflecting the transaction fee yield growth offset by the expected reductions in servicing income and in investment income. Adjusted EBITDA was positive £21.3 million up from £13.8 million in 2022, up over 50% reflecting improved margins. These were driven by income growth alongside fair value gains and the operational leverage from holding costs flat. UK Loans adjusted EBITDA has been positive since half two 2020, demonstrating the robustness and scale of the UK Loans business. The business is profitable at £6.5 million PBT, a swing from a loss of £1.8 million in 20222. The business is cash generative.

Now to FlexiPay. FlexiPay transactions have increased by fourfold to £234 million in 2023. Period end balances are growing threefold to £56 million. This momentum has resulted in very strong top line growth with total income of £7.9 million, more than five times the total income in 2022. This was driven by increased customer usage and increased pricing. EBITDA was £14.4 million negative as we continued to invest in FlexiPay. We have invested in technology and the FlexiPay team additionally and, as anticipated, marketing spend and the expected credit loss provision front-run income. As Lisa has discussed, profitability for FlexiPay comes from predictable repeat revenue alongside its attractive unit economics.

Lisa has spoken about our strategic intent for the US business. This slide shows the 2023 performance in the US. The US Loans business continued to show good top line growth, albeit at a reduced rate in half two. US originations increased to $491 million up from $401 million in 2022. Loans under management were $535 million increasing from $454 million. Total income was $40.4 million up from $36 million. The US Loans business recorded a negative adjusted EBITDA of $13.3 million and a loss before tax of $29 million. Included in this loss was $7.5 million of further write-down of the San Francisco office lease and of previously capitalised development spend.

Operating costs continue to be actively and tightly managed according to the strategic needs of each business segment, which are at different stages of maturity and therefore have diverse cost dynamics. Cost management will continue to be an area of focus in our simpler go-forward business. Funding Circle's cost base consists mostly of staff costs, marketing costs and technology costs. UK Loans is the most established segment with an increasingly efficient cost base that will allow us to benefit from operational leverage as we grow and as the economic backdrop recovers.

UK Loans in 2023 demonstrated improved cost efficiency with costs remaining flat, whilst total income increased by 2%. We expect ongoing margin improvement. FlexiPay is demonstrating a strong growth trajectory and as discussed, we are investing behind the product with some costs front-running income. The US Loans business has scaled up. The spend in marketing and other costs have supported volume growth. 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 6% average analysed returns despite the microeconomic environments. We have maintained or upgraded our loan returns in each cohort with the exception of our 2022 book. The 2022 cohort is providing attractive returns of 5.6% and 5.4% in the UK and the US respectively. We have seen some ongoing economic deterioration impacting this cohort in both geographies and we have forecasted further small reductions in the expected returns of 40 basis points. As we gather more data, we will fine-tune our expectations or narrowing the range of uncertainty as our loans amortise. We've adjusted our credit models to account for what we've seen in 2022 cohorts and are confident about the other cohorts.

2023 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. These borrower price increases have been broadly in line with wider market price moves. Clearly, we are continuing to deal with a heightened period of macro uncertainty. We continue to monitor all indicators closely, are very agile, and respond quickly when needed. Our credit risk management is proven, our borrowers are resilient, and the loan quality is good.

The loan returns demonstrate the robustness through the cycle of the asset class that Funding Circle has developed and of the capabilities that Funding Circle has built to originate, underwrite, and manage these loans. This is evidenced in the ongoing support of our institutional investors. Going into 2024, in the UK, we have £1.1 billion of forward flow commitments and we added four new forward flow providers in '23. In addition, I was proud to recently announce Barclays and TPG Angelo Gordon will provide an additional £300 million of funding to small businesses.

Our balance sheet remains robust. Net assets are £247 million including cash of £221 million, and invested capital of £64 million. The decrease in net assets of £37 million is driven principally by investment into US Loans and FlexiPay. Unrestricted cash has increased by net £4 million since December 2022 to £170 million as a result of monetisation of legacy investments offsetting the cost of investment into US Loans and FlexiPay. Mirroring this, investor capital has decreased by £33 million as a result of amortising legacy investments and the sale of selected US Loans in February of '23.

The right-hand side of the slide illustrates how we think about using our cash and deploying our capital. I see our balance sheet as a source of competitive advantage both today and looking forward. As our framework shows, we are fully funded to deliver our growth strategy, funding FlexiPay to profitability, and funding FlexiPay lines of credit. As we are not a bank, we do not have capital requirements, but we will continue to retain a prudential buffer to ensure we have enough cash to protect the business against a combination of stress scenarios.

We are stewards of our cash and capital. We will evaluate how best to invest our surplus capital. We will invest in new growth initiatives as these become apparent. We will invest where it makes the platform stronger. We will periodically reassess the need for capital throughout the business. As Lisa said, given the strength of our balance sheet and of the go-forward growth and profitability profile of our business, we are announcing a share buyback of up to £25 million. We believe that our current share price materially undervalues the business. I am pleased with Funding Circle's financial performance in 2023. We've achieved a solid set of results in line with expectations. Funding Circle continues to be positioned for long-term success and the combined UK Loans and FlexiPay business will be PBT positive from half two 2024. UK Loans PBT will more than offset continued investment into FlexiPay growth.

For 2024, we see net income, or net revenue, growth of greater than 10% for the UK Loans business with PBT margins improving to 8-12%, which are equivalent to EBITDA margins of 20-25%. For FlexiPay, we are targeting net income or net revenue growth three times that of '23 as the product continues to scale and we expect to achieve this with similar levels of investment to those made during 2023. We are reaffirming our previous commitment that FlexiPay will be EBITDA positive in 2025. I would now like to hand back to Lisa.

Lisa Jacobs: Thanks, Oliver. In summary, the go-forward UK business is attractive, combining our scalable and profitable UK Loans business and our high-growth FlexiPay products, enabling customers to borrow, pay and spend. With a market leader in a large market, our brand awareness is high and we've developed a mature and efficient way to acquire new business through both direct and intermediated channels. Our data and technology advantage create a moat around the business and deliver a superior customer experience as evidenced in our customer satisfaction scores and strong repeat rates. We've proven our loan returns to be stable and robust and continue to have strong investor demand. Over the next three to four years, these foundations create a great platform for us to grow.

The go forward business delivers an attractive financial profile with net income growth CAGR in the range of 15 to 20%, and PBT margins in excess of 15%. We will continue to deliver against our mission of helping more SMEs get the funding they need to win. Thank you. We will now take any questions.

Operator: If you would like to ask a question, please press star 1 on your telephone keypad. Please ensure your line is unmuted locally as you'll be advised when to ask your question. So once again, that's star 1, if you would like to ask a question. The first question comes from the line of Kim Bergoe from Deutsche Numis. Please go ahead.

Kim Bergoe: Morning and congratulations on a good set of numbers. Just one question from me, slightly just a higher level, but when I'm thinking about the strategic direction of the company, you're now focusing on the UK, want you to look ahead, so sort of five years ahead, in terms of additional products and features and can you give us a sense of what are we talking here? What are the things that you could be adding to the platform to be even more attractive to the SMEs?

Lisa Jacobs: Hi Kim. Morning. Thank you for the question. So I just think just to give some context around the UK market itself, obviously as I said in the presentation, it's a very large market. There's about £84 billion in loans outstanding, and the B2B payment space is about £1.3 trillion. Obviously we're not going to finance all of the payment space, but we're making some good inroads into that market through Flexipay. Our market share at the moment is quite small, so it's less than 5% and we've built a good brand, we're the market leader in online loans with a really flexible product. So really I think there's a huge amount of growth in the products that we've got at the moment. So our focus is in line with the strategic pillars around attracting more businesses.

Awareness is high for a business like ours, but it still continues to be a challenge for us to build that awareness further. And what we've seen and what we've learned in adding new products like Flexipay and adding products through our marketplace partners is that we can actually attract more customers, have a more ongoing interaction with our customers so we can be there at the right time.

And what's exciting to me if I look about the journey we've been on the last two years is that we've been from a product that our customers really love as a term loan, but they only come back every three to five years for a second loan. And today we have through Flexipay, a product that our customers are using on a daily, monthly basis and they're continuing to come back. So what I'm particularly excited about that new product growth is that actually we're building a much better platform on which to grow and opening more opportunities for us.

The card is relatively new, so there's still a huge amount of growth I think there, and we'll continue to build on the foundations that we've got in finding out and listening to our customers as we have done over the last few years in building new products and services for them. But it's not like we've got one specifically in the background at this stage that I can disclose at this stage.

Kim Bergoe: Okay, great. Thanks. Just maybe if I may just, what are the kind of considerations you as a management team go through if customers say this could be a helpful feature, that would be a good thing, and if for instance, could you end up being a one-stop shop for SMEs? But how are you thinking about, what are the goalposts when you're thinking about adding new features or products?

Lisa Jacobs: That's a good question. So our focus now is very much around continuing to scale Flexipay and continuing to scale our UK Loans business as we iterate and innovate in that. And if you remember actually we've continued to iterate and innovate there in terms of our near prime product that we launched in 2022 and the loans business last year, launching the government backed RLS scheme in its third iteration. And so we continue to do that by looking at, if we look at the businesses that come to us and look at the businesses that we serve today and those that we don't, trying to figure out how we can serve those businesses through our core products.

So there's this continuous innovation that we're doing looking at the data and looking at our customer feedback. And then outside of that, what we do is we understand from the market what our customers are saying and our customers have always said that cashflow is their biggest pain point. And so for Flexipay, we set about trying to see how we could build on the capabilities that we've got today to address that pain point that our customers have and we'll continue to do that over the course of the next five years and really focus on our mission of helping more small businesses get the funding that they need to win.

Kim Bergoe: That's very helpful, thanks.

Operator: The next question comes from the line of Perlie Mong from KBW. Please go ahead.

Perlie Mong: Hello. Hi Lisa. I guess just a couple more strategic questions for you. So the first is the exit, well not exit, but I guess you are planning to sell the US business. Just what's your thinking behind that? Because I guess, certainly to me, it's a little bit of a surprise because I think when we last heard from you a few months ago, it was still very much a growth area, so it's a little bit of a surprise to me. And I guess what have you learned from the experience? And I guess you've now tried to expand into Europe and US and have decided not to go ahead with those. So does that mean that you're just going to focus on the UK for the foreseeable future, not really thinking about geographical expansion for now? So I guess that's the first part of the question.

And I guess in some ways related to that, obviously you've done up to a £25 million share buyback today and I can definitely see the rationale around the share price valuation, but I guess the question is are we now closer to what the business is, some sort of endpoint? And by that I mean that obviously that £25 million, that in part comes from the withdrawal from the US business, but if you have further initiatives in the pipeline, presumably you would've used that to fund that. Like you mentioned in the UK you only have a 5% market share, so does that mean that you're reasonably happy with the shape of business as it is? And it's pretty much the end state, obviously you'll still put out new products and you'll still grow your income, but by and large, the shape is what it's now?

Lisa Jacobs: Hi Perlie. Morning. Nice to hear from you. So let me, there's quite a lot on there. So let me try and unpack it and I'll also ask Oliver to come in on the capital allocation point at the end. So from the US perspective, if I just give a bit of context, apologies I've got a cough at the moment. We first entered the market in 2013 and since then we've seen significant changes in the market and we built the business to a good scale, breakeven scale, pre COVID. The business was particularly affected in COVID and since then we've seen the momentum coming back into the business through 2023. We've strengthened the team and they've delivered well in terms of securing partnerships and the SBA license.

However, I would say we're in a different market to that than we were a couple of years ago when we laid out our growth plans for the US. The SBA changes have created a shift in the market and we saw growth in the US slow down in the second half of the year as a result of that. The SBA opportunity does offer a good long-term growth opportunity, but it would require a significant amount of capital. I mean you saw the losses in the US this last year were $33 million. Going forward we would have to capitalise, sorry, fund the operating expenses as well as under the SBA programme, capitalise the entity further and put investments behind the loan and behind the loans themselves.

And so we believe now is the right opportunity actually to focus on the profitability of our business and we don't believe it's the best use of our capital to invest in those loans in the US business. And this enables us really to focus on the UK market. And so to your question, is that our focus? Yes, absolutely our focus, and again, what's changed over the last couple of years in the UK is that we've gone from being a single product to a multi-product business and that gives us more opportunity for growth there in the market.

Our UK Loans business is profitable, the returns are robust and demand has continued on both the investor and borrower side of the business. We've been able to expand into new segments in terms of our loans and also we've shown our ability to expand beyond loans into short term financing through Flexipay, initially the line of credit and now the card. And so we're expanding what we're doing for our customers in the UK.

In terms of the share buyback and then the future outlook, I mean the share buyback we're doing because obviously we believe the share price materially undervalues the business. And in particular, if you look at our go forward business, I wouldn't say that we're at an end point. I think the prospects for the businesses we've laid out over the next three to four years, we're going to grow at a 15 to 20% CAGR. We're going to improve our margins to over 15% PBT. And so I think that's a really attractive go forward business. I'll pass to Oliver to talk a little bit more about capital allocation.

Oliver White: Yeah, thank you, Lisa. And hello, Perlie. Yeah, as Lisa said, we see the combined go forward UK business as having a very attractive profitability and growth profile. And as I laid out on the capital allocation slide, we are fully funded to deliver that growth strategy. However, we do not see that as the end point. Again, as Lisa mentioned, we've built very differentiated and very powerful capabilities to support our SME customers and the market size has huge further potential. We have access to deployable capital to pursue opportunities as they arise. As I laid out in the capital allocation framework, we will consider opportunities to further growth. We consider opportunities to invest and we periodically reassess the overall capital needs of the business and process that accordingly. We very much consider ourselves stewards of the cash and capital in the business.

Perlie Mong: Okay, that makes sense. That does make sense. Thank you.

Operator: The next question that comes from the line of Rahim Karim from Investec, please go ahead.

Rahim Karim: Hi, good morning, guys. Three questions if I may. The first is just regarding slide 10. So the profile for cohort growth in Flexipay, which is super helpful, it seems like that 1.3 times transactions per month is broadly stable. Is that the kind of run rate that you expect the business to achieve into the medium term? Or will the card business help increase that? And how should we think about the mix in terms of new client wins versus existing clients doing a bit more? So that's the first question. The second question is just to get a better sense of the operational leverage that you've delivered in the UK. In the loans business in particular in '23, and how we should think about that going forward, specifically in the context of the cost base?

Your guidance seems to suggest that leverage really does feeding through. Is that a model thing or are you looking to take further action in cost, if that question makes sense? And then the third is just to come back in terms of capital allocation. I would guess that given your current guidance, we're getting close to the trough of unrestricted cash. Given the limited capital requirements, should we start to think about an ongoing cash return to shareholders being something that is not too far away, maybe an issue for

'25 or depending on how the current buyback programme unfolds? But is it fair to assume that something more sustainable is not too far away?

Lisa Jacobs: Thanks, Rahim. I will tackle the first question and then I'll pass over to Oliver for the second two. So with regards FlexiPay on slide 10 and the cohorts that we see. So you're right, the 1.3x has been quite stable and you can see in the charts that, that continues to be quite stable as the cohorts continue to mature. Our expectation is that continues pretty similarly. And then with the card we see an uplift, but it's very nascent at this stage and so I won't be able to give a view of exactly where that will come out, but it's something that we're testing and we expect having a card will move towards daily spend and so increase the frequency but decrease the ticket size of each of those transactions. In terms of the mix of new clients and existing clients, we expect it to continue similarly with growth over the year. So what you can see is that as we grow, the revenue becomes very predictable over time from the historic cohorts.

Oliver White: Okay. Hi, Rahim. I guess, first of all, in terms of operational leverage, so I think it's important to say that cost management will continue to be a key focus for us in our simpler go-forward business. In UK Loans in 2023, we held costs flat, despite investing additional in marketing and other capabilities. And indeed our UK Loans costs excluding marketing, are the same in '23 as they were in '21. And clearly you don't fight the inevitable cost headwinds without taking cost actions to achieve that. As we've guided towards, we see margins improving over time or continuing to improve over time, and clearly cost management is a key element towards that.

In terms of your question on capital allocation, as I mentioned slightly earlier, we're fully funded to deliver what we need to do. Actually, we probably see the trough of cash being '24, with cash building again in '25. We will continue to evaluate the best use of that cash. As the allocation framework lays out, over and above holding the potential buffer, over and above funding the plans Lisa has spoken to, we will also weigh up additional growth opportunities as and when they become apparent. We will consider doing further investment to make the platform stronger, and we will consider appropriate redistributions in the overall context of the opportunities that present themselves.

Rahim Karim: Very helpful, thank you very much.

Operator: Next question comes from the line of Alex Bowers from Berenberg. Please go ahead.

Alex Bowers: Morning everyone. Just two questions from me. Just on the first one on FlexiPay. Just wondering if you can give a view as a long-term funding strategy for the business. I know currently it's funded on balance sheets over the city senior credit line. But just longer term, do you expect it to move to a FUM type model? And then secondly, on credit risk or credit quality, what is your outlook for the SME market for this year? Are you seeing any sort of differences between the FlexiPay customer base and the core loan customer base? And are you expecting any sort of changes in your underwriting criteria for this year going forward? Thanks.

Oliver White: Hi, Alex. Maybe I'll do the first question and Lisa the second. So yeah, FlexiPay is presently funded by Funding Circle Equity, supported by a Senior Debt Facility from Citi. Flexipay is a fundamentally different product to term lending, and this approach is appropriate for the distinct characteristics of the FlexiPay product. Although each individual loan's short, the nature of the customer relationship is long and continuous, we are comfortable taking it on the balance sheet given its risk dynamics, such as a low ticket size, fast pay down, amortisation on our ability to manage that risk together its attractive economics. Our mission is to help small businesses get the finance they need to win, and we will use the appropriate capital to meet that customer's needs. So therefore we expect to continue to finance FlexiPay in our present manner going forward, given it's very different dynamics to our term loan business.

Lisa Jacobs: On the credit risk and outlook for the year ahead. We made some adjustments to our credit models in 2022 that we shared as the market started to deteriorate, and we've held those pretty constant. We've identified other segments for us to enter, but I'd say in general we've kept that quite constant and we made those necessary adjustments to the model. Our expectation for the forward look is quite stable. Now, obviously, the Chancellor yesterday said we've turned a corner. I think it's a bit too easy, a bit too quick to call that overall. But I think there are some green shoots when I speak to our customers, but we're not baking in any improvement or deterioration in our modeling.

Alex Bowers: Thank you.

Operator: We currently have no questions in the queue, so as one last reminder, please press star one if you would like to ask a question. We have no questions in the queue, so I'll now hand over for some webcast questions.

Moderator: So we have two questions that have come through on the webcast. The first is from Ken Hsia who's a private investor, and he asks, "Does the 25 million pound share buyback have any relation to the value of the U.S business?"

Oliver White: No, it doesn't. As we've mentioned, we see our share price as materially undervaluing the business, and in some sense it's the best investment we can do with our cash is to buy back our shares, given the very low price it has. As we've talked around our balance sheet is incredibly robust, and we've modeled any U.S sale conservatively, so it's independent of that. And we'll go ahead regardless of where the process moves to.

Moderator: And the second question on the web chat is from Elias Gutierrez from Toros de Miura. And he says, "Congratulations on the results and the plan forward. I have one question, what do you plan to do with the proceeds from the U.S unit sale?"

Oliver White: I think that flows into the capital allocation framework we laid out. So we will consider that as the overall usage of our cash. And as we've laid out, we would look to make the best use of that and weighing up the various options we have.

Moderator: And that's it from the web chat.

Lisa Jacobs: Thanks all for joining us this morning and that will close the Funding Circle full year results.