



Funding Circle

Full Year Results 2022 | Audio Webcast

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Transcript

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Lisa Jacobs:

Good morning and thank you for joining us for the Funding Circle Full Year 2022 Results.

I'm going to kick off today with a business overview, I'll then pass to Oliver for the financial results and I'll finish by running you through the progress we're making on our medium-term plan.

Before I dive in, I wanted to pull out some of the highlights of our 2022 performance. In a difficult economic environment, we've delivered a solid set of results with total income of £148.7m and Adjusted EBITDA of £6.8m. We have transitioned back to commercial lending following the pandemic, continued to show robust and attractive loan returns to our institutional investors, and made good progress in the first year of our strategic plan. We are well positioned for long term success with momentum in the US and FlexiPay, and have firm foundations for growth.

So let's kick off.

At Funding Circle, we have an important mission – to build the place where small businesses get the funding they need to win.

For our businesses, like Nikola's florist in Hackney, we deliver an unrivalled customer experience. We have transformed the small business borrowing process from something slow, arcane and paper based into something that is quick, easy and online. We are expanding our product set with FlexiPay to create products that meet more customer needs. This means our SME owners have more time to concentrate on doing what they do best - running their business.

When small businesses win, so too do their communities and the economy. That's why Funding Circle delivers a huge impact. To date, we have extended over £15bn in credit to over 135,000 businesses. Last year, in the UK alone, lending through Funding Circle supported over 100,000 jobs, contributed almost £7 billion to GDP, and generated £1.4 billion in tax receipts, supporting communities up and down the country. I'm really proud of the impact that we have as a business. This wouldn't be possible without our fantastic team of Circlers and I want to thank them for all their hard work and dedication.

Over the last twelve years we have helped SMEs, like Nikola's, to win – by transforming the way that small businesses borrow.

This time last year I explained that we are evolving our business – from one that enables SMEs to borrow for the longer term, to one that also enables them to pay and spend too.

In 2022, we furthered our progress towards a multi-product business. FlexiPay is now available to all UK customer segments and we've launched FlexiPay card in beta. We are becoming a more important part of our customers' lives and leveraging our capabilities further.

Our SMEs now use Funding Circle for three things:

- Borrowing for the longer term through our super prime, prime and near prime loans;
- Paying bills spread over three months through FlexiPay; and
- Making day to day spend with FlexiPay card which is in beta.

At the heart of what we do is our proprietary data and technology. It powers our slick customer experience across loans and FlexiPay, our credit performance for our institutional investors, and enables us to scale. It forms the moat around our business.

Our tech platform is built on a data lake of over 2 billion data points – a combination of Funding Circle proprietary data and publicly available data. We use this data to create our risk models. These are three times better at risk discrimination than the bureau scores. This means we deliver robust and attractive loan returns to our institutional investors whilst supporting more businesses.

Our data and technology is not just focused on our risk discrimination but also on creating a great customer experience. Our application process is quick and easy for SMEs to apply for credit. Our instant decision technology means over 70% of loan applicants in the UK can apply in 6 minutes, receive a decision in 9 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 77 and a high Trustpilot score. This generates continued borrower demand, ongoing engagement and gives us a strong base from which to grow over the medium term.

Over the last three years, the world in which we have been operating has been volatile, to say the least. I think it's worthwhile to pause and reflect on the storms we have weathered during this time, how we've responded and what this means for our business.

Covid-19 brought a unique set of circumstances. SMEs came under significant operating pressure and the government in both the UK and US responded with an unprecedented set of support, in the form of loans which brought forward borrowing.

Throughout this period, we have demonstrated resilience in the business model and agility in our response

- Loan returns in the UK and US have continued to be robust and attractive. And thanks to this we continue to see ongoing demand from institutional investors to fund loans.
- Our platform delivers a great customer experience to our businesses, leading to continued demand for loans.
- We've demonstrated the scalability of our platform - and during the COVID peak we scaled up very quickly in both the US and the UK.
- As SMEs have moved online to borrow, we have been able to meet their needs.
- And we have been disciplined in our approach to costs, maintaining a high cash balance, giving us opportunities to invest selectively in growth opportunities.

As I look forward, I feel really confident about where we are. This period has made us stronger as a business. We have shown our resilience. Whilst the UK economic environment weighs on our UK loans business, versus a year ago, we, as a Group, are more diversified and have more confidence in our growth plan.

- In the UK Loans business, we will continue to maintain prudence in lending in 2023. We believe long-term robust loan returns outweigh short-term origination benefits. As such, we expect our medium term plan to be pushed out by a year, and Oliver will talk later about how we have updated our medium term guidance to reflect this. We are in a strong position to rebound when the recovery comes.
- In the US Loans business, we are facing a more benign economic environment. I spoke about my optimism for growth last year; we've seen that through the course of 2022 and I expect the momentum to continue in 2023. In January, we welcomed our new US Managing Director, Steve Allocca, who brings a wealth of small business lending experience and is excited to take the US business to the next level.
- In FlexiPay, we are seeing strong growth and engagement from our customers. It is still early in our journey, but the performance thus far has continued to meet and, in some instances, exceed my expectations. This, combined with our right to play in this new market, is why we have decided to step up our investment behind FlexiPay. Today, we will share more about the product, its progress and introduce guidance.

I will now pass over to Oliver to share our financial performance.

Oliver White:

Thank you, Lisa. Good morning, everyone.

It is my pleasure to be able to share Funding Circle's 2022 financial performance

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. Over the past few years, we have focused on the operating income and reduced the contribution from investment income.

Within our operating income, we receive transaction fees and servicing fees. Plus, we now have FlexiPay as an additional, and increasingly material, future source of income.

Transaction fees are charged to borrowers, are driven by origination volumes and accounted for 55% of our FY 22 total income. The typical yield is c.5%. During the second half of 2022, in both the UK and the US, we began testing higher levels of origination fees.

Servicing fees are more of an annuity stream charged to institutional investors at 1% per annum and driven by the loans under management. Servicing fees make up 32% of our 2022 total income.

Lisa will talk more about our new product FlexiPay later, but its economic model is that of a fee, charged on each drawdown made against the line of credit, payable in line with the FlexiPay loan over three months.

At launch this was 3%; with the rising base rate environment, for new borrowers this is now 4.5%. The FlexiPay contribution in 2022 was £1.5m of income; this will grow over time as we scale the product.

Together the transaction, servicing and FlexiPay fee income make up almost 90% of Funding Circle's total income.

Investment income is driven by our equity invested where it makes the business stronger. The yield will depend on the nature of the investment and its risk/reward characteristics. As expected, investment income has reduced. Investment income represents 12% of total income in 2022, down from 20% in 2021.

Let's now look at the Group results in overview.

2022 was a solid year for Funding Circle with results in line with expectations.

Originations were almost £1.5bn and loans under management £3.7bn.

Total income was £148.7m and Adjusted EBITDA was £6.8m positive. This was down from £206.9m and £91.8m in 2021.

There are a few key drivers to understanding our results and the comparison to 2021. 2021 was an exceptional comparator.

Firstly, 2021 saw the peak of the government supported lending schemes. The impact of these schemes was to pull ahead borrower demand into the time periods when the schemes were in operation.

Secondly, and in line with guidance, we have reduced the proportion of income and Adjusted EBITDA coming from investments, as we have optimised and simplified the balance sheet. 2021 saw a significant contribution from the write-back of material fair value adjustments.

Lastly, we have and we will continue to take a prudent approach to lending given the economic outlook.

Cash and net assets remain strong. Funding Circle has cash of £177.7m and net asset value of £284m. This puts us in a fully funded position to deliver our medium-term plan.

I will now explain these results in more detail.

This slide shows the key value drivers of originations and loans under management at the Group level.

Beginning with originations, we can see the momentum in Funding Circle commercial lending as the government schemes were phased out. 2021 saw the peak of the government-supported lending schemes, with CBILS and then the Recovery Loan Scheme in the UK, and PPP in the first half of 2021 in the US.

Commercial lending restarted in H2 2021 in both markets, although in the UK this ran alongside the RLS scheme until May 2022.

Commercial loan originations increased from £154m in 2021 to over £1.1bn in 2022, notwithstanding the prudent approach we adopted to new originations.

Loans under management has reduced as the government-supported schemes have paid down. As expected in the UK we saw high levels of prepayments after the expiry of the first subsidised year of the CBILS scheme ended; and in the US, we saw a continuation of PPP forgiveness by the US government as these loans passed their one-year anniversary and borrowers proved that their usage had met the appropriate conditions for forgiveness.

Commercial loans under management have increased 13% year on year.

This slide, still at the Group level, shows total income, Adjusted EBITDA and operating loss. To give added insight, the income and Adjusted EBITDA is split between operating and investment contributions.

Operating income and operating Adjusted EBITDA follow the origination and LuM trends of the previous slide.

The proportion of investment income continues to reduce – from £41.4m in 2021 to £17.3m in 2022, as we have actively managed and simplified the balance sheet. This reduction in income is matched by a reduction in Funding Circle equity invested in these vehicles and the monetisation and amortisation of these has boosted cash.

We fair value the loans on our balance sheet. In 2021, non-recurring fair value write backs were taken of some of the downward adjustments that were taken the previous year. These write backs offer further evidence of the quality of our underwriting. We saw a reduction in investment AEBITDA from £70m in 2021 to £22.1m in 2022.

Turning to the UK Loans ... and to be clear this excludes FlexiPay ...

Full year originations were £1.095 billion, down from a record £1.972bn in 2021.

Originations reduced from the peak of government loan support schemes. As a reminder CBILS operated until June 2021 and the Recovery Loan Scheme then operated from then until May 2022. We restarted our commercial lending alongside RLS in June 2021.

Given the wider economic outlook, in H2 we took a prudent approach to the origination of new loans. This is reflected in slightly reduced H2 originations (originations by half can be seen in the table below the chart). We consider this approach to be the appropriate action to take and is aligned with the expectations of our institutional investors and is a responsible approach to our borrowers.

Loans under management reduced from £3.9bn to £3.3bn. This was driven by the expected increase in prepayments from CBILS borrowers. For the first 12 months of a CBILS loan, the government paid both the origination fees on behalf of the borrowers together with the interest due. No principal repayments were required in the first year. Thereafter borrowers are required to pay the interest and principal repayments and hence a number of customers choose to repay their loans around this time.

Total income is £117m, down from £159.4m in 2021, reflecting the origination and LuM trends already discussed, together with the year-on-year reduction in investment income, which was down to £9.8m from £21.7m the previous year.

Adjusted EBITDA is positive £11.7m. This is despite the lower operating income and reduction in investment adjusted EBITDA, down to £7.4m from £32.2m the previous year.

UK adjusted EBITDA was positive in both H1 and H2. This demonstrates both the robustness and scale of the UK loans business.

The business has a small operating loss of £3.7m.

Turning to the US ...

The US is showing strong momentum in its return to commercial lending.

US total originations are \$401m, down slightly on 2021.

H1 of 2021 saw the peak of Funding Circle's participation in the US government supported lending with PPP.

Since then, the US business has demonstrated momentum in commercial lending notwithstanding our prudent approach to originations. As can be seen from the table on the slide, US originations doubled H2 21 going into H1 22 and then increased a further 14% to \$214m in H2 22. We see a very positive trajectory for the US going into 2023. We see a more benign economic environment in the US than we expect in the UK.

US Loans under Management were \$454m, down from \$574m in 2021. This reflected the expected forgiveness of PPP loans. 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 accounted for \$169m of our LuM at the end of 2021, and this was down to just \$34m by end of 2022. We earn no servicing income on PPP loans.

Excluding PPP, loans under management grew 4% year-on-year.

Total income was \$35.5m, down from \$61.3m. This reduction is driven by the drop in PPP originations (which carried a higher yield than our typical loans) and the reduction in investment income.

PPP loans are, from an accounting view, treated as being on Funding Circle's balance sheet – although no equity is invested and these are fully funded by the US government. We are required to spread the transaction fee over the expected life of the loans. This expected life is until the forgiveness of the PPP loans.

Underlying operating income (in other words after adjusting for the PPP accounting) grew, reflecting the momentum of commercial loan originations. This was \$4m in H2 of 21, \$7.5m in H1 of 22 and grew to \$10.9m in H2 22.

The US business recorded a small negative adjusted EBITDA of \$(4.1)m and an operating loss of \$11.5m.

Turning to costs.

Operating expenses have continued to be actively and tightly managed and are broadly in line with 2021.

These costs consist mostly of staff costs, marketing costs and technology costs.

Our H2 costs are up sequentially on H1. This is due to:

- investment in FlexiPay including marketing costs;
- investment in brand in the UK including the rugby sponsorship;
- scaling in the US business;

- continued investment in technology;
- impacts from the wider inflationary environment.

Marketing costs remain relatively stable during 2022 at 29% of operating income. H2 was slightly higher than H1, reflecting marketing investment in FlexiPay and brand. We expect to see broadly this level of marketing spend continuing.

Let's now turn to our loan performance and the returns provided to our platform investors.

For each annual cohort of originations we show the most recent return expectations and in the bubble how the expected loan returns have changed since the last time we discussed them. The UK is on the left and the US on the right.

In both the UK and the US, this shows loans either maintaining or improving their returns. Our credit risk management continues to be proven; our borrowers continue to be resilient; and the loan quality continues to be 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 have built to originate, underwrite and manage these loans. This capability and track record underpins the sustainability and resilience of our funding model.

As you can see, over the years and despite the unprecedented impact of the pandemic, we have returned an average cohort return of 5 to 5.5%.

2022 returns show a blended return through the year. As base rate expectations have risen along with investor return expectations we have increased borrower pricing. These increases have been broadly in line with market price moves.

Funding Circle's funding model has a number of advantages versus both traditional banks and versus non-bank balance sheet lenders.

As we have just seen, it is based on a proven track record of delivering attractive and robust returns through the cycle, giving institutional investors access to an attractive asset class, and access to that asset class at scale. It is this that enables Funding Circle to enjoy resilient funding.

It has been proven to give access to diverse and sustainable funding sources, as can be seen in the pie chart. It has proven agile and responsive to changing market conditions. It enables rapid scaling and operating leverage, as seen by Funding Circle being the third largest originator of CBILS. It limits and manages credit risk exposure, with limited Funding Circle equity deployed. It underpins a high return on equity, maximizing shareholder returns.

The pie chart on the right-hand side shows that diversification of sources of funding.

This illustrates our expertise in aggregating the right capital for the right product, along with our adaptability towards sourcing different funding at different times.

This set of funding sources shows continued diversification, with asset managers and banks continuing to be our largest investors. Within each of these segments, we further maintain a diversified investor base.

Retail continues to diminish as a proportion, now down to just 2%.

Of the £3.7bn of loans under management, 3% is funded by Funding Circle equity.

Our expertise in building relationships with institutional loan investors and our track record in delivering robust loan returns drives resilient funding.

This expertise is in developing appropriate funding structures, sourcing a wide range of institutional investors, building deep relationships with those investors. And it is coupled with our delivery of robust returns and facilitating access to this asset class, combined with the agility that we have shown through major changes these last few years to be able to transition our funding sources in accordance with the market conditions. An example of this would be managing the transition in the UK from a blended RLS and commercial approach to purely commercial lending in 2022.

This expertise in aggregating institutional capital delivered sustainable funding in 2022 and a strong funding flow for 2023.

In 2022, we utilised several sources of funding.

Institutional funding accounted for 86% of our 2022 loan originations. We have a robust go forward pipeline. In the UK we signed four forward flow agreement in the year, totaling £2.4bn. And we have signed an additional material forward flow agreement in January. In the US, we worked with eight forward flow investors through the year, including our first credit union partner. In January we signed another additional material forward flow agreement.

During 2022 we have adapted to the rising base rate environment and raised investor return expectations, through increases to our borrower pricing in line with wider market price movements.

Our Marketplace accounted for 11% of originations. This is a diverse set of third-party lenders in both the UK and the US, to whom we refer applications that sit outside our product set or credit box. Marketplace lending is not included in our loans under management.

3% of originations were supported by Funding Circle equity. This included investment to support FlexiPay.

Our balance sheet remains robust. Net assets are £284m, including cash of £178m and equity invested of £97m.

Unrestricted cash of £166m has reduced by £33m in the year.

Only £8m of this has been due to operating outflows, mainly to support the US and FlexiPay.

The remaining net outflows of £25m included:

- Winding up one UK and one US securitisation. The loans in the UK securitisation were subsequently sold and the US securitisation will more than repay in 2023 and 2024. This continues to simplify our balance sheet.
- Temporary funding of US loans whilst an institutional investor was onboarded. As you will recall, H2 started with a challenging macroeconomic backdrop. As a result of this, some deals took longer to onboard and some of our funding investors were also prudently waiting to see how the macro context developed. We used our balance sheet to manage through this transition and funded 11% of originations as a short-term measure to smooth this out. In January we signed a material new forward flow agreement with a new institutional investor. And in February we sold those loans originated in H2 on our balance sheet to this new institutional investor.
- Funding for FlexiPay loans – which are fully funded by us. Lisa will speak shortly about why we are excited to scale FlexiPay.

In each of these three instances, our cash has flowed into equity invested, remaining on our balance sheet. The last key outflow was in enabling the Employee Benefit Trust to purchase our own shares to avoid the dilutive impact of our share reward plans. And these outflows were offset by cash inflows from the pay down of some of our previous balance sheet investments.

This slide illustrates how we think about using our cash and deploying our capital. I see our balance sheet as a source of competitive advantage.

We support our operations. We run various stress tests and ensure we hold enough cash to protect against a combination of stress scenarios. We will fund the operating cash flows necessary for the US and for FlexiPay to scale to become cash generative.

We invest where it makes the platform stronger, in our UK and US Loans businesses. Use cases include limited co-investment for risk alignment with our institutional investors, to smooth funding transition as we onboard new investors, and to support our research and

development efforts before the associated products and features become adopted within our core product set.

FlexiPay is presently fully funded by Funding Circle. During 2023, as FlexiPay scales and becomes more proven, we intend to leverage that investment.

This funding approach is appropriate for the distinct characteristics of the FlexiPay product. Although each individual loan is 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 low ticket size, fast pay down amortisation, and our ability to manage this risk, together with its attractive economics.

We have ample cash to deliver our medium-term plan. In addition, we have cash available for new growth opportunities should these become apparent.

We will continue to manage share dilution by supporting the Employee Benefit Trust in purchasing our shares in the market to fulfil our employee share awards.

All in all, I am pleased with Funding Circle's financial performance in 2022. The business has adapted to the cessation of government lending schemes, a challenging economic environment and a rising base rate environment. Our solid performance and our robust balance sheet, sets the business up well to take advantages of future growth.

I would now like to hand back to Lisa to take us through our plans for the medium term in both the UK and the US, and also to talk more about FlexiPay.

Lisa Jacobs: Thanks Oliver

Over the last twelve years, we have built strong foundations in our business.

- We have built a deep proprietary data lake and tech platform for accurately credit assessing SMEs in the UK and the US.
- We have a set of easy-to-use products that are really valued by our customers.
- And we have a good track record in delivering robust and attractive returns for our institutional investors and aggregating diverse forms of capital.

But we know that there is more that we can do to increase our impact, and to deepen our reach and engagement with small businesses.

And this is why our medium-term plan, which we set out a year ago, is focused on growth – enabling more small businesses to win. We are focused on three pillars of our strategy:

- Expanding and deepening our distribution channels to attract more businesses;
- Saying yes to more businesses;
- Being #1 in new products - offering multiple products to our businesses.

Taking a quick step back to remind you how Funding Circle works – and therefore how our medium-term plan ties in. We, in the middle of this chart, deliver a great customer experience for our borrowers powered by our data and technology platform. And as Oliver spoke about, we have built a strong capability in aggregating institutional capital. Our platform is at the heart of this – supporting both the loan returns and our superior customer experience.

This slide shows where Funding Circle was a year ago. On the left-hand side, thousands of small businesses coming to us direct, or via brokers and partners, and getting the funding they need to win – on the right hand side – in the form of a prime, term loan or a product from our marketplace, where we refer businesses that we can't support to other lenders.

As I've explained our growth strategy focuses firstly on attracting more borrowers by deepening and expanding our distribution channels – and that's on the left of this chart.

On the right – saying yes to more businesses and offering them more products.

Looking at this same slide today, you can see the progress that we've made during 2022 in building stronger foundations and better positioning for long-term success with increased distribution and an expanded product set.

In the last year we have made significant progress against our medium-term plan.

In terms of attracting more businesses:

- In the UK, we continue to enjoy strong brand awareness and have launched our first sports sponsorship with the Rugby Premiership to increase this further.
- In both the UK and the US we have expanded our partnerships business adding several new partners during 2022.
- In the US, we launched Lending as a Service which enables our partners, who are financial services businesses, to offer term loans

to their own small business customers. We've learnt a lot about the proposition and have continued to refine it through our first two pilot partnerships with Pitney Bowes and DreamSpring. We know it takes time to move from pilot to scale up, so we continue to focus on growing our pipeline of partners, and this is an area Steve, our US MD, is excited to drive forward this year.

In terms of saying yes to more businesses and offering more products to our businesses, we have also made good progress:

- In line with the phase out of the various Covid-19 support schemes, we completed our transition back to commercial lending.
- in the US, we expanded our product set to include super prime loans, and delivered \$110m in originations in the first nine months since launch.
- In the UK, we launched shorter term loans for near prime businesses, which accounted for 15% of the number of loans in the second half of the year. We expect to see migration of these businesses into the prime loan segment as they become more established, and credit performance for this segment, as with other segments, continues to be in line with our expectations.
- In both the UK and the US, we continued to strengthen Marketplace, referring businesses that we couldn't support to other lenders. In 2022, this accounted for more than 10% of our originations.
- We also grew FlexiPay, expanding it beyond beta to further customer segments, and launching FlexiPay card in beta. And I'll come back to this in the following slides.

In summary, in 2022, we have laid the foundations for our medium-term plan by launching and strengthening new distribution channels and expanding our product set. In 2023, we will build on these foundations to continue to execute against our medium-term plan.

Our technology and data sits at the heart of our business. 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 with more data.
- Today, in our data lake, we have over 2bn data points on 29m businesses, comprising publicly available data and proprietary data on over one million business applications and 190k loans. This data tells us whether businesses respond to our marketing, whether they are likely to receive a loan offer and if they do whether they are likely to accept that offer. It also tells us how businesses behave once they have a loan – whether they pay it on time, are likely to default, or if they pre-pay.
- This data means we can 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 insight with a frictionless customer journey. Our group net promoter score is 77.

- It means we can say yes to more businesses and generates operating leverage.
- These combined - our customers, our technology, and our platform – enable us to launch more products. We generate deeper relationships with our existing customers and attract new customers, turning the flywheel once again.

This is what forms the moat around our business and supports us in our development of new products such as FlexiPay.

We built FlexiPay as part of our growth strategy to offer more products to our customers. There were three core reasons that we chose FlexiPay.

First it solves SMEs biggest pain point - cashflow management. Over $\frac{2}{3}$ of businesses say this is their biggest issue. For SMEs, cashflow management can often be the difference between thriving and simply surviving. And this means FlexiPay can serve our customers today but also a broader audience of SMEs.

Second, it enables us to increase our engagement and deepen our relationship with our customers.

Third, and I'll come back to this, it opens up a new and underserved market.

Our customers today are using FlexiPay for a number of different reasons:

- Vik at 8 Rocks deli, featured on this slide, uses it to buy in bulk, unlocking a discount from his suppliers as a result.
- Others use it to simply manage their month-to-month cashflow.
- Florists, such as Grace and Thorn who we saw at the beginning, use it to pay upfront for their stock and transport, before receiving their income from sales.
- Other businesses use it to spread quarterly bills into monthly payments.

The product is simple and easy to use and is built on our existing instant decision lending technology. Businesses apply online and receive an instant decision.

They're approved for a line of credit which they can then use to FlexiPay their suppliers when they need to. The suppliers are paid immediately and our borrower spreads the payment over three easy installments.

Whilst it's still early in our FlexiPay journey, I continue to be very excited about what we have seen in terms of engagement and growth. FlexiPay transactions tripled between H1 and H2, totalling £60m in cumulative transactions at the end of 2022. And we have over 2,000 active lines of credit.

This product is attracting a new set of customers each month as you can see in the orange bars on the right-hand side. What is particularly encouraging about the progress that we have seen is not just the overall growth, but also the level of engagement we see with existing customers - the purple part of the chart. We're seeing strong and increasingly predictable repeat usage with significant repeat customer transactions, delivering recurring revenue. Last year SMEs FlexiPaid their payments 20,000 times, or 1.4 times a month per active customer.

The product economics and risk profile are attractive as credit cycles quickly but the nature of the customer relationship is long with frequent usage and recurring fee income.

In 2023 we will continue to scale FlexiPay.

We are solving a big problem for SMEs and one which will help us to reach new customers, solve new use cases and also increase our existing engagement. Small businesses might not always need a term loan, but they are constantly making and receiving payments.

The market is substantial – with around £1.3trillion in SME B2B payments in the UK each year. We see a significant opportunity to continue to grow and scale FlexiPay.

We're already seeing strong growth and high customer traction with repeat usage. It builds on our existing strengths of our data and technology platform, our track record in assessing SME credit, and our ability to acquire small businesses - both existing term loan customers and businesses new to Funding Circle.

This is why we continue to be really excited about the opportunity that FlexiPay will generate and why, in 2023, we will be stepping up our investment in the product.

I'll now hand over to Oliver to talk you through guidance, including how FlexiPay fits into that for the first time.

Oliver White:

Thank you Lisa.

Funding Circle continues to be well positioned for long term success and is well prepared to deliver, despite our expectation of a challenging economic environment especially in the UK in 2023. We see a more benign economic outlook in the US. Our balance sheet remains strong. For 2023, we see the combined Loans businesses of the UK and US targeting moderate income growth, with total income in the range of £150 - £160m, seeing continued momentum in the US and the UK being broadly flat.

Target adjusted EBITDA for the Loans businesses is in the range of £0 - £10m, broadly similar to 2022. And we would expect a skew of this towards the second half of the year.

For FlexiPay we are targeting an income contribution of at least £10m this year. We will be investing to grow the product and see an adjusted EBITDA loss in the range of £10 - £20m, dependent on the speed we choose to scale.

We are updating our medium-term guidance today, given the challenging 2023 environment we see in the UK. Effectively the prior target for the UK in 2025 has now moved back one year.

For UK Loans in 2025 we are now targeting total income of at least £175m and AEBITDA margins of between 25% and 30% (trimmed from the £220m and 30% to 35% range of previous guidance).

Our US guidance is unchanged from previous, targeting £70m of total income and being adjusted EBITDA positive in 2025.

FlexiPay is still in its early stages, but we have a target for total income in 2025 of over £50m and for the product to be adjusted EBITDA positive in that year.

Taken together, these targets double our total income in 2025 versus 2022.

Lisa

Lisa Jacobs:

Thanks Oliver.

In summary, we are better positioned than we have ever been.

Our technology and data drives our competitive advantage and is the moat around our business.

It drives a superior customer experience through our instant decision lending technology, a platform on which to build new products and delivers 3x better risk discrimination than the bureau scores.

Despite the difficult economic environment, we have delivered robust and attractive loan returns. As Oliver explained, we have once again upgraded or maintained our return expectations across all loan cohorts.

In 2022, we transitioned our business away from government lending schemes back to commercial lending and made good strategic progress in the first year of our medium term plan. We are on a mission to help more small businesses win and are doing so by expanding and deepening our distribution channels and expanding our product set. We're confident in our growth in the US and FlexiPay in 2023 and ready to rebound in the UK loans business as market conditions allow.

Thank you for joining us today. We'll now take any questions.

Call Operator: Thank you. Ladies and gentlemen, if you would like to ask a question or make a contribution on today's call, please press star one on your telephone keypad. We'll take our first question from Kim Bergoe from Numis. Please go ahead, your line is open.

Kim Bergoe: Morning, thanks for taking my question. I had one question, or a couple of questions actually, on the funding side of the business, and how we should be thinking about your capacity, how big is that? And also the market size on that side of it. How big is that? How many investors are looking for ways to get that direct exposure to SME credit, and how we should be thinking broadly around that? And finally then, current trends on the funding side, we are seeing people being worried about credit quality not buying into the banks. So how are your funding providers seeing that? And then also in terms of the yield requirements and the feedback that you're getting from them, you mentioned that you'd raised rates. How does that work? How do you feed that back into your lending? Thanks.

Oliver White: Thank you Kim. Quite a lot in there. I'll start to unpick it and maybe I'll do your last question first and then work back. So you're right, we have seen increased return expectations from our various institutional investors, as the base rates have increased and the yield curve has moved. We've reflected that in meeting those expectations to keep the loans attractive through increasing borrower pricing. We've increased returns, and therefore borrower pricing, by the end of the year about 400 basis points, which is very much in line with how we've seen the market move.

In terms of funding demand, in the UK we announced four new funding arrangements in 2022 totaling c.£2.5 billion. And we've also signed another material one in the UK in January. And if you compare that by our originations of in total at the group level £1.5 billion in 2022, to give

you some sense of capacity and scale. In the US we've signed a material asset manager as a funding partner in January. So we're comfortable that demand is there and we're comfortable we've got the capacity to support our growth through 2023.

Particularly the US we've still got very active pipeline of both asset managers, banks, still looking to work with us. And as I think I may have mentioned in the presentation, an important milestone in funding strategy in the US in that we signed our first credit union partner in 2022, which again, means it gives us access to another class of investor looking to work with us. Hopefully that answers your various questions, Kim?

Kim Bergoe: It does. Thanks very much, that's very clear. Thank you.

Call Operator: Thank you Kim. We'll now move on to our next participant, Edward Firth from KBW, please go ahead, your line is open.

Edward Firth: Good morning everybody. Yeah, I just had a few small questions actually. I mean the first one was going back to the targeted return comment, the previous question, I think you said 4% you'd increased them? But how does that square with slide 17? I was just trying to work out, I assume they're related in some ways? Should we then see that targeted return or attracted return, should they start to increase quite markedly over '23? Is that the way that works? That was my first question. Shall I keep going with the others, is that the best thing to do?

Oliver White: It might be easier if we answer them one at a time. So on the return, so yes you're right, and it's probably easiest seen in the UK on slide 22, I'm sorry, slide 17, when the UK return increases 2022 over 2021. As I think I may have mentioned when I talked to this slide, 2022 is an average in the year and there were a number of incremental price rises, and therefore hikes in the return. So yes, if we would look at 2023, or I guess the exit rate of 2022, we would see a further hike of '22 returns over '21 returns.

Edward Firth: Cool, and I guess the same will happen in the US also?

Oliver White: Yeah, the US is slightly blended. So the same thing is happening in the US, 2021 we had quite a high level of return because of credit quality, when we returned to commercial lending we took a very, very prudent approach, and therefore actually our actual returns have exceeded the original target return because of very, very good credit quality. So that masks that dynamic. But net, yeah, '22 is higher than '21, and '23 therefore will be higher than '21 because of those increased returns.

Edward Firth: Sure, okay, great. And then I guess I've just three other questions which I'll just run through, probably easiest quickly. The first one was, if we look at loans under management and origination, I mean, it's all been heavily distorted by all the government support schemes, etc. So I mean, as we stand now at the beginning of '23 are we at something of a base now? If we look at the total number of loans under management, should we now expect to start to see that grow in a reasonably consistent manner? So that was one question.

The second question was marketplace, I was quite interested in what you were saying about marketplace and how that's working. Could you give us some idea of what are the financial mechanics of that? I assume you charge a fee, but what sort of fee is that, and how does that come through in the numbers? So that was my second one.

And then the final one was you also talked a lot more about FlexiPay than the lending as a service, and I guess it would be interesting to hear particularly... I mean, it's obviously great that FlexiPay is going well, so I'm not in any way trying to make it a negative for lending as a service, but would just be interested to get your thoughts as to how the pilots are working in the US. You've obviously got a new guy, but how you would expect us to see that develop going forward, thanks so much.

Oliver White: Maybe, Ed, I'll do the first two, then hand over to Lisa to talk about lending as a service.

Edward Firth: Sure.

Oliver White: So yeah, in a sense, it's a good phrase. I think the second half of 2022 has sort of been our new baseline. So from a LuM perspective, the rather exceptional nature of PPP has passed through, and that also clears up some of our income accounting, which I think is helpful. And the book of the anticipated CBILS prepayments has also flowed through. So yes, we would see that as a new baseline to then build upon.

In terms of Marketplace. So Marketplace loans, because we do not service them and therefore have no service fee income, we cannot count them under LuM, but we do count them under originations. We charge a referral fee, which varies depending on the product and the partner we're referring to, that's blended as part of our 5% we quote. And the average Marketplace referral fee is about 3.8%.

Edward Firth: And that's just a sort of one-off fee when you refer it, or when somebody picks up the opportunity, is it? Is that the way it works?

Oliver White: Yeah, so it's based on the opportunity, for the borrower accepting the offer from the partner.

Edward Firth: Great, thanks very much.

Oliver White: And clearly the economic benefit is we don't market Marketplace as such. So these are customers who respond to our marketing, who we then solve their needs by use of a partner. But if you like, the marketing marginal cost is zero in that sense. So it's an attractive enhancement to our commercial proposition.

Lisa Jacobs: Hi Ed, I'll pick up on the lending as a service. So first thing, it'd be worth reminding, as I said last year, I don't expect lending as a service to be an overnight success and it will take some time, but just a reminder as why we're doing it. In the US, as different from the UK, there are thousands of regional community banks, financial institutions, and very few of those have developed a capability to do small business lending of the type that we do. Quite often they talk about small business lending being a million dollars plus, and we're obviously at the smaller end of that market, and about a third of small businesses in the US have their primary relationship with a regional community bank, and for our borrowers it's closer to 50%. So we still see that there's this big opportunity there to serve businesses through this new distribution channel, through lending as a service.

We have seen traction, we know it takes time to move from pilot to scale up and to bring those partners on board. And we've learned a lot through the partnerships that we've got today with Pitney Bowes and with DreamSpring, and we're tweaking, refining our proposition accordingly, and focusing on continuing to grow the pipeline. We've just recruited Steve Allocca, as I mentioned, to run the US business, and this is actually an area that he's particularly excited about, and one that attracted him to the business having come from PayPal and Lending Club, and then a small business lender, Bluevine. He found this a very appealing proposition in the market. So we're still excited about it. It will take some time to come through.

Edward Firth: And just to be clear, is your vision, and I understand it, you're feeling your way a little bit, but is the vision that in due course you would have several hundred partners? Or is it that once you've got three or four partners that can give you the critical mass and distribution, et cetera, that you can go national across the US with a handful of partners?

Lisa Jacobs: It's more in the handful than hundreds. These businesses will have sufficient scale to grow the partnership through a smaller set of partners.

Edward Firth: Great. Thanks a lot.

Lisa Jacobs: Thanks Ed.

Call Operator: Thank you Edward. We'll move on to Mark James from Investec. Please go ahead, your line is open.

Mark James: Good morning. Thanks for the presentation. You've talked about the strong momentum in the US, and I was interested, obviously it's early days, but Steve Allocca will bring a fresh perspective and differentiated experience. Lisa, you just touched on it. What should we expect differently under his stewardship, admittedly it's early days?

Lisa Jacobs: I'd say Steve was attracted to the business because he's a small business specialist. He's very excited about supporting small businesses to grow and he sees that we've developed something that's very differentiated in the market, in terms of our ability to serve this prime set of businesses with a term loan in the US. What you should expect to see is continued momentum, in the US business. We saw that, at the end of last year, in doubling of the H2 originations versus H2, '21. We'll continue to see that growth in the US and execution against the medium-term plan, focused on lending as a service and saying yes to more businesses in the US.

Mark James: Thank you.

Call Operator: Thank you. We will now take the webcast questions and, then, come back to those on the phones. Please go ahead.

Morten Singleton: Thanks very much. We've actually had quite a lot of questions coming through to the webcast, so we'll take the first three, now, before returning to the live questions.

The first one is for Oliver, with the latter part being for Lisa. It comes from Rahim Karim of Investec: "Can you provide some colour on the trajectory of loan originations, given the sequential momentum experienced H2 versus H1 and your comments on the UK environment? Does this profile reflect default risks changing or is this a pre-emptive measure?" That part for Oliver. Also, "How does it square with your approach of say yes to more businesses." Given the alignment with our strategy, I think Lisa might take that one.

Oliver White: Okay, thank you for the question. For the first part, when we've talked about a prudent approach to originations and the impact that has on originations, this is pre-emptive. We look at how we think the economy may be developing. Clearly, it actually progressed during 2022 and things got less rosy so, therefore, we prudently anticipated potentially toughening stress and took a prudent approach to origination. So it's

very much a pre-emptive thing as opposed to something we're seeing in our back book.

In terms of the sequence of originations, in the UK, where we see a more challenging economic context than perhaps we do in the US, I would probably see H1 originations being broadly in line with H2 of '21. Sorry, of '22. Then, we see some degree of recovery going into H2 of '23. In the US, I see a more linear momentum during 2023. Lisa...

Lisa Jacobs:

So I'll talk to the second part of the question. We are focused on delivering a long-term sustainable business and making sure that our loan returns continue to be robust and attractive, and we see that as being more important than short term originations. That's why, as Oliver said, we've taken a prudent approach. That said, "say yes to more businesses", is part of our medium-term plan to serve more businesses and we've shown, through 2022, there's opportunities to do this, even in a difficult economic environment.

In the US, we launched our super prime loans and we delivered \$110 million, in origination, through the course of the year. We, also, found a pocket of businesses, in the UK, to which we could offer near prime loans, shorter term loans, and that was about 15% of the loan numbers, in the second half of the year.

The third thing that we've been focused on is through our Marketplace, which is where we refer businesses who sit outside our credit risk appetite, or who want a different product, to third parties. We've seen that grow over the course of last year, such that it was over 10% of our originations last year. We're continuing to find opportunities to serve more businesses and, going forward, in both the US and the UK, will continue to do this by improving our proposition to our customers and finding other pockets of growth that we continue to grow. As we spoke about in the last question, the US continues to see that growth momentum and we expect that to continue going forward.

Morten Singleton:

Thank you both. The next two questions, I think, are both for Oliver. The first one is from Elias Gutierrez, from Toros de Miura: "Is buying back some shares in your plans? Looking at the discount to net asset value and taking advantage of the volatility in the markets?"

Oliver White:

So the short answer is it's not. We have, as you've noted, ample cash to deliver our medium-term plan and, to protect the business through economic downturns, we have and we will continue to manage share dilution by supporting the Employee Benefits Trust in purchasing employee share awards. But, we see, as, I think, FlexiPay demonstrates and, also, the US demonstrates, exciting growth opportunities and we think long-term value is better created, by investing in those and new

growth opportunities as they become apparent, as opposed to share buybacks.

Morten Singleton: Thank you, Oliver, and the next one for you as well, from Vishal Bhatia of JO Hambro: "Given the numerous moving parts to unrestricted cash, especially the timing difference whilst a key US client was onboarded, are you able to provide an approximate unrestricted cash number to end of Feb, for example, as that US client has come on board please?"

Oliver White: Okay. You're right. There's always numerous moving parts. However, I'm not going to start giving February actuals, as it were, but I can confirm that, as a result of that sale, both total and unrestricted cash in February is higher than it was at December year-end so we have seen the cash come in.

Morten Singleton: Thank you. We've got plenty more from the webcast, but we'll return to the live callers for the next three questions, please.

Call Operator: Yeah, sure. We'll move on with Mr. Alex Bowers from Berenberg. Please go ahead. Your line is open.

Alex Bowers: Morning, everyone. Just two questions from me, both on FlexiPay. Firstly, could you just unpack a bit more around the investment being made in FlexiPay in 2023? What will be the impact in terms of headcount? Potential impact on marketing spend and what other forms of spend it could include? And then secondly, how does the customer profile differ for FlexiPay compared to your core lending products? Are there any differences in the underwriting process for customers and the requirements they need to meet? Thanks.

Oliver White: Should I do the first, Lisa and you take the second? So the investment in FlexiPay. In terms of the P&L drag, we've signaled it would be between £10 to £20 million of P&L loss. The investment we make, from an operating perspective, comes in several forms. So, you're right, we're adding people but very, very selectively as we scale up the team. We're marketing as, increasingly, FlexiPay is aimed not only existing customers but also new customers and marketing for a new product. It's, by definition, slightly less efficient than when it gets mature, as we're experimenting with channels, with the hooks, with the messages. We continue to invest into technology to build out the product as we build out new features. Also worth noting that FlexiPay has a slightly different cost structure to term loans. We are building an expected credit loss credit provision. So part of that P&L drag, and you'll see this in our cost numbers in '23, is a build-out of that credit provision, as the product begins to scale up. Also, as we leverage our equity investment in FlexiPay, we will also be building up the cost of funds so less cash to fund FlexiPay, but you're paying the cost of funds for the partner

joining, there. Hopefully that gives you an idea of the type of investment there.

Lisa Jacobs: Hi, Alex. Thanks for the question on FlexiPay. In terms of the customer profile, it's, actually, relatively similar to the customer profile that we see in the UK, for our core business. We see a range of different sectors, businesses like the florist that we showed in the presentation, the deli that we showed in the presentation, but also manufacturing businesses. Businesses using this, where they have a cashflow need to manage or where they can get better terms from their suppliers. The distribution across the UK, again, is relatively similar to the core product. In terms of the underwriting, it is built on the same platform, the same instant decision lending. Businesses go through that same underwriting process, but, obviously, on an ongoing basis, we can collect more data around the subsequent payments that those businesses go on to make, through FlexiPay. So we continue to do that on an ongoing basis.

Alex Bowers: Great, thank you.

Call Operator: Thank you. We'll now move on to our next participant, Sean Kealy from Panmore Garden. Please go ahead. Your line is open.

Sean Kealy: Morning, Lisa. Morning, Oliver. Thanks for your time this morning. A couple of questions from me. First of all, on credit risk appetites between the US and the UK... Obviously, they seem pretty different at the moment. Just wonder if you had any comments on how you expect this to go forward? If you might move into near prime US, or super prime UK lending?

Then, the second one, in terms of Funding Circle's equity co-investment by credit grade, is there any difference in the degree to which you co-invest with, say, super prime loans in the US versus UK near prime loans? Thank you.

Oliver White: Okay, in reverse order and, good morning, Sean... So, at the moment, co-investment is a tool we have, to work with our various institutional investors. At the moment, we're not actually co-investing with any. It's as I said, except for, we have done it and it's something we're very prepared to do. It proves risk appetite, but, at the moment, not required. In terms of our credit appetite what we do do is we design the right product for our customers and the right product for our institutional investors. We're always open to moving up or down the risk spectrum as appropriate, but no immediate plans one way or the other. I guess it's worth noting, in the UK, we did launch, towards the end of last year, a slightly more near-term product. But again, we would just seek to meet our customer needs.

Sean Kealy: Sure thing. Thank you, Oliver. If I could ask one follow-up, when you get your institutional investors on board, are there any differences in the sort of loans that they would prefer, for example, maybe US over UK, or vice versa, or by sector at all?

Oliver White: Our agreements are market-specific, so we work with institutional investors in the UK or the US. We do a few global relationships, but in a sense, the contracts are market-specific.

We do match the needs or the requirements of some of those investors with particular product sets. As an example, we were able to offer the super prime loan in the US by working with some bank partners who were looking for low risk, but low reward. So, given our expertise and because of our deep relationships, we can make some of those products institutional investor-specific if you like.

Sean Kealy: Sure thing. Thank you, Oliver.

Call Operator: Thank you. We'll now move on to our next participant, Orson Rout from Barclays. Please go ahead, your line is open.

Orson Rout: Hey, thanks for taking my questions. Three from my side. Maybe the first one on interest income. In 2022, you saw some interest income on the assets held at amortised costs, but with interest rates increasing, and the cash balance now around £180 million, one would expect at least mid-single digit million or so of interest income under those cash balances. I was just wondering, is there are a possibility that this could be recognised or reflected within the top line or will interest income on cash balances sit below operating profits? So maybe that as the first, and then two follow-ups.

Oliver White: At the moment, you're absolutely right. We recognise it below operating profit. It will increase in magnitude as we have the large cash balances and clearly we look to optimise the interest income we receive. At the moment, and certainly in the 22 numbers, it is not reflected in the AEBITDA number, but it is below operating profit.

Orson Rout: And that won't change in 2023, there's no possibility to change that round?

Oliver White: Well, in a sense, we'll look at the correct presentation in '23 as we get into '23, and if we change anything, we'll communicate that at half year. Clearly, the fundamental fact remains of the interest, the income, the cash, and the profit contribution at the ultimate bottom line is still there, regardless of how it's presented.

Orson Rout: That makes sense.

Then the second and third are just on cost. So the second is on the capitalised development cost, which picked up quite significantly, at about 10% of total income in H2 above historical levels. Is this primarily due to the increased investments on the FlexiPay side, and can you also give some colour on the extent of costs that are expected to be capitalised in 2023?

Then my final question also on the cost side is just regarding the rugby sponsorship deal. If you could give some colour there on the size of this sponsorship and the rationale, that would be helpful. Thank you.

Oliver White: Our capitalised spend is purely capitalised development spend. In total, it's £28 million, which I think is relatively small for a technology business of our size. We've always been conservative in our approach to capitalising. It has upticked, as you pointed out. That's primarily due to the FlexiPay investment. We would see probably a small uptick in '23, but I would emphasise we're conservative in what we capitalise. We amortise over three years, so again, a conservative approach to getting it back off the balance sheet.

Maybe, Lisa, you're best placed to talk more about the rationale for the rugby sponsorship.

Lisa Jacobs: Yeah. In the UK we enjoy a good brand awareness amongst small business owners, but we wanted to expand that reach. And what the Rugby Premiership sponsorship enables us to do is not only to have our brand front and center, but also to gain access to a number of small businesses who work with local premierships Rugby clubs. There are a number of small businesses affiliated, related to those clubs and, therefore, we find it is an effective way to get in front of those small businesses, and we're activating that with a set of competitions to win seats, and to get business grants.

Orson Rout: Helpful. Thank you.

Call Operator: Thank you. As a reminder, if you have any further questions, you may lodge your questions online. We will now take some more questions from the online audience. Please go ahead.

Morten Singleton: Thank you. Yes, we've got quite a few from the webcast. So taking them in turn, Andy Renton from Cenkos: "Please can you talk more about the pricing model for FlexiPay, and how the 4.5% yield is achieved? Do you have thoughts around what percentage of revenues FlexiPay could eventually make up?" I think that one's for Oliver.

Oliver White: So reverse order. We've clearly guided, in 2025, to FlexiPay making at least £50 million of total income. So that gives you some indication of where we see in the medium term, and it's probably fair to say we're

excited that FlexiPay would have a positive trajectory into the longer term.

The pricing on FlexiPay is very straightforward, one of its many benefits to customers, in that there is a 4.5% fee, as a customer draws down against a line of credit. It's paid back in three equal installments in line with the FlexiPay loan.

Morten Singleton: Thanks, Oliver.
I think the next one is probably more for Lisa from Vishal Bhatia of J O Hambro. Noted the focus on partnerships, including one with Sage. Which one provides, in your opinion, the most potential? In other words, which partnership excites the team the most? Has it already been signed or announced, or is it still part of your potential pipeline?

Lisa Jacobs: Thanks, Vishal. We see the most valuable partnerships as those between partners who have a large SME customer base, and for whom a loan either contributes to their core revenue driver, or it increases dwell time, time spent on their product. And in both the US and the UK, we've brought in a number of partners this year.

In the US, we've got partnerships with businesses who refer, but we also have our more integrated partnerships of lending as a service. And I think it's fair to say that we expect additional partnerships to bring on more business there, and we're excited about the pipeline that we have in the US.

In the UK, as you mentioned, we have just announced a partnership with Sage, which we are excited about because it's a partnership not just for our term loan products, but also for FlexiPay. And we see, as businesses are paying invoices, that there is a natural link there to FlexiPay. And so we're quite excited about that partnership. But these partnerships do take some time to scale up. We expect to continue to bring on more partnerships in both the UK and the US over the course of this year.

Morten Singleton: Thank you, Lisa.

The next one I think is for both Oliver, in the first part, and then maybe Lisa in the second. They come from Nick Anderson of Liberum. His first question: "Funding pipeline – how has the appetite of banks and asset managers for funding SME loans changed in the last six months, especially in the context of recession concerns? Are existing investors doing more or less?"

The second question may be more relevant for Lisa: "Competition – how has the competitive environment changed in the last six months? Are banks, others, less active, and has this had any beneficial impact on pricing or underwriting?"

Oliver White: Thank you, Nick. In terms of the funding pipeline, to repeat some of the messages mentioned earlier, our pipeline is resilient, and proves resilient because of the expertise and the skills we've built in aggregating the right capital for the right product. And we're agile to change with the changing needs and expectations of our institutional investors. In the UK, we found, as we've moved to commercial lending, and with a more challenging economic environment, we're working more with asset managers than banks at this point in time. And the four forward flow agreements signed in '22, and the one signed in January of '23 were with asset managers. In the US, we're finding a more mixed landscape. We're working with asset managers more, but we're also working with banks and, as I mentioned, we signed our first credit union in 2022.

So a bit of a mixed bag. I think the key is, because of our deep knowledge and skillset in working with a very broad range of institutional investors, we're agile enough to move with different demands at different points in the cycle.

Lisa Jacobs: In terms of the question on competition, I'd say still we see that banks continue to be our main competitors in both the UK and the US. We have seen, in the last six months, some exits in both the UK and the US from smaller players in the market, which is obviously to our advantage as we're able to continue to grow into that space. And it just is testament really to the fact that we've been able to consistently deliver robust and attractive returns and attract institutional capital behind those loans. In terms of what that means from an underwriting or pricing perspective, we continue to see, as Oliver mentioned, that pricing has increased in line with base rate rises, and the cost of fund increases, and we see that quite consistently across the market. From an underwriting perspective, we've continued to see similar trends, slight worsening of quality. But that's more due to the overall difficult economic environment, than the competitive environment itself.

Morten Singleton: Thank you, Lisa. One more for you, Lisa, I think, from Amber Philipps of Numis. How much value do you see in the database as it continues to grow?

Lisa Jacobs: Yeah. I mean, we see huge value in the database. This is really the heart of what we do, the competitive advantage that we have, because that set of data is what we build our credit risk models on. It's what enables us to target most effectively when we're marketing, and deliver much better risk discrimination than the bureau scores. So, we continue to see huge value in that and our ability to continue to scale and grow that, means that we collect more data, we can identify different pockets of businesses to serve more effectively, as we did last year by identifying that there was a group of businesses who we could offer super prime loans to, who were performing much better

than the average. As we did in the UK where we identified that there was a group of businesses to whom we could offer near prime loans. So, we continue to see the advantage of that and the advantage as it scales, as we collect more data.

Morten Singleton: Thank you, Lisa. We have a few more on the webcast, but let's return to the live calls for any more questions on there for the moment.

Call Operator: Thank you. We'll now move on with our next participant, Vivek Raja from Shore Capital. Please go ahead. Your line is open.

Vivek Raja: All right. Thank you very much for taking my questions. A lot of questions on this line. I wanted to just please to explore scale. Lisa, you talked about wanting to reach more borrowers, adding distribution channels, and the other part equation being able to say yes to more borrowers. I wonder if you could just discuss the relative importance of those two categories, and sticking with the latter, saying yes to more borrowers, how much of that is about the external environment? What can you do yourselves, let's say within the algorithm, to be able to say yes to more borrowers? How could that affect even in the near terms if you scale up? Then another question was about scaling up FlexiPay and just the guardrails that you've previously provided, Oliver, around your equity investment, could you just refresh that for us please? Just as we think about your scaling up of FlexiPay and how much of your own investment you're prepared to make into that. Thanks.

Lisa Jacobs: Great. I'll take the first one then, and then pass over to Oliver. I think these are both important parts of our growth strategy, but I would say that attracting more borrowers, we have a keener focus on that in the US, where we are looking at expanding into new distribution channels. In the US we don't enjoy the same brand awareness that we do in the UK, hence our push much more into lending as a service, where we see the market is much more appropriate for that with these smaller regional and community banks. So, in the US a lot of our focus is on that.

When it comes to say yes to more businesses, you are right. There is an overriding economic environment in which we operate, which determines the quality of businesses. But as we've shown in the last year, there are still pockets of opportunity for us to serve our businesses better through super prime, through near prime. It's also relevant our experience and how can we deliver a great experience to our businesses so that they say yes to us, and so there is, particularly in the UK, more scope for us within that area, alongside FlexiPay to better meet the needs of our customers. I will pass to Oliver for the second part.

Oliver White: Yeah. So, our guardrail was set back at the end of 2020, before we'd even really developed FlexiPay as a concept. So, going forward, as we get into '23, I think we'll be talking about how we use our equity invested, delineating a bit more between the businesses of UK/US loans and of FlexiPay. So, a little bit similar onto slide 21, when I talked about how we use a balance sheet and the balance sheet as a source of strategic advantage. That being said, in '23 I see our equity invested being below the historic guardrail. More will be deployed in support of FlexiPay, and less in terms of the US and UK loans businesses, as we simplify deliberately some of the investments there. FlexiPay will be fully funded by Funding Circle in '23. Initially, we'll continue to be 100% equity funded. We will look, as FlexiPay matures, to bring in a senior debt partner to leverage that, as that's just an efficient thing to do.

Vivek Raja: That's super. Thank you. So just a cheeky follow up, which is, in your FY25 guidance for FlexiPay, is there anything assumed within the income number there for external funders?

Oliver White: That income number and the profit break even, assumes we continue to be the equity funder, but using a senior debt partner. So, in other words, leveraging the equity.

Vivek Raja: Understood. Thank you so much.

Call Operator: Thank you. With that, we conclude the phone questions and I'll hand back for the final webcast questions. Thank you.

Morten Singleton: Thank you very much. Yeah. We've still got a few more from the webcast, starting with Nik Lysiuk from Canaccord. This one I think is for Oliver: "Clearly there's been significant appetite to fund the core loans you originate. You spoke about leveraging FlexiPay next. What does the institutional demand for funding look like for this product?"

Oliver White: Okay. So, that follows on nicely from the previous question to some degree. So, we intend to fund this with Funding Circle via the equity. We've discussed, are in fairly advanced discussions with a number of banks around providing senior debt funding, and we've had very, very positive responses. That's in part due to the attractiveness of FlexiPay with its risk dynamics and its economic profile, and in part due to the deep relationships and credibility Funding Circle has built over the years with a wide range of institutional investors and financing partners.

Morten Singleton: Thanks, Oliver. The next one I think is also for you from Ronan Dunphy, of Goodbody: "As you grow, how do you expect the requirement from Funding Partners for co-investment to evolve?"

Oliver White: Thanks, Ronan. As I said, in answer to one of the earlier questions, co-investment is one of the tools in our armoury. It's one of the opportunities that a strong balance sheet provides to us, and it's a powerful way of signaling that we back our loans by having some limited skin in the game. So, we will evolve depending on, in a sense, opportunities and requirements of funding partners. I don't see it necessarily increasing or decreasing, we will be open to the circumstances.

Morten Singleton: Thanks, Oliver. Then we've got two last questions from Vishal Bhatia from J O Hambro. First one for Oliver: "Is it fair to say your old UK guidance included FlexiPay potential? ie now that it is separated, has also contributed to the new more prudent UK guidance, please?"

Oliver White: That would be a very convenient answer. But no, we've always been clear that the UK was just UK Loans, and FlexiPay had potential, but previous to this set of results, we did not know enough to have confidence in giving guidance. So, the UK Loans guidance, going back a year, is driven by the economic conditions in '22 and what we see in '23.

Morten Singleton: Then finally, also from Vishal, but offering the final word to Lisa: "What is the awareness of your FlexiPay proposition across the market, even within the 135,000 businesses who in the past have taken loans from Funding Circle? Also, what is the geographic revenue exposure expected here in your 2025 guidance please?"

Lisa Jacobs: Thanks, Vishal. So, our awareness of FlexiPay is still relatively low, I'd say. We launched it in beta at the end of 2021, and we expanded that to all our UK customer segments last year. We are building that awareness. A number of our existing businesses are actually using this alongside the core term loan because it meets a different customer need, and we are looking to continue to increase that. We actually think as we launch card – we launched in beta at the end of last year – but as we launch that fully, this will help, in terms of that broader awareness as we launch and market that. In terms of 2025 and the split, FlexiPay, what we have in the guidance is very much focused on the UK. We do expect over time to bring new products to the US market as well. FlexiPay may well be that product, or we may look to introduce others first.

Morten Singleton: Thanks, Lisa. That's all the questions from the webcast answered. So, it just remains for me to say thank you everyone for joining us this morning.

Lisa Jacobs: Thank you all.

Oliver White: Thank you.