Funding Circle

HY1 Results | Webcast

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Transcript

Lisa Jacobs: Good morning everyone, and thank you for joining us today. I'm here with our CFO, Oliver White, and we're pleased to be able to share our half-year results. I'll start with a brief overview, pass to Oliver for the financial results, and then finish with an update on our medium term plan, before we open up for your questions.

Our mission is to build a place where small businesses get the funding they need to win. Over the last 12 years, we've used our data and technology to solve the big problem of small business lending. For our businesses, like David's Flower Station, who are celebrating their 20th year in business, we deliver a quick and easy experience. We have transformed the small business borrowing process from something slow, arcane, and paper-based into something that is quick, easy, and online. This allows our SME owners to concentrate on doing what they do best, running their business.

For our platform investors, we've opened up a new, attractive asset class, delivering robust and attractive returns. We use our deep data lake, which has over two billion data points to drive predictive risk models, outperforming traditional bureau scores. The platform delivers a huge impact. To date, we've originated over £14.5 billion pounds of loans to 130,000 businesses. Last year, in the UK alone, lending through Funding Circle supported over 100,000 jobs, contributed over £7 billion to GDP, generated £1.9 billion in tax receipts, and supported communities up and down the country. I, and our team of Circlers, are really proud of the impact that we have had to date, but we know we can do more.

We are well positioned and executing on our growth potential. Our market leading technology and data capabilities continue to power our superior customer experience. Instant decision technology enables 70% of applicants in the UK to apply in six minutes, receive a decision in nine seconds, and have money in their account in 24 hours.

This remains a unique and differentiated proposition in small business lending. We maintain high customer satisfaction as evidenced in our NPS of 80 in the UK and 83 in the US. This generates continued borrower demand and gives us a strong base from which to grow over the medium term. We have a proven platform model. Over the last 12 years, we have delivered robust and attractive investor returns through the platform, thanks to our technology, data, and risk management. Despite the challenging macro environment that we're all seeing and hearing about, we've seen no evidence of increased arrears, and indeed, we've upgraded our investor loan return expectations on most of our historic cohorts. This speaks to the strength of our risk models.

On the back of this track record, we continue to see investor demand as evidenced by our recent funding announcements in both the US and the UK. Whilst we're not seeing any material signs of stress, we are well aware of the pressures facing our customers in the broader macro economy. We will therefore be taking a prudent approach to originations going forward. We'll also maintain attractive returns to our platform investors by continuing to increase pricing as base rates rise.

In March, I announced our medium-term plan, building on our foundations of technology, customer satisfaction, and a strong financial position. It is built around three customer-focused pillars, driving long-term growth: attracting more businesses through multichannel marketing and more embedded partnerships, saying yes to more businesses through increased conversion of quality applications and improved customer journeys, and becoming number one in new products, which means building on our current capabilities to achieve market-leading positions in new products.

We've started to execute against this and whilst it’s just early days, some of the highlights over the last six months include two lending-as-a-service pilot partnerships, an expansion in our product sets in both the UK and the US, and good customer engagement with our new product, FlexiPay.

Oliver will talk in more detail about the financials, but let me draw out a few highlights. We delivered a good set of results in the first half. Group revenue of £77 million, adjusted EBITDA of £10.6 million, and operating profits of £1.5 million. We have a healthy balance sheet. £299 million in net assets and £183 million in unrestricted cash.

Given the strong return performance of our historic loan cohorts, our investment income and our investment adjusted EBITDA was above expectations, and this led us to exceeding our expectations over this period. Despite this good performance in the first half, we'll be taking a prudent approach in the second half of the year, driven by the uncertain macro environment. That leads us to reducing our income guidance for the full year by £15 million to a range of between £140 million and £155 million. We continue to reaffirm our profit guidance for the full year.

And now I'll pass to Oliver to take you through the financials in more detail.

Oliver White: Thank you, Lisa. Good morning, everyone. It's my pleasure to be able to share Funding Circle's financial performance for the six months to 30th of June. However, before I do that, let me begin by recapping how Funding Circle makes money. We have a fee-based income model, what we call operating income, with some limited investment income. Within our operating income, we receive transaction fees and servicing fees. Transaction fees are charged to borrowers, are driven by origination volumes, and account for around 55% of total income. Typical yield is circa 5%, and that yield is relatively stable over time.

Servicing fees are more of an annuity stream charged from investors. Fees are around 1% per annum and driven by the loans under management. The proportion of income from servicing fees has increased over time as loans under management has grown. In 2019, for example, they represented only 17% of total income compared to over 30% today. Together, the transaction and servicing fee income make up around 85% of Funding Circle's total income.

Investment income is driven by our equity invested where it makes our platform stronger, for example, where lenders require co-investment. The yield will depend on the nature of the investment and its risk reward characteristics. Over time, we expect operating income will make up a greater proportion of total income. Investment income is reducing and becoming less volatile. In the half, investment income has reduced to 14% of total income, down from 20% in 2021.

Let's now look at the group results and overview. The table shows the performance in half one 2022, alongside the comparators of half one and half two of last year. By way of context, half one 2021 was the peak of the government guarantee programmes in both the UK and in the US. Turning now to the recent period, loans under management were £4.1 billion, down £400 million from the end of 2021 due to anticipated loan amortization and prepayments, and the continued forgiveness of US PPP loans as expected.

Origination volumes were £0.8 billion in the half, up 21% to the previous half and 51% down on the first half of 2021. Operating income at £66.4 million was down 6.5% in half two, and down 30% in half one of 2021. Operating income in the US was distorted by the deferral of PPP fees. Adjusting for this, the underlying operating income grew from £57 million in half two to £63.9 million in the current period.

Investment income continued to reduce as previously guided with both the US and the UK warehouses sold in 2021, and remaining loans on our balance sheet amortizing down. The second half of last year saw fair value gains in our balance sheet investments, reflecting in part a write-back of prior period losses. This half saw a small fair value gain reflecting strong actual loan performance. This performance is also reflected in our returns to investors in our platform. We've again revised return expectations upwards.

Costs remain well controlled. Expenses above adjusted EBITDA were flat on half two of '21, and 9.5% lower than half one. Funding Circle remains profitable, both the adjusted EBITDA and our operating profit level at £10.6 million and £1.5 million respectively. Funding Circle continues to have a robust balance sheet with cash of £201 million, of which £183 million is unrestricted. Net assets grew to £299 million, up £11 million.

I will now explain these results in more detail. Turning first to the UK. In the UK, loans under management have reduced sequentially versus half two '22 from expected amortization on loan prepayments. Originations are at £641 million.

This is reduced from the peak of the government schemes, but up 8% on half two of last year.

UK total income is up 2% from half two 2021 at £61.9 million. Within this, operating income, so our fee income of transaction fees and servicing fees, increased by 6% to £55.2 million. Adjusted EBITDA is £7.6 million. Half one of last year saw a high level of originations through the peak of the government guarantee programme, and half two saw a significant contribution from fair value write-backs. Operating adjusted EBITDA more than doubled to just under five million in the half. The UK continues to deliver net operating profits.

Turning to the US. Loans under management reduced to £371 million with most of the movement coming from the PPP schemes, where £48 million of PPP loans remain. As a reminder, these are designed to be forgiven by the government if certain criteria are met, for example, around the use of the funds to pay salaries. PPP loans accounted for £125 million of our loans under management at full year '21. This was down to 48 million by half one of '22. And no servicing fee is received on these loans. There was a net increase in loans under management of our commercial lending to £323 million. Originations were £145 million, down from the peak of the government schemes, but more than double half two of '21.

Total income in the US was £14.2 million, down on half one and half two last year. Of this, operating income is £10 million, up compared to £7.1 million in half one '21, but down on half two. As a reminder, we defer income from one period to another with PPP loans. On the underlying basis, operating income almost doubled to £7.6 million from £4 million in half two of '21. The US continues to be adjusted EBITDA positive at £1.9 million, and broadly operating profit breakeven with a loss of £0.1 million. This profitability was driven by the strong performance of investments adjusted EBITDA based on actual performance of the loans in the half. Operating adjusted EBITDA was a loss of £7.8 million, and excluding the impact of PPP income deferral was a loss of £10.1 million as we build the business back to scale.

Turning to costs. Operating expenses have continued to be actively and tightly managed. These costs are largely technology, staff costs, and marketing costs. Following four halves of continuously reducing costs, costs are further reduced by 1% in half one versus half two of '21. We continue to invest in technology and we retain a conservative position on capitalizing this spend. Marketing costs remain relatively stable at 26% of operating income. We expect to see marketing spend continuing to remain below 30% of operating income going forward. Our balance sheet remains robust. Net assets are £299 million, up £45 million since half one of '21. The net asset position includes cash of £201 million, including unrestricted cash of £183 million. As a reminder on what we mean by restricted and unrestricted, we use the term unrestricted to differentiate from cash we hold in investment vehicles owed to bond holders and where we have collected guarantee fees for the government schemes that we will pay over. On the next slide, I will talk more about how we propose to utilize that cash.

Unrestricted cash has reduced by £16 million since the end of 2021. This has been driven by choosing to wind up and exit the UK securitisation of a cash outflow with £16 million in half one.

There will be £10 million of corresponding cash inflow relating to this in half two, with the remainder in '23, and executing this considerably simplifies the balance sheet. We supported the employee benefit trust to purchase £5 million of shares, reducing the dilution impact of share schemes and the initial funding of the FlexiPay product to the tune of £5 million, and these have been offset by cash inflows of £10 million from equity investors in our loans as these loans pay down. Funding Circle equity invested in our loans is £92 million, up from £70 million at the end of '21, driven by the above items. In other words, the net movement in cash has flowed into the equity we have invested. This £92 million is well within our capital guardrails of £118 million we set out in December 2020.

Funding Circle has ample cash to support business investment and growth as we continue to execute our medium-term plan. Going forward, we intend to use our cash as follows:

Firstly, we hold cash to cover the business through prudential risk. We run internal stress tests to dictate the appropriate amount, and we hold this over and above the minimum levels required in some covenants for institutional investors. This total amount varies with our business activity but is around £75 million. The UK continues to be cash generative. We will continue to fund the US and FlexiPay operating cash flows until they become cash generative, which we project and target to occur during 2024. We use our Funding Circle balance sheet where it makes our platform stronger. We are, and we'll continue to be, the sole investor in FlexiPay until it reaches maturity. In half one, we took the opportunity to wind up the UK securitisation, given the rapid cash payback and the opportunity to simplify the balance sheet.

Similar opportunities will present themselves in the two US securitisations. We still see significant opportunities for growth in SME lending beyond our medium-term plan. It is important to retain the financial resources to pursue those opportunities as they arise. At present, we have no plans to commence distribution to shareholders. We have and we will continue to support the employee benefit trust to purchase up to its 5% limit, reducing the dilution of our share schemes to existing shareholders. We will evaluate any potential business growth opportunities compared to the opportunity offered by share buybacks or similar. We are also very conscious of the uncertain macro outlook and the importance of a robust balance sheet at these times. The board will keep this under continued review.

This slide shows for both the UK and the US the latest expectation of returns to investors in our platform. As can be seen, even for those loans most impacted by COVID, our investors have received an annualized return of 4% to 6%, and we have again improved the outlook on these return expectations. This is shown in bubbles which contain the basis point improvement on our prior expectations. You will notice that in the UK, the 2021 cohort's expectation has marginally reduced. The actual performance to date of these loans is better than our prior expectation, but the return shown is a blend of actual and forecast performance; and therefore consistent with our prudent approach to the uncertain macroeconomic climate, we are forecasting a deteriorating outlook. This obviously has a more material impact on the more recent loans where the balance of the performance is more weighted to forecast projections, though of course forecast returns of over 5% are still very strong.

It should also be noted that the US 2021 loan cohort actually has a slightly improved outlook. In the US, our actual performance has been even stronger and the economic outlook is less stressed. The investor returns shown demonstrate the robustness through the cycle of the asset class that Funding Circle has developed. Funding Circle is, at its essence, a small business lending platform matching SME borrowers with investors. To date, £14.5 billion of loans have been originated on our platform. The pie chart on the left hand side shows the sources of funding for our £4.1 billion current loans under management. This diversified set of funding sources remains broadly stable with asset managers and banks continuing to be the largest investors. As can be seen within each of these segments, we further maintain a diversified investor base. As a reminder, retail has been closed to new lending since the inception of the government supportd lending in May of 2020, and at the full year '21 results, we confirmed that we will not reopen the retail book to new lending and will manage the wind down of the book as loans pay down.

The proportion of the book funded by retail has reduced to 4%. We are actively managing the business through the uncertain macro environment. We are maintaining robust and attractive investor returns. We've continued to refine our credit model to sustain a prudent approach to originations and have adjusted pricing to borrowers, given the rising interest rate environment and its impact on investor expectations. We are seeing continued investor demand to fund loans. In the UK, we have signed new forward flow agreements with three asset managers, and in the US, we have signed new forward flow agreements with four banks and credit unions, the most recent signed only last week. The business has an active forward pipeline, and we anticipate adding further new investors during the remainder of half two. Despite the challenges of the external environment, we will remain ready to support our SME customers.

The business is in a good position and we are well-prepared to manage through the challenging macro environment. Of course we do recognize the uncertain macro environment we operate in, as a result, we've adjusted our revenue guidance to reflect the emerging challenges and the prudent actions we're taking in response. Accordingly, we now see total income in the range of £140 million to £155 million, down from our previous guidance of £155 million to £170 million. We retain confidence that the business will be adjusted EBITDA positive for the year, but now skewed to half one following a strong performance of investment adjusted EBITDA. We remain excited about the medium-term plan and the growth opportunities that it offers, and our medium-term guidance for 2025 remains unchanged. I would now like to pass back to Lisa.

Lisa Jacobs: Thanks Oliver. In March, I spoke about our medium-term plan and vision for the future of the business. We are at an inflection point as we transition our business from a single product direct-focused business to a multi-product business serving a direct and embedded audience. Over the last 12 years, we've built some core strengths and capabilities. Our investment in data and technology has built a superior customer experience, which our customers really value. We will build on these strengths as we transition into a multi-product platform solving more problems for our small businesses. This will increase engagement, and consequently our customer lifetime value. We will also continue to leverage our platform to reach new distribution partners by expanding our API in the UK and lending as a service in the US. We've already begun this journey, and I will speak to some of the highlights shortly.

Our superior borrower experience is driven by our technology, data and machine learning capabilities. We don't stand still, and as we continue to grow, we feed the Funding Circle flywheel. As we attract more customers to our platform, we augment our data lake. Today we have over 2 billion data points on 28 million businesses comprising publicly available data and proprietary data on over 900,000 business applications and 180,000 loans. This data enables us to build accurate and predictive risk models. These models outperform the traditional bureau scores, but also enable us to be smart about the data we ask our customers for, balancing risk insights with a frictionless customer journey. Our net promoter score is over 80. Our data also powers our marketing models, meaning we target those businesses most likely to respond to our marketing and to pass our credit assessment. These combined, our customers, our technology and our platform, enable us to launch more products.

These generate deeper relationships with our existing customers and help us to attract new customers, turning the flywheel once again. It's this combination of data and technology that is the moat around our business. The clearest example of how we bring data and technology to bear is in what this means for our customers. For our businesses, we deliver an instant decision to 70% of our UK applicants. It takes six minutes to apply. An instant decision means nine seconds, and money can be in borrowers' accounts in 24 hours. This has transformed small business borrowing and the customer experience. It's the reason that David's business, Flower Station, came to us initially, and is now a repeat customer. Small business owners are busy, whether that is in David's case managing his team of florists, contract couriers, stock situation or website logistics. Creating a superior customer experience differentiates our offering, increases customer conversion, and enables small businesses to focus on winning.

Building on our strong foundations, our medium-term plan has three core pillars, attracting more businesses through multi-channel marketing and deeper partner integrations, saying yes to more businesses with expanded term loan propositions and further marketplace integrations with our partners, and being number one in new products, products where we can bring our capabilities to bear to serve more customer needs and achieve market leading positions. It's still early. We're only six months into our medium-term plan, however, we're making good progress against each of these areas. I'll dive into lending as a service and FlexiPay in the coming slides.

As part of saying yes to more businesses, or serving more credit worthy businesses, we've expanded our core term loan product set in the first half. In the US, we've expanded our proposition to serve super prime customers. In the UK, we've expanded selectively to serve younger businesses. This expansion shows the strength of our data and risk models. Our lending as a service proposition builds on the powerful capabilities that we have built in the US, serving over 40,000 small businesses over the last nine years with over $4 billion in lending. By way of context, the US banking markets is very fragmented. There are thousands of banks, regional, community and others, and these banks often lack the technology and capabilities to do small business loans under $1 million in size. The acceleration in digitization over the last two years has led to an increased interest on behalf of these banks to partner with FinTech’s, as they seek to meet their customers where they want to be managing their finances, which is online.

Our lending as a service proposition provides an end-to-end service for banks and other partners that enables them to provide a new lending product for their customers, increasing their customer satisfaction, and also enabling them to earn attractive returns. We can have a new partner up and running in as little as 15 days.

Practically, what this means is that first we co-market with our partners. They bring their customers and we support them in targeting. From then, we manage the rest, a quick and easy application, sales, underwriting, operations, loan offer and fulfillment, and ongoing servicing of the loans. The partner funds the loans themselves.

Our proposition is differentiated from others in the markets, as we offer the full end-to-end experience rather than only providing pieces of the solution. Other lending as a service providers tend to focus either on a small part of the overall process, or just providing technology flows and data insights.

Partners want to work with us because we offer an end-to-end solution that they can plug into with ease. They get to leverage our credit experience and a seamless customer journey from application to fulfillment. Since our full year results in March, we have announced two pilot partnerships with Pitney Bowes and DreamSpring.

Our products embed seamlessly into their customer journeys, whether that is through their online portal, specific marketing materials, or other customer points. What's been great to see is the customer and partner feedback to this proposition. As one of our partner customers has said, the product is blazingly fast.

We continue to learn and iterate with these pilots and we have a strong pipeline of further partners. We do expect this new distribution channel to take some time to scale, as we bring new partners on board and go through pilots prior to ramping up.

The third pillar of our medium-term plan is to be number one in new products. Our first new product, FlexiPay, empowers businesses with a credit line that enables them to pay any bill or invoice and spread the cost over three months with a one-off fee of 3%.

We chose to launch FlexiPay first for three reasons. First, it allows us to solve another big problem for our customers. Cash, as in many businesses, is king for our customers. So a tool that enables them to manage their cash flow, which is one of their biggest pain points, is very valuable.

Secondly, it allows us to increase our engagement with our customers. Today we have a product that our customers really value, but customers only interact with us on an annual basis. With FlexiPay, we are seeing monthly engagements. With our new card to be launched in beta by the end of the year, we expect to see daily engagements.

Third, it opens up a large new market for us. There are nearly £1 trillion in small business B2B payments each year in the UK.

It continues to be early in our FlexiPay journey, but I'm very excited about what we've seen in terms of engagement and growth. FlexiPay drawdowns are growing at an accelerating rate and have tripled between March and August. They now stand at £30 million. We've issued over 2,000 lines of credit, more than double since March, and we are seeing very high levels of engagement, with each active customer making 1.5 transactions per month. I remain convinced of the significant opportunity that FlexiPay will generate.

I expect it will allow us to reach new customers and solve new use cases. Whilst small businesses might not always need a term loan, they are constantly making and receiving payments. I expect this will increase our customer lifetime value. Our existing loan customers are using this today as a complementary product to their term loan. We remain on track to launch a beta card by the end of the year.

In summary, we have delivered a good set of results in the first half. Group revenue of £77 million, adjusted EBITDA of £10.6 million, and an operating profit of £1.5 million. We have a healthy balance sheet with £299 million in net assets and an unrestricted cash position of £183 million.

Despite the challenging environment, our loan return expectations remain robust and attractive, highlighting the strength of our data and risk models, we continue to see ongoing demand on both sides of the platform, as evidenced by our recent platform investor announcements. We are in a strong position to continue to support our customers.

Our technology continues to drive significant competitive advantage and a superior customer experience. It is one of the core foundations of our medium-term plan. Whilst we are early in our medium-term plan, we are executing well. We recognize the macroeconomic challenges, but still see attractive growth opportunities over the medium-term, and we continue to take advantage of these. Thank you for joining us today. Oliver and I would now be happy to take any questions.

Call Operator: Thank you. If you'd like to ask a question, please signal by pressing *1 on your telephone keypad. If you are using a speaker phone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press *1 to ask an audio question. We will now take our first question from Orson Rout from Barclays. Please go ahead.

Orson Rout: Hi, thanks for taking my questions. The first two are just on costs. Firstly on marketing costs. These were down 37% year on year in H1, despite the launch of FlexiPay. I was just wondering, was this lower marketing costs more of a sense of precaution due to the macro news or is it because FlexiPay is still in very early stages? What do you expect the cost phasing to look like in terms of marketing in H2? Would you expect a pick up because of FlexiPay, or is that more for next year?

Then the second one is on cost inflation and wage inflation. What are the trends you are seeing there? Has this already impacted costs in H1, or are you really expecting this to pick up more in H2?

Then my final question would just be on the guidance. I mean H2 was slightly above expectations on EBITDA, roughly in line operationally, it looks. So is the downgrade more of a case of precaution due to the macro news, or have you already started to see some early slowdown in demand as a consequence of macro and the inflationary backdrop we have? Thank you.

Oliver White: Hello Orson, thank you for your questions. I guess taking them in turn. Firstly, marketing costs. So marketing costs are down heavily compared to half one of '21. But our marketing costs are primarily driven by origination volume and are relatively variable in that respect. So the big drop is, more than anything, just linked to the level of origination activity. FlexiPay at the moment is not a major driver of marketing cost.

FlexiPay is still very much in a test phase and is being targeted particularly at our existing customer base. Going forwards during half two, we continue to test and scale FlexiPay, but I do not anticipate any material marketing spend on FlexiPay for the rest of this year.

Broader than that, turning to the overall cost base, we've clearly seen and we're clearly not immune to wage inflation. I think it's been well publicized there are a number of hotspots in different parts of the recruitment market. We manage our costs well and tightly, but I would expect some cost inflation, some modest cost inflation, going into half two of this year.

I think your third question is really on the guidance and particularly how it relates to the macro. We see the same challenging macro. I think everybody else does. We are prudently anticipating that, by particularly refining our credit strategy; and that leads to the prudent reduction we've taken on the income guidance. That flows through to the adjusted EBITDA.

Orson Rout: That's super helpful. Thank you.

Call Operator: We will now take our next question from Lukasz Wojcik from Goldman Sachs. Please go ahead.

Lukasz Wojcik: Hello. Congratulations on the results. A couple of questions. First one mostly on the cash generation over the medium-term. So on slide six, you give this equity invested, and then you have £186 million of unrestricted cash. So how should we think about, one, your equity invested going forward, especially as FlexiPay scales? Then what would the impact be on the medium-term cost generation for the business? So that's the first one.

Second, how big of an opportunity do you see so far in FlexiPay? Is this running ahead of your initial expectations? When you introduced the guidance, you gave the qualitative FlexiPay contribution to it like your 2025 growth rate until 2025. Is this running in line with your initial expectations or is it scaling slightly faster or slower?

Oliver White: Hi Lukasz, Thank you. I'll do the first question, then maybe hand over to Lisa to talk about what we're seeing on FlexiPay. So in terms of our equity invested, so we use our balance sheet where it makes the overall funding circle platform stronger. As of the half, we had £92 million of equity invested. I would see probably a gradual increase to that in half two driven by, among other things, the scaling of FlexiPay, where we remain the only investor until the FlexiPay product reaches maturity.

As outlined in the pack, there are one or two moving parts in both the cash and the equity invested. As I touched upon in half one, we took the opportunity to execute and exit the UK securitisation. That has some benefits in terms of past cash payback and also simplifies the balance sheet. I think I did mention that a similar opportunity may present itself on the US securitisations going forward, and we may choose to take that opportunity.

In terms of cash generation, we have ample cash to support our continued investment in our medium-term plan. I would see some net cash outflow during '22 and during '23. It's notable, of course, that the UK business continues to be cash generative. Hopefully that answers your cash questions. Now Lisa will talk about FlexiPay.

Lisa Jacobs: Morning. Thank you for the question on FlexiPay. As we said, it's very early days, but I am excited about what we're seeing. It is ahead of our expectations in terms of the engagement that we are seeing from our FlexiPay customers.

As I said, on average, an active user is using it one and a half times a month, which is ahead of where we expected it to be. We've also seen our existing customers using it alongside their term loan. So, we're starting to see this complementary angle of products and, therefore, deepening our relationships with our businesses and increasing the overall lifetime value we have with them. In terms of where could it get to, it's too early to provide precise guidance on that. But I don't see any reason why this couldn't be over the medium/longer term as big as our core business is today.

Lukasz Wojcik: And maybe one quick follow up on this, how long do you expect FlexiPay to be margin diluted for? Maybe when would you expect that business to turn break even?

Oliver White: I think we talk in the cash page on operating basis, I would expect it to begin to breakeven by 2024. Although as Lisa mentions, we see great opportunity for that. Still early days and the breakeven point will depend on how fast it scales, how much investment we put behind it, how we take advantage of the opportunity. But broadly I would say '24, '25.

Lukasz Wojcik: Great. Thank you for that.

Call Operator: We will now take our next question from Alex Bowers from Berenberg. Please go ahead.

Alex Bowers: Hi Lisa, Oliver. I have two questions both on funding. First, you mentioned you've signed a number of new forward flow agreements during this period. I was wondering if you could talk a bit more about the main reasons why investors choose to fund Funding Circle loans as opposed to other funding options available to them? And secondly, could I get a bit of a view as to how investor interest has been impacted by the current macro environment? Thanks.

Oliver White: Thanks, Alex. I think fundamentally investors are attracted and stay attracted to the platform, because of the resilience and quality of the returns we offer over the cycle. So Funding Circle over its 10 plus years have really created the ability for these investors to access an asset class that they couldn't previously easily access. As our returns have demonstrated even through the COVID pandemic, we've delivered very, very strong returns. So I think that's the fundamental reason we offer attractive, resilient returns which are proven. Investors, I guess like all of us, like Funding Circle, are appropriately cautious with the economic stress we're looking into. We've seen some increase in investor expectations as base rates and spot rates have increased and we've reflected this in some increased pricing to the borrowers. But very much moved borrow pricing in line with how the market itself has been moving. And clearly Funding Circle and our funding investors are very aligned on continuing to monitor and refine our credit strategy going forward.

Alex Bowers: Thanks, Oliver.

Call Operator: As a reminder to ask a telephone question, please signal by pressing star one on your telephone key pad. We will now take our next question from Mark James from Investec. Please go ahead.

Mark James: Just a quick question, you've alluded a couple times obviously to the macro environment, which we're all aware of. I'm curious, the world is littered with headlines of SME's with expanding energy costs. What have you seen in recent weeks? Has it been a good thing, in terms of new loan applications? Or a bad thing, in terms of existing loan book? I'm just trying to get a feel for the recent trajectory, given the escalating energy prices that we've had and probably will continue to have.

Lisa Jacobs: Thanks, Mark. From a demand perspective, we've seen it continue to be relatively stable and if I look at the book, it's still performing very well. Obviously, we upgraded most of our cohorts in the UK. We're delivering historical average returns of about 5%. In the US it's about five and a half percent. So the book continues to perform very well. We're not seeing any material signs of stress. Anecdotally, obviously we read the same press as you, we see everything that's happening and there are instances of where when we speak to our businesses, they are challenged with the upcoming energy costs. But our delinquencies are stable, they're about a fifth of what they were at the peak of COVID. And so we continue to see strong resilience in the loan book.

Mark James: That's great. Thanks very much.

Call Operator: There appears to be no further questions. I will now turn it back to the room. Thank you.

Morten Singleton: Thanks very much. We've actually got a few questions on the webcast, but before I turn to that, perhaps I should introduce myself. My name is Morten Singleton. I've recently come on board as director of investor relations and I'm very much looking forward to engaging with you all over the coming years. But let's just take a look at some of the questions coming through on the webcast. I'll start with one from James Hamilton from Numis. How long do you expect the lending as a service pilots to take, before a full launch is reached? How many times greater do you expect the full launch lending as a service originations to be compared to a pilot? How important is lending as a service to your US growth and profit expectations?

Lisa Jacobs: Thanks, James. So let me talk a little bit around each of those questions in turn. So what we've seen with our partners, we've got a strong partner pipeline and then when we bring them into pilot, we expect those to last six months or so. And to be able to show that we can attract businesses through that partner, we can show the seamless process that we have, which is what we're starting to show through the partnership pilots that we have in place today. As you can see in the presentation, the strong customer satisfaction from our Pitney Bowes customers. And then we expect to see the ramp up following that. In terms of how much larger it will be when we ramp up, it depends on the state of the pilot, but typically how these pilots work is that we address a small portion of the customer base that the partner might have and therefore, we expect it to ramp up accordingly.

In terms of how important this is for our US business, we continue to see demand on a direct basis, but we really think that in the US there is a huge opportunity for lending as a service, given the difference in terms of the market makeup, the much more fragmented nature of the US market from a banking perspective. And the fact that over COVID in particular, there's been an acceleration in these banks looking to partner with FinTech providers, because they see the opportunity that there is to serve their customers online. So we expect it to be a strong area of growth for us in the US business.

Morten Singleton: Thanks, Lisa. Our next question is from Ed Firth from KBW. You are still targeting £290 million plus of revenues by 2025, which implies circa 2% increase over three years. Given uncertainty regarding the outlook for 2023 in particular, how confident are you that this is still deliverable? And how would you expect the cash position to evolve over the period?

Lisa Jacobs: I'll take the first part and then I'll pass to Oliver. Thanks, Ed. So in terms of our 2025 guidance, taking 2021 as a base, obviously we are aware that 2021 was an exceptional year, but we see strong growth from this year to 2025. We are still focused on our medium-term plan, executing against the growth opportunities that we have. And so that's why we have not changed our medium-term guidance. I'll pass to Oliver to talk about the cash profile over that period.

Oliver White: Yes, we have ample cash to support our business investment and growth as we execute the medium-term plan. As mentioned in answer to one of the earlier questions, we would see some net cash outflows in '22. Plus I would also see some net cash outflows in '23 as we continue to support the US and FlexiPay product get to operating cash flow. We will continue to scale up the FlexiPay product, ensure it reaches maturity and some potential opportunistic elements in addition. So therefore, I guess a cash low point if you like, probably in 2023, but quite sensitive to the scale up of the FlexiPay product. But just to reiterate, we've got ample cash to support our present growth plans and any future growth plans.

Morten Singleton: Thanks, Oliver. We had one other question from Ken Hsia, but it's very much along the same lines. Would you please touch on the cashflow for the next 12 months or the ability to fund yourselves through the tough economic conditions? But I think you've just answered that question.

Oliver White: Well, I think I answered the first.

Morten Singleton: Yes.

Oliver White: Clearly to state the obvious, we have ample cash and that's a great position to be in given the tough economic conditions.

Morten Singleton: Thank you. That is it, in terms of questions. So I'll just hand over to Lisa for any final comments.

Lisa Jacobs: Thank you for joining us today. And if you've got any further questions, please do follow up with the team. Have a good day.