LendInvest plc

Profitable fintech disrupter in property finance

11 October 2021

Many fintech challengers boast eye-watering growth as they disrupt financial services sectors. But they often fail to back that up with profits, or even a credible path to profitability. LendInvest is different. It is a rare combination of a significant fintech with rapid growth AND profitability, furthermore its July 2021 IPO looks to have coincided with an acceleration in both.

A self-built technology platform underpins **a superior offering to borrowers** (mostly SME landlords and property developers), **and capital providers** (including some of the world's largest financial institutions seeking access to the attractive UK property finance asset class), which has in turn **fuelled rapid top-line growth**. It has also been a key driver of **operating leverage**, which is now kicking in, and consequently profits.

Assets under Management (or gross loan book) reached £1.8bn on 30 Sep 21 (H1 22), a CAGR of 47% since FY17 when AuM was £325m. Adjusted **EBITDA* jumped from £4.1m to £12.1m** over the most recent FY (to 31 Mar 21). Profit after tax, which was depressed by a £2.2m non-cash amortisation charge on in-house technology developments, turned positive in FY21 reaching £4.9m.

LendInvest operates in a **huge market** – the total outstanding balance of UK residential mortgages is £1.5trillion. But its market share of target sub-sectors remains tiny. Couple this with competitors that are either **large incumbent banks or building societies operating outdated processes** (many still use in-person KYC checks, paper-based document transfers with wet signatures, and highly manual underwriting processes), or **other fintechs that are nowhere near the scale of LendInvest**, and its growth potential becomes obvious.

This potential is far from theoretical. it has a clear path mapped out to treble its AuM by FY24 (and to increase EBITDA by 3-5x), including:

- Continuing to grow its existing product range (bridging loans, development loans, and professional buy-to-let mortgages); and
- Launching new products over the short-medium-term (specialist homeowner mortgages e.g., for the self-employed and contract workers in 2022, consumer-buy-to-let in 2023, and long-term-fixed-rate mortgages in 2025).

Valuation

Our fundamental valuation is 310p per share, with upside potential if key value drivers (such as AUM growth and lowering the 'own-capital' requirements of growth) are better than expected.

Key Financials

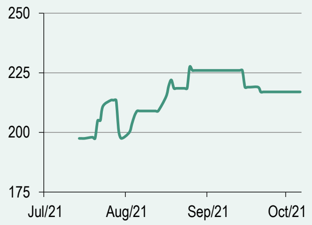
Year-end 31 Mar	FY19A	FY20A	FY21A	FY 22E**	FY 23E
AUM, £bn	0.79	1.26	1.57	2.12	3.14
Rev, £m	46.8	65.5	79.1	98.1	128.5
Adj admin expenses (opex)	18.5	21.9	20.5	25.4	32.2
Adj EBITDA*	4.3	4.1	12.1	20.0	28.2
Operating margin*	9.2%	6.3%	15.2%	20.4%	22.0%
PBT, £m	0.5	-3.2	6.2	12.3	22.1
EPS basic, p	0.6	-2.0	4.3	7.3	12.8
PER	375.9	-109.4	50.2	29.4	16.7
Price/book	142.7	290.4	61.0	30.0	25.1
Net assets, £m	20.6	10.1	48.2	98.0	117.3

Source: Company Historic Data, ED estimates. PER and Price/book based on share price of: ***214p***
** Profit or loss before finance income, finance expense, income tax, depr, amortisation, & exceptional items*
*** FY 22 estimates include IPO which raised ~£40m gross less ~£4m IPO costs*

Company Data

EPIC	LINV
Price (last close)	214p
Hi/Lo (since July IPO)	227p/190p
Market cap	£295m
ED Fair Value/share	310p
Net assets	£48m
Avg. daily volume	13k

Share Price since IPO, p



Source: ADVFN

Description

LendInvest was established in 2012 to capitalise on the opportunity to modernise UK property finance. It mostly sources capital from large institutional investors (and some HNW private investors) and deploys this to provide loans for landlords and developers, including:

- Bridging loans,
- Development loans, and
- Buy-to-let mortgages.

Assets under management on 30 September 2021 stood at £1.8bn.

Next event: HY results 9 Dec 2021

CEO Interview

Click here to see Rod Lockhart explain the Group and its ambitions.

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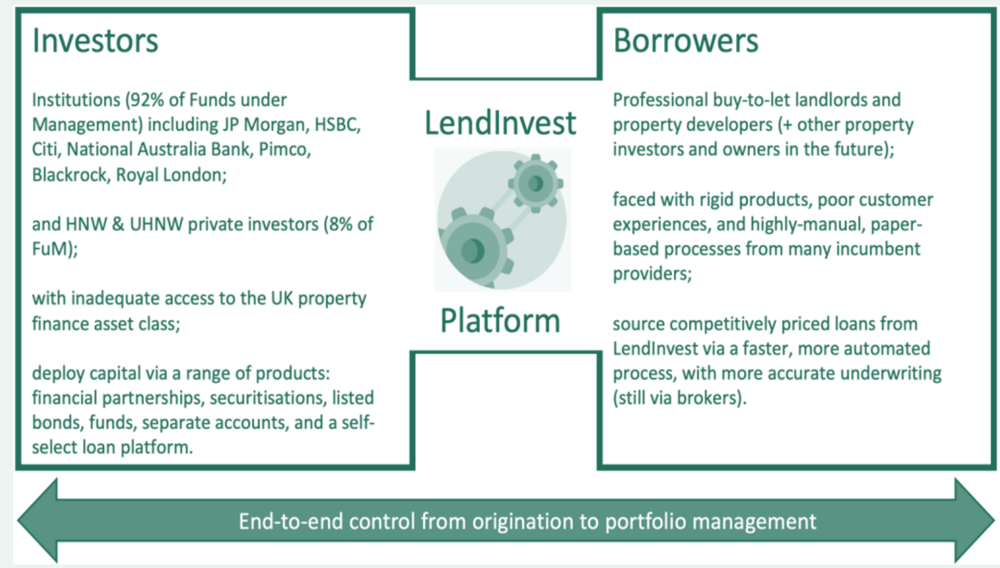
LendInvest: in a nutshell

Founded in 2012 as an ‘asset management platform’, LendInvest listed on AIM in 2021, is based in London and employs around 200 people.

It provides capital markets with efficient access to invest at scale in the UK property finance asset class (which has attractive risk-adjusted returns but, perhaps surprisingly, is not that easy to access for some institutions). Using this capital, **it provides borrowers (developers and landlords) with efficient access to loans through a LendInvest platform** which is largely automated, in stark contrast to the (often archaic) incumbent property loan sector.

The LendInvest model – linking investors and borrowers



Source: Company

Most lending capital (92%) is provided by financial institutions including JP Morgan, HSBC, Citi, National Australia Bank, PIMCO, Blackrock, Barclays, and Royal London. These either have no mortgage offering in the UK (e.g., JPM, NAB), or might have UK mortgage lending arms (e.g., HSBC and Barclays) but limited access to certain types of mortgages (such as bridging or development loans) because they do not compete in those market segments. Around 8% of lending capital is provided by HNW private investors.

Depending on the nature of the funding line, LendInvest sometimes co-invests alongside institutional investors, usually with a 5% share of the capital. This would be typical when seeding new products.

To date, this capital has been deployed in two broad property-lending market segments:

- **Short-term loans (43% of AuM),** which comprise **bridging loans** (LendInvest’s founding product), typically of one year or less duration, where the borrower (usually an SME property company) needs to move quickly to acquire a property before refinance or sale; and **development loans**, which are usually around 2 years in duration and finance SME builders to develop residential properties.
- **Professional buy-to-let mortgages (57% of AuM),** a market which LendInvest entered in 2017, where loans can be up to 30 years and finance the property purchases of professional or corporate landlords. This has been a high-growth product for LendInvest (AuM CAGR of 186% between Q1 FY19 and Q4 FY21) and is expected to continue to grow strongly.

Three new product launches are planned over the short-to-medium-term:

- Specialist homeowner mortgages (2022 launch), largely for self-employed and contract workers whose income is complex, harder to verify or has been interrupted by the pandemic (a high margin product);

- Consumer buy-to let mortgages (2023 launch); and
- Long-term fixed-rate mortgages (2025 launch).

Ethically sound

LendInvest considers its **ESG values and principles central to its success**. This also helps to attract capital and borrowers.

Core to this is the role that LendInvest plays in the economy and society. With every loan it originates, new housing stock is made available, which helps to alleviate the housing crisis in the UK. And through its financing, older housing stock is improved to comply with higher energy efficiency standards and reduce the carbon impact of housing.

Some of its more specific ESG achievements to date include:

- **Environmental**
    - Financing the 'upcycling' of over £1 billion of property through conversion or refurbishment, significantly lower environmental impact.
    - Launching development loans that incentivise borrowers to build energy-efficient properties or improve the existing energy efficiency rating (EPC rating).
    - Providing borrowers with an end-to-end paperless application process, significantly reducing unnecessary paper waste.
- **Social**
    - Through a partnership with Homes England, it is helping to deliver affordably priced housing at scale.
    - Since launching buy-to-Let in 2017, it has financed more than more than £445m of homes with affordable rents.
    - It has contributed to social regeneration through the refurbishment of properties and contribution towards Section 106 agreements (where developers commit to town planning principles with councils in return for receiving planning permission).
- **Governance**
    - High standards of governance are committed to and seen as an essential component of the businesses' commitment to borrowers, Intermediaries, investors, financial partners and employees and the long-term sustainable growth of the business.

Management aligned with other shareholders

Both founders still hold full-time executive leadership positions. Christian Faes is the Executive Chair. Ian Thomas is the Chief Investment Officer. Each has a 29% shareholding.

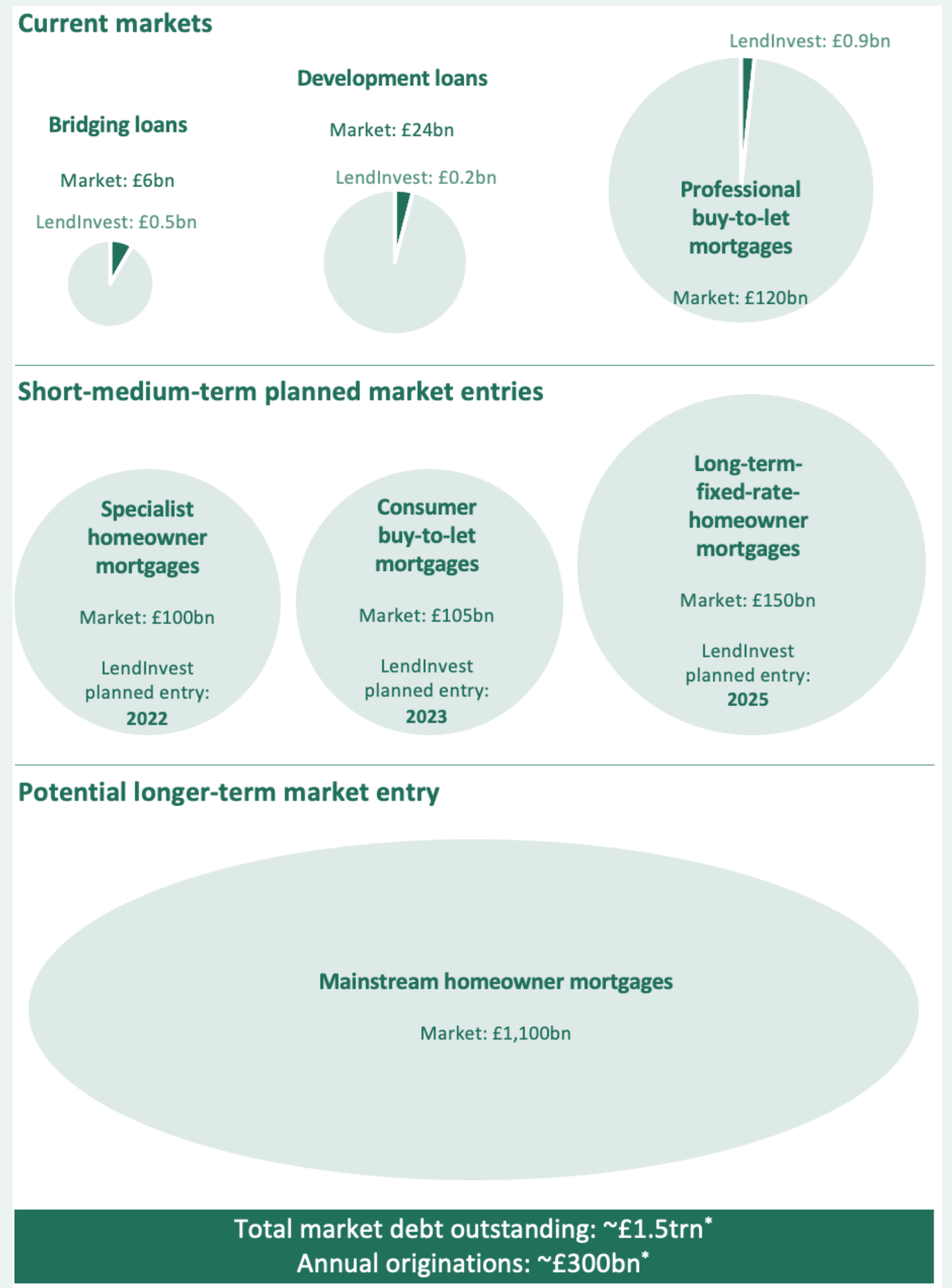
The highly experienced **Rod Lockhart** took over from Christian Faes as CEO in January 2020. His previous roles include being Head of LendInvest's Capital Markets and Fund Management division, and as a Senior Director in the Corporate Finance division of CBRE, a Fortune 500 corporation and the world's largest commercial real estate services and investment company.

Huge opportunity in UK property finance

LendInvest's future growth is primarily dependent on it being able to continue to capture market share from incumbents in the UK property finance market. While its growth to date has been very impressive, it has **only scratched the surface of the total opportunity**, with its current £1.8bn AuM (30 Sep 21) being a tiny fraction of the market's total outstanding debt of around £1.5trn. In fact, it's highest sub-sector market share, in bridging finance (LendInvest's oldest product) is only around 8%.

LendInvest has expressed a medium-term ambition to increase its AuM by 3x from FY21 levels by FY24, which would mean an increase from £1.6bn to c. £4.8bn over that period.

LendInvest's opportunity is huge

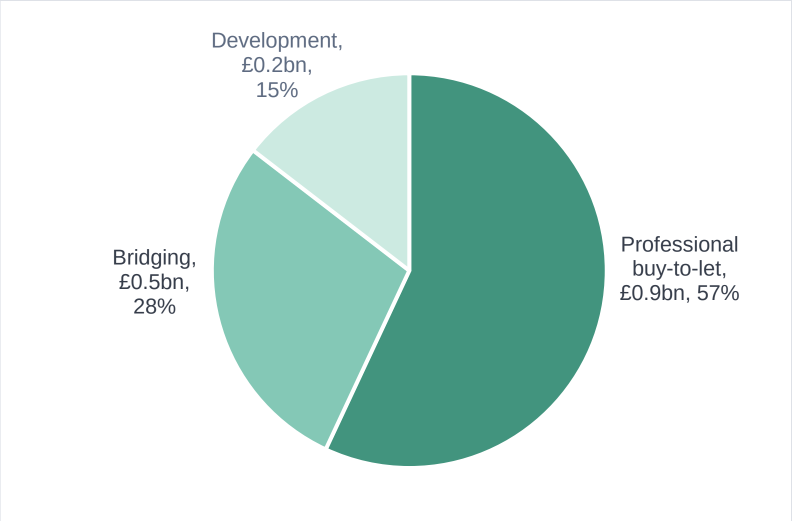


Source: LendInvest
*Sub-sector market sizing based on LendInvest privately commissioned market report; *Bank of England, 2020*
LendInvest figures represent AuM as of 31 Mar 21

Current v future product mix

When LendInvest was founded in 2012, it only offered bridging loans. Development loans were introduced in 2015, and professional buy-to-let mortgages in 2017. It's entry into the buy-to-let market was highly successful and it has become LendInvest's largest lending product by loan book value.

Split of AuM at 31 Mar 2021



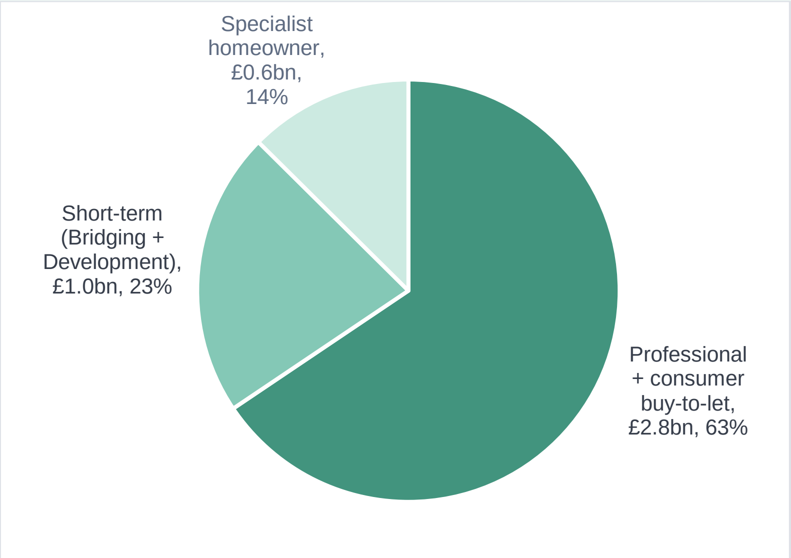
Source: Company

Most of its growth during the next 3-4 years is expected to come from the buy-to-let sector. Professional buy-to-let finance is expected to continue to grow strongly, with an entry into the consumer-buy-to let sector planned for 2023.

Specialist homeowner mortgages are planned for 2022 and are expected to follow a faster growth trajectory than was achieved with the buy-to-let market entry because much of the internal infrastructure has already been developed, and because broker relationships overlap with existing products.

If LendInvest achieves its medium-term ambitions, we envisage an AUM split by FY24 as shown in the chart below, with more detailed product descriptions and outlooks described overleaf.

AuM ambitions for FY24



Source: LendInvest May 2021 analyst presentation, ED estimates

Bridging finance

Bridging finance was the product on which LendInvest was launched. Founders Christian Faes and Ian Thomas saw an opportunity to fill a gap in the market during the financial crisis of 2008 and founded a property finance business called Montello. This ultimately led to the incorporation of LendInvest in 2012.

LendInvest currently participates in the **unregulated bridging loan market** (estimated by the company to comprise over 80% of the bridging loan market), which are loans secured on a commercial or residential property being used as an investment (i.e., not for occupation by the borrower). They are taken out by borrowers who must move quickly to acquire a property before either on-selling or refinancing for a longer-term holding. Loan terms are usually one year or less.

Borrowers are typically SME property companies. They purchase multiple properties each year which leads to a high customer repeat rate for LendInvest. Bridging lending is mostly intermediated (within LendInvest, for Bridging and Development lending combined, 81% of completions by number were intermediated in FY21 and 66% by value). Borrowers tend to turn to brokers for advice especially when the loan request and the lender's requirements for information are more complex, as is typically the case with Bridging finance. Direct clients tend to be SMEs that have larger funding requirements and who choose to deal directly with lenders.

Regulated bridging loans are secured against a residential property that is, or will be, occupied by the borrower – typically needed in the case of a 'chain break'. LendInvest intends to launch a regulated bridging loan product in 2022.

The bridging loan market is largely underserved by larger banks and building societies with specialist lenders dominating the market. LendInvest's main competitors are Together and West One. Speed is essential in this market (making efficient technology-driven processes essential), as is the ability to provide flexible solutions to borrowers because every deal is unique. It is less price sensitive than most other property finance segments because of this need for speed and flexibility, is characterised by low loan-to-value ratios (averaging around 65%) and commands high risk-adjusted returns.

LendInvest has expressed a belief that it can grow its share of this £6bn market from 8% to 20% over the long term.

Development finance

LendInvest entered the development finance market in 2015. These are loans secured against property and used to finance construction. LendInvest currently offers finance for ground-up residential developments, commercial to residential conversions, and large renovations.

Lenders typically seek to ensure that developers have the appropriate plans and contracts in place to complete the development. They usually require an initial equity investment from the developer which is invested before any debt is drawn. Additionally, lenders typically agree to lend a specific amount, but funds are released in phases, as the developer makes progress on the project and needs the capital to pay for construction costs.

Development loans are classified by LendInvest as short-term loans, usually with durations of 24 months or a little longer. The market is less intermediated than Bridging finance. Over the last two years, around 68% of development loans were placed directly between LendInvest and borrowers.

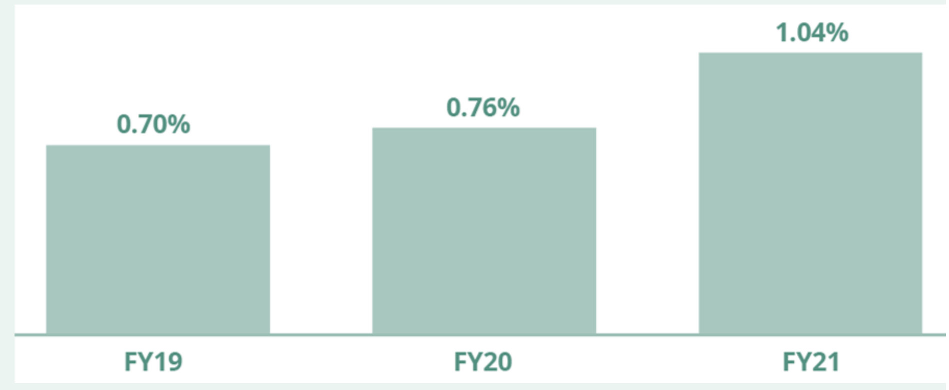
High street banks have very little presence in this market. LendInvest's main competitors are Close Brothers, Paragon, and United Trust Bank.

It is a complementary product to Bridging finance. LendInvest says more than 12% of its short-term lending (Bridging + Development finance) results from 'transitions' from Bridging to Development or vice versa.

The Development finance market is approximately a £24 billion market with LendInvest having a market share of under 1%. **Given the long-term structural under-supply of residential properties in the UK, we expect the overall market to grow, and we expect LendInvest to gain market share within it.**

Impairment provisions (across Bridging and Development finance) are relatively low, although they did increase somewhat with the economic impact of the pandemic. However, this is expected to revert to FY19-FY20 levels.

Short-term loans: Impairment provision (% of short-term AuM)



Source: Company

In fact, since 2008, cumulative originations across short-term lending have exceeded £2.8bn, but realised losses have been only £15.1m, representing just over **0.5% of originations**.

Professional buy-to-let mortgages

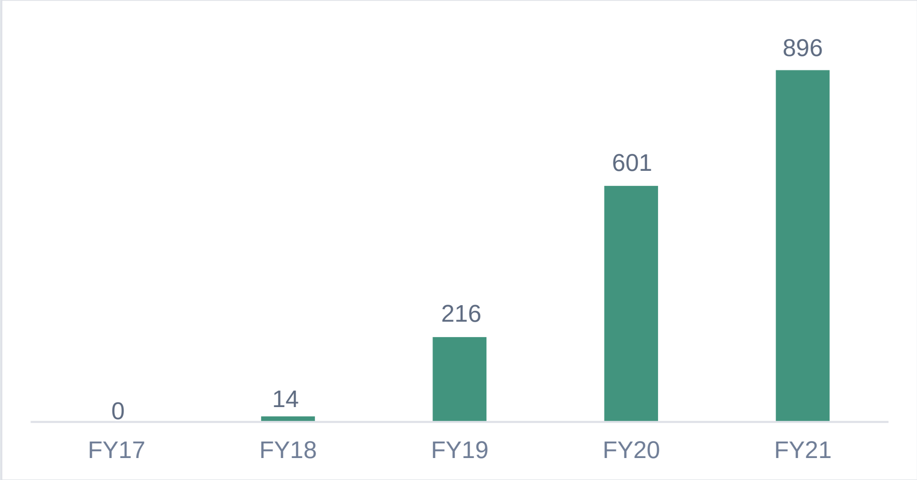
Buy-to-let mortgages are long-term mortgages, with durations of up to 30 years, secured against property designed to help borrowers purchase or refinance a house when they have the intention of letting it, rather than living in it. Growth in the overall buy-to-let market has been supported by the recent increase of UK households living in privately rented accommodation, rather than owner-occupied households, and overall growth in UK housing stock.

The market is split into professional buy-to-let mortgages and consumer buy-to-let mortgages (see next section).

Professional buy-to-let mortgages are **provided to portfolio landlords and professional landlords and are not regulated by the FCA** as they do not meet the criteria for a regulated credit agreement, regulated mortgage contract or consumer buy-to-let mortgage.

LendInvest entered this market in 2017, and after a period of proving its credentials in this adjacent market to its bridging and development loan products, it grew rapidly, and buy-to-let became LendInvest's largest product by loan volume during FY21.

Professional buy-to-let mortgages: LendInvest AuM at FY-end, £m



Source: Company reports

The relative growth of the professional buy-to-let market, compared to the consumer buy-to-let market, has been further accelerated by tax and regulatory reforms, including:

- the 3% second-home stamp duty surcharge introduced in April 2016; and
- restricting the tax relief received on individual landlords' mortgage costs to only the basic rate of income tax (effective April 2017), which can be mitigated by placing properties in a company structure, leading to an increase in corporate borrowers.

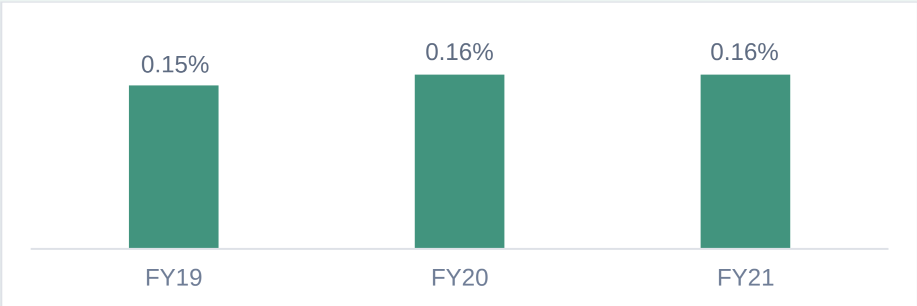
It has become more difficult and less profitable for non-professional and non-portfolio landlords to operate as individuals, hence a shift towards professional portfolio landlords using corporate structures.

Specialist lenders are prominent in the professional buy-to-let market. **Professional borrowers tend to have more complex requirements than consumer landlords**, for example, complex ownership structures and larger property portfolios (which are unsuited to the standardised, automated processes typically employed by high street banks in the consumer buy-to-let market). LendInvest tends to compete with One Savings Bank, Paragon, and Foundation in this market.

The underwriting process is complex, often requiring the processing of thousands of data points per transaction, making it **highly suitable to technology leaders such as LendInvest**. LendInvest's growth is expected to continue as its technology and distribution capabilities being well established in the market. It's buy-to-let products are 100% intermediated.

Loan defaults in buy-to-let are extremely low. In fact, LendInvest has had less than £50k of realised losses since launching the product in 2017. It does however maintain a balance sheet provision for loan impairments although this is at a lower level than for short term loans.

Buy-to-let loans: Impairment provision (% of BTL AuM)



Source: Company

This is a large market of around £120bn, and LendInvest is gaining share rapidly. It has built a market share of around 0.75% to date and believes it can grow this to 2-3% over the medium term.

Consumer buy-to-let

Consumer buy-to-let mortgages are also long-term mortgages secured against property designed to help borrowers purchase a house with the intention of letting it, rather than living in it. They are defined by the Mortgage Credit Directive Order 2015 as: "a buy-to-let mortgage contract which is not entered into by the borrower wholly or predominantly for the purposes of business carried on, or intended to be carried on, by the borrower."

Large banks play bigger role in this market and tend to focus on prime credit quality individuals and low loan-to-value deals, and use standardised, automated underwriting processes, but specialist lenders are also present.

It is a £105bn market that is a natural extension to LendInvest's professional buy-to-let business. LendInvest has indicated an intention to enter this market in 2023.

Specialist homeowner market

LendInvest has identified five sub-categories within the homeowner loan market that have increased underwriting complexity:

- first-time buyers,
- self-employed,
- new build (including Help-to-Buy and Right-to-Buy),
- credit impaired,
- 'other' borrowers (for example, elderly and shared ownership) borrowers.

It has also said that it expects the impact of the pandemic to further complicate the credit histories of many self-employed and contract worker homeowners (for example, due to gaps in income).

The underwriting of these borrowers demands non-standard or bespoke processes, which makes it a **market segment suited to much greater use of technology to assess credit risk** – such as more sophisticated credit risk assessment algorithms and analysing less structured but still useful data (perhaps a lumpy income history) which is now becoming more easily available to underwriters with developments such as open banking (see next section 'how LendInvest competes' for further detail).

LendInvest's technology platform is likely to be highly suited to managing this complexity and is considered by the group to be a key enabler for it to rapidly gain market share in this segment.

This specialist homeowner market segment is underserved by large and medium-sized banks and building societies. Following the global financial crisis in 2008, UK high street banks tended to withdraw from more complex mortgages to refocus on mainstream mortgage lending.

LendInvest has calculated this to be a £100 billion market opportunity, is planning to enter the market in 2022 and grow a specialist homeowner product rapidly. To this end, it has recently strengthened its team in this area including the appointment of a *Managing Director, Homeowner Mortgages*. Esther Morley has been appointed to the role. Prior to joining LendInvest, she was Managing Director, Mortgages at Secure Trust Bank, and before that worked at Kensington Group – the UK's leading specialist homeowner mortgage lender – where she was responsible for origination and portfolio performance of the Specialist Mortgage business.

Specialist homeowner mortgages command slightly higher interest rates than conventional mortgages and the new product is expected to have high margins. The main competitors will be challenger banks and specialist lenders such as Aldermore, OSB, Kensington, Pepper Homeloans, and Vida Homeloans.

LendInvest will be able to make use of the same distribution channels, and technology, developed for buy-to-let lending.

Longer-term growth opportunities

Over the longer term, LendInvest sees further opportunities. Two of these include:

- **Long-term fixed rate mortgages**, which would be a relatively new product in the UK market and is an area which some capital providers have already expressed an interest in;
- **White-labelling software or services in the mainstream mortgage market,** where LendInvest sees potential to sell to banks and building societies (most likely smaller organisations which haven't invested in technology to the same degree as larger ones), rather than compete with them.

How LendInvest competes on service

Property finance transactions in the UK are typically **highly manual, predominantly paper-based, slow, and very frustrating for borrowers and brokers**, and probably the employees of lenders as well. [The market is predominantly intermediated, with 79% of all regulated lending taking place through intermediaries such as mortgage brokers.]

For example:

- It is common for lenders to send application forms (and other documents requiring completion or signature) to borrowers (via brokers) as a PDF file attached to an e-mail, which then needs to be printed out and completed by hand (as only ‘wet’, not digital, signatures are accepted), and returned to the lender by post
- To verify income, borrowers often have to print off bank statements, take the time to blank out highly personal information, then send them to lenders, usually as PDF files - if the lender has queries, it then has to go back to the broker, who has to go back to the client for clarification, and the process is reversed to get the information back to the lender
- In the know-your-client (KYC) process, documents must be taken in person to a solicitor for certification, which are then often passed on via fax.

Example of client frustration in the property finance process (in 2021)

2 houses I'm selling and waiting to complete on today are being delayed because the lender's fax machine has stopped working!

This isn't some little bank you've never heard of, it's one with 11,000 employees and £2bn+ a year in revenue.

I am lost for words.

Can't wait to finally get this transaction over the line. It has been 7 months of delays due to lawyers, council staff and other parties still not able to work from home effectively and taking forever to get things done. One delay was due to someone waiting for his office to open again so he could use his filing cabinet. Give me strength.

This should have been a straightforward and quick process. Some parts of this sector really needs bringing into the 21st century.

Source: Extract from a LinkedIn post, 28 August 2021

LendInvest’s modus operandi is to remove as many of the above ‘frictions’ as possible from the property finance process and provide a fast, transparent process for borrowers and brokers.

Sometimes removing individual frictions can be achieved with relatively simple fixes that can have an enormous impact, such as LendInvest’s use of digital signatures and contracts using applications such as DocuSign®, or using electronic KYC via a mobile phone app. Of course, these simple fixes can (and eventually will) be adopted by competitors too.

Achieving end-to-end automation does require significant investment - of both money and time - into technology and operations. LendInvest has already made these investments placing it probably years ahead of competitors when it comes to process efficiencies.

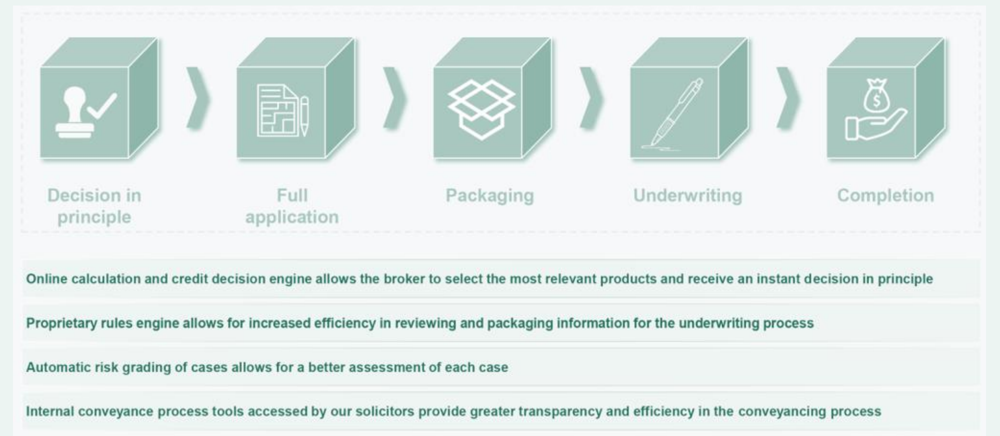
For example, its loan origination platform, ***Genesys*****,** is designed to deal with both simple and highly complex loans – without compromising on things like due diligence. It is integrated with over 20 third party data and service providers (Land Registry, Rightmove, Equifax, Credit Kudos, Companies House, and SIRA – an automated fraud detection tool, to name but a few).

Simplistically, Genesys consists of three components:

- a *customer portal*, which enables a mortgage application to be completed in five minutes
- an *admin portal*, which largely automates the internal processes such as data collection, risk categorisation and decisioning; and
- a *customer relationship management (CRM) system*, which enables LendInvest to segment customer groups and personalise communications with them, with benefits including improved customer conversion and retention rates.

The processes which it has been designed to increase automation of and speed up are summarised below:

Automating the journey of a loan

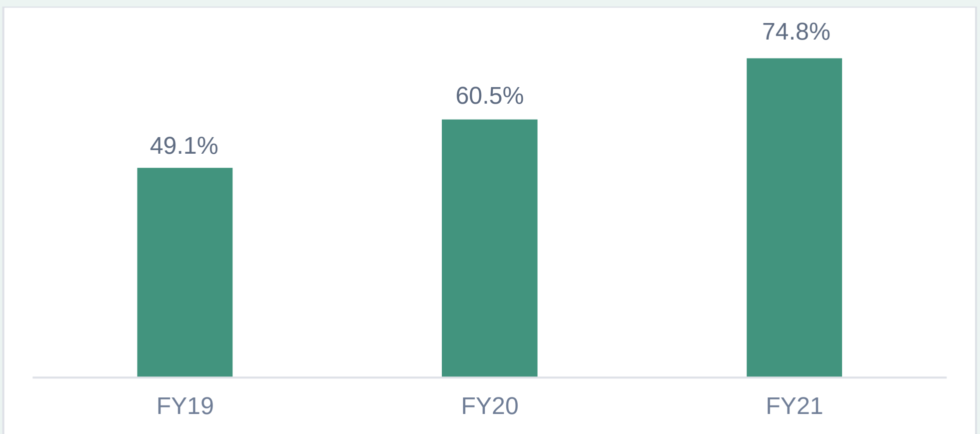


Source: Company

One development in the UK worth mentioning which has had a particularly positive impact on the application process for LendInvest is that of Open Banking – a process whereby a financial services company such as LendInvest can receive (with a customer's permission) an automated feed of customer transaction data from their bank. Brokers encourage clients to make this available to Lenders so that **technologically advanced lenders can access and analyse this data and make much faster decisions**. Underwriters no longer need to 'piece together' multiple PDF bank statements to analyse income etc.

Evidence of LendInvest's success when it comes to delivering on client experiences and service levels can be gleaned from the strong growth in the levels of repeat business from brokers**.** Levels of repeat business are a good proxy for service levels, whereas product, platform features and price will play a bigger role in winning first-time business from brokers – see further details in 'Outlook, and growth forecasts' section.

% of originations from repeat brokers



Source: Company. Proportion of completions where the broker had dealt with LendInvest in the prior year

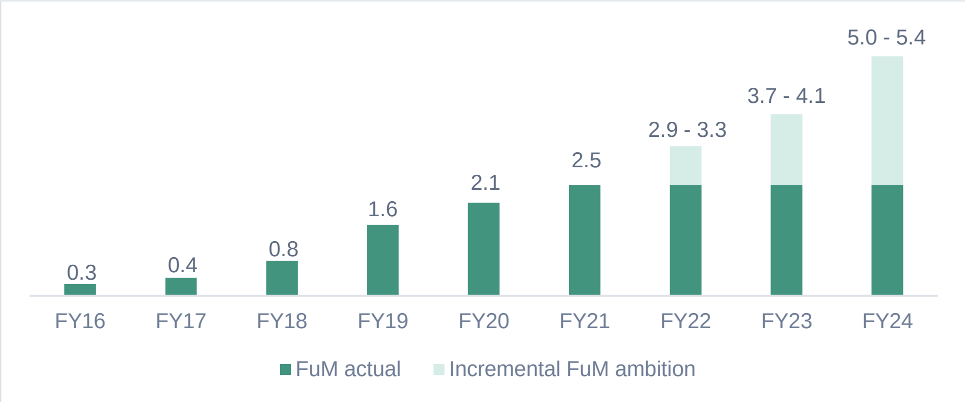
Sources of capital

LendInvest's ability to continue to gain market share in the property finance market is also highly dependent on it having access to sufficient, low-cost capital. **To date, it has been highly successful in attracting capital and it looks well positioned to maintain this position going forward**.

The total value of **Funds under management** (FuM) has grown rapidly in recent years, with the ambition to double it again over the next three years to give the business ample capital headroom to grow its lending book. [FuM is capital that has been committed to LendInvest by investors and is available to lend out to borrowers].

Assets under management (AuM) is the amount of that capital that has been used to lend to borrowers i.e. the size of the loan book. LendInvest aims to keep a 6 -12 months funding 'buffer' to minimise any risk of lending being constrained due to capital not being available, hence FuM is larger than AuM.

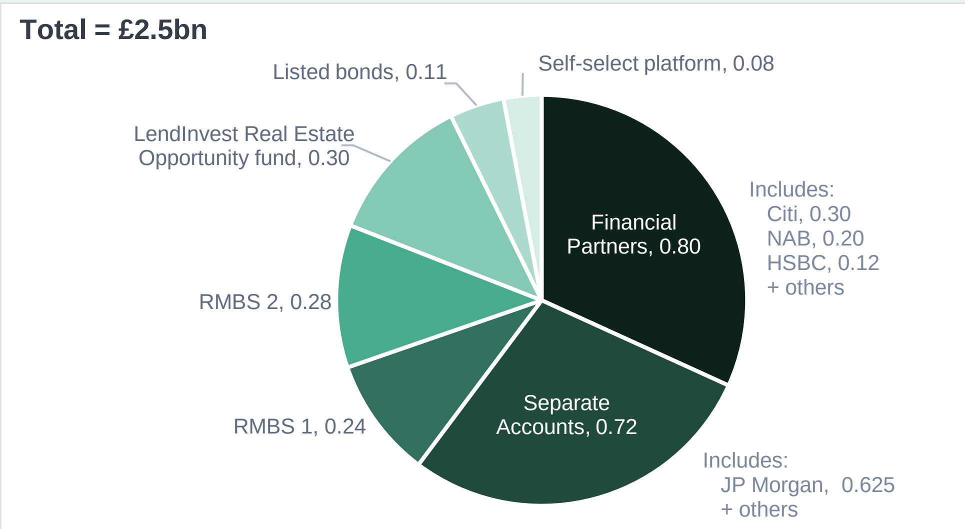
Funds under Management, £bn



Source: Company reports, May 2021 Analyst Presentation

LendInvest also maintains diversification of its capital sources, to avoid being overly dependent on any one source. It achieves this by constructing a range of investment products to appeal to a broad spectrum of investors, with products designed to marry LendInvest's lending capital requirements with the investment criteria and risk appetite of investors. A summary is shown below, followed by more detailed descriptions.

Funds under Management, £bn at 31 Mar 2021



Source: Company. RMBS = residential mortgage-backed securitisations

Financial partners

These structures involve financial institutions providing capital (with LendInvest typically providing a 5% share of the capital) to originate a portfolio of loans (meeting investors' target criteria) before selling that portfolio on when it reaches critical mass, usually within a one-to-five-year period. It would typically be sold to separate account investors or into public securitisations (RMBS) – see below.

This capital is held on-balance-sheet, with LendInvest earning origination fees on all loans, a net interest margin on the capital underwritten by financial partners (typically 95%), and gross interest less bad debts for its 5% share of the risk.

Key financial partnerships include:

- Citi: ~ £300m for buy-to-let loans (this partnership launched the entry into buy-to-let in 2017);
- National Australia Bank: ~£200m for buy-to-let loans;
- Barclays and HSBC: ~£150m for short-term bridging loans (this is an expansion of the £120m HSBC facility shown in the chart above - Barclays was added as a syndicate partner in July 2021 hence not included in the chart).

Separate accounts

These are also partnerships with large institutional investors, but LendInvest is effectively contracted to design a portfolio on a bespoke basis to meet investors' target criteria and risk appetite for them to gain exposure to particular segments of the UK property finance market. LendInvest does not co-invest.

Separate account structures are held off balance sheet, with LendInvest remuneration being in the form of **origination and servicing fees which are typically higher than the margins and fees earned from financial partnerships (above). With more attractive remuneration and no capital demands, LendInvest has expressed its intention to move more assets off balance sheet over time, using these types of structures, for which there is strong demand.**

The largest separate account by some distance is a £725m facility with JP Morgan (JPM), launched in FY21, to be used to underwrite buy-to-let loans, with a portion of all new loans being allocated to this account. It was originally incepted as a £625m facility which was expanded in September 2021, just one year after the original facility incepted, with the sale of a £100m portfolio of (previously originated) buy-to-let mortgages to this account.

The background to the JPM account is important to appreciate the future potential of this source of capital. Leading up to the deal with JPM, LendInvest launched a project to explore investors' appetite for these separate accounts. It approached 25 known buy-to-let investors, eight bid (all over par), with JPM ultimately being the chosen partner. LendInvest considers these accounts to be an important source of future capital.

RMBS (Residential mortgage-backed securities)

These are typically the acquiring vehicle when financial partnership portfolios are sold, and provide institutional investors with a pre-existing, investment-grade-rated, portfolio of loans. LendInvest also holds a 5% stake in these securities. Its margins are higher than financial partnerships, hence the incentive to sell portfolios into these structures.

The RMBS market is large and established. Total UK RMBS issuance amounted to £29bn in 2020 despite the pandemic, vs. £33bn in 2019.

RMBS's are currently held on-balance-sheet (although options do exist to move these vehicles off-balance-sheet if preferred).

To date LendInvest has concluded three RMBS transactions:

- Mortimer 2019-1, incepted in June 2019, securitising £259m of prime UK buy-to-let loans, 6 investors (including large global asset managers);
- Mortimer 2020-1: incepted in March 2020 securitising £285m of UK buy-to-let loans, 7 investors (5 new investors to LendInvest RMBS transactions); and
- Mortimer 2021-1: incepted in June 2021 (hence not included in the chart above) securitising £280m of UK buy-to-let loans, 17 investors.

Each RMBS transaction concluded to date has achieved a higher margin for LendInvest, as its reputation has grown, and investors gain more confidence in its ability. In fact, LendInvest research reveals that Mortimer 2021-1 achieved the best pricing of a UK BTL securitisation in over 13 years.

RMBS transactions are expected to be a key source of capital in future. LendInvest envisages creating a new RMBS structure when financial partnerships in the buy-to-let sector reach around £275m of AuM (around one per year). Hence it doesn't need to raise additional capital from financial partners to meet its buy-to-let business plan.

Funds

LendInvest launched its Real Estate Opportunity Fund (Luxembourg domiciled) in 2014, which provides a broad spectrum of institutional investors with access to an asset class that is less volatile than other mainstream asset classes, such as equities. It was used to fund bridging and development loans.

Since inception, the fund has delivered an annualised net return of between 7% and 8% for investors.

LendInvest earns arrangement, performance, and servicing fees on these loans. The fund is not consolidated onto LendInvest's balance sheet.

Listed bonds

In August 2017, LendInvest launched its bond programme on the London Stock Exchange's Order Book for Retail Bonds, offering an asset-backed investment solution that is eligible for ISAs and SIPPs. This is one of the two routes for private investors to participate in LendInvest's loan book (the other being the self-select portal).

Investors in listed bonds, who range from individuals to pension funds and asset managers, can invest from **as little as £2,000** in return for a fixed coupon within a tax-free wrapper (if eligible).

To date, LendInvest has issued two series of Listed Bonds: the 2022 Bonds, with a 5.25% coupon due 10 August 2022 and the 2023 Bonds, with a 5.375% coupon due 06 October 2023. LendInvest provides a parental guarantee on the payments on its Listed Bonds, although this is seen as low risk, as loans within the bond structures have an average loan to value of 65%.

The loan portfolio financed by these bonds is held on-balance-sheet, with LendInvest earning a net interest margin.

Self-Select Portal

In 2013, LendInvest launched a self-select portal, making it possible for private investors to build their own, diverse portfolio of property finance assets, originated and managed on their behalf by LendInvest.

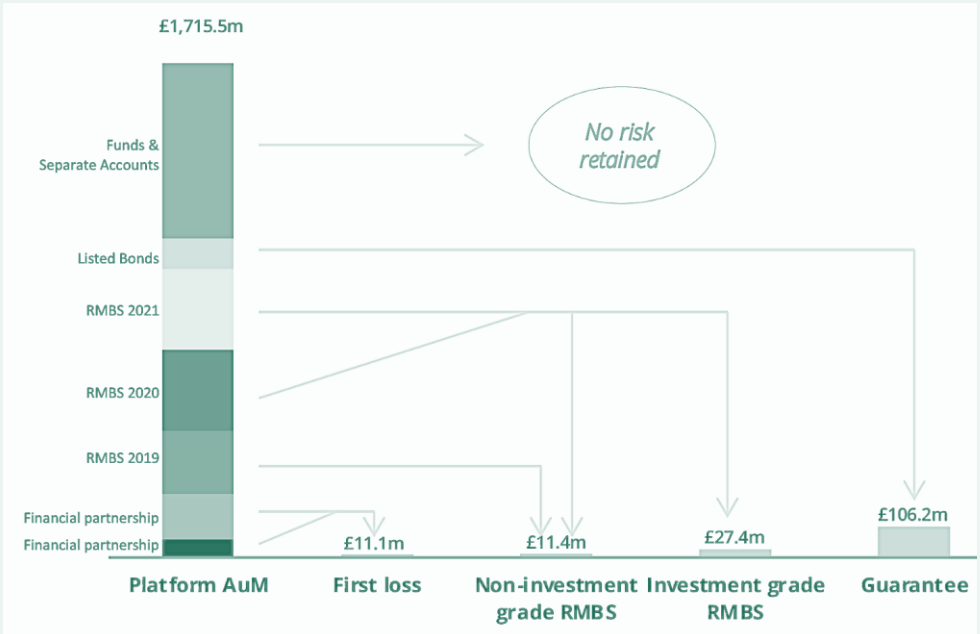
This investment product is open to high net worth, ultra-high net worth and sophisticated Investors. Returns range 4% to 7% per annum.

LendInvest's retained credit risk

LendInvest's ability to set up the above portfolio of funding structures has resulted in a relatively **'capital-lite'** model. The chart below summarises its potential credit risk exposures by funding line.

Where the largest theoretical exposure exists, on Listed Bonds (just 6 % of Platform AuM), LendInvest provides a £106.2 m parental guarantee. However, as with all its loans, the underlying loans are secured against property and this particular portfolio carries an average loan-to-value ratio of 65%. This means there would need to be a significant fall in property values before LendInvest would realise any credit loss related to that guarantee.

Gross credit risk (Platform AuM) and retained risk, by seniority



Source: Company. Data at 21 June 2021

Medium-term funding sources

It is worth mentioning the planned funding sources for LendInvest's intended new product launches: specialist homeowner mortgages in 2022, consumer buy-to-let in 2023, and a long-term-fixed-rate (LTFR) product in 2025.

It is intended that the first two products will be funded in a similar way to the current professional buy-to-let programme i.e., initially seeded through financial partners and then transferred to RMBS structures, with separate accounts (similar in principle to the JP Morgan account described above) being set up once a sufficient track record in these products has been established.

Specialist homeowner mortgages are expected to attract a higher margin for LendInvest. The LTFR product is expected to be funded through separate accounts, as some institutional investors (pension funds and insurance companies) have already expressed an interest in participating in such a programme.

Using technology to service capital providers – the 'loan engine'

LendInvest has self-developed a patented asset management system it refers to as a 'loan engine'.

This optimises the allocation and legal transfer of property finance assets across investment portfolios, effectively **automatically 'matching' incoming loans to the investment and portfolio criteria of investors**. It is fully integrated with Genesys, the loan origination platform previously described.

The loan engine provides investors with detailed and customisable data sets they require for their ongoing reporting, i.e., they enjoy a bespoke view of their portfolio assets, providing greater transparency on the deployment of their capital, and real time monitoring and insights. It is integrated with accounting software, and data analytics software. These features enhance the investor experience, their engagement, and is a distinct **source of competitive advantage in the attraction of capital**.

The loan engine is also integrated with the self-select portal for private investors.

It is highly scalable, reduces the risk of human error, and is a **significant driver of operating leverage** through its automation of processes that would otherwise require manual intervention. LendInvest estimates that the creation of the loan engine **has saved over 12,000 hours of manual work per year** (at 31 March 2021).

Management

LendInvest is still founder-led, although a highly experienced CEO took over that role from one of the co-founders in 2020. The key individuals are:

Executive Directors and key personnel

Chistian Faes (Co-founder and Executive Chair). Christian was the CEO from incorporation until January 2020. He started his career as a real estate lawyer in Australia with Allens Arthur Robinson. He was subsequently a partner at a boutique law firm and founded a mezzanine mortgage finance business in Australia. He has also practised as a securitisation lawyer at Clifford Chance and in-house legal counsel at Deutsche Bank, both in London. In 2008, Christian co-founded Montello, a leading UK Bridging finance lender, before setting up LendInvest. Christian is an advisor to the HM Government on FinTech, sitting on HM Government's FinTech Delivery Panel and the Trade Advisory Group for Telecoms and Technology.

Christian also founded the UK not-for-profit lobby group called FinTech Founders, which has over 200 members and works to be the voice for entrepreneurs in the sector. He is an active supporter and early investor in several start-ups. Christian holds a Bachelor's degree in Law (Hons) from Bond University. He holds a 29% stake in LendInvest after the IPO.

Roderick Lockhart (Chief Executive Officer). Roderick ('Rod') joined LendInvest in 2015 to lead the business' Capital Markets and Fund Management division. Within that time Rod has overseen LendInvest's Platform AuM grow from £100 million to £1.7 billion and managed the launch of its Listed Bonds and RMBS Transaction programmes. Rod became Chief Executive Officer of LendInvest in January 2020.

Rod is a Chartered Surveyor with 17 years' experience in property and property finance. He was previously Senior Director and a board member of the Investment Advisory Committee for CBRE. There, as well as advising LendInvest on its Real Estate Opportunity Fund, he advised UK and global institutional clients and managed a range of property and property finance portfolios. Rod is passionate about property, alternative finance and PropTech. He has lectured on property finance at the University of Reading and regularly advocates for the sector at conferences globally.

Ian Thomas (Co-founder and Chief Investment Officer). Ian is a co-founder of LendInvest and has been its Chief Investment Officer since its incorporation, overseeing all investment strategy and decision-making at LendInvest. A qualified chartered surveyor, Ian has more than 16 years of experience in property valuation, mixed-use development, and investment acquisitions in the United Kingdom and abroad and has held positions with Ballymore Property Group and SEGRO. Ian was a member of the MIPIM PropTech Advisory Committee, and he has a Bachelor's degree in Investment and Finance in Property from the University of Reading. Ian holds a 29% stake in LendInvest.

Michael Evans (Chief Financial Officer). Michael Evans is a chartered accountant having qualified while working at Ernst & Young. He has over 16 years of post-qualified experience across a range of financial and operational roles. Michael has previously held senior positions in Barclays and National Australia Bank, successfully heading up projects spearheading organisational change and strategy.

Michael joined LendInvest in 2017 to transform financial and operational processes that allowed the business to scale effectively and became Chief Financial Officer of the business in 2020.

Hugo Davies (Head of Capital Markets). Hugo began his career at Goldman Sachs, working within Treasury. During his time there, he was responsible for the funding and liquidity management of mortgage portfolio sales, accelerated book-builds, debt offerings and SPV capitalisations. Hugo also managed liquidity risk for G10 and emerging market currencies, developing strong relationships in FX & money markets. Additionally, he leads debt capital raising for the business, chairs the ESG committee and manages large investor relationships.

Hugo was responsible for the design and delivery of the listed bond programme, oversaw the capital raising for launches into Buy-to-Let and regulated lending and spearheaded the Separate Account with JP Morgan. He joined LendInvest in 2016, becoming Head of Capital Markets in 2020.

Arman Tahmassebi (Chief Operating Officer). Arman began his career at IG Group where he started as a graduate trainee before progressing over the following 15 years to hold several senior management roles overseeing the Technology, Business Development and Operations departments. During his time at IG Group the business grew from a small UK only entity to over 1,400 staff located in 17 countries around the globe with operations underpinned by industry leading proprietary technology.

Latterly Arman was CEO of ETX Capital, an award-winning provider of retail trading technology and services. Arman joined LendInvest as Chief Operating Officer in 2019 and later also took responsibility for the Buy-to-Let product and technology in 2020.

Ruth Pearson (General Counsel and Company Secretary). Ruth has many years of legal experience, having joined Simmons & Simmons in 2007 and becoming a senior lawyer in the firm's banking team. During her time in private practice, Ruth advised a wide range of financial institutions and borrowers on various domestic and cross-border banking, real estate and acquisition finance transactions. She also spent time on secondment to the real estate restructuring team at RBS and the syndicated loans team at SEB. Ruth has built up the in-house legal function, working closely with all teams to provide strategic advice and help the business realise commercial opportunities.

Ruth joined LendInvest as General Counsel in 2016 and became Company Secretary in 2020.

Melanie Oakley (Chief People Officer). Experienced in working with technology and creative organisations, Melanie's early career was spent in fast-paced, disruptive and entrepreneurial businesses including Virgin Radio and Betfair. In 2010, Melanie started her own consultancy and worked with a number of FinTech organisations to support their business transformation and scaling. Melanie joined LendInvest as Chief People Officer in 2019.

Matthew Tooth (Chief Commercial Officer). Matthew qualified as a chartered accountant with KPMG, and then worked at an investment bank before spending 15 years with IG Group, in which time he held senior management positions covering risk management, finance, sales and business development. During his time at IG Group, the company evolved from a small privately owned UK business to a FTSE 250 financial technology leader with 1,400 staff. Matthew joined LendInvest in 2015 and is responsible for the sales and marketing channels for the lending side of the business.

Daniel Underwood (Head of Credit Risk and Recoveries). Daniel has over 23 years' experience in Financial Services across UK Banking, FinTech, and Specialist Lending. Daniel spent 18 years with National Australia Group Europe, starting his career in mortgages and retail banking, prior to a senior role in restructuring and recoveries, focusing on residential and commercial property enforcement, insolvency, litigation, and loss mitigation. Prior to joining LendInvest, Daniel also spent two years with Funding Circle UK, holding a senior role in Property Development underwriting. Daniel joined LendInvest in 2017 and took over responsibility for Credit Risk and Recoveries in 2021.

Non-Executive directors

LendInvest benefits from a diverse Board with considerable experience and relevant skills:

Stephan Wilcke (Senior Independent Director). Stephan currently chairs Bima, the leading mobile delivered health and insurance provider in emerging markets and serves on the boards of Hamburg Commercial Bank and Equiom. He is a former Executive Chair of OneSavings Bank and has also served on the boards of Amigo, Azimut, Independer, Farmafactoring, the Jersey Financial Services Commission, the Hellenic Financial Stability Fund, Nova Lubjanska Bank, TBC Bank Plc and Travelex.

In his executive career he served as CEO of HM Treasury's Asset Protection Agency, was a partner at Apax Partners responsible for Financial Services in Europe and started his career at Oliver Wyman where he progressed to partner level. Stephan is an active early-stage investor and has been an advisor to the business since 2016.

Penny Judd (Non-Executive Director). Penny Judd is an experienced Chair, Senior Independent Director and Audit Committee Chair with over 30 years of City and financial services experience. She is currently a Senior Independent Director at TruFin and at Alpha FMC. She is also a Non-Executive Director at Team17. Her previous roles include Non-Executive Chair of Plus500, EMEA Head of Compliance at Nomura, EMEA Head of Compliance at UBS and Head of Equity Markets at the London Stock Exchange. Penny is a qualified Chartered Accountant.

Dale Murray (Non-Executive Director). Dale is a Non-Executive Director at Xero, a listed cloud accounting software company, and at The Cranemere Group, an investment company. She also co-founded Omega Logic and is a former Non-Executive Director at the Department for Business, Energy & Industrial Strategy. Dale was awarded a CBE in 2013 for services to business.

IPO and shareholdings

In July 2021, LendInvest listed on the AIM market, raising £40.0m (£36.2m net after fees and expenses).

The proceeds raised are being deployed to accelerate growth, with LendInvest outlining a more detailed intended use as follows:

- accelerate technology development (£10m – £15m)
- launch specialist homeowner product (£10m – £15m)
- expand within buy-to-let (£5m – £10m); and
- expand within residential bridging (£5m – £10m).

Post-IPO, the two founders, Christian Faes and Ian Thomas still own the majority of the business between them. Atomico, an early venture capital investor, still maintains a significant stake, too. The proportion of the post-IPO enlarged share capital represented by the new shares issued totals 15.7%. We would expect the free float to expand over time as pre-IPO investors exit some of their positions after the expiry of lock-in periods (see below).

The most significant shareholders are listed below.

Significant shareholdings	
Christian Faes (pre-IPO 34.6%)	29.1%
Ian Thomas (pre-IPO 34.6%)	29.1%
Atomico (early Venture Capital investor, pre-IPO 14.6%)	12.3%
Liontrust Asset Management	4.7%
Roderick Lockhart (CEO)	2.5%

Source: LendInvest admission document

Importantly, the two founders and the largest venture capital investor, Atomico, did not '*take money off the table*' in the IPO transaction, demonstrating a powerful commitment to the long-term prospects of the business.

Moreover, the founders and other Director shareholders (the CEO and CFO) have a 12 months' lock-in period post-IPO, during which shares cannot be sold. In addition to this, they have entered into an agreement which stipulates that for 12 months after the lock-in period, they will not 'trade any Ordinary Shares except through Berenberg (LendInvest's Nominated Adviser, or NOMAD) with a view to maintaining an orderly market in the Ordinary Shares'.

FY21 results

LendInvest delivered a robust set of financial results for FY21 ending 31 March 21, made even more impressive by the pandemic-related disruptions to the property sector (e.g., site-visits for viewings, surveys etc were heavily disrupted, as was property construction related to its development finance business).

AuM and Revenue

Despite this, gross loans and advances held on-balance-sheet plus off-balance-sheet assets, known as **'Platform AuM', grew 25% from £1.256bn on 31 Mar 20 to £1.573bn on 31 Mar 21**. [Platform AuM represents the total volume of revenue-generating assets and is therefore a key management accounting measure]. Excluding off-balance-sheet assets, which are not included in the IFRS accounts, gross loans and advances increased 29% from £0.798bn to £1.031bn.

The bulk of FY21 AuM growth came from buy-to-let, where Platform AuM grew 49% from £601m to £896m. Short-term Platform AuM (bridging and development finance) grew just 4%, as Brexit concerns and the pandemic dampened market sentiment, and LendInvest took a conscious decision to slow commercial bridging and development lending during the pandemic, due to heightened concerns over risk.

Group revenue grew 21% from £65.5m to £79.1m (split £51.9m gross interest income, £13.7m asset management/fund and servicing fees, and £13.5m origination fees). The lower rate of revenue growth compared to AuM growth is primarily a result of the increasing buy-to-let proportion of the loan book, which is characterised by lower interest rates charged to borrowers (on average around 3.5%), compared to the typical interest rate range of 8%-11% charged for short-term loans.

Expenses and profitability

Gross profit – revenue less cost of sales - increased 24% in FY21 from to £30.3m to £37.6m. Cost of sales for LendInvest comprises interest expense paid to capital providers (£28.9m), share of origination fees paid to brokers (£7.8m), funding line costs being legal and other fees incurred in setting up new funding lines (£3.7m), and asset management and fund fees paid to others (£1.1m).

Again, the lower rate of gross profit growth compared to AuM growth is primarily because of the faster-growing but lower-margin buy-to-let book.

Importantly, the rate of growth of gross profit was higher than revenue growth, primarily because of the higher margins achieved on buy-to-let portfolios transferred from financial partners to RMBS structures; and because of the more attractive fee-based remuneration of the new separate account deal with JP Morgan. This gross profit margin improvement within buy-to-let is expected to continue.

Gross margin comparison, buy-to-let v short-term	
Buy-to-let	
Revenue	£32.8m (+92%)
Cost of sales	£22.9m (+34%)
Gross profit	£9.9m (breakeven in FY20)
Gross margin	30%
Short-term	
Revenue	£46.3m (-4%)
Cost of sales	£18.6m (+3%)
Gross profit	£27.8m (-8%)
Gross margin	60% (-5%)

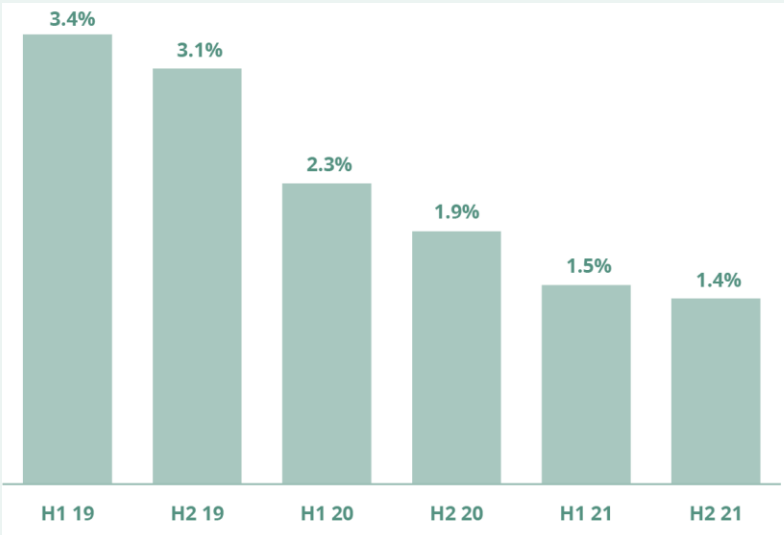
Source: LendInvest admission document

Adjusted administrative expenses – excluding depreciation & amortisation, finance expenses, share-based payments, and exceptional items, which is probably the best measure of operating expenditure (opex) – decreased 6% during FY21 from £21.9m to £20.5m.

Measured as a percentage of average AuM, opex has reduced dramatically over the last two years, an indication of operating leverage kicking in.

Further margin improvements as a result of operating leverage are expected in the short-medium-term, although at rates closer to that of FY21 than that of FY20.

Opex* as % of average Platform AuM



Source: Company.
**Excluding depreciation & amortisation, finance expenses, share-based payments and exceptional items*

Impairment charges increased, from £4.3m to £4.6m, primarily as a result of increases to provisions on the short-term loan book. **Importantly, total impairment charges across short-term and buy-to-let loans reduced as a percentage of Platform AuM, from 0.39% to 0.33%.**

Adjusted EBITDA, a non-IFRS measure, jumped from £4.1m in FY20 to £12.1m in FY21, an increase of nearly 200%. This is calculated by deducting adjusted expenses and loan impairment charges from gross profit and is considered to be a key management accounting measure by LendInvest - as it is representative of profit from core operations exclusive of non-cash charges and non-recurring items not part of the Group's core day-to-day business.

IFRS profit after tax, depressed by a £2.2m non-cash amortisation charge on in-house technology developments, turned positive in FY21, reaching £4.9m. EPS increases from -1.96p to 4.14p.

Balance sheet and cash position

Net assets of the group increased from £10.1m to £48.2m, driven primarily by a growing on-balance-sheet loan book (from £786m to £1,057m) with corresponding liabilities (amounts due to capital providers) growing at a lightly slower rate (from £846m to £1,040m). This is mostly because of a fair value gain in the value of loans and advances of £34m, driven by a reduction in the market discount rate used to calculate the fair value of buy-to-let loans.

At a group level, LendInvest has cash and cash equivalents of £62m (FY20: £92m) which is a combination of working capital and capital available for funding. This has declined primarily because of the growth of the loan book.

However, probably a better measure of underlying cash position would be the cash and equivalents at a company level (which, most significantly, strips out the cash effects of movements in that part of the loan book funded by third parties – funding partners, RMBS investors etc). On this basis, **cash and equivalents grew from £20m to £23m during FY21, showing that LendInvest generated cash even though it deployed its own cash to lending activities during the period** (loans and advances at a company level grew by £11m). **The cash position will be further boosted subsequent to the FY21 year- end by the £36m (net) raised by the IPO.**

Due to being in a high growth phase, with the bulk of profits being reinvested into the business, LendInvest does not pay a dividend.

Current trading

A trading update for H1 22 (to 30 Sep 21) shows that **growth momentum is still strong**.

Platform AuM reached £1.826bn, a **32% increase year-on-year** (H1 21: AuM £1.386bn) and 16% up on the £1.573bn at the end of FY21.

Funds under Management (capital committed to LendInvest by investors and available to lend out to borrowers) grew to £2.875bn, a 40% increase year-on-year (H1 21: FuM £2.056bn) and 16% up on the £2.486bn at the end of FY21. In particular, FuM was boosted by the JPM and Barclays/HSBC facilities detailed in the 'Sources of capital' section. The FuM boost maintains **ample capital headroom for further growth in the short-medium term.**

Lendinvest has confirmed that **market conditions remain positive** (despite the wind down of stamp duty land tax relief) and it expects this trend to continue in H2 22 "*due to a lack of supply coupled with strong demand, and people's desire for extra space*".

Outlook and growth forecasts

LendInvest's growth going forward will be affected by two main drivers:

1) growth of the market for property finance in the UK,

and more importantly (because the market is so large and LendInvest's market share of it is so small)

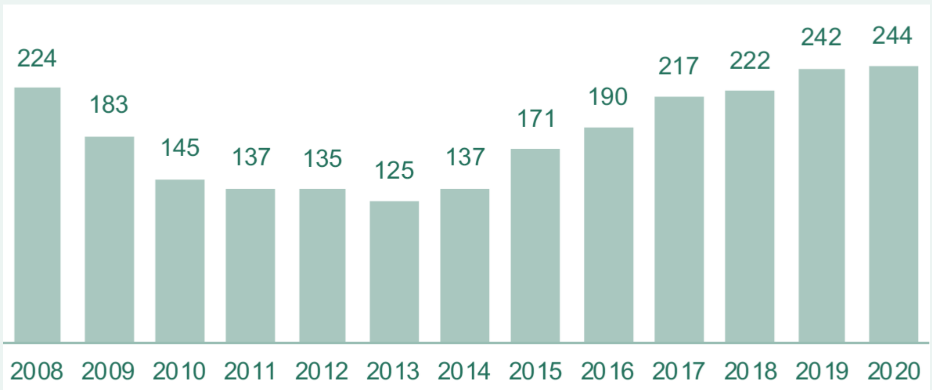
2) LendInvest continuing to gain market share.

Positive outlook for property finance in the UK

Housing demand in the UK is strong and is likely to become even stronger, driven by factors such as a growing population, continuing increases in net immigration, and low interest rates. However, new home construction is not keeping up with supply.

In 2017, HM Government set a target of raising housing supply to 300,000 new homes a year by the mid-2020s. While supply has certainly increased in recent years following a post-financial-crisis slump, it remains far below target levels, and we expect further measures to boost housing construction as societal and political pressures build, and it is reasonable to **expect new home construction to accelerate**.

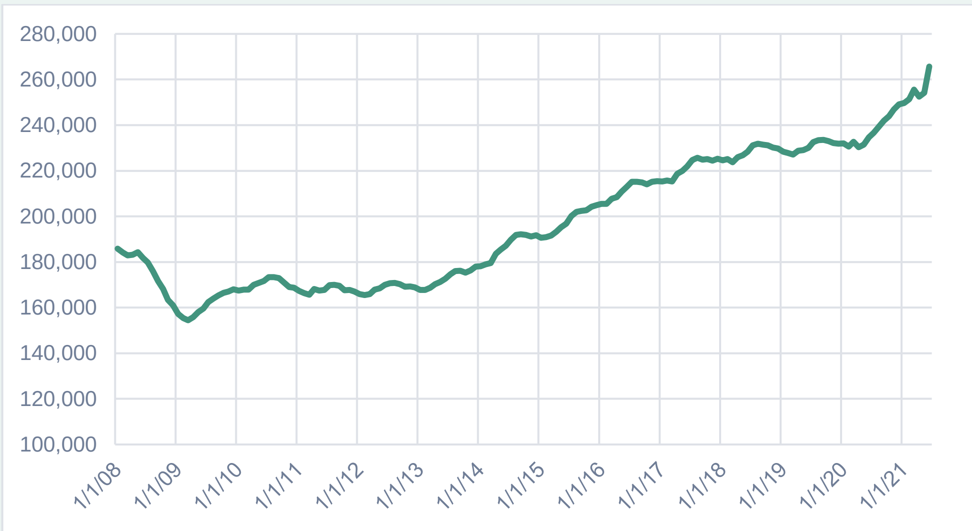
Net additional dwellings in England ('000s)



Source: Ministry of Housing, Communities and Local Government

With such a demand-supply imbalance, **house prices have unsurprisingly continued to rise**, with the average UK residential property price reaching £265k in June 2021.

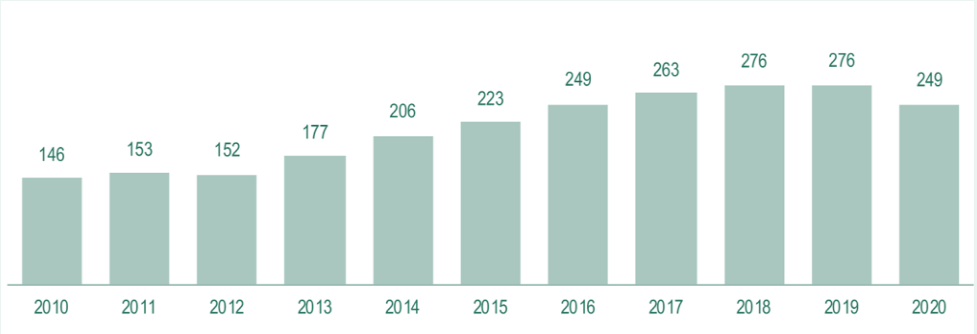
UK average residential property prices, £



Source: ONS

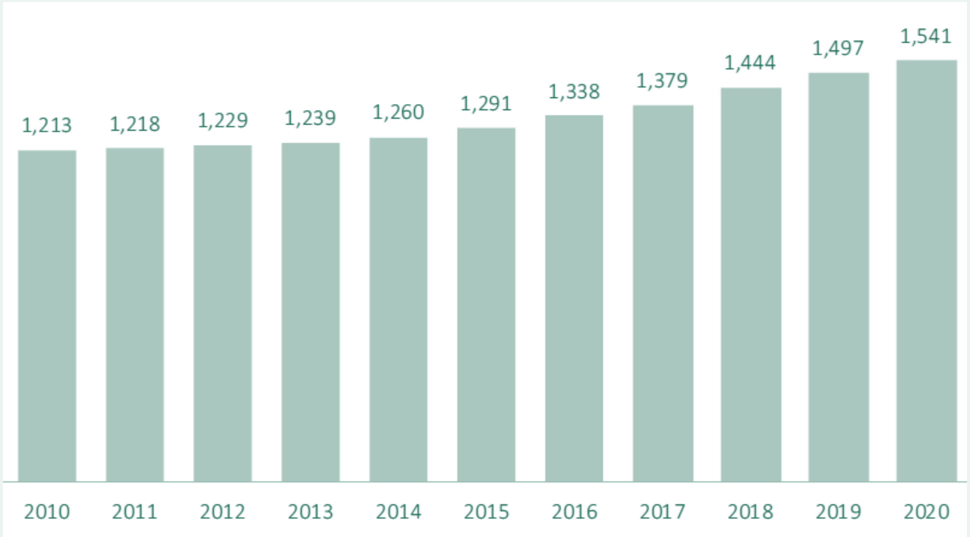
These factors have been primarily responsible for a near-continual increase in annual *gross new residential mortgage lending* (other than for a pandemic-related dip), and in the size of the overall residential lending market.

Gross new residential mortgage lending (£bn)



Source: Bank of England

Outstanding Residential mortgage balances (£bn)



Source: Bank of England

Moreover, signs of recovery from the pandemic slump are encouraging with the FCA reporting that the value of gross mortgage advances in Q1 2021 was 26.5 per cent. higher than in Q1 2020 and the highest level since Q4 2007[1].

Positive outlook for LendInvest to gain market share

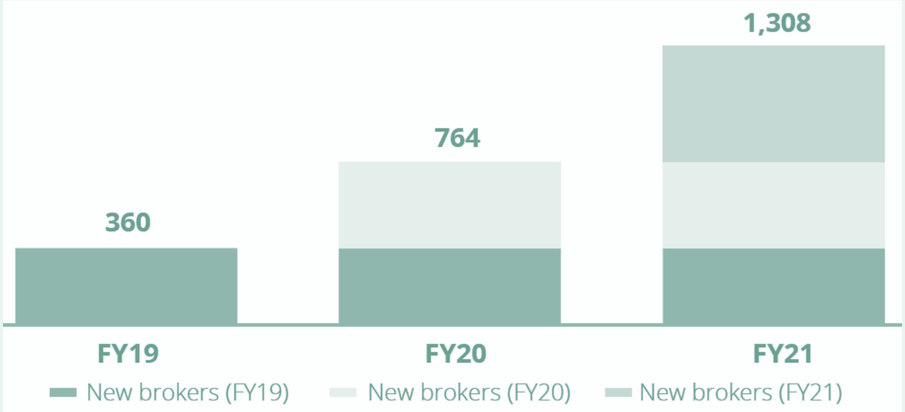
We have already outlined how LendInvest is **delivering a superior service to both borrowers and capital providers** through its more advanced use of technology compared to competitors. We fully expect this to lead to further rapid increases in market share gains.

But it is well worth highlighting two specific levers at play which will drive market share gains.

- First, **LendInvest continues to source business from more and more brokers:**

[1] https://www.fca.org.uk/data/commentary-mortgage-lending-statistics-q1-2021

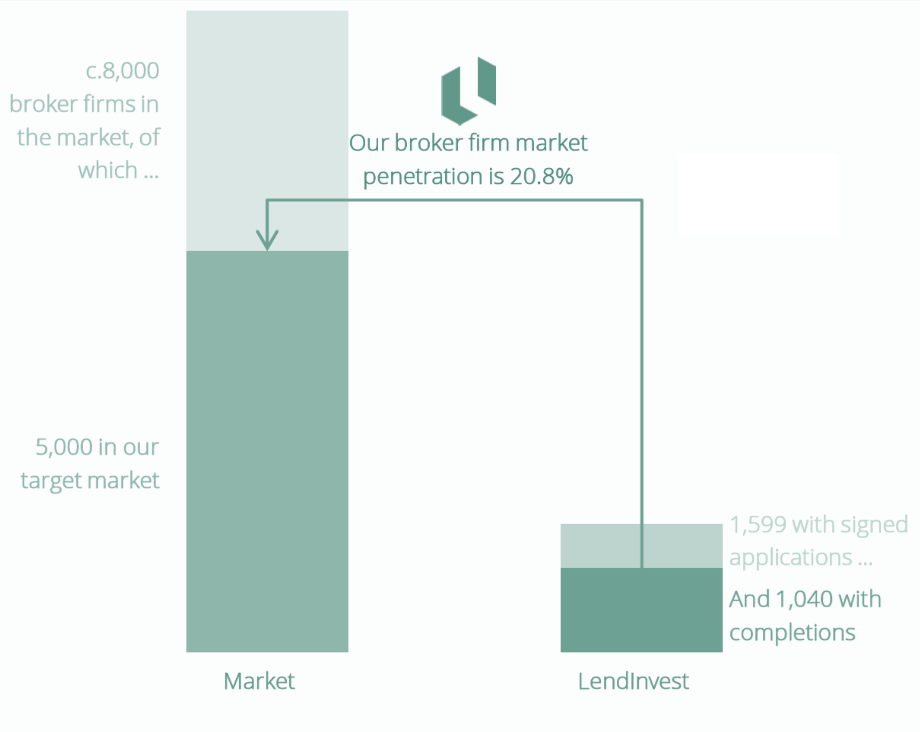
Cumulative number of new brokers* since FY19



*Source: Company. *Based on first signed application*

And there is undoubtedly potential for LendInvest to source business from even more new brokers, as its penetration among the broker market is still relatively low.

Broker firms market penetration at 31 March 2021

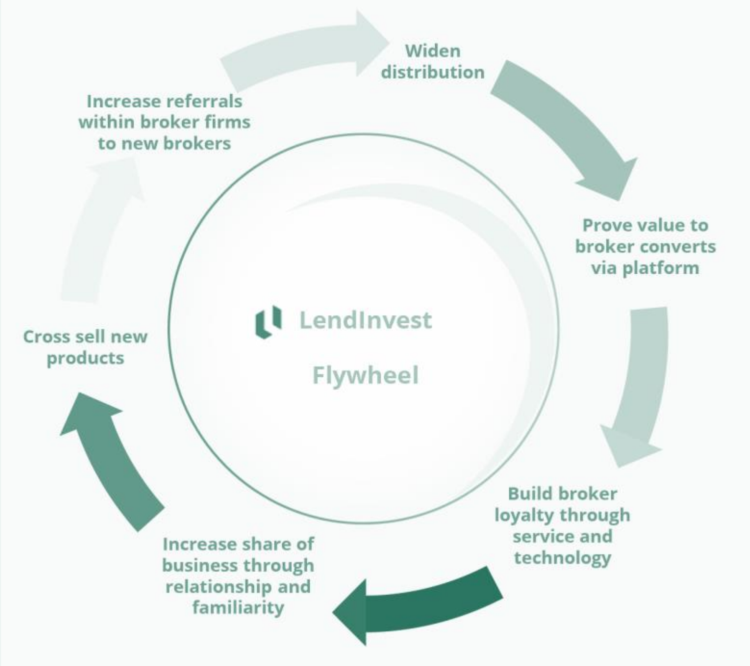


Source: Company
**Management estimates there are 8,000 broker firms with 20,000 individual brokers writing UK mortgage business*

- Second, **LendInvest continues to deepen broker relationships and gain more and more repeat business from brokers**. Its percentage of originations from repeat brokers has risen from 49% in FY19 to 75% in FY21, as detailed in the section, 'How LendInvest competes on service' on page 11.

  These two levers drive a 'flywheel effect', which we believe should result in rapid growth going forward:

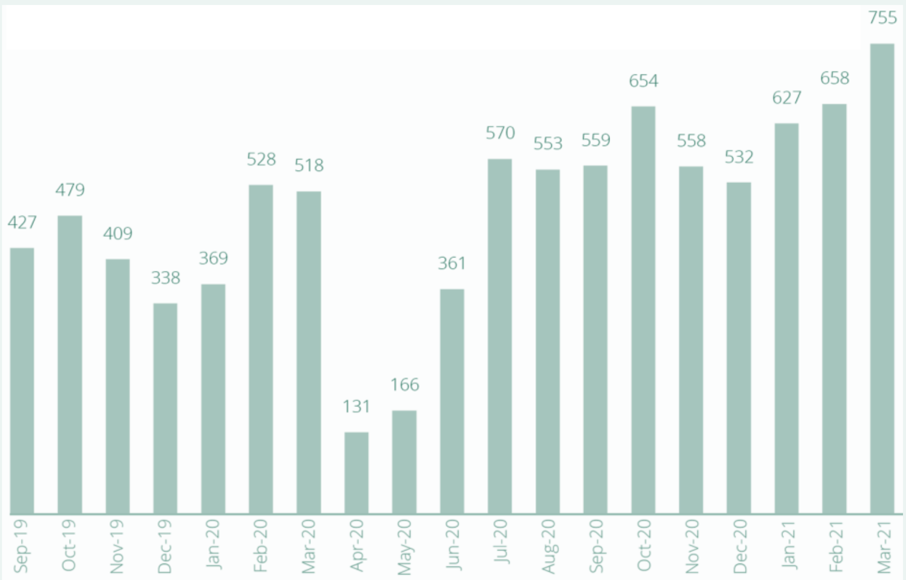
Why LendInvest should continue to grow



Source: Company

There is also evidence that growth momentum for LendInvest is starting to accelerate after being impacted by pandemic over the last year or so:

Signed Applications



Source: Company

Financial projections

Based on the market in which it operates, its strategic positioning within it, and its ability to execute, we believe LendInvest is well positioned to grow its AUM to £4bn-£5bn by FY24-FY25.

Given its operational capabilities, we believe net profits after tax can increase from £5m to around £25m-£30m over this same period.

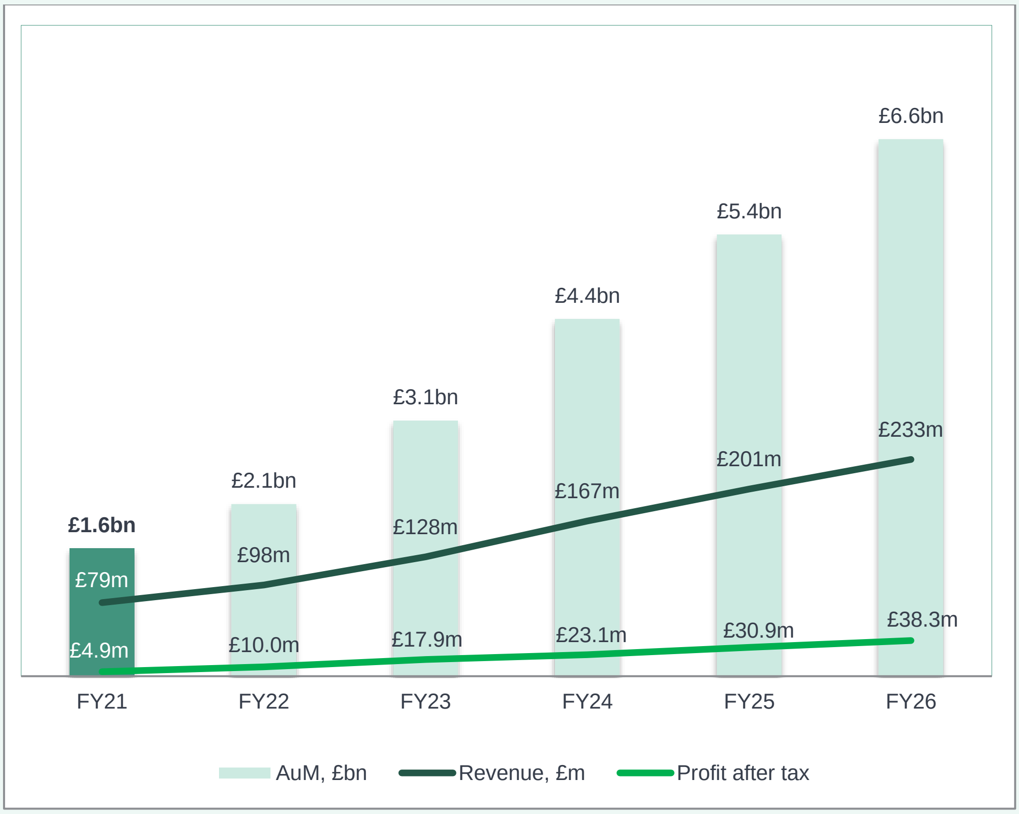
Our summary 5-year projections are shown below, which form the basis of our fundamental valuation.

Five year forecast

Year-end 31 Mar	FY21A	FY 22E**	FY 23E	FY 24E	FY 25E	FY 26E
AUM, £bn	1.6	2.1	3.1	4.4	5.4	6.6
Rev, £m	79.1	98.1	128.5	166.8	201.4	233.1
Adj admin expenses (opex)	20.5	25.4	32.2	40.5	47.9	52.6
Adj EBITDA*	12.1	20.0	28.2	37.0	47.8	58.1
Operating margin*	15.2%	20.4%	22.0%	22.2%	23.7%	24.9%
PBT, £m	6.2	12.3	22.1	30.8	41.2	51.1
PAT, £m	4.9	10.0	17.9	23.1	30.9	38.3
EPS basic, p	4.1	7.1	12.5	15.8	20.7	25.2
Net assets, £m	48.2	98.0	117.3	142.3	175.7	217.0

Source: Company Historic Data, ED estimates.
** Profit or loss before finance income, finance expense, income tax, depr, amortisation, & exceptional items*
*** FY 22 estimates include IPO which raised ~£40m gross less ~£4m IPO costs*

Five-year forecast key metrics



Source: Company Historic Data, ED Estimates

Valuation

We have considered LendInvest's valuation from a fundamental and a peer comparison perspective.

Fundamental valuation

For our valuation, we have split our forecast into three distinct periods:

- An initial 5-year high growth period as above, where AUM CAGR is over 30%;
- A 'medium growth' period in years 5-10 where AUM CAGR is around 10% and profit after tax grows at a rate slightly above that, as incremental margin improvements continue to be made; and
- An ongoing period of steady growth thereafter assumed to be 2.5% per annum, slightly higher than long term average UK GDP growth.

Because of this growth profile, we believe the most comprehensive method of valuing LendInvest is to calculate the present value of the forecast future free cash flows to equity holders (taking into account the capital demands of growth: primarily co-investing in new loan portfolios in financial partner and RMBS structures) and then discounting them at the cost of equity.

Our methodology involves:

- forecasting net income for each year in the forecast, which adds to shareholders equity;
- deducting the additional equity capital required to co-invest alongside external investors as the business grows (e.g., the typical 5% co-investment in financial partner and RMBS structures), which results in the free cash flow available to equity holders (which could also be thought of as surplus capital or the amount that COULD be used to pay dividends – even though LendInvest does not intend to pay dividends during its high-growth phase);
- calculating a terminal value following year ten (assuming 2.5% growth);
- discounting the above free cash flows at the cost of equity which we have calculated to be 9.5%, based on a risk-free rate of 0.7%, an equity market risk premium of 5.75%, and a beta of 1.75 (using a beta towards the higher end of the range of other small-mid-cap UK lenders, given LendInvest's high growth profile).

This methodology produces a per share fundamental value of 310p, compared to the current share price of 214p.

Peer comparison

We have also considered LendInvest's market valuation on a relative basis to peers. There are however relatively limited insights to be gleaned from this for a variety of reasons:

- there are **no directly comparable** peers listed on the London Stock Exchange
- there are small and mid-cap lenders who overlap with LendInvest from a product perspective, but business models differ substantially among them (some are banks), as well as growth rates (none are in a growth phase that is remotely comparable to LendInvest);
- there are high-growth non-bank Lenders, such as Funding Circle. But its products have fundamentally different characteristics (Funding Circle offers SME loans) and it is not profitable, whereas LendInvest is.

These comparisons are summarised below, with the main (if hard to quantify) conclusion being that LendInvest's current strategic positioning and financial performance justifies far higher valuation multiples than all the companies listed.

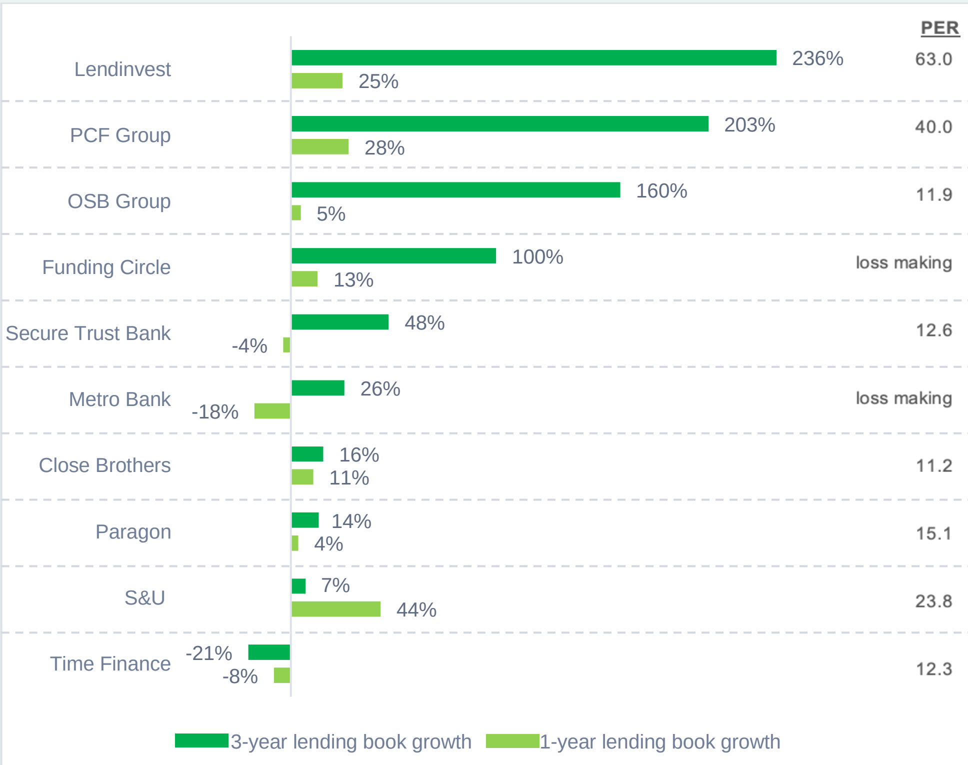
This is because it is growing at a much higher rate, it has a far less capital-intensive business model, or because its profitability is far higher.

London-listed lending peer group comparison

Lender	Market Cap, £m	Product overlap with LendInvest	Business model overlap with LendInvest
Close Brothers	2,272	Low. Competitor in development finance but a smaller part of CB	Low. CB is a bank and far more capital intensive
OSB Group	2,272	High. Also mostly a property finance lender, competes in most products.	Low. OSB is a bank and far more capital intensive
Paragon	1,367	High. Also mostly a property finance lender, competes in most products	Low. Paragon is a bank and far more capital intensive
Funding Circle	552	None. SME lending	High. Fintech disrupting SME finance, also a relatively capital-light, non-bank lender
S&U	349	Low. Competitor in bridging finance but predominantly in motor-finance	Medium. Also a non-bank lender.
LendInvest	**295**	**-**	-
Secure Trust Bank	205	Low. Competitor in development finance but a smaller part of STB	Low. STB is a bank and far more capital intensive
Metro Bank	203	Low. Some overlap in BTL but this is a small part of Metro's business	Low. Metro is a bank and far more capital intensive
PCF Group	60	Some. Competitor in bridging but mostly an SME and consumer lender	Low. PCF is a bank and far more capital intensive
City of London Group	59	Some. Also in professional BTL mortgages.	Largest subsidiary is a bank and far more capital intensive.
Time Finance	22	None. SME and consumer lending.	Medium. Also a relatively capital-light non-bank lender.

Source: ADFVN. Company reports. ED Analysis. Market Cap data as at 8 October 2021.

Lending peer group growth rate and PER comparison



Source: ADFVN. Company reports. Lending book growth rates measured over previous full financial years. PER data as at 8 October 2021
Organic 3Y growth of OSB group is far lower - lending book growth boosted by acquisition of CCS

We therefore believe that a bottom-up, fundamental valuation is the best guideline to use when valuing LendInvest. We may in future get a better steer from peer comparisons if, and when, other larger disruptive fintechs list on public markets, for example: Revolut, Starling, Klarna etc.

In our opinion, any such events would be a positive for LendInvest as these and many other larger fintechs were loss-making in their last full financial year, meaning that LendInvest's combination of growth and profitability would be highlighted in comparison.

Investment case

In summary, investors in LendInvest will be backing:

- a fast-growing lender, with very small market shares in its target markets, which is rapidly disrupting traditional business practices in these markets, and gaining market share
- with a clear and well communicated growth strategy, built from the bottom up with a strong pipeline of new product launches to add to the growth of existing products
- with ample access to relatively cheap capital to fuel growth, and a clear and proven capital raising strategy for the future
- that should be able to capture further operational leverage as its portfolio grows – driven mainly by the technology investments already made
- has an exceptionally strong management team, is still founder-led, with interests strongly aligned to external shareholders
- and which appears to us attractively valued, with potential for material rerating if LendInvest meets or exceeds its growth and profitability ambitions.

Appendix – historic and forecast Financials

Consolidated Income Statement + Forecasts

12 months to end Mar, £'000	FY19A	FY20A	FY21A	FY 22E	FY 23E
IFRS Income Statement					
Interest Revenue	30,536	44,876	51,912	59,777	78,714
Fee and other income	16,289	20,601	27,220	38,280	49,743
Total revenue	**46,825**	**65,477**	**79,132**	**98,057**	**128,457**
Cost of sales	(20,369)	(35,226)	(41,507)	(46,867)	(61,082)
Gross Profit	**26,456**	**30,251**	**37,625**	**51,191**	**67,375**
Gain on derecognition of financial iability	-	-	1,361	-	-
Total operating income	**26,456**	**30,251**	**38,986**	**51,191**	**67,375**
Administrative expense	(19,550)	(25,354)	(25,138)	(30,576)	(37,302)
Impairment provisions	(3,625)	(4,272)	(4,593)	(5,267)	(6,938)
Profit from operations	**3,281**	**625**	**9,255**	**15,348**	**23,135**
Interest income	34	77	2	2	2
Finance expense	(2,772)	(1,751)	(2,244)	(500)	(500)
Exceptional costs	-	(2,179)	(767)	(2,500)	(500)
Profit/(loss) before tax	**543**	**(3,228)**	**6,246**	**12,350**	**22,137**
Income tax (charge)/credit	73	1,020	(1,396)	(2,346)	(4,206)
Profit /(loss) after tax	**616**	**(2,208)**	**4,850**	**10,003**	**17,931**
Earnings per share, p	0.6	(2.0)	4.3	7.3	12.8

Management Accounts Income Statement (non-GAAP)

The Group also discloses gross management accounts which include revenue, gross profit, profit from operations, adjusted EBITDA and loans and advances arising from off-balance sheet Fund after distribution and Separate Account entities. These management accounts include:

Platform Revenue: Revenue attributable to both On-Balance Sheet Entities and Off-Balance Sheet Entities, calculated as the sum of:
(i) the Group's reported revenue, as presented on an IFRS basis on the Group's income statement, and (ii) revenue attributable to Off-Balance Sheet Entities, less (iii) gross profit attributable to Off-Balance Sheet Entities, as adjusted for other adjusting entries.
The Directors view Platform Revenue as a useful measure because it is helpful in analysing the revenue performance of the Platform AuM on an aggregate basis.

Adjusted EBITDA: Group profit or loss before finance income, finance expense, income tax, depreciation and amortisation, and exceptional items.
The Directors view Adjusted EBITDA as a useful measure because it is used to analyse the Group's operating profitability, and shows the results of normal, core operations exclusive of non-cash charges and items that the Group considers to be non-recurring and not part of the Group's core day-to-day business.

12 months to end Mar, £'000	FY19A	FY20A	FY21A	FY 22E	FY 23E
Platform Revenue	**71,683**	**108,403**	**118,193**	**136,070**	**181,480**
less: Revenue attributable to Off-BS entities	(30,125)	(49,263)	(51,647)	(57,412)	(74,909)
add: Gross profit attributable to above	5,267	6,337	12,586	19,399	21,886
IFRS Revenue	**46,825**	**65,477**	**79,132**	**98,057**	**128,457**
Cost of sales	(20,369)	(35,226)	(41,507)	(46,867)	(61,082)
Gross Profit	**26,456**	**30,251**	**37,625**	**51,191**	**67,375**
Gain on deregonition of financial liability	-	-	1,361	-	-
Adjusted admin expenses (opex)	(18,541)	(21,864)	(20,538)	(25,362)	(32,200)
(excludes depreciation & amortisation, finance expenses, share-based payments, exceptional items)					
Impairment provisions	(3,625)	(4,272)	(4,593)	(5,267)	(6,938)
Hedging break cost	-	-	(1,788)	-	-
Finance and transaction costs	-	-	-	(600)	-
Adjusted EBITDA	**4,290**	**4,115**	**12,067**	**19,962**	**28,237**
Bridge to IFRS profit					
Finance expense	(2,772)	(1,751)	(2,244)	(500)	(500)
Depreciation & amortisation	(716)	(1,393)	(2,404)	(2,092)	(2,157)
Depreciation of right-of-use asset	-	(917)	(933)	(900)	(900)
Interest expense - lease liabilities	-	(643)	(560)	(600)	(600)
Share based payment charge	(259)	(460)	(669)	(1,020)	(1,443)
Exceptional items	-	(2,179)	(767)	(2,500)	(500)
Other adjusting entries	-	-	(32)	-	-
Less hedging break cost	-	-	1,788	-	-
Profit/(loss) before tax	**543**	**(3,228)**	**6,246**	**12,350**	**22,137**

Source: Company Historic Data, ED estimates.

Consolidated Balance Sheet + Forecasts

As at end Mar, £'000	FY19A	FY20A	FY21A	FY 22E	FY 23E
Assets					
Cash and equivalents	40,081	91,609	62,155	109,460	112,917
Trade and other receivables	9,843	12,538	13,124	22,207	34,106
Loans and advances	388,159	786,348	1,056,900	1,270,204	1,813,193
Property plant and equipment	880	5,615	4,619	4,569	4,517
Intangible fixed assets	3,179	5,357	5,526	5,684	5,389
Derivative fixed asset	-	-	1,926	1,926	1,926
Investment in 3rd parties	-	-	30	30	30
Fair value adjustment for portfolio hedged risk asset	-	3,421	2,468	2,468	2,468
Deferred tax	243	3,383	1,083	1,083	1,083
Total assets	**442,385**	**908,271**	**1,147,831**	**1,417,631**	**1,975,629**
Liabilities					
Trade and other payables	(30,498)	(32,896)	(36,859)	(49,310)	(65,621)
Interest bearing liabilities	(388,147)	(846,164)	(1,040,165)	(1,247,807)	(1,770,238)
Lease liabilities	-	(5,717)	(5,004)	(4,987)	(4,870)
Derivative financial liabilities	(2,871)	(12,993)	(8,674)	(8,674)	(8,674)
Fair value adjustment for portfolio hedged risk laibility	-	-	(2,425)	(2,425)	(2,425)
Deferred tax	(255)	(373)	(6,457)	(6,457)	(6,457)
Total liabilities	**(421,771)**	**(898,143)**	**(1,099,584)**	**(1,319,661)**	**(1,858,285)**
Net Assets	**20,614**	**10,128**	**48,247**	**97,970**	**117,344**
Equity					
Employee share reserve	455	915	1,584	2,604	4,047
Share capital	-	-	-	-	-
Share premium	17,278	17,540	17,540	56,240	56,240
Fair value reserve	549	(4,113)	27,135	27,135	27,135
Cash flow hedge reserve	-	(3,782)	(2,430)	(2,430)	(2,430)
Retained Earnings	2,332	(432)	4,418	14,421	32,352
Total equity	**20,614**	**10,128**	**48,247**	**97,970**	**117,344**

Source: Company Historic Data, ED estimates.

Consolidated Cash Flow Statement + Forecasts					
12 months to end Mar, £'000	**FY19A**	**FY20A**	**FY21A**	**FY 22E**	**FY 23E**
Operating activities					
Profit after tax	**616**	**(2,208)**	**4,850**	**10,003**	**17,931**
Adjusted for:					
Depreciation of property, plant & equipment	262	215	175	250	263
Amortisation of intangible assets	454	1,178	2,229	1,842	1,895
Company share & share option schemes	259	460	669	1,020	1,443
Interest income	(34)	(77)	(2)	(2)	(2)
Income tax expense/(credit)	(73)	(108)	1,396	2,346	4,206
Derivative, hedge accounting and committed facility fair value los	2,772	2,032	1,969	-	-
Fundng line costs	-	-	274	-	-
Impairment provision	3,625	4,414	4,877	5,267	6,938
Depreciation of right of use asset	-	917	933	900	900
Interest expense of right of use asset	-	643	560	600	600
Costs related to abortive market listing	-	2,179	83	-	-
Cancellation of interest bearing liabilities	-	-	(7,315)	-	-
Redemption of interest bearing liabilities	-	-	5,954	-	-
Change in working capital					
Increase in gross loans and advances	(187,733)	(409,720)	(235,491)	(218,571)	(549,927)
Increase in trade and other receivables	(4,454)	(5,505)	(7,330)	(9,083)	(11,899)
Increase in trade and other payables	13,338	4,563	10,048	12,451	16,311
Income tax paid	(140)	(93)	-	(2,346)	(4,206)
Net cash flows from / (used in) operating activities	**(171,108)**	**(401,110)**	**(216,121)**	**(195,323)**	**(515,548)**
Investing activities					
Purchase of property, plant and equipment	(204)	(190)	(8)	(200)	(210)
Capitalised development costs	(2,662)	(3,356)	(2,398)	(2,000)	(1,600)
Increase in investments in 3rd parties	-	-	(30)	-	-
Interest income	34	77	2	2	2
Net cash flows from / (used in) investing activities	**(2,832)**	**(3,469)**	**(2,434)**	**(2,198)**	**(1,808)**
Financing activities					
Increase in interest bearing liabilities	173,715	459,378	194,001	207,642	522,431
Principle elements of finance lease payment	-	(711)	(817)	(917)	(1,017)
Interest expense lease liabilities	-	(643)	(560)	(600)	(600)
Proceeds from an equity share issue or IPO	10,278	262	-	40,000	-
Equity raise costs	(238)	-	-	(1,300)	-
Cash settled derivative losses	-	-	(3,166)	-	-
Funding line costs	-	-	(274)	-	-
Costs relating to abortive market listing	-	(2,179)	(83)	-	-
Net cash flows from / (used in) financing activities	**183,755**	**456,107**	**189,101**	**244,825**	**520,814**
Net increase / (decrease) in cash and cash equivalents	**9,815**	**51,528**	**(29,454)**	**47,305**	**3,458**
Cash and equivalents at beginning of period	30,266	40,081	91,609	62,155	109,460
Cash and cash equivalents carried forward	**40,081**	**91,609**	**62,155**	**109,460**	**112,917**

Source: Company Historic Data, ED estimates.

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