

# Final Results Presentation

Year ended 31 May 2020

September 2020



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# 1pm at a glance

We focus on providing the best solution for our clients, because we put them at the heart of everything we do. Our financial solutions inspire confidence and enable our clients to thrive and prosper.

## Delivering a range of financial solutions to boost British business



### Asset Finance

Financing vital equipment to support business growth



### Vehicle Finance

Arranging fast and competitive funding to keep businesses on the road



### Invoice Finance

Improving cash flow to give businesses the freedom to unlock additional working capital



### Loan Finance

Providing commercial and property loans to make businesses come to life

# Our Key Achievements

Providing  
**£123m**  
of funding to UK  
businesses at  
31 May 2020

Revenue  
of over  
**£29m**

Originated  
**£147m**  
of new funding deals  
during the  
year



**Award  
winning**

Over  
**£55m**  
of equity on the  
balance sheet

Supporting  
some  
**20,000**  
SMEs  
nationwide

**179**  
employees across  
6 UK sites

**£3m**  
profit before  
tax and  
exceptional  
items



# Our Leadership Team

1pm is led by a dedicated and experienced team who form the Operating Board. This diverse body of 10 senior leaders is 50% female with an array of knowledge and expertise. 1pm champions leadership at all levels, with the age range of the Operating Board spanning 40 years. Working together, their knowledge and expertise inspire innovation and integrity, so that 1pm can make a difference for all our stakeholders.



Ian Smith  
Chief Executive Officer



James Roberts  
Chief Financial Officer



Holly Mapstone  
Head of HR



Lorraine Neyland  
Head of Risk



David Jones  
Head of IT



Jennifer Bodey  
Head of Compliance  
and Company Secretary



Carol Roberts  
Head of Asset  
Finance



Phil Chesham  
Head of Invoice  
Finance (North)



Tansy Cunningham  
Head of Invoice  
Finance (South)



Alun Winter  
Head of Loans

# Overview of the Group

- A non-bank, specialist finance provider to SMEs
- Trading subsidiaries with regulated activities are FCA authorised
- A hybrid model; a lender with the flexibility to broke-on to others
- All own balance sheet lending is to UK SMEs who meet our credit criteria
- We broke-on proposals outside our credit criteria and all consumer finance deals
- We are “multi-product” providing a range of finance products that smaller UK SMEs require
- Organised into four product divisions

## MISSION

**Goal:** To be the non-bank speciality finance provider of choice

**Purpose:** To grow together, adding Scale, Capability and Products

**Culture:** Be customer outcome led, with the values of being Fair, Trusted, Flexible and Personal

**Policies:** A cautious finance provider with Spread, Security and Margin at the heart of activities

**Model:** Operate as both a lender and a broker

**Position:** A multi-product provider of finance to UK SMEs

# Recent deal examples

## Asset Finance

- Food Manufacturer
- £77,000 Asset Finance Facility (£50k own book funded & £27k brokered)
- The business had recently secured a large contract with a leading supermarket
- To keep up with the momentum of growing orders, the firm needed to invest in new machinery for a faster and more efficient service

## Invoice Finance

- Fashion and Textile Manufacturer
- £400,000 Invoice Finance Facility
- In response to Covid-19, the firm had secured a large NHS contract to manufacture non-surgical gowns and protective headwear for frontline staff
- To keep up with ongoing cash flow requirements to produce these garments, they required a flexible funding solution to ensure delivery of this project

## Business Loan

- Hydraulic Hose and Fittings Franchisee
- £200,000
- Customer had the opportunity to settle £450,000 of franchise fees for a lump sum payment of £200,000.
- Secured by a charge over the clients' property we were able to save the client in excess of £250,000 by providing a lump sum payment to the franchisor.



# New business introduction channels



## Asset Finance

- Soft and Hard Asset Finance Brokers
- Equipment Suppliers and Vendors
- Direct (H1 this year)
- Digital (to be developed)



## Loans

- Residential and Commercial Mortgage brokers
- Finance Brokers, Accountants and Corporate Finance firms



## Invoice Finance

- Introducers - a few large nationals, but mostly local insolvency and professional firms
- Occasional bank referrals



## Vehicle Finance

- Used car dealers and online direct applicants
- New car dealers, fleet customers and existing customer renewals



# Robust business principles

- **Risk-mitigating spread** – of introducer channel, asset category, lending product, sector, geography, deal size and deal quality
- **Operating model flexibility** – lending and broking
- **Borrower resilience** – typically lending to independent businesses for ‘staple-diet’ consumer products, not multiple-outlet, retail chain businesses reliant on discretionary spend
- **Small individual exposures** – meaning that impaired receivables can typically be recovered through charging orders and payment plans; security taken on every deal
- **Underwriting by people** – eyes on every deal, not reliant on algorithms
- **Impairment provisions in excess of IFRS9 requirements** – carrying bad debt provisions in excess of annual write-offs
- **Fixed interest rate** deals – risk-priced and no exposure to interest rate rises for business already written
- **Strong balance sheet** - £27m of Net Tangible Assets and comfortable gearing covenant headroom
- **Ample operational debt facilities** – and a range of supportive funding partners

# Covid-19 response

## **Incident Management Team**

IMT formed to take a 'crisis-management' approach – weekly meetings from March through to July 2020

## **Four guiding principles established and maintained**

1. a dedicated focus on the health and safety of the Group's employees and their families
2. an uninterrupted seamless service for customer and client transactions
3. unwavering support to existing viable businesses customers
4. remaining open for new business customers to support credit-worthy, robust SMEs

## **Covid-19 impact and response falls into 3 categories**

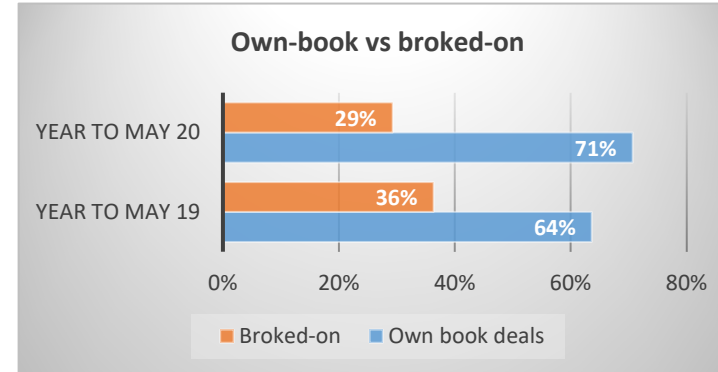
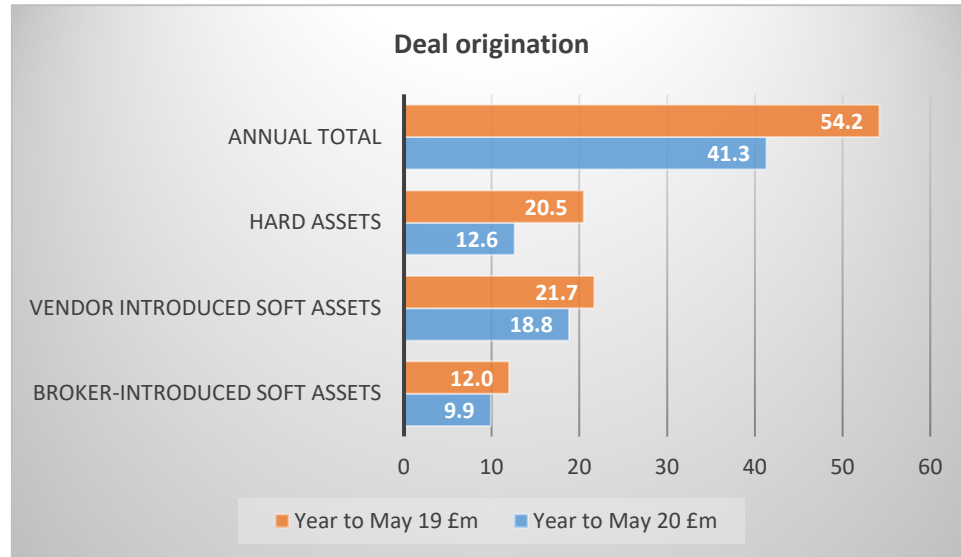
- A. Effect on trading – origination, revenue generation and cash inflow
  - £3.1m Term Loan arranged with NatWest in June
- B. Effect on the portfolio – forbearance requests from existing borrowers
  - managed internally; no forbearance requested from our own funders
- C. Effect on capacity to lend to generate new business
  - CBILS accreditation to lend up to £7m of new loans with an 80% government guarantee

# FY20 Financial Results

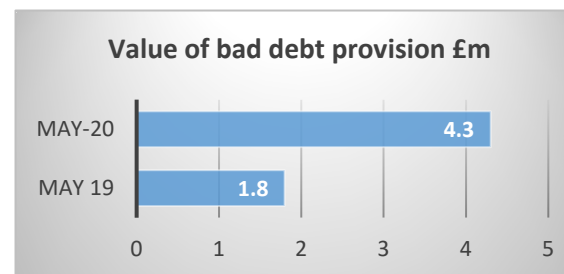
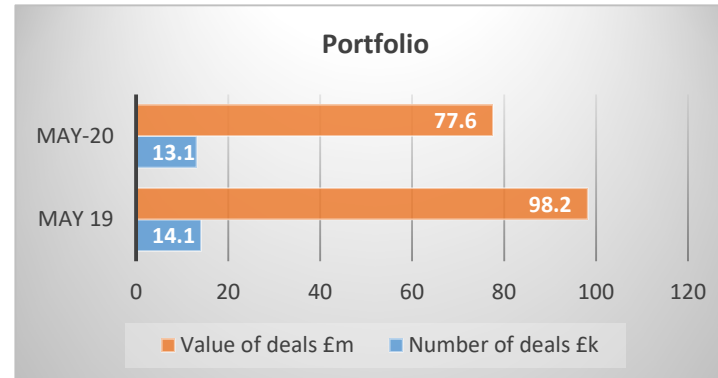
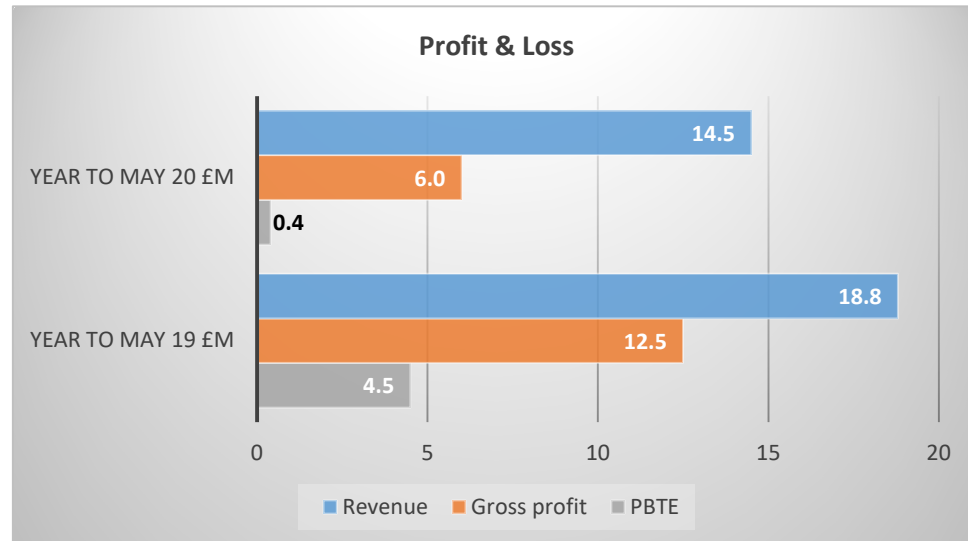
**Trading was In line with guidance through to Q3 (February 2020). Guidance withdrawn in March 2020 due to impact of Covid-19.**

	<u>FY20</u>	<u>FY19</u>	<u>Change</u>
• Total deal origination	£147.0m	£161.0m	<b>-9%</b>
• Revenue	£29.2m	£31.8m	<b>-8%</b>
• Profit before tax and exceptional items, after one-off impairment provision	£3.0m	£8.1m	<b>-63%</b>
• Operating expenses	£12.8m	£13.3m	<b>-4%</b>
• Net assets at year-end	£55.2m	£53.9m	<b>+2%</b>
• Fully diluted earnings per share	1.74 pps	6.61 pps	<b>-74%</b>
• Blended cost of borrowing	4%	4%	<b>--</b>
• Funding facilities	£174m	£167m	<b>+4%</b>
• Bad debt provision at year-end	£5.1m	£2.4m	<b>+2.1x</b>

# Asset Finance

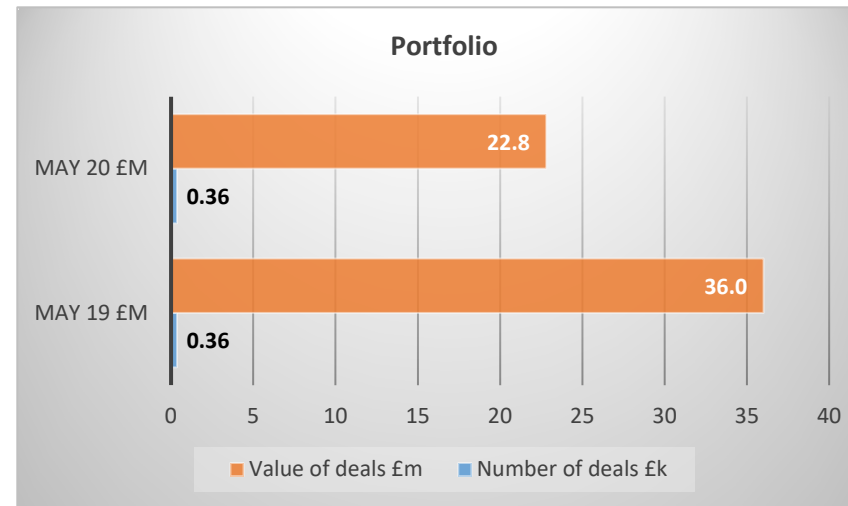
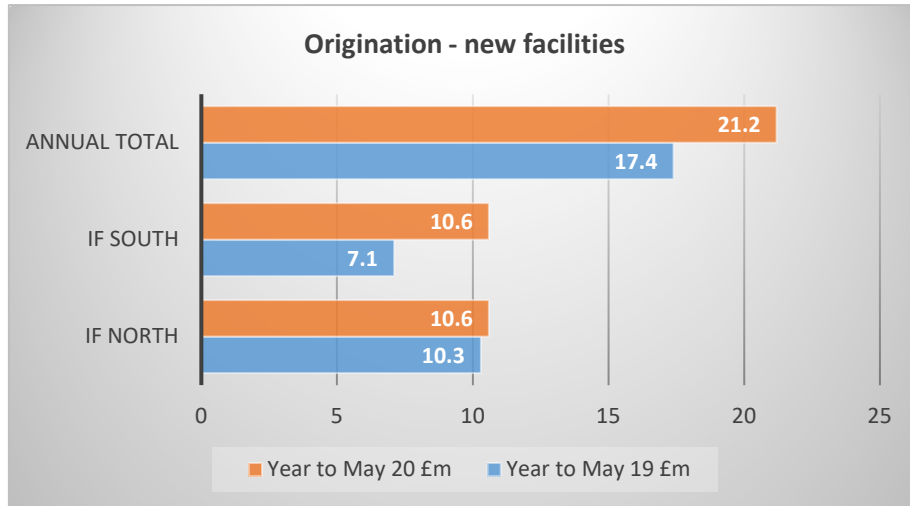


Business-critical  
'hard' & 'soft'  
**Asset Finance**

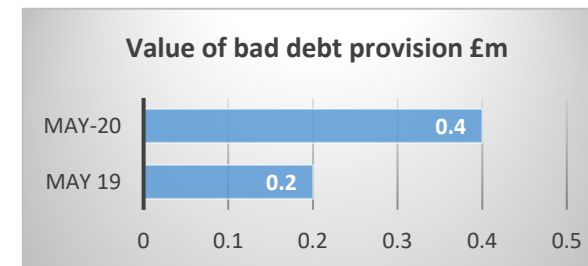
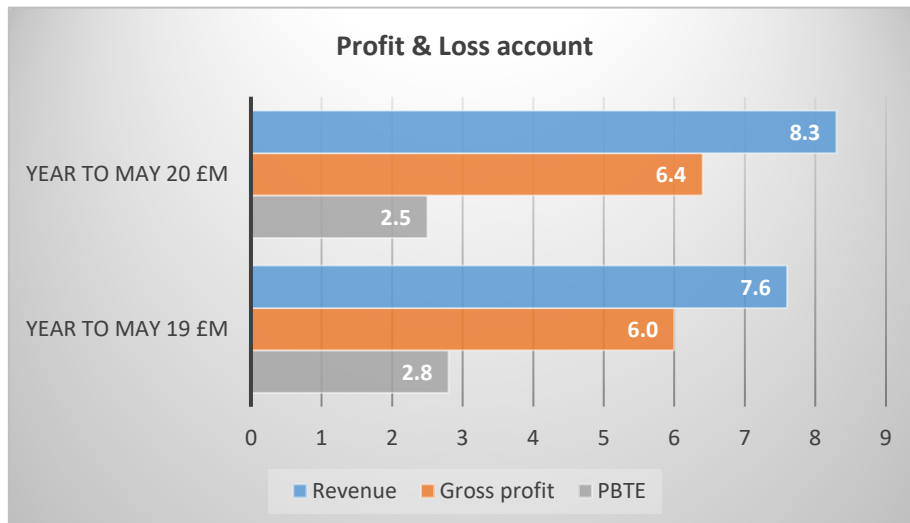


Carol Roberts

# Invoice Finance

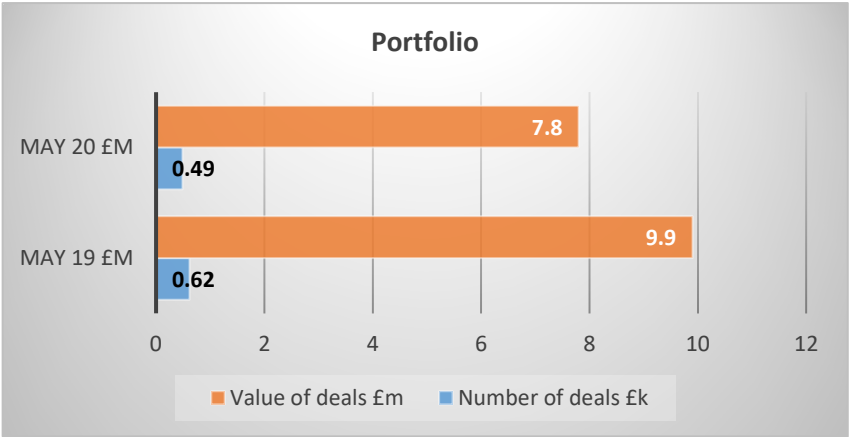
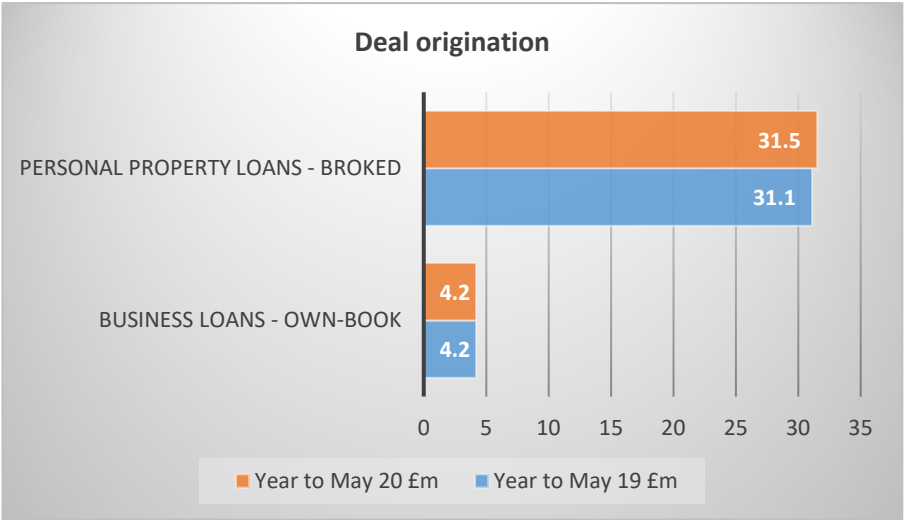


**Invoice Finance**  
– discounting  
and factoring

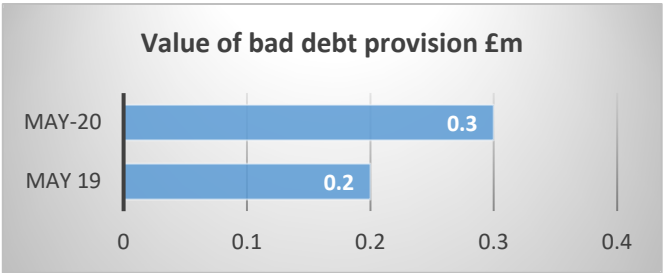
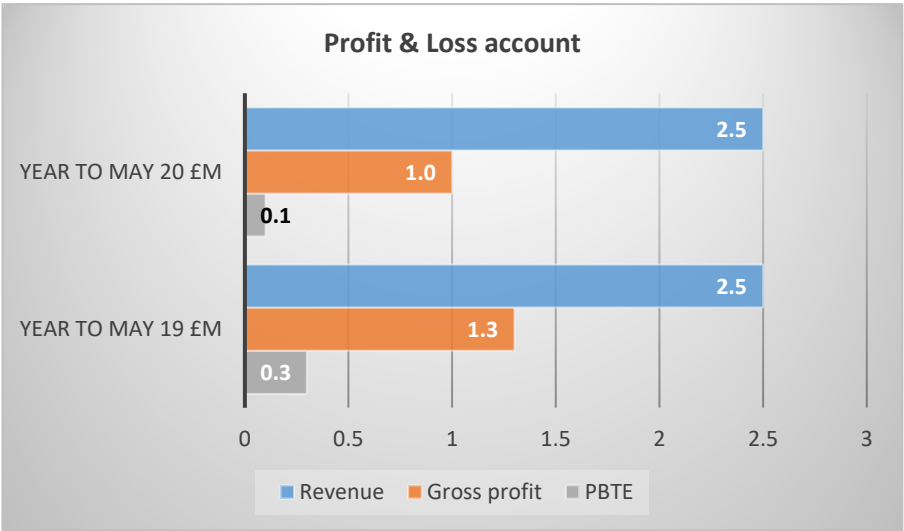


Phil Chesham

# Loans



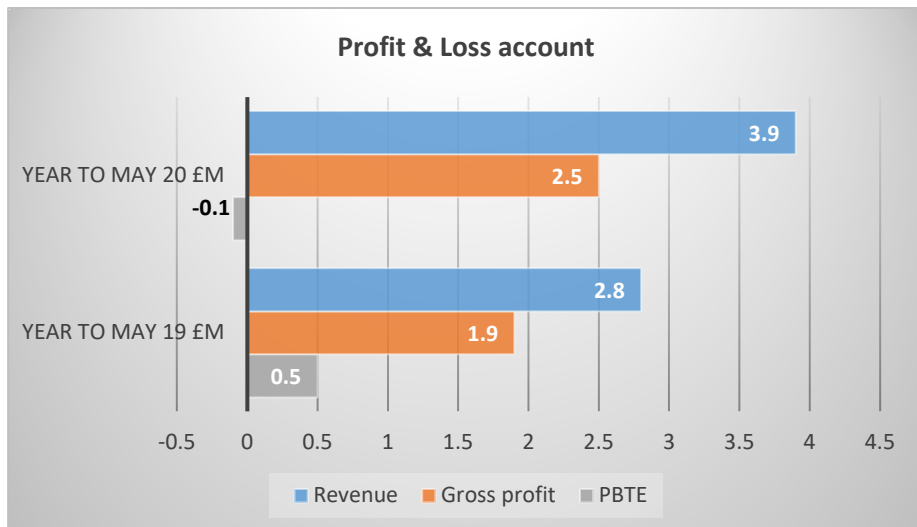
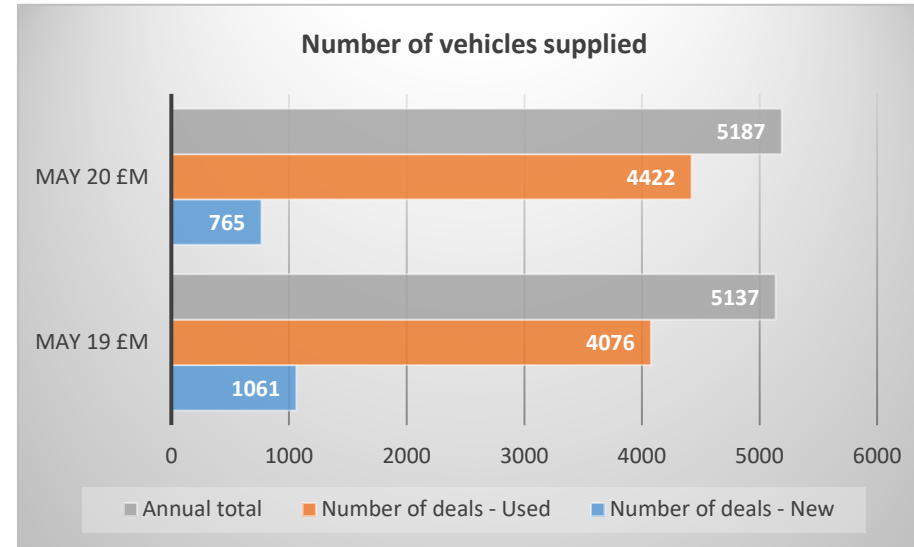
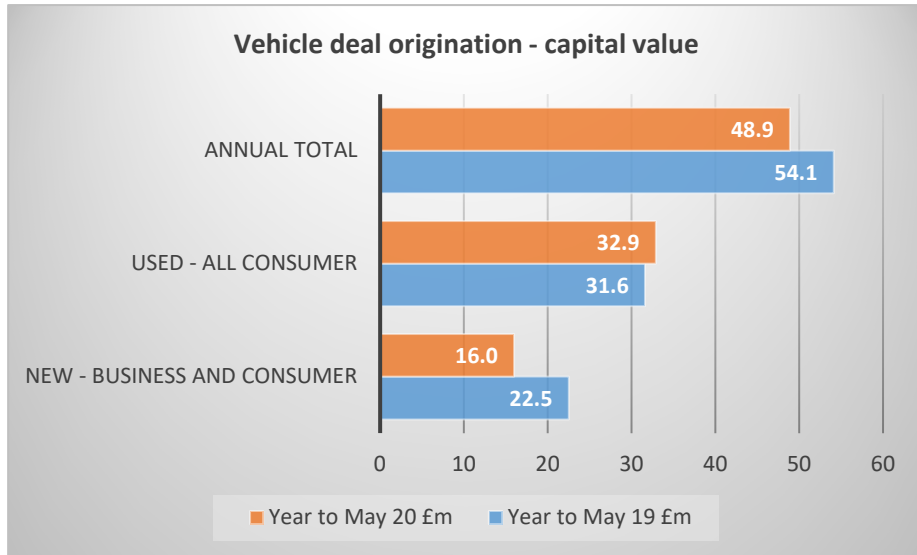
Own book  
business **Loans**,  
Broked-on  
property loans



Alun Winter



# Vehicle Finance



- All brokered deals – no balance sheet risk
- Average new car value £20.9k
- Average used car value £7.4k
- Average commission per vehicle £762



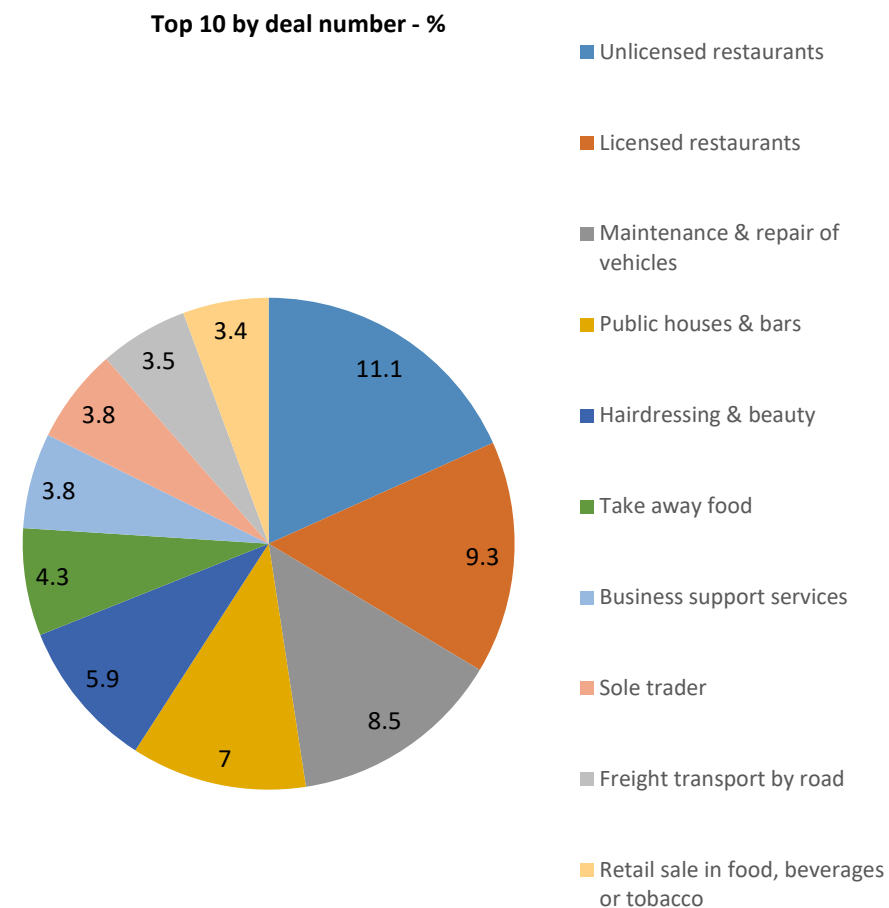
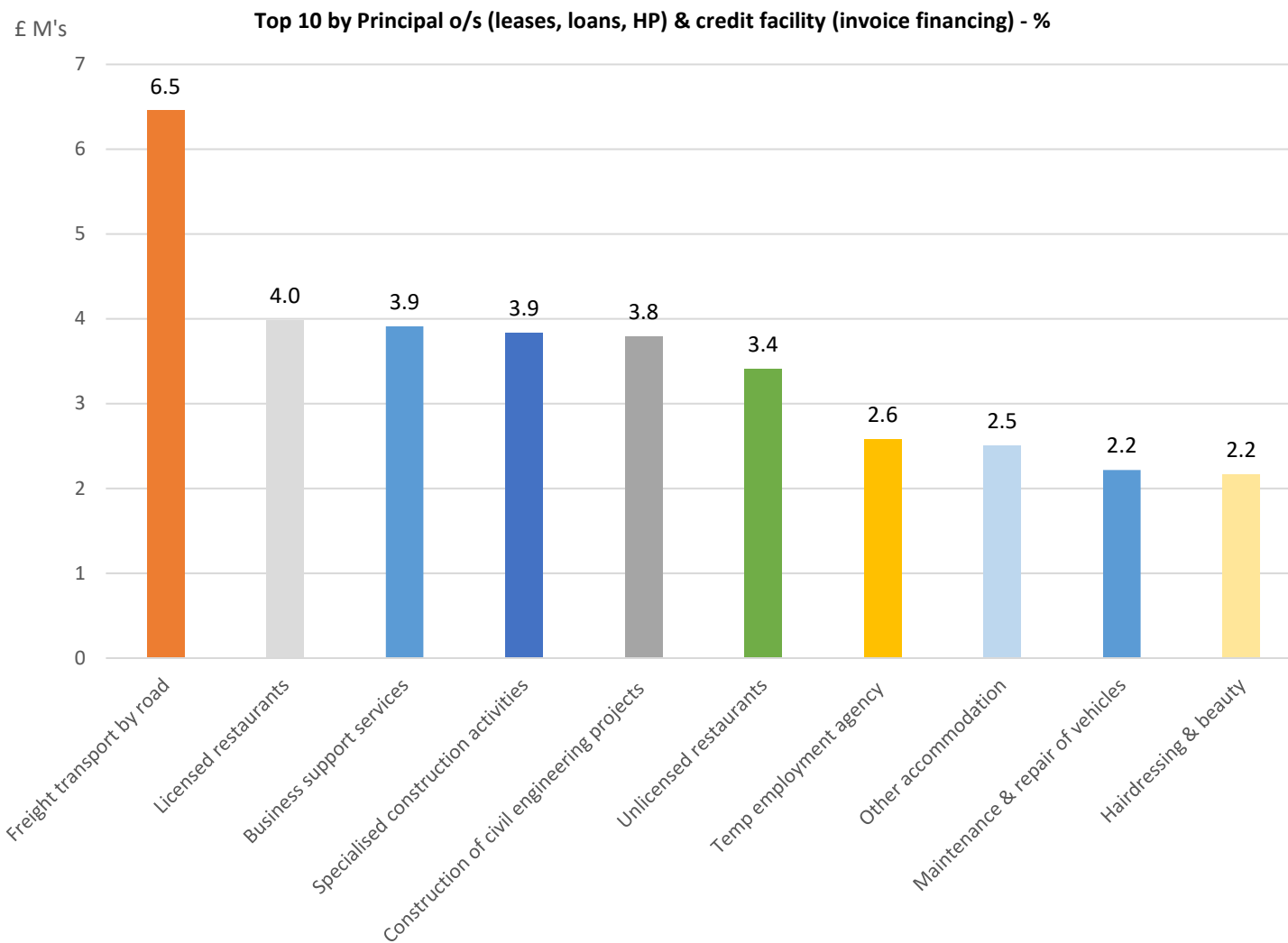
Brokered-on Business  
& Personal,  
new & used  
**Vehicle Finance**



Andy Gosling

# Diversified lending

Credit risk management – no major concentrations



## Year-end portfolio impacted by Covid in Q4, forbearance and early settlements

	31-May-19	31-May-20		Q4 FY20	Q1 FY21	Total
Gross value of receivables £m	141.7	<b>122.9</b>	Requested forbearance - no. of deals	1869	185	<b>2054</b>
Future interest income £m	17.6	<b>15.2</b>	Granted forbearance - no. of deals	1046	198	<b>1244</b>
Net portfolio £m	124.1	<b>107.7</b>	Percentage of requests granted			<b>61%</b>
			Percentage of total year-end portfolio			<b>9%</b>
Number of deals	15,064	<b>13,950</b>	Value of deals in forbearance £m	24.3	6.4	<b>30.7</b>
			Percentage of total year-end portfolio*			<b>29%</b>
Up-to-date gross value £m	127.3	<b>104.7</b>	<i>*consistent with other lenders in the sector</i>			
In arrears £m	14.4	<b>18.2</b>	<b>Cash impact in 6 months to 31 August 2020:</b>			
Percentage in arrears	10%	<b>15%</b>				
Bad debt provision £m	2.4	<b>5.1</b>	Value of cash inflow foregone in granted forbearance £m			<b>-1.1</b>
Percentage of gross portfolio	1.7%	<b>4.1%</b>	Value of cash inflow received in early settlements £m			<b>1.5</b>
Percentage of arrears	17%	<b>28%</b>	Net impact of forbearance and settlements in the period £m			<b>0.4</b>

Rate of recoveries on impaired receivables is 75%

# Funding partners

## Key funding partners:

**NatWest, British Business Bank, Aldermore, Siemens, Hitachi and Investec**

Key Funding Lines - £m	Facility	Usage at 31 May 2020	Headroom
Bank Overdraft	1.0	0.0	1.0
Block Funding lines (no non-utilisation fees)	102.8	47.0	55.8
Secured MTN & other HNW loans	27.0	7.3	19.7
Back-to-back facility	<u>42.0</u>	<u>11.8</u>	<u>30.2</u>
Total Funding Facilities	174.8	66.1	106.7

- Gearing at circa 3.4x Net Tangible Assets (as at 31 May 2020) well within most stringent covenant of 6x
- 4% average borrowing rate continues to be marginally reduced through reduction treasury 'bulk buying' and economies of scale
- Potential opportunities for longer term and/or cheaper funding continue to be explored
- Ample headroom for a return to organic growth

# CBILS accreditation

- CBILS provides financial support to SMEs losing revenue and cash flow disrupted as a result of Covid-19
- A lender can provide finance in the form of term loans, overdrafts, invoice finance or asset finance. 1pm's accreditation is for Loans and Asset Finance
- Lending still in accordance with our credit policy (i.e. assessment based on Pre-COVID credit-worthiness)
- Lending within our normal price range and fully amortised over 2 to 5 years
- Deals already written and pipeline of enquiries will enable our assigned capacity of £7m to be reached

## Key Features:

### Finance of up to £5 million

The maximum value of a facility provided under the scheme is £5 million, available on repayment terms of up to six years.

### Guarantee to the lender to encourage them to lend

The scheme provides the lender with a government-backed, 80% guarantee against the outstanding balance of the finance.

The borrower remains 100% liable for the debt.

### Government pays interest and fees for 12 months

The Government will make a Business Interruption Payment to cover the first 12 months of interest payments and any lender-levied charges.

# Balance Sheet (£m) and key KPIs

	31/5/20	31/5/19
<b>Assets</b>		
Non-Current Assets	77	82
Current Assets	62	76
<b>Total Assets</b>	<b>139</b>	158
<b>Equity</b>		
Retained Earnings	21	20
Share capital & premium	34	34
<b>Total Equity</b>	<b>55</b>	54
<b>Liabilities</b>		
Non-Current Liabilities	29	31
Current Liabilities	55	73
<b>Total Liabilities</b>	<b>84</b>	104
<b>Total Equity and Liabilities</b>	<b>139</b>	158

KPIs skewed by Covid-19 and by the “one-off” bad debt provision increase in Q4.

- Net Interest Margin
- Gross margin
- Cost to income ratio
- Earnings per share
  - Basic
  - Fully diluted
- Interim Dividend (per share)

FY 20	FY 19
12%	12%
<b>54%</b>	68%
<b>0.85</b>	0.75
<b>1.76p</b>	7.30p
<b>1.74p</b>	6.61p
<b>n/a</b>	0.28p

Cash at 31 May 2020: £1.3m and at 31 Aug 2020: £2.3m.



# Strategies

– unchanged despite COVID-19

1. Build scale through both organic growth and carefully selected acquisitions when conditions allow
2. Reduce cost of borrowing through optimising size, term, cost and mix of funding lines
3. Increase own-book lending while maintaining broker panel relationships
4. Re-brand and invest in brand promotion, marketing and Business Intelligence
5. Introduce selected new products
6. Innovate, using financial technology and investment in systems to create a digital offering
7. Invest in key hires, training and succession
8. Deliver operational leverage from cross-selling and group synergies

# Summary and outlook

- 1pm has a strong balance sheet; policies and characteristics that lead to a robust trading model; a strategically sound market position; and a pre-COVID track record of delivering expected financial results
- The Group has responded effectively to the business impact of COVID-19
- We are making good progress in returning to pre-COVID levels of business and originating profitable incremental business through CBILS
- We continue to generate cash and profits and have exceeded our internal budget for Q1 FY21.
- Staying 'open for new business' has put us in a good position in relation to competitors and allowed us to focus on organic growth
- Prudent additional provisions have been recorded for future impairments
- Market guidance for the current financial year and dividend considerations will be reassessed after the interim results are known.

# 1pm plc – top 10 shareholders

		31 May 2020 88,985,316
<b>Fund Manager</b>	<b>%</b>	
	<b>Holdings</b>	
Cloverleaf 374 Limited	20.00%	17,796,173
Gpim Limited	18.09%	16,093,461
Russell R Esq	12.34%	10,977,967
Hargreaves Lansdown	8.72%	7,759,887
Interactive Investor Trading Limited	4.11%	3,653,844
Individuals & Private Clients	3.81%	3,390,422
Lombard Odier Asset Management (Europe) Limited	3.43%	3,052,895
Halifax Share Dealing Limited	3.16%	2,813,679
Sparkasse Bank Malta	2.99%	2,662,164
Barclays Stockbrokers Limited	2.12%	1,886,244
<b>Total</b>	<b>78.76%</b>	<b>70,086,736</b>

# Appendices

# Competition

Fragmented sector - few companies at scale in small-ticket lending

## Banks

HSBs lend to SMEs, but no longer structured to support smaller SME businesses

## Challenger Banks

Also lessors, but do not operate in the smaller end of the market. Lend to 1pm wholesale.

## Alternative finance platforms

Growing sector, but rate of growth slowing

## Quoted companies

Tend to be single product focused, banks, or lending to consumers

## Private companies

Quantum Finance and regional players such as Armada, Kingsway, Tower, Propel



Banks

Challenger Banks

Alternative finance platforms

Quoted companies

Private companies

Flexibility



X

X



Speed of service



X



Personal approach



X

X

X



Range of products



X

X

X

# The 1pm plc Group of companies

