

# BUILDING THE PLACE WHERE SMALL BUSINESSES GET THE FUNDING THEY NEED TO WIN

H1 2020 Results Presentation

Results for the six months to 30 June 2020



# Disclaimer

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## Information regarding forward-looking statements

This Presentation includes forward-looking statements. These forward-looking statements involve known and unknown risks and uncertainties, many of which are beyond the Group's control and all of which are based on the Group's current beliefs and expectations about future events.

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# Successfully navigating Covid-19 storm. Well positioned to take advantage of structural changes in SME lending

## Strong demand from borrowers and investors

- 5th largest CBILS lender, c.20% market share.
- Approved c.£1.2bn and originated c.£815m of CBILS loans. June to August up 30% YoY.
- Approved c.\$1bn and originated c.\$500m of PPP loans.

## Effective management of loanbook during extreme period of stress

- Following initial spike, number of borrowers missing payments for the first time is below pre-Covid-19 levels.
- More than 90% of UK borrowers are making payments.

## Investor returns resilient after applying Covid-19 credit stress scenarios

- All UK cohorts expected to deliver positive annualised returns.
- All US cohorts expected to deliver positive annualised returns (except 2019).

## Instant Decision lending technology launched

- Instant Decision lending is already transforming the SME borrowing experience and represents c.40% of CBILS applications.
- 6 min average application time with decision in 9 seconds.

## Strong total income growth and improving free cash flow but AEBITDA impacted by Covid-19

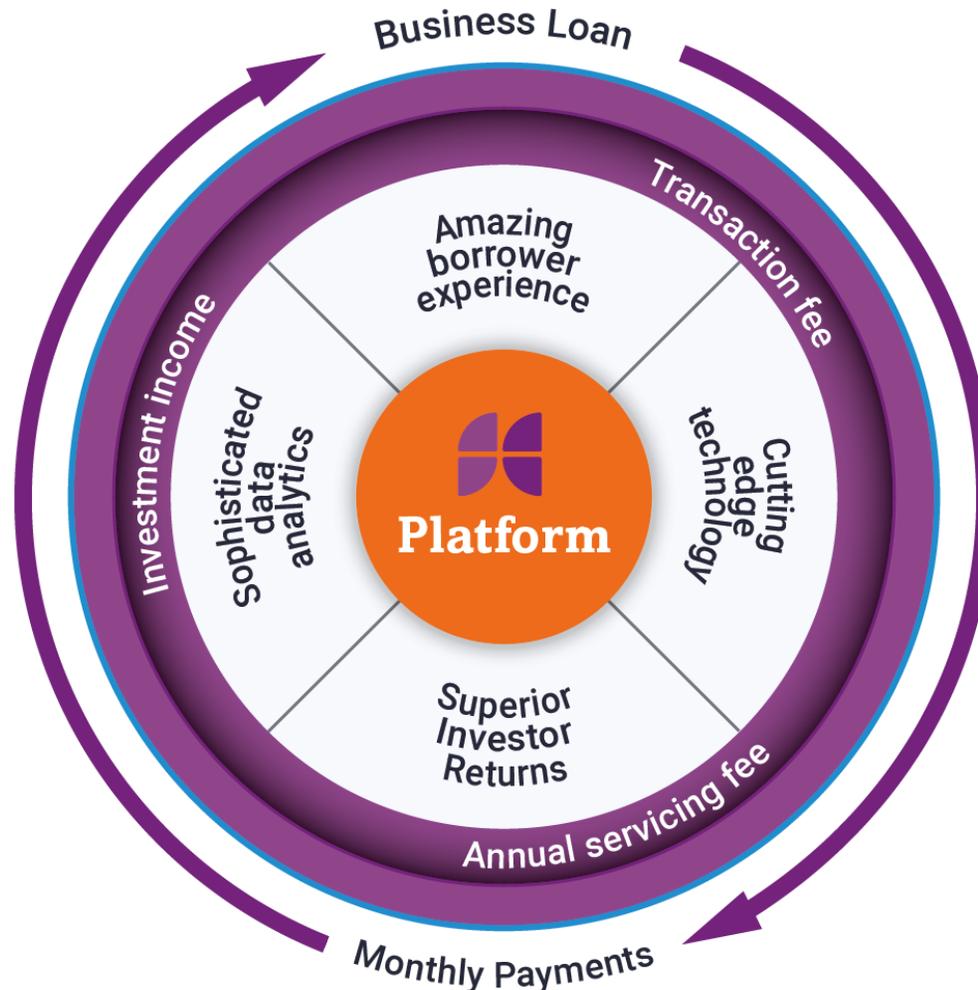
- Total income of £101.2m, up 24%.
- Free cash flow improves to negative £9.6m.
- Robust net assets of c.£217m.
- AEBITDA<sup>1</sup> negative £84.1m, primarily due to the impact of Covid-19 on the valuation of investments we held for sale.



# Covid is proving the resilience of Funding Circle's unique model and showing we are the preferred way for SMEs to borrow

## Small businesses can access fast, affordable finance

- 90,000 borrowers globally
- 11 years trading history
- 7 employees
- ~£1m revenue
- ~£80k loan size
- ~50 months average term



## Investors can earn attractive, resilient returns

- Deep and diversified portfolio of loans across sectors, regions and risk bands
- c.100,000 investors globally
- £10bn lent by investors to borrowers



# Three phases of activity in H1

2020

## Starting the year strongly

Jan

Feb

- Started the year with clear focus on improving conversion across the platform, keeping net returns attractive and delivering profitable growth.
- Originations at high end of expectations with strong demand for SME loans in UK following Brexit and General Election in Q4 2019.
- Completed initial build of Instant Decision lending platform.
- Jan-Feb originations: £425m.

## Adapting to the Covid-19 crisis

March

April

- Significantly tightened credit criteria in response to Covid-19 and brought origination levels down.
- Successfully transitioned all workforce to remote working.
- Increased collections resource and capabilities.
- Accredited for US (PPP) and UK (CBILS) government guarantee programmes.
- Mar-April originations: £147m.

## Playing our part to help SMEs

May

June

Q3

- Launched PPP loans in the US and CBILS in the UK.
- Closed record levels of funding to meet SME demand.
- Achieved record levels of originations in US and UK. In the UK, June to August continued to show an uplift of more than 30% year-on-year.
- PPP extended to August 8<sup>th</sup>.
- May-June originations: £539m.



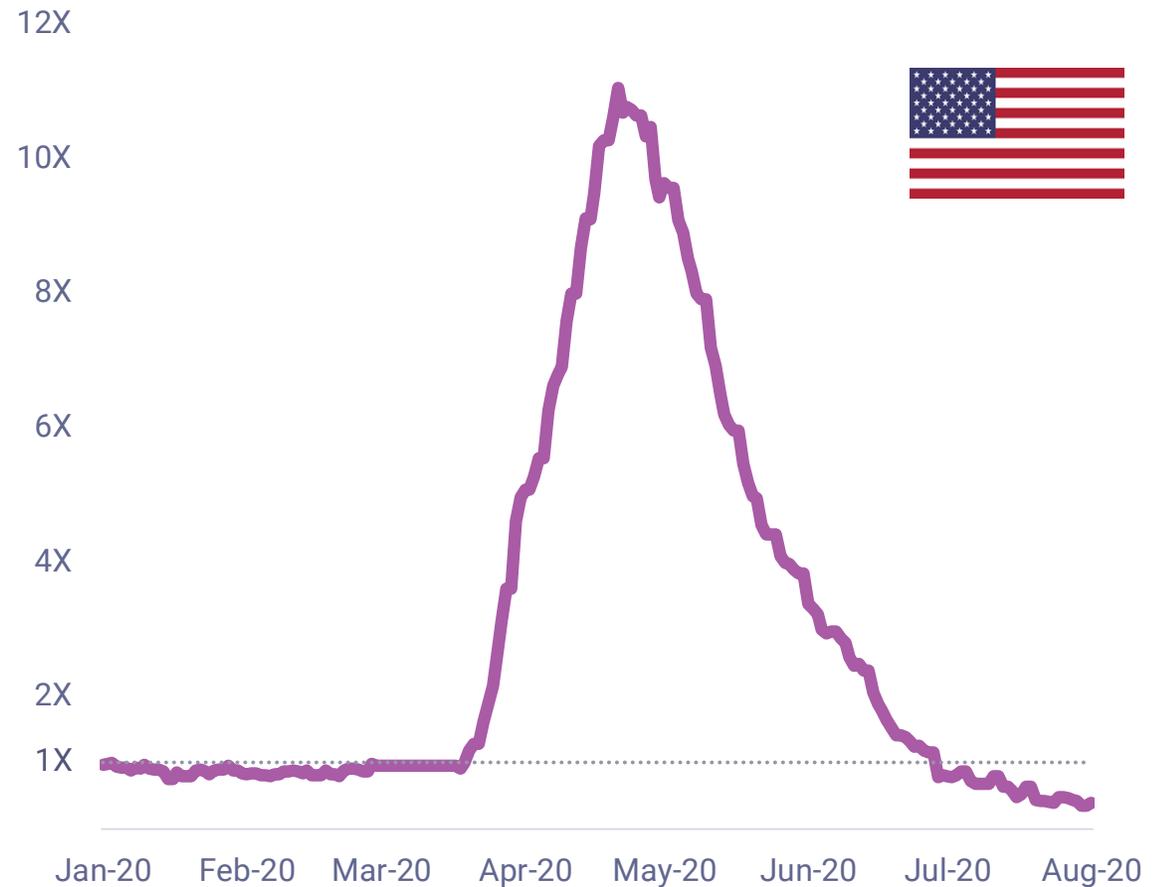
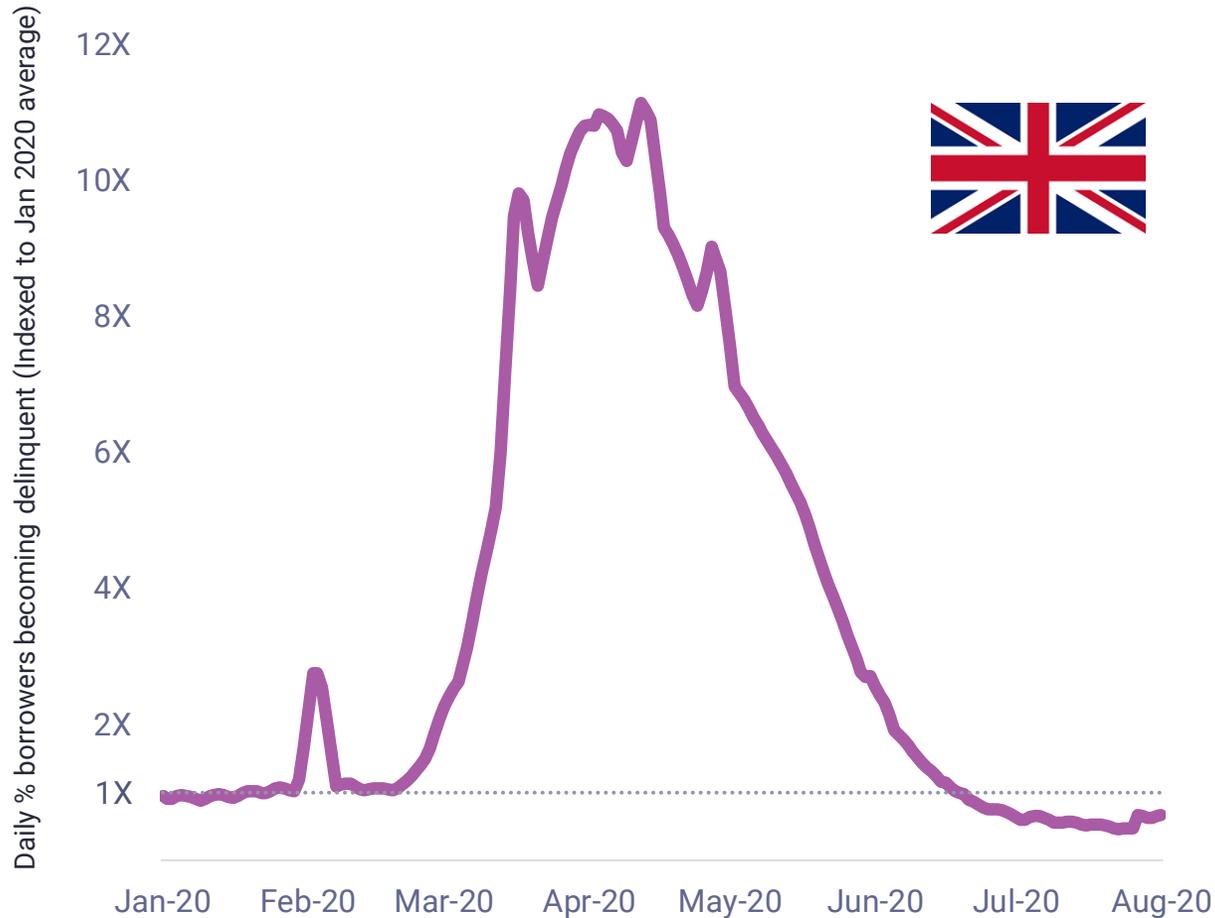
# SME Environment

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# Following an initial spike, the number of borrowers becoming late on their loan is now below pre-Covid-19 levels

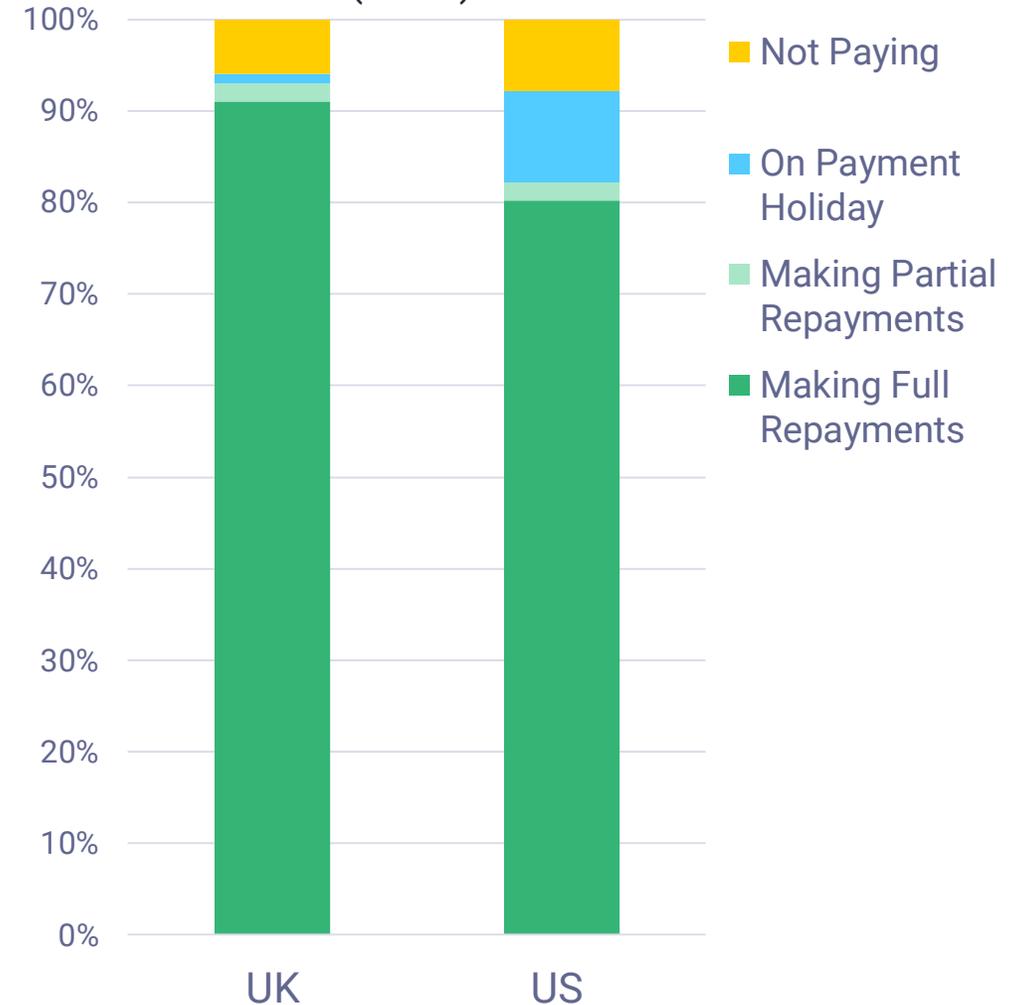
Borrowers missing payments for the first time  
(Indexed to Jan 2020)



# More than 90% of UK SME loans are making payments

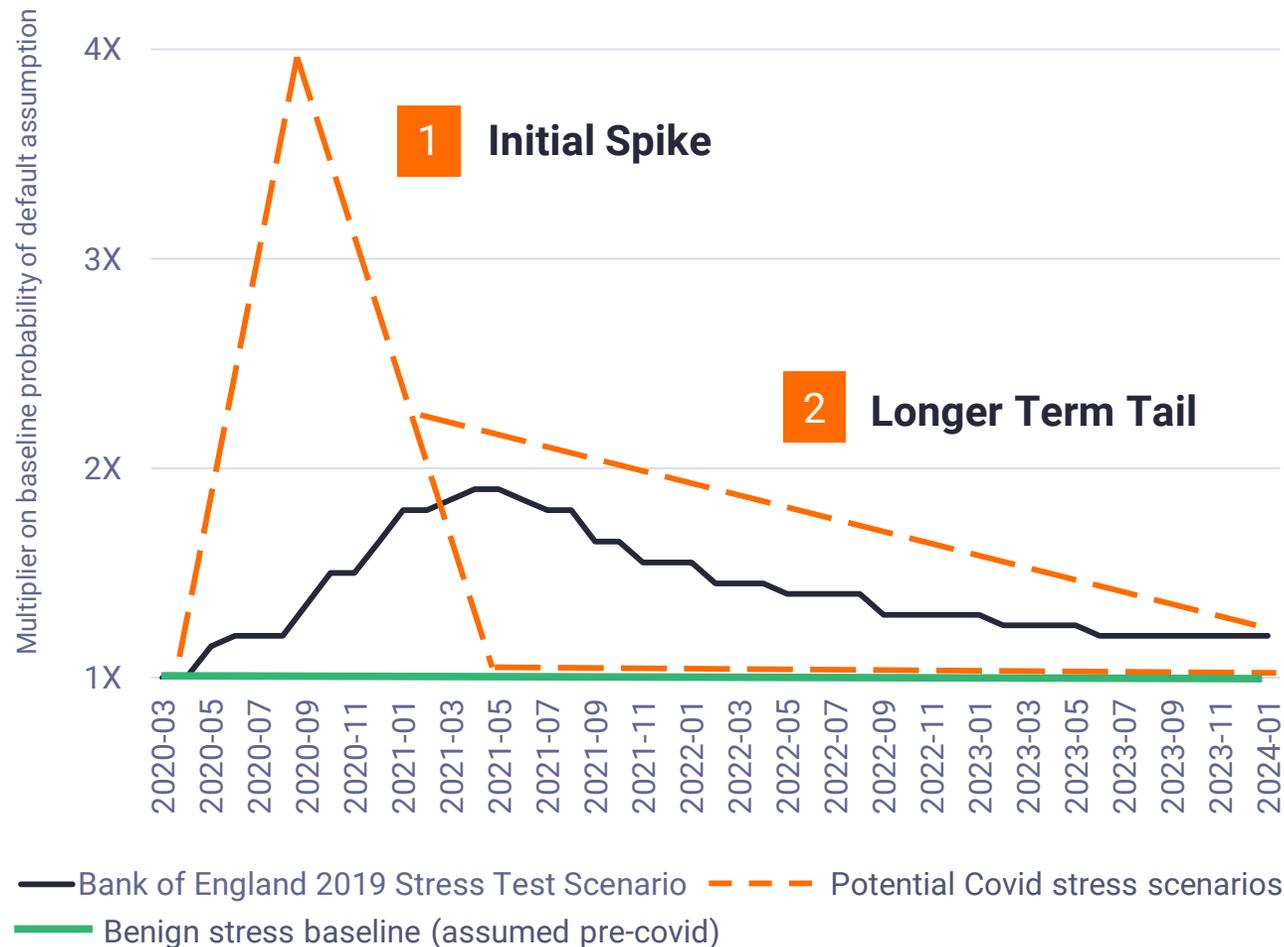
- Since the outbreak of Covid-19, we have used a range of tools to support businesses and mitigate the potential impact on investors' portfolio:
  - Increasing our support capacity to our Collections and Recoveries team.
  - Providing short-term flexibility by offering payment plans to borrowers.
  - Facilitating finance through Government-guaranteed schemes.
- The majority of borrowers who requested payment plans in Q2 2020 were well-established, creditworthy businesses and they are re-starting paying.

Portfolio breakdown by borrower status  
(%£/\$)

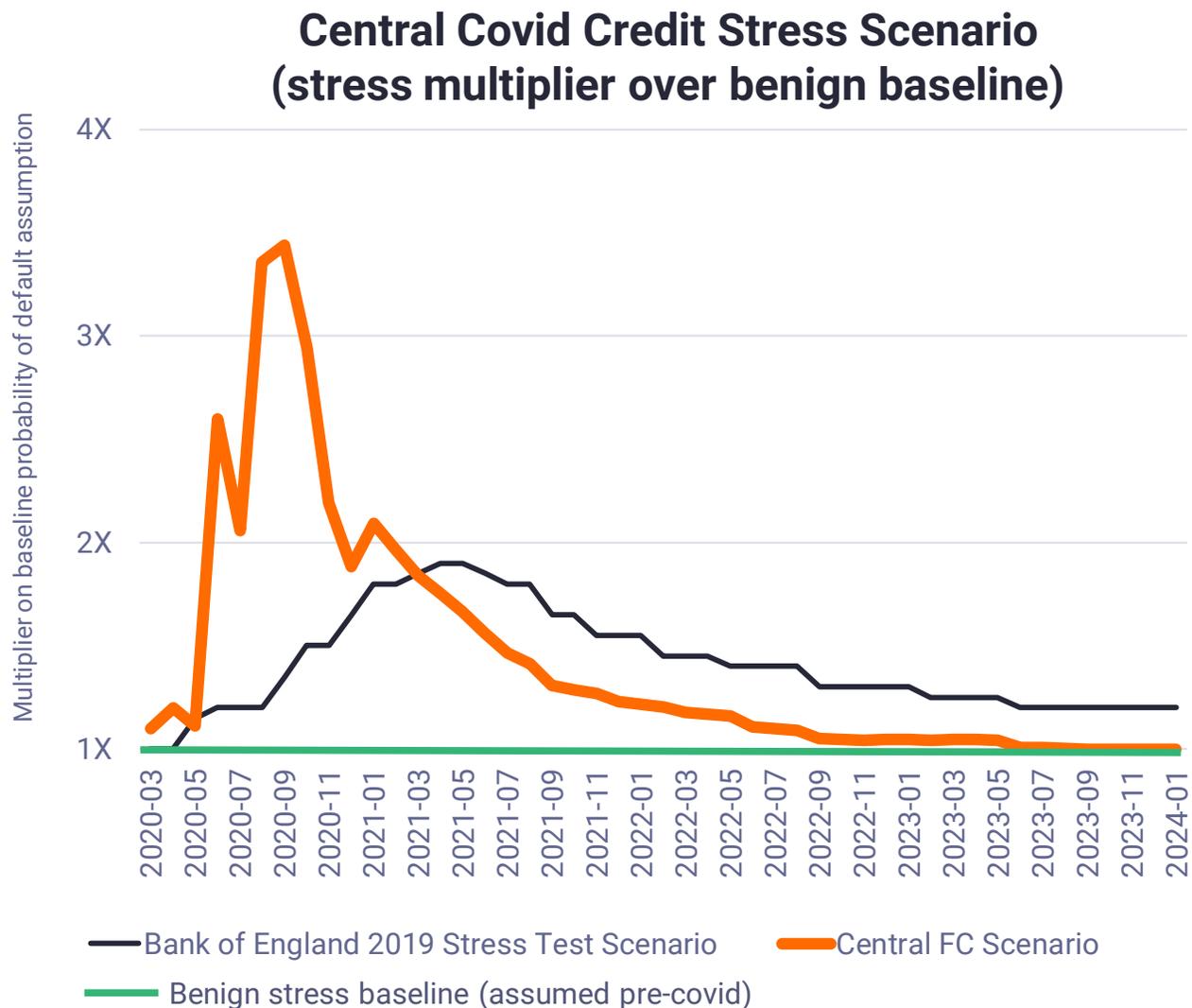


# Covid credit stress remains uncertain with a range of possible outcomes in the next 12-36 months

Potential Covid Credit Stress Scenarios for SMEs  
(stress multiplier over benign baseline)



# Our central stress scenario assumes a sharper initial spike and higher overall severity than BoE stress test scenario



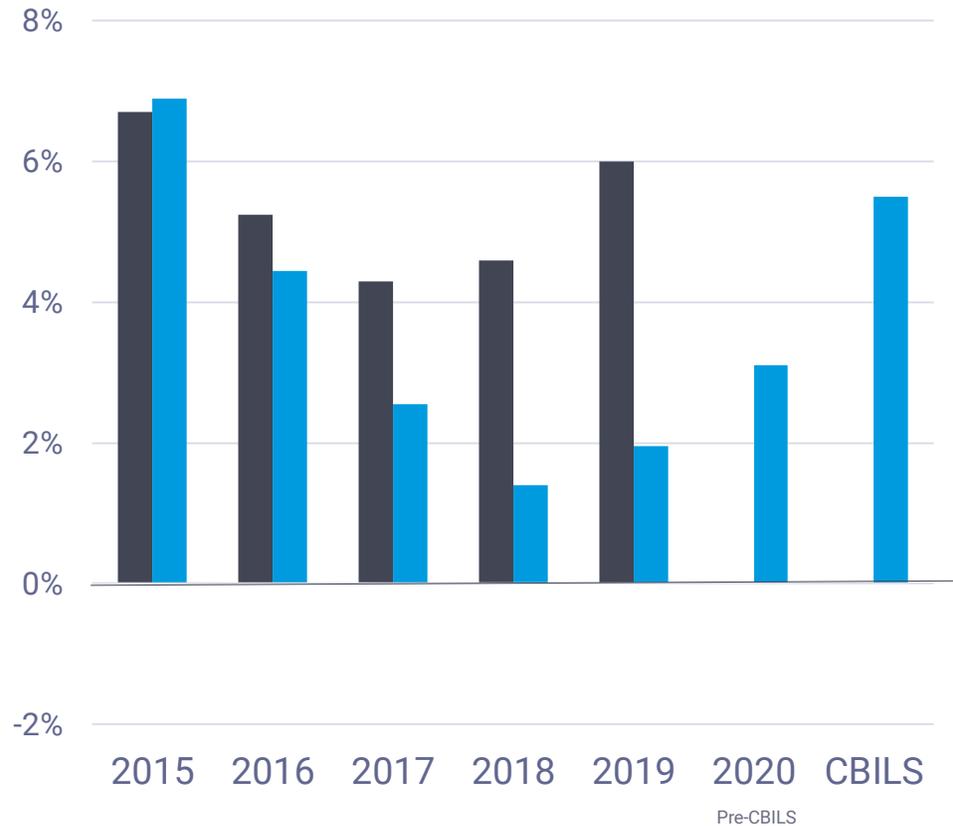
- Very sharp initial spike recognising our experience so far.
- Longer term tail acknowledges weak economy with some survival effects.
- Average stress over the period is 1.4X in both BoE stress test scenario and our central stress test scenario, but front loading of stress in our scenario is more penalising for amortising loans.



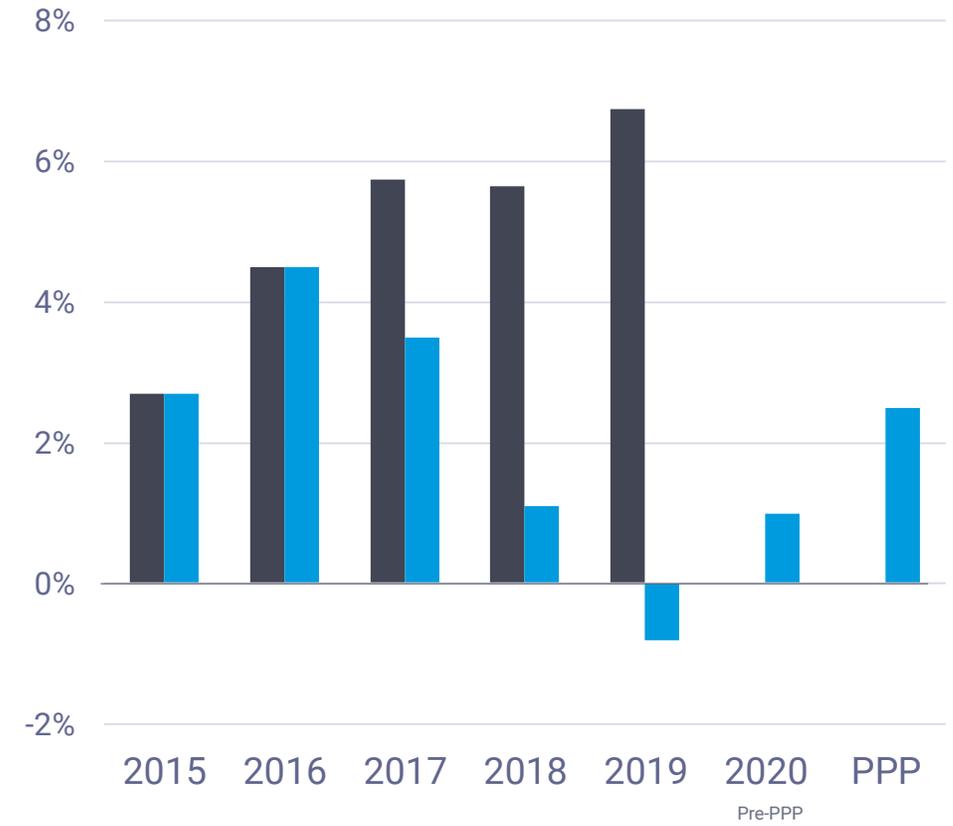
# All cohorts expected to deliver positive annualised returns (except US 2019)



Projected annualised returns by cohort (mid point estimates)



Projected annualised returns by cohort (mid point estimates)

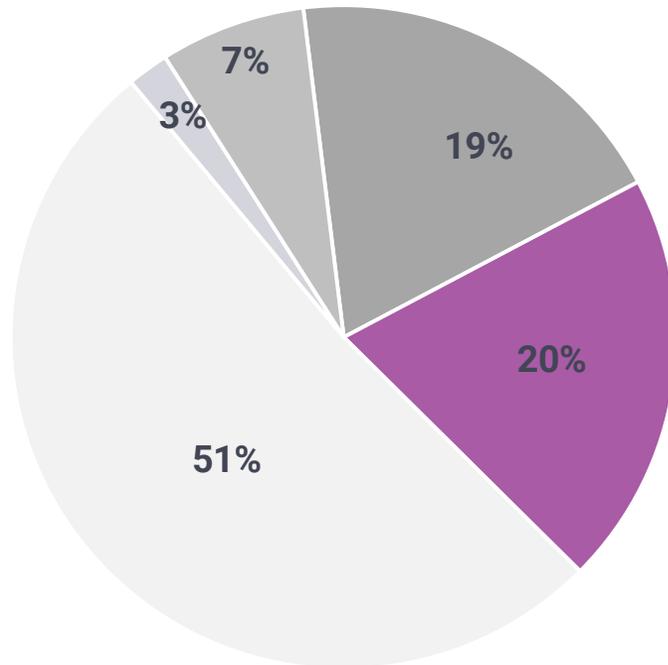


Jan 2020 forecast
  Q3 2020 forecast



# Funding Circle consolidates c.20% of LuM on balance sheet with exposure of £110m

Investor breakdown as a % of loans under management

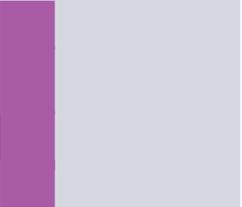


■ Retail ■ Bonds ■ Institutions ■ National entities ■ Funds

- In 2019 we launched new Bond products to aggregate loans in warehouses (warehouse stage) for sale as bonds (securitisation stage) to widen the universe of investors that could access our loans. Since launching the new Bond products, we have introduced 30 new investors to the Funding Circle platform.
- These loans are held in bankruptcy remote warehouses and securitisation vehicles.
- Whilst total loans consolidated on balance sheet for accounting purposes is £759m, Funding Circle's exposure is limited to its investment of £110m (31 Dec 2019: £145m).
- These vehicles are subject to regular assessments of their value.



# Funding Circle's vehicles have different risk dynamics and are affected by Covid-19 in different ways

Investment type		Covid-19 Impact	Description
<p><b>1</b> <b>Vertical securitisation retention</b> (required by regulation)</p>		Low impact	<p>Funding Circle is required by regulation to retain a 5% equal participation in all classes of bonds issued (vertical) resulting in low impact from Covid-19.</p>
<p><b>2</b> <b>Other Investments</b> (Private Fund and Govt SME investments)</p>		Low impact	<p>Other Investments comprise seed investments in Private Funds and investments in the UK CBILS programme. Both vehicles purchase equal participation in all loans resulting in low impact from Covid-19.</p>
<p><b>3</b> <b>Warehouses</b></p>		Medium impact	<p>In warehouses we deploy our equity and bank debt to aggregate loans temporarily prior to securitisation. The debt is senior which means the equity is more exposed to changes in valuation of loans. When Covid-19 hit the UK warehouse was 100% of capacity. The US warehouses were 30% of capacity.</p>
<p><b>4</b> <b>Horizontal securitisation</b></p>		High Impact	<p>Once loans are securitised, we temporarily hold the residual horizontal tranches with the intention to sell once seasoned. As at June, we had horizontals in 3 securitisations (UK: H2 19, US: H2 19 and H1 20).</p>



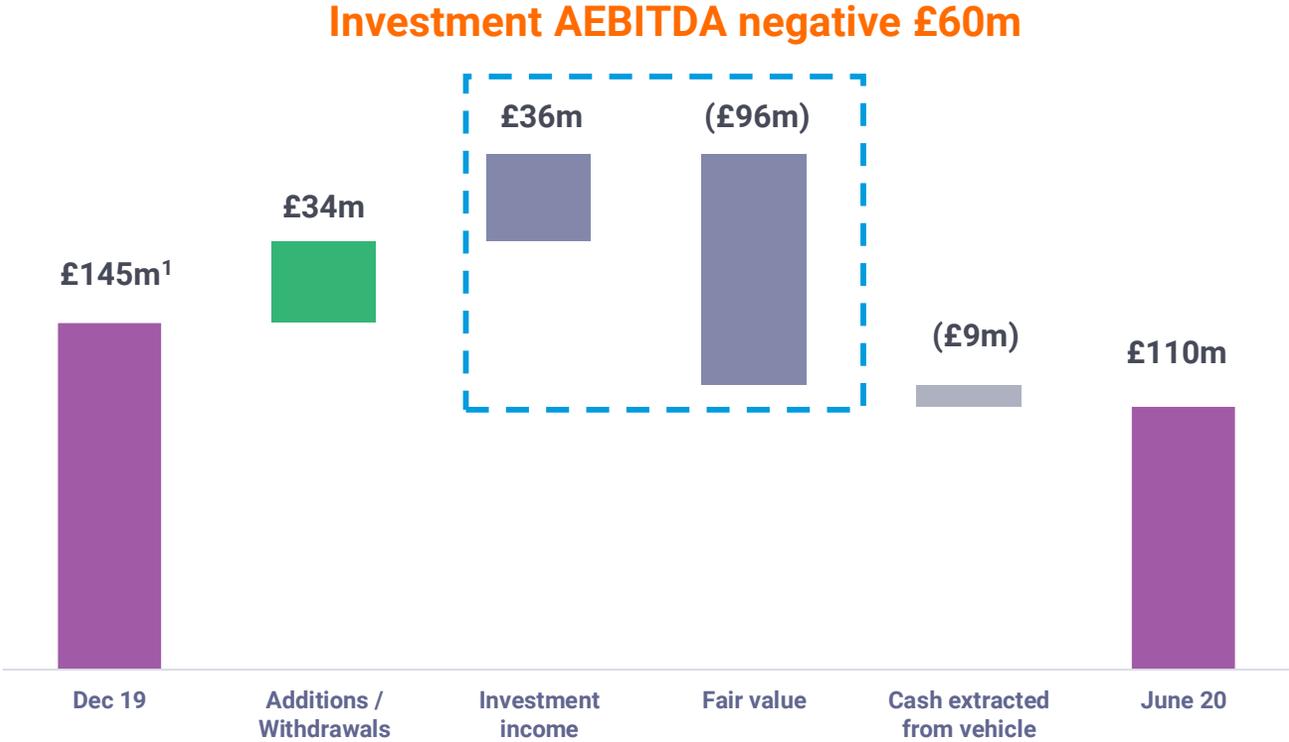
# Funding Circle has principal in vehicles of £159m; the value of these vehicles is now £110m

If investments were held to maturity we would expect future cash flow of c.£149m

## Principal Invested in Vehicles



## Balance Sheet Valuation



1. The difference between the £145m balance sheet view and the £134m principal invested is that interest has been reinvested.

# Impact concentrated in vehicles we intend to sell

	Investment type		Principal invested	Balance sheet valuation	H1 Investment AEBITDA
1	Vertical securitisation retention (required by regulation)		£18m	£18m	-
2	Other Investments (Private Fund and Govt SME investments)		£16m	£16m	-
3	Warehouses		£80m	£66m	-£20m (£15m Investment Income minus £35m Fair Value adj)
4	Horizontal securitisation		£45m	£10m	-£40m (£21m Investment Income minus £61m Fair Value adj)
<b>Total</b>			<b>£159m</b>	<b>£110m</b>	<b>-£60m</b>



# Net assets of c.£217m, including investments of £110m in vehicles

**Borrowings/Bonds bankruptcy remote from the core business**

					As at 30 June 2020	As at 31 December 2019
	Trading business	Warehouses £m	Securitisations <sup>1</sup> £m	Other investments £m	Total £m	Total £m
Investment in SME loans	1.8	321.8	419.4	15.6	<b>758.6</b>	723.5
Cash & cash equivalents	74.3	22.9	34.0	-	<b>131.2</b>	164.5
Other assets	-	-	13.3	-	<b>13.3</b>	8.4
Borrowings/bonds	(0.3)	(279.1)	(438.0)	-	<b>(717.4)</b>	(614.5)
<b>CASH &amp; INVESTMENTS</b>	<b>75.8</b>	<b>65.6</b>	<b>28.7</b>	<b>15.6</b>	<b>185.7</b>	<b>281.9</b>
Other assets	102.0	-	-	-	102.0	99.1
Other liabilities	(70.8)	-	-	-	(70.8)	(62.0)
<b>NET ASSETS</b>	<b>107.0</b>	<b>65.6</b>	<b>28.7</b>	<b>15.6</b>	<b>216.9</b>	<b>319.0</b>



**Investments of £110m**  
Our intention remains to sell elements of the warehouses and securitisations investments when appropriate



1. Securitisations include vertical tranche of £18m and horizontal tranche of £10m

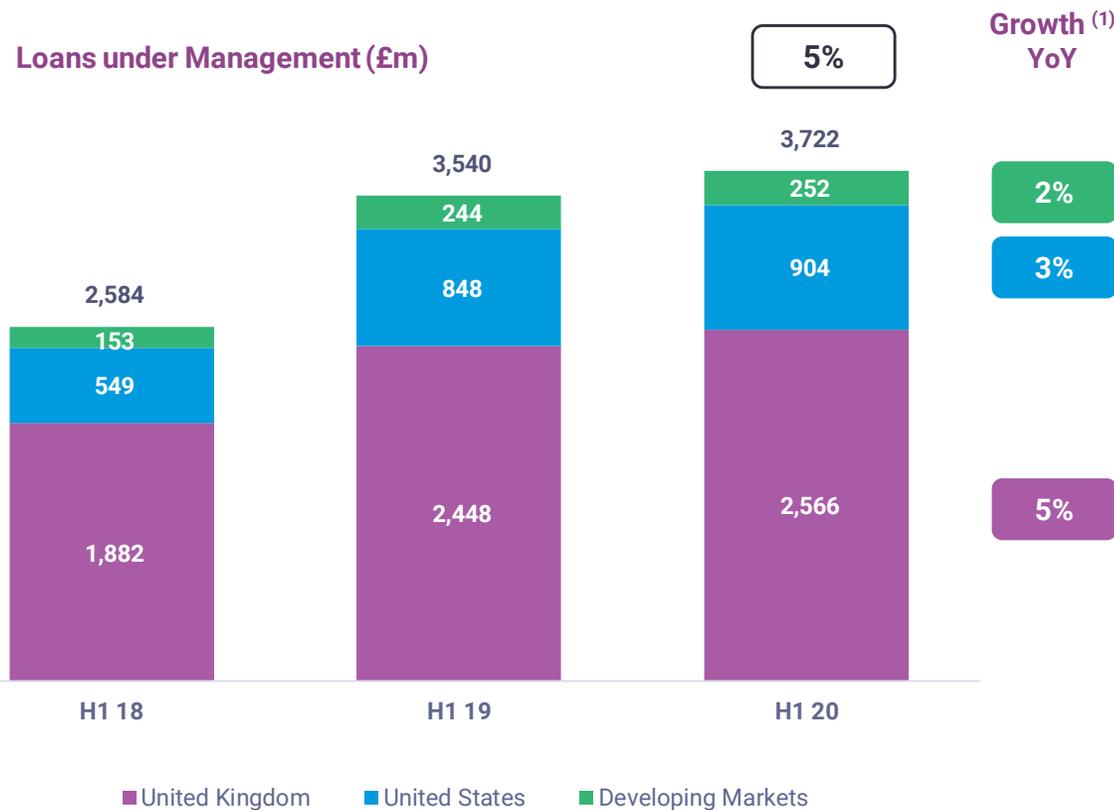
# Group Financial Performance

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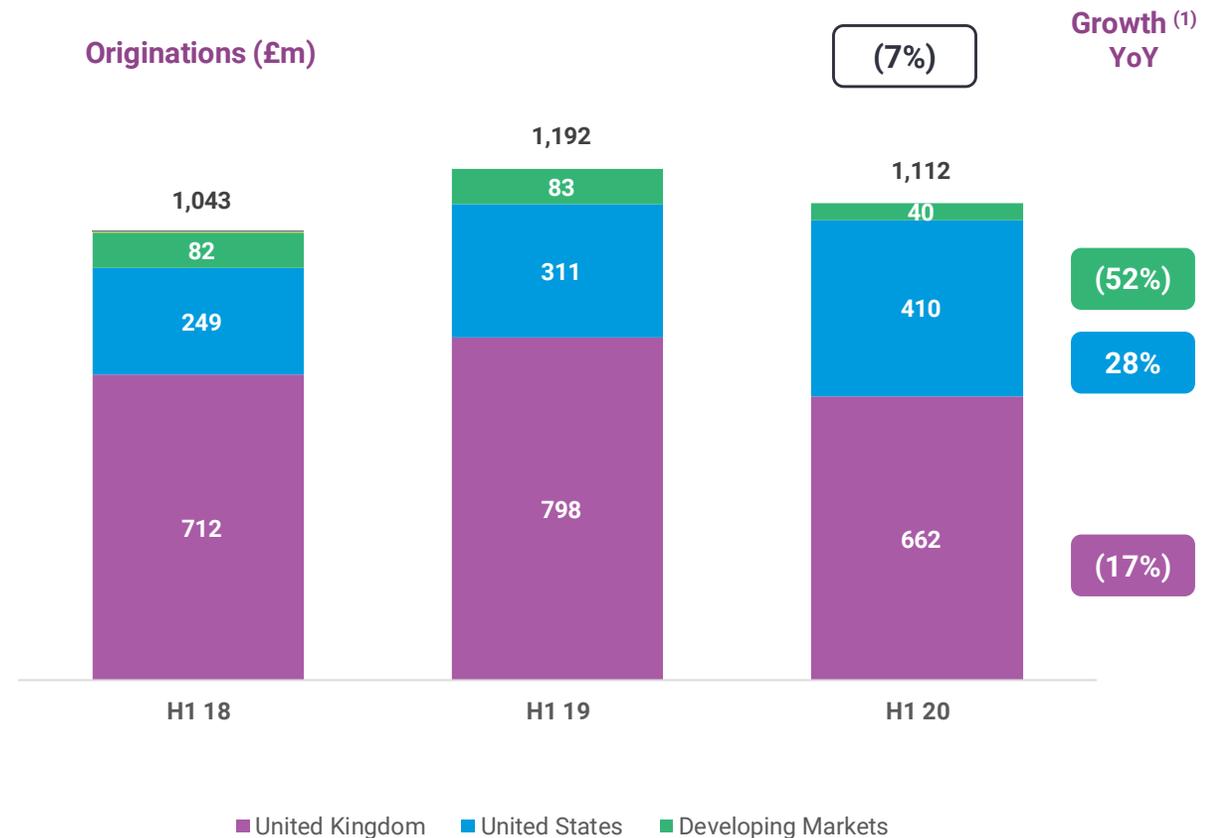


# Loans under Management up 5%; originations fell 7% due to lower lending in March and April

## LuM exceeded £3.7 billion



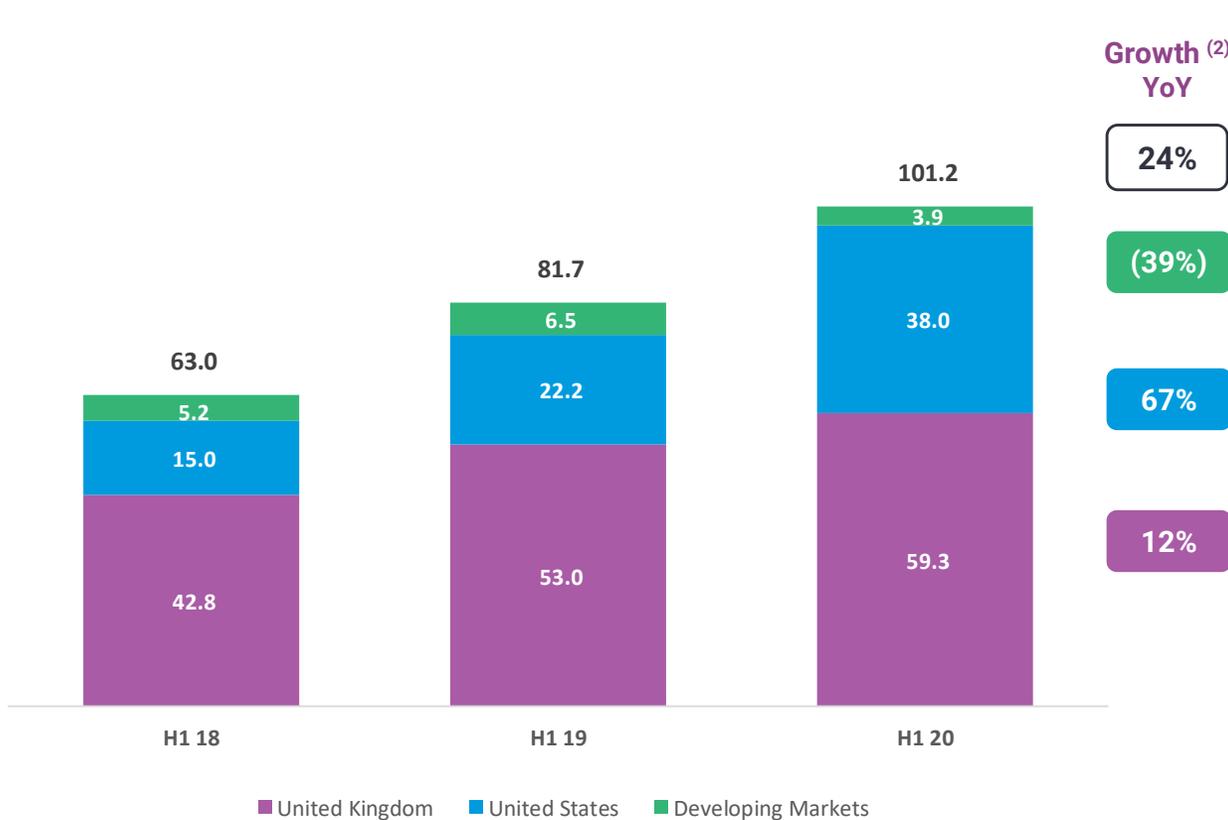
## Originations at £1.1 billion



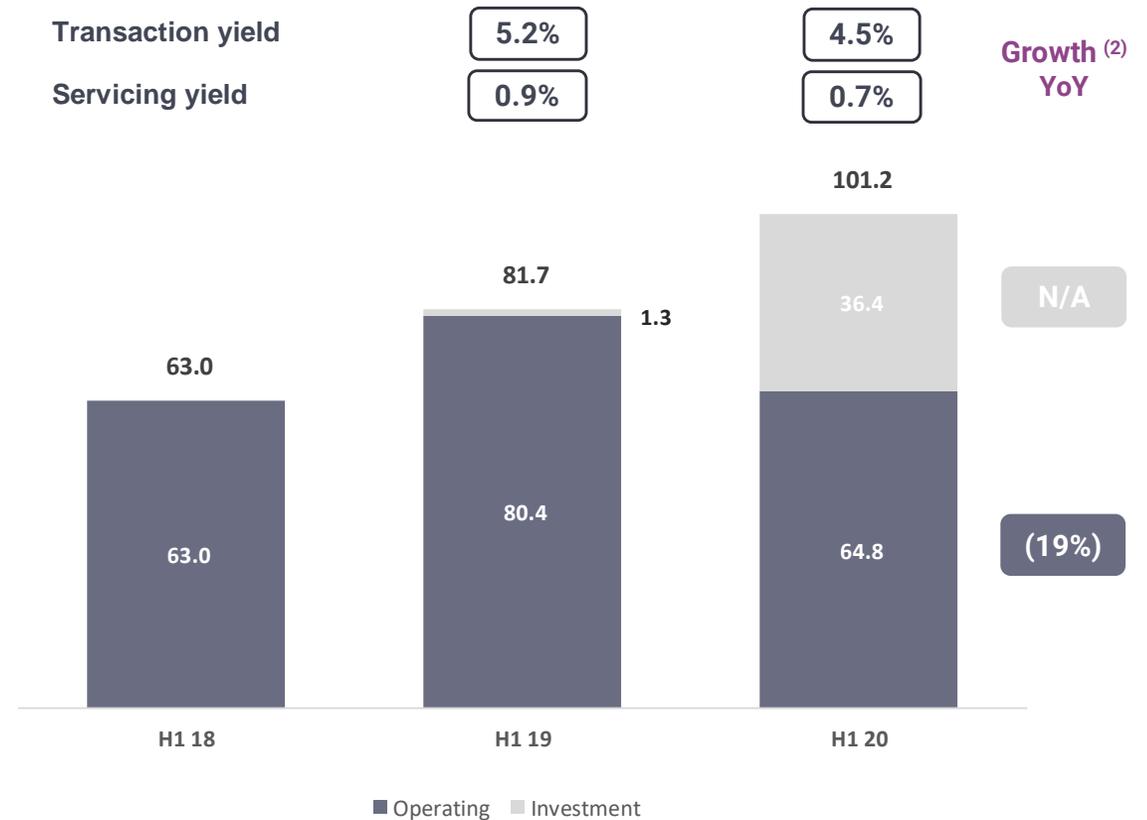
1. Geo segment growth stated in local currency to eliminate FX variations

# Total income growth of 24% supported by investment income with transaction fees affected by lower originations in March and April

## Total income<sup>1</sup> (£)



## Total income by type



Operating income	H1 18	H1 19	H1 20
Transaction fees	£50.3m	£62.5m	£47.8m
Servicing fees	£11.3m	£15.2m	£13.8m
Other fees	£1.4m	£2.7m	£3.2m

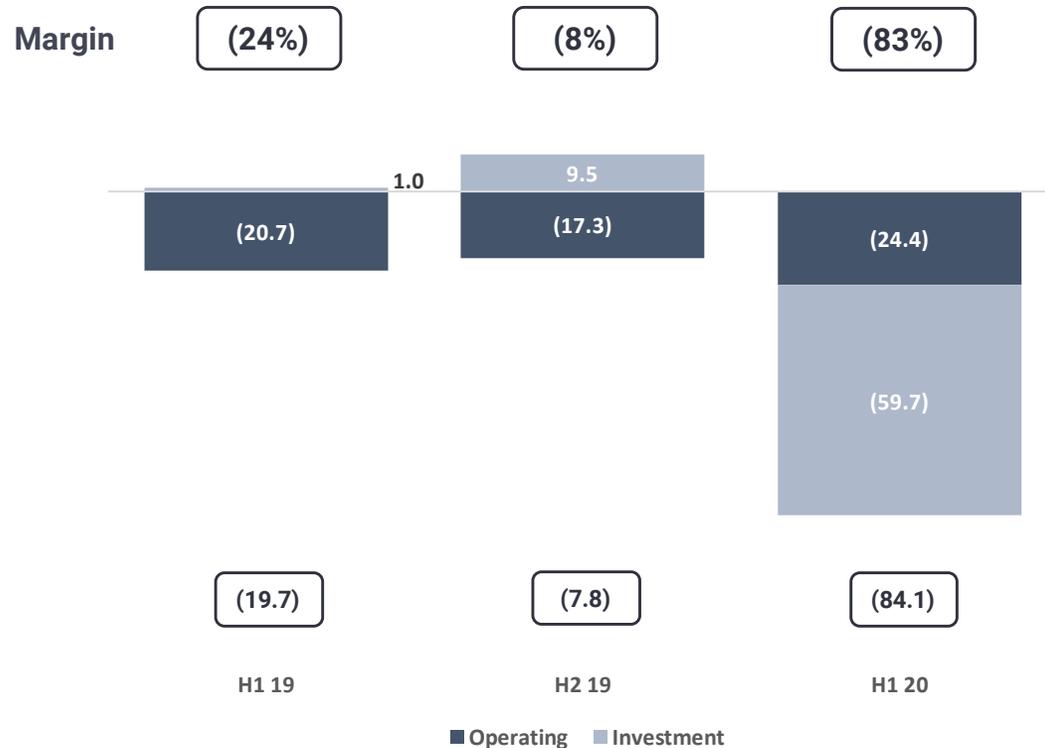
1. Total income is defined as fee income and investment income less investment expense and before non-cash fair value gains/losses  
2. Geo total income growth stated in local currency to eliminate FX variations



# AEBITDA loss driven by Covid-19 impact on fair value; strong free cash flow improvement

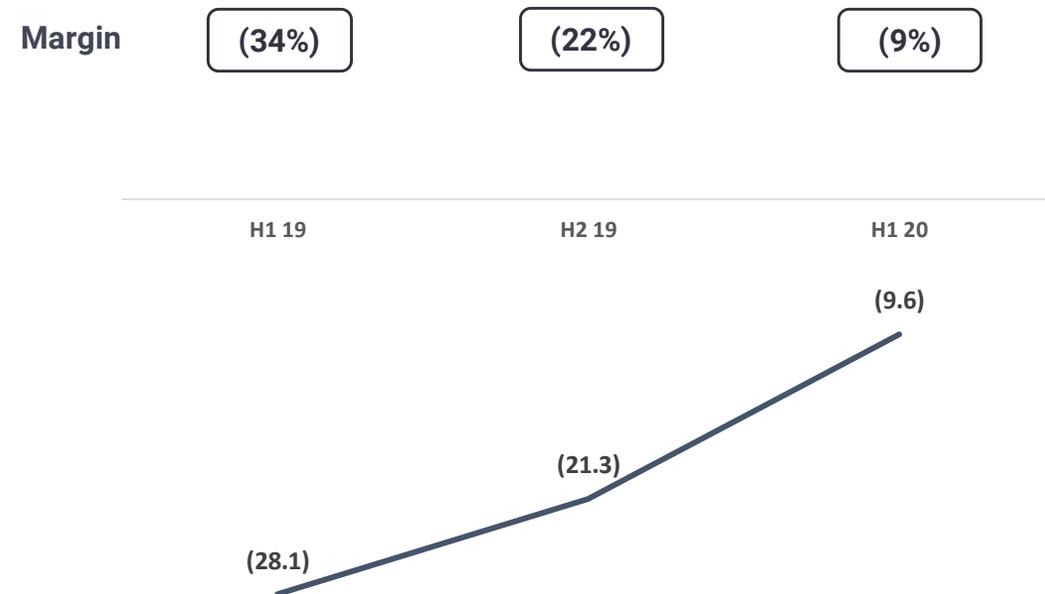
## AEBITDA<sup>1</sup> (£m)

AEBITDA impacted by lower trading months in March and April and investment income impacted by Covid-19



## Free Cash Flow<sup>2</sup> (£m)

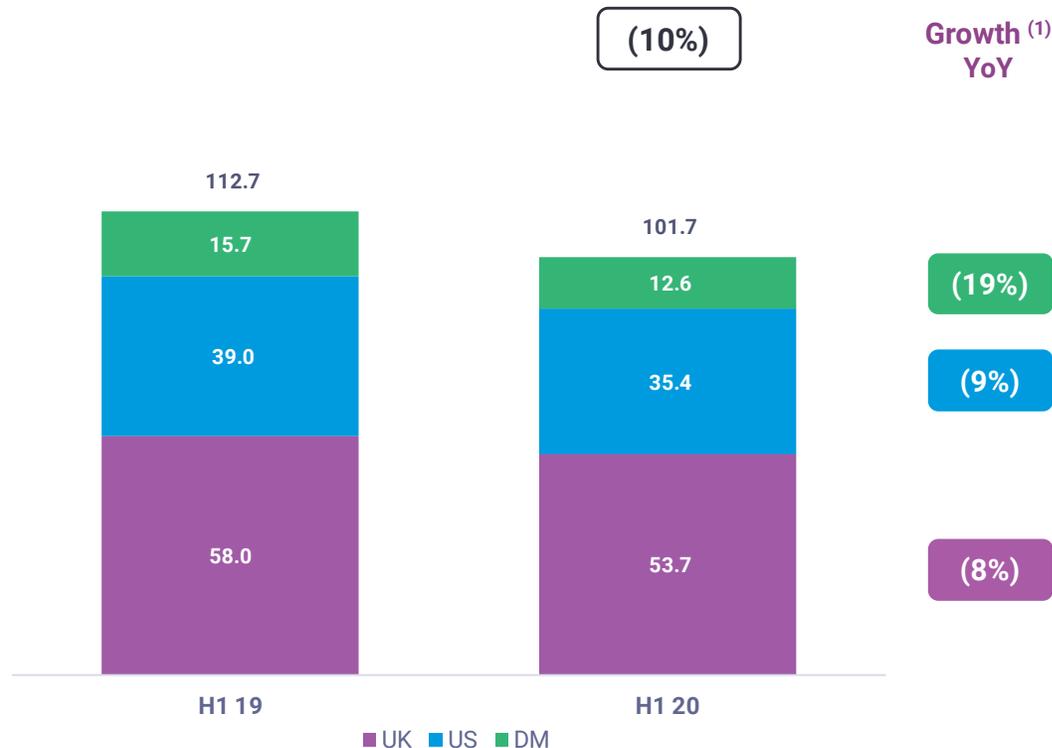
Free cash flow continues to improve



1. Adjusted EBITDA represents EBITDA (Earnings before Interest, Tax, Depreciation and Amortisation) excluding sharebased payments, exceptional items and foreign exchange gains or losses. Investment AEBITDA refers to net investment income (being investment income, investment expense and fair value adjustments) as previously reported and operating AEBITDA represents AEBITDA excluding investment AEBITDA  
 2. Free cash flow represents Adjusted EBITDA after the payment of lease liabilities, purchase of tangible and intangible assets, working capital and non-cash movements including fair value adjustments

# Operating expenses down c.10% and expected to fall a further c.15% in H2

## Costs (excluding exceptionals) (£)



- Overall operating expenses fell 10% (excluding exceptional costs) from £112.7m to £101.7m.
- Fall in operating expenses driven by marketing dropping significantly to 22% of total income (H1 2019: 43%).
- Operating expenses in H2 expected to decline c.15% compared to H1 following the restructure of Developing Markets and US businesses.



# Operating loss impacted by fair value movement driven by Covid-19 and exceptional costs

	Six months to 30 June 2020			Six months to June 2019
	Before exceptional items £m	Exceptional items £m	Total £m	Total £m
Transaction fees	47.8	-	47.8	62.5
Servicing fees	13.8	-	13.8	15.2
Other fees	3.2	-	3.2	2.7
<b>Fee income</b>	<b>64.8</b>	-	<b>64.8</b>	<b>80.4</b>
Investment income	49.8	-	49.8	2.2
Investment expense	(13.4)	-	(13.4)	(0.9)
<b>Total income</b>	<b>101.2</b>	-	<b>101.2</b>	<b>81.7</b>
Fair value gains/(losses)	(96.1)	-	(96.1)	(0.3)
<b>Net income</b>	<b>5.1</b>	-	<b>5.1</b>	<b>81.4</b>
People costs	(44.5)	(3.8)	(48.3)	(45.5)
Marketing costs	(22.4)	-	(22.4)	(35.2)
Depreciation, amortisation and impairment	(8.2)	(12.4)	(20.6)	(7.1)
Loan repurchase charge	(5.5)	-	(5.5)	(4.2)
Other costs	(21.1)	(0.7)	(21.8)	(20.7)
<b>Operating expenses</b>	<b>(101.7)</b>	<b>(16.9)</b>	<b>(118.6)</b>	<b>(112.7)</b>
<b>Operating loss</b>	<b>(96.6)</b>	<b>(16.9)</b>	<b>(113.5)</b>	<b>(31.3)</b>

Exceptional items related to:

- Costs associated with restructuring in Developing Markets as previously announced.
- Non-cash writedown of US Goodwill driven by the restructure of the US business.



# Markets Update

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# Early Covid-19 trends suggest a permanent change in the SME borrowing market that will benefit Funding Circle



**Government support for SMEs demonstrates strategic importance of SMEs to economic growth**



**Significant acceleration in adoption of online borrowing**



**Long term low interest rates attract strong demand from institutional investors to fund SME loans**



**More SMEs have experienced borrowing recently and are likely to continue in the future**

**\$520bn** borrowed by SMEs during lockdown in the US; £50bn borrowed by SMEs in the UK<sup>1</sup>

**2x** increase in search terms for business loans during lockdown in the UK<sup>2</sup>

**£1.25bn** investor capital raised since beginning of Covid to lend to UK and US SMEs on the Funding Circle platform<sup>3</sup>

**55%** of SMEs expect to require finance in the next 6 months<sup>4</sup>

1. Cumulative PPP data published by the SBA; cumulative CBILS and BBLS lending data published by HMT
2. Google trends
3. Funding Circle institutional capital raised accredited to CBILS and PPP
4. Funding Circle borrower survey



# Funding Circle's unique model is best placed to deliver Government guarantee programmes

## Strong demand from SMEs since start of CBILS

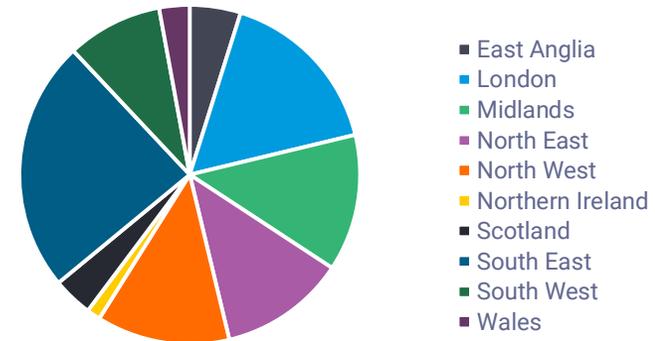
- CBILS has 80% guarantee for loans above £50k
- c.£1.2bn approved and c.£815m originated at 20 September across all sectors and regions
- Since joining the scheme we are the 5<sup>th</sup> largest CBILS lender after HSBC, Natwest, Barclays and Lloyds
- Market share of c.20%<sup>1</sup> of all CBILS loan approvals since becoming accredited

## Strong investor demand to purchase SME loans

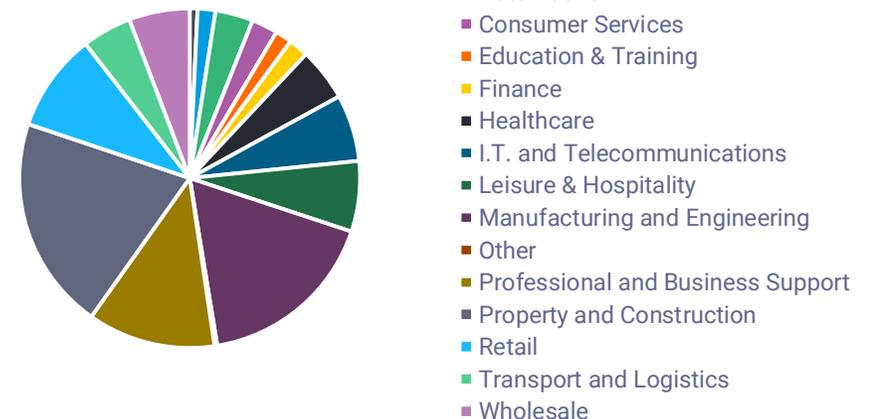
- £1bn + raised from institutional investors
- Fully funded to meet CBILS capacity
- Funding agreements signed with multiple institutional investors, including banks and asset managers

## Diversified lending across all regions and sectors

Lending by region



Lending by sector



1. Market share as a proportion of cumulative approvals since 04 May

# US business is well positioned for H2 following recent changes

## Began the year strong and pivoted to PPP

- Business started strongly in 2020 with January and February highest months for originations for 12 months.
- In response to Covid-19 the US Government introduced its Paycheck Protection Program loan scheme (“PPP”).
- \$1bn of PPP loans approved and c.\$500m originated at 20 September.
- Changes to operating model introduced in July in response to Covid-19 will accelerate profitable growth.

## Two areas of priority in H2

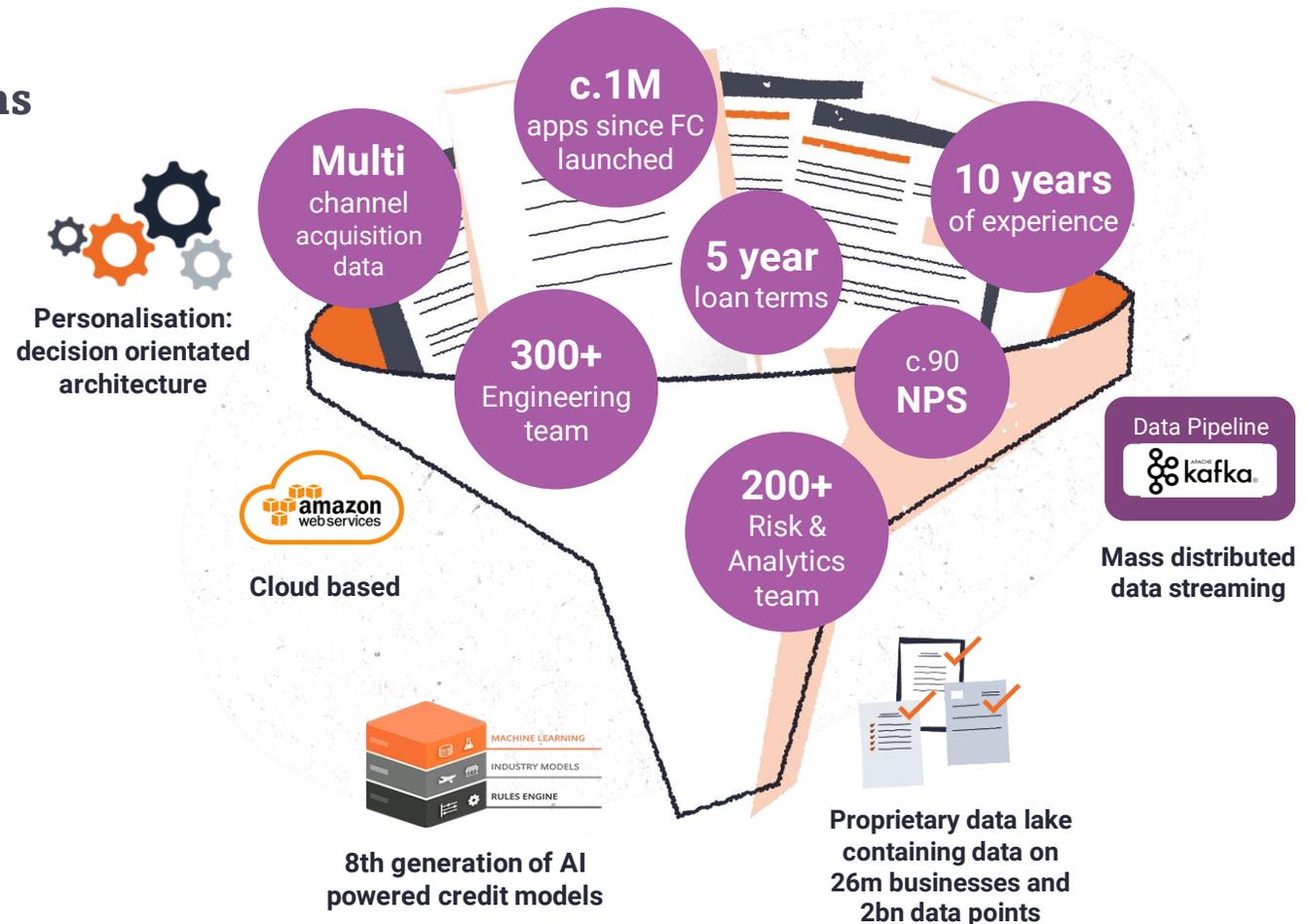
1. Payment Protection Programme (PPP)
  - Extension of PPP has the support of both Democrats and Republicans.
2. Restart lending and help more borrowers
  - Aim to relaunch core product when conditions allow and expand our marketplace to add other lenders including SBA 7(a) guaranteed loan providers.



# Instant Decision lending technology is powering revolutionary results for SMEs

Instant Decision lending is a unique proposition for SMEs looking for term loans

- **40%** loans processed by instant decision lending technology
- **6** minute average application time
- **9** seconds on average to make an instant decision



# Instant Decision lending is recognised by SMEs as the market leading way to access finance

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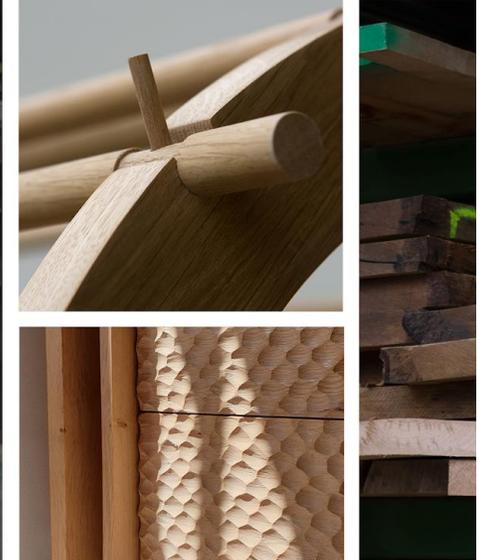
Debbie Leon set up Fashionizer in 1993 when she noticed a gap in the market for luxury and bespoke uniform design.

*"Since I'd previously had a Funding Circle loan, I knew the service was fast and efficient, and I was delighted when I found out they were offering CBILS loans."*



Set up by Alex Ratcliffe, Konk Furniture produces handmade, sustainable and bespoke pieces of furniture.

*"The whole process was insanely easy. I was amazed at how quick the decision was after completing the online application. Getting a decision quickly was important. It gave us a lot of reassurance during difficult times and allowed us to plan ahead for the future."*



# Outlook for H2 2020

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The economic environment remains very uncertain. H2 expectations are predicated on there being no further prolonged national lockdowns across our geographies and includes the expectation of ongoing government support for SMEs in the UK.

We are reinstating previous guidance of close to AEBITDA break-even in H2.

We remain committed to delivering profitable growth and generating long-term value for shareholders.



# Q&A

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# Appendices

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# Funding Circle's investment in vehicles

	Investment as shown on Balance Sheet ("Committed Capital")					Estimated future cash flows
	Dec-19	Additional investment / withdrawals	Net income retained in vehicles	Fair value adjustment	Jun-20	
Vertical securitisation retention	13	5	-	-	18	19
Other investments	13	3	-	-	16	18
Warehouses	94	(3)	10	(35)	66	90
Horizontal securitisation retention	25	29	17	(61)	10	22
<b>Invested</b>	<b>145</b>	<b>34</b>	<b>27</b>	<b>(96)</b>	<b>110</b>	<b>149</b>
Net income extracted in 2020			9			
			36	(96)		

Investment AEBITDA impact: £60m

Note that the fair value was significantly impacted by Covid-19. The fair value adjustment in Q1 i.e. before Covid-19 struck, was c.£11m.



# Funding Circle's principal invested in vehicles

	Principal							Fair value at Jun-20
	2019			2020				
	Committed Capital	Net interest earned and retained in vehicle	Total original cash invested	Additional principal investment / withdrawals	Total original cash invested	Cash extracted from vehicle	Net position	
Vertical securitisation retention	13	-	13	5	18	-	18	18
Other investments	13	-	13	3	16	-	16	16
Warehouses	94	(7)	87	(3)	84	(4)	80	66
Horizontal securitisation retention	25	(4)	21	29	50	(5)	45	10
<b>Invested</b>	<b>145</b>	<b>(11)</b>	<b>134</b>	<b>34</b>	<b>168</b>	<b>(9)</b>	<b>159</b>	<b>110</b>



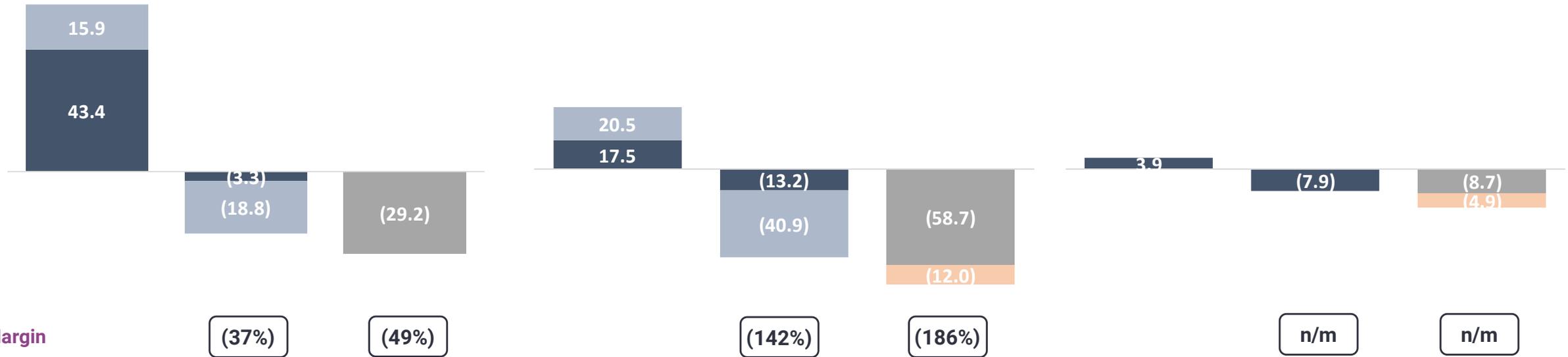
# Geographic segmentation

## United Kingdom (£m)

## United States (£m)

## Developing Markets (£m)

United Kingdom (£m)	United States (£m)	Developing Markets (£m)
Revenue	Revenue	Revenue
59.3	38.0	3.9
Adjusted EBITDA	Adjusted EBITDA	Adjusted EBITDA
(22.1)	(54.1)	(7.9)
Operating loss	Operating loss	Operating loss
(29.2)	(70.7)	(13.6)



■ Operating   
 ■ Investment   
 ■ Exceptional items   
 ■ Pre-exceptional items



# Segment split

Segment profit	H1 2020				H1 2019				H2 2019			
	United Kingdom	United States	Developing Markets	Total	United Kingdom	United States	Developing Markets	Total	United Kingdom	United States	Developing Markets	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Segment adjusted EBITDA	(10.5)	(48.4)	(6.7)	(65.6)	14.0	(6.7)	(6.1)	1.2	20.0	(3.6)	(6.4)	10.0
Product development	(7.5)	(4.0)	(0.8)	(12.3)	(8.3)	(4.4)	(1.6)	(14.3)	(6.9)	(3.8)	(1.4)	(12.1)
Corporate costs	(4.1)	(1.7)	(0.4)	(6.2)	(4.2)	(1.9)	(0.5)	(6.6)	(3.6)	(1.6)	(0.5)	(5.7)
<b>Adjusted EBITDA</b>	<b>(22.1)</b>	<b>(54.1)</b>	<b>(7.9)</b>	<b>(84.1)</b>	<b>1.5</b>	<b>(13.0)</b>	<b>(8.2)</b>	<b>(19.7)</b>	<b>9.5</b>	<b>(9.0)</b>	<b>(8.3)</b>	<b>(7.8)</b>
Depreciation and amortisation	(4.1)	(3.4)	(0.7)	(8.2)	(4.0)	(2.3)	(0.8)	(7.1)	(4.0)	(2.9)	(0.9)	(7.8)
Share-based payments and social security costs	(3.0)	(1.2)	(0.1)	(4.3)	(2.5)	(1.8)	(0.2)	(4.5)	(2.5)	(0.9)	(0.1)	(3.5)
Exceptional items	-	(12.0)	(4.9)	(16.9)	-	-	-	-	-	-	(34.3)	(34.3)
<b>Operating loss</b>	<b>(29.2)</b>	<b>(70.7)</b>	<b>(13.6)</b>	<b>(113.5)</b>	<b>(5.0)</b>	<b>(17.1)</b>	<b>(9.2)</b>	<b>(31.3)</b>	<b>3.0</b>	<b>(12.8)</b>	<b>(43.6)</b>	<b>(53.4)</b>



# Reconciliation to Free Cash Flow

	H1 2020	H2 2019	H1 2019
<b>AEBITDA</b>	<b>(84.1)</b>	<b>(7.8)</b>	<b>(19.7)</b>
Payment of Lease Liabilities	(3.5)	(4.3)	(2.8)
Purchase of intangible assets	(5.5)	(8.6)	(5.9)
FV movements	96.1	9.6	0.3
Working Capital	(14.0)	(10.2)	1.8
Other	1.4	-	(1.8)
<b>Free Cash Flow<sup>1</sup></b>	<b>(9.6)</b>	<b>(21.3)</b>	<b>(28.1)</b>

1. Free Cash Flow represents net cash flows from operating and investing activities, including the payment of lease liabilities, but excludes net investment in new products and is stated before financing activities



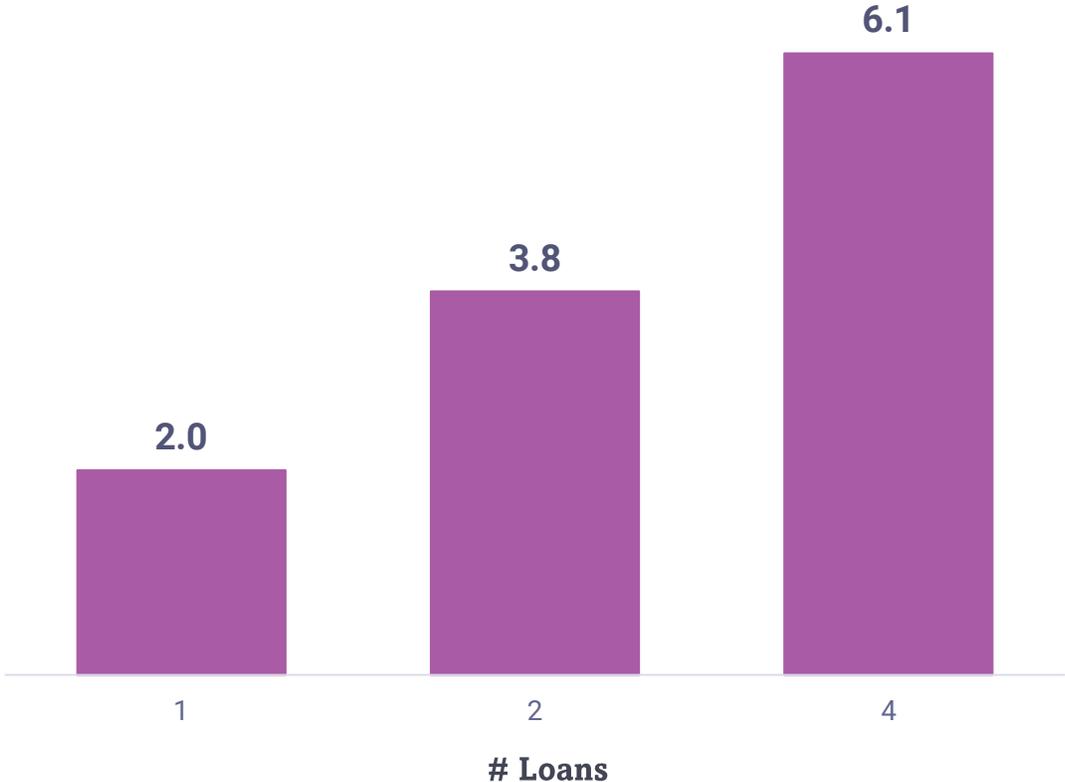
# Projected annualised returns ranges - Q3 2020 forecast

Cohort	2015	2016	2017	2018	2019	2020
UK	6.9 - 6.9%	4.3 - 4.6%	2.3 - 2.8%	0.9 - 1.9%	1.2 - 2.7%	5.4 - 6.0%
US	2.6 - 2.8%	4.1 - 4.9%	3.0 - 3.9%	0.8 - 1.8%	(1.8) - 0.2%	1.0 - 3.0%

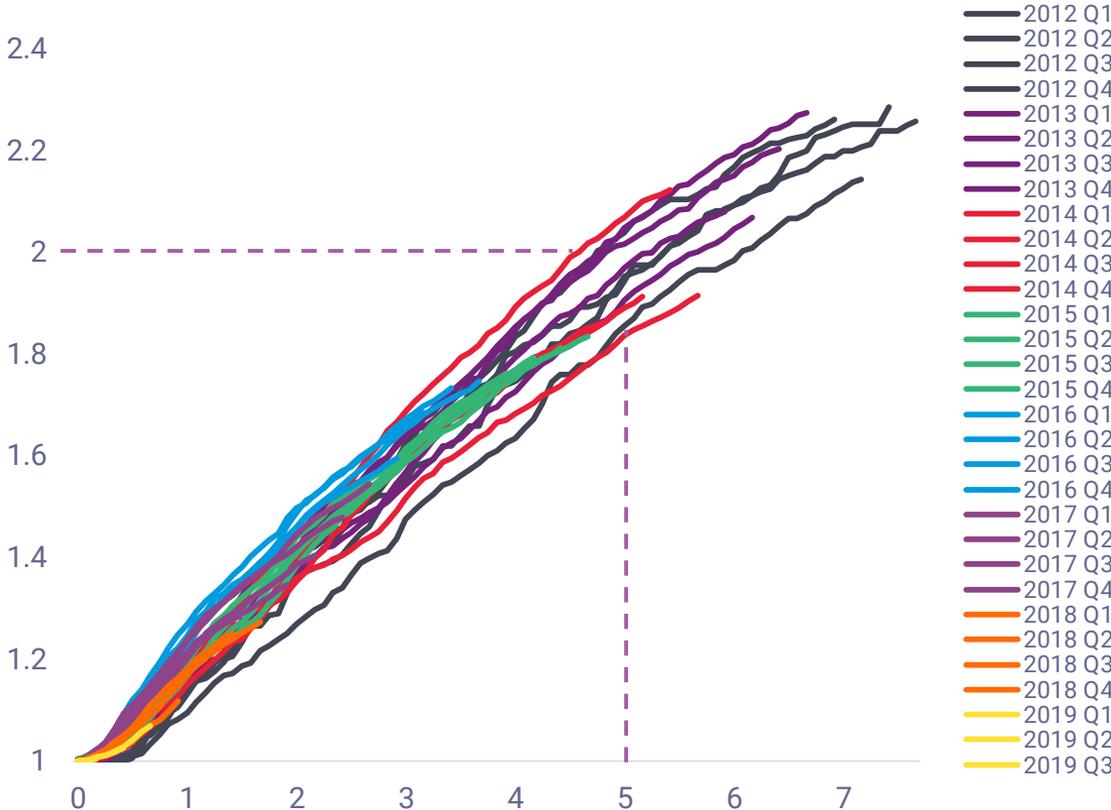


# Funding Circle Borrowers Exhibit Strong Repeat Behaviour

LTV/CAC by number of loans per borrower



UK: On average borrowers take out 2 loans every 5 years





Funding  
Circle