

02 July 2019

Funding Circle Holdings plc

Update to H1 & FY 2019 Outlook

Funding Circle Holdings plc (“Funding Circle” or the “Company”), the leading small and medium enterprise (“SME”) loans platform in the UK, US, Germany and the Netherlands, is today providing an update to its Outlook for 2019, as well as H1 2019 financial results and updates to its statistics pages for the three months ending 30 June 2019 (the “Quarter”).

H1 2019 financial results

In advance of interim results to be published on 8 August, headline half year performance compared to H1 2018 was:

- Revenue growth of c.30%
- Segment adjusted EBITDA breakeven with the UK improving
- Adjusted EBITDA loss margin to be c.25%
- Loans under management of £3.5 billion, up 37%
- New loan originations of £1.2 billion, up 14%

Full Year 2019 Outlook

- Current loan performance remains in line with previous projections. Across all geographies, investor returns on a net basis are expected to deliver 4.4-8.4% in 2018 and 5.0-8.5% in 2019.
- The increasing uncertain economic outlook has reduced demand for loans and the Company has proactively further tightened lending to higher risk band businesses. This affects overall origination volumes, but protects net returns for investors on the platform.
- As a result, Funding Circle expects 2019 revenue growth to be c. 20%, versus previous guidance of 40%.
- The Company expects adjusted EBITDA loss margin for 2019 to be better than 2018¹.

Samir Desai CBE, CEO and co-founder, said:

“The uncertain economic environment has reduced demand from small businesses and led us to proactively tighten lending criteria. As a result, revenue growth will be impacted. We recognise that this is a change from our previous guidance, but we are taking the prudent course of action for the long-term growth and development of our business. We remain confident in our aim to become the world’s largest small business loans provider, helping millions of businesses to create jobs and support economic growth.”

Operational overview

- Funding Circle is the leading small business loans provider in the UK and in Q1 completed more net lending to UK SMEs (£177 million) than the entire UK banking system combined (£61 million).
- In the US, in H1 Funding Circle passed \$1 billion of loans under management and \$2 billion of total originations. Funding Circle’s loans under management is one of the 50 largest SME loan portfolios in the US.
- In Q2, the Company published its third Economic Impact Report which estimated that in 2018 businesses that borrowed through Funding Circle unlocked 115,000 jobs and contributed £6.5 billion to GDP across the UK, US, Germany and the Netherlands.

¹ The 2018 financial results have been restated for the impact of IFRS 16 “Leases”. The impact for full year 2018 was to improve Segment adjusted EBITDA and Adjusted EBITDA loss by £5.1 million to £12.1 million and (£23.4 million), respectively. The impact on H1 2018 was to improve Segment adjusted EBITDA and Adjusted EBITDA loss by £2.4 million to £3.3 million and (£13.9 million), respectively. Accordingly, full year 2018 adjusted EBITDA margin has been restated to 16.5%.

- Funding Circle successfully launched four new investor products in H1 2019 - private direct lending funds in continental Europe and the UK, and ABS bond products in the US and UK.
- Merseyside Pension Fund agreed to invest £30m in the new UK direct lending fund and two Finnish insurance companies have committed an initial €40 million in the European direct lending fund.
- Additionally, €150m was committed in H1 by Avida, a Nordic financial institution, and the European Investment Bank, to lend to small businesses in Germany and the Netherlands.
- Funding Circle continues to invest in data, tech and analytics with more than 150 engineers working on global platform and automation target of 50% by end of 2020.
- Funding Circle's current markets cover c.35% of global GDP. Given the uncertain economic environment, the Company has paused the launch of operations in Canada in 2019 to focus on operations in its existing markets.

Group performance

		Q2 2019	Q2 2018	%	H1 2019	H1 2018	%
Loans under management	£m	3,540	2,584	37%	N/A	N/A	N/A
Originations	£m	548	518	6%	1,192	1,043	14%

Our statistics – H1 2019

Loans under management (million)

	2012	2013	2014	2015	2016	2017	2018	2019 H1
Group (£)	52	145	366	860	1,362	2,107	3,148	3,540
UK (£)	52	144	332	653	1,027	1,584	2,208	2,448
US (\$)	N/A		54	261	354	577	939	1,081
DE (€)	N/A			27	30	65	131	156
NL (€)	N/A				16	40	95	115

Originations (million)

	2012	2013	2014	2015	2016	2017	2018	2019 H1
Group (£)	49	130	311	721	1,065	1,738	2,292	1,192
UK (£)	49	129	279	531	823	1,264	1,531	798
US (\$)	N/A		334		281	514	792	404
DE (€)	N/A		33		19	55	105	53
NL (€)	N/A			21		34	81	41

Gross Yield

	2012	2013	2014	2015	2016	2017	2018	2019 H1
UK	9.2%	8.4%	9.9%	9.6%	9.5%	9.6%	9.7%	9.9%
US	N/A		14.5%		13.2%	12.3%	12.8%	12.9%

DE	N/A	6.7%	9.5%	9.5%	10.2%	10.6%
NL	N/A	8.6%	10.7%	11.6%	11.9%	

Projected annualised return range (after fees and bad debt)¹

	2012	2013	2014	2015	2016	2017	2018	2019 H1
UK	7.1-7.2%	6.0-6.2%	7.0-7.3%	6.4-7.0%	5.0-5.6%	4.0-5.0%	4.4%-5.4%	5.0-7.0%
US	N/A		2.6-2.8%		4.1-4.9%	5.4-6.3%	5.0-6.3%	5.7-7.8%
DE	N/A		0.1-1.0%		2.3-4.1%	5.0-6.9%	5.3-7.3%	5.5-7.5%
NL	N/A			3.5-4.4%		5.6-7.5%	6.4-8.4%	6.5-8.5%

Projected bad debt rate range²

	2012	2013	2014	2015	2016	2017	2018	2019 H1
UK	1.3-1.3%	1.5-1.6%	1.8-2.1%	1.8-2.3%	3.0-3.6%	3.7-4.6%	3.4-4.4%	2.1-4.0%
US	N/A		10.7-10.9%		7.5-8.3%	5.4-6.3%	6.1-7.3%	4.8-6.8%
DE	N/A		4.7-5.6%		4.4-6.2%	1.5-3.4%	1.7-3.7%	1.8-3.8%
NL	N/A			3.2-4.1%		2.2-4.2%	2.2-4.2%	2.2-4.2%

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About Funding Circle:

Funding Circle (LSE: FCH) is a global SME loans platform, connecting SMEs who want to borrow with investors who want to lend in the UK, US, Germany and the Netherlands. Since launching in 2010, investors across Funding Circle's geographies - including retail investors, banks, asset management companies, insurance companies, government-backed entities and funds.

Forward looking statements and other important information

This document contains forward looking statements, which are statements that are not historical facts and that reflect Funding Circle's beliefs and expectations with respect to future events and financial and operational performance. These forward looking statements involve known and unknown risks, uncertainties, assumptions, estimates and other factors, which may be beyond the control of Funding Circle and which may cause actual results or performance to differ materially from those expressed or implied from such forward-looking statements. Nothing contained within this document is or should be relied upon as a warranty, promise or representation, express or implied, as to the future performance of Funding Circle or its business. Any historical information contained in this statistical information is not indicative of future performance.

The information contained in this document is provided as of the dates shown. Nothing in this document should be construed as legal, tax, investment, financial, or accounting advice, or solicitation for or an offer to invest in Funding Circle.

Definitions and notes to the editor:

1. The projected annual return shows how loans are estimated to perform. Loans are shown by the year they were taken out, and are after fees and bad debt. Returns equal gross yield minus net losses minus servicing fee and is estimated, using an internally managed model, by cohort of origination incorporating actual returns received for each cohort and adding future expected returns which are determined using the same aforementioned model. Net yield is compounded to recognise re-investment. These expectations may be revised, for example if macroeconomic conditions change, and the projected return, projected gross yield and the projected bad debt rate may be adjusted to reflect this.
2. The projected bad debt rate shows the projected annualised percentage of loans, by loan amount, that will not be repaid. Loans are shown by the year they were taken out and include recoveries. It can take up to five years for loans to be fully repaid, so the projected return, projected gross yield and projected bad debt rate take into account how each year of loans are performing and how Funding Circle expects them to perform in future. These expectations may be revised, for example if macroeconomic conditions change, and the projected return, projected gross yield and the projected bad debt rate may be adjusted to reflect this.