Time Finance plc

Time to be rerated?

21 January 2021

Results for H1 to end Nov '20 show Time's recovery is well underway from an industry-wide, Covid-induced slump in good quality lending demand and spike in bad debt provisions. This coincides with a Group rebrand, which consolidates 5 years of buy-&-build success and offers a range of new competitive advantages. The share price of 25p is 30% off pre-pandemic levels with valuation multiples suggesting Time looks significantly undervalued in relation to peers.

The loan book is growing again, reaching £106m on 30 Nov 20 (Nov 19: £125m; June 20: £95m); loans in arrears reduced by £6.1m during H1 after jumping £9.1m in the prior 6m; and the value of loans in forbearance has dropped from a peak of £25m in May 20 to £2.6m in November 20. **Impressively, Time recorded a PBT of £1.4m in H1, compared to a loss of £1.0m in H2 20.**

At a market level, light at the end of the Covid-19 tunnel brought about by the start of vaccine rollouts, coupled with a more clearly defined post-Brexit UK-EU relationship, should provide a platform for further recovery. While at a competitive level, Time's established market position; advantages gained from the rebrand (simpler messaging, cross selling opportunities, cost synergies); and financial headroom – it has £97m of 'available' funding facilities and a strong balance sheet with net tangible assets of £27.8m (£26.5m on 31 May 20) – gives it a strong chance of gaining market share. After a transformative 6 years' tenure, CEO Ian Smith is to step down and a new CEO is being sought to oversee the next growth phase. Smith will leave his post after the completion of a smooth transition.

This note coincides with a period of high economic uncertainty when Time's Board have understandably withdrawn guidance. As such, we have not provided forecasts or a fundamental valuation.

However, we highlight that median valuation multiples of a peer group are more than double those of Time, indicating the potential for a rerating. Peer median price-to-book = 1.0: Time = 0.4. Pre-pandemic peer PER median = 11.0: Time = 5.0 (current PERs are not comparable as some peers have not yet reported results that include the impact of the pandemic).

Key Financials

Year-end 31 May	FY 17A	FY 18A	FY 19A	H1 20A	FY 20A	H1 21A
Loan originations, £m	83	143	161	88	147	57
Net lending book*, £m	71	125	124	123	108	106
Net interest margin	11.5%	12.0%	12.0%		12.0%	
Revenue, £m	30.0	16.0	31.8	15.6	29.2	11.9
Op ex incl. credit losses, £m	22.0	12.1	23.8	12.5	27.1	10.3
Bad debt provisions, £m	1.2	2.2	2.4	2.7	5.1	5.1
Bad debt prov, % of book	1.9%	2.3%	1.9%	2.2%	4.4%	4.8%
PBT, £m	4.1	7.9	7.9	3.0	2.0	1.4
EPS basic, p	6.1	7.6	7.3	2.8	1.8	1.2
Div**, p	0.50	0.65	0.84	0.00	0.00	0.00
Yield, %	2.0%	2.6%	3.4%	0.0%	0.0%	0.0%
Price Earnings Ratio	4.1	3.3	3.4	4.5	14.2	10.3
Price to Book Ratio	0.8	0.5	0.4	0.4	0.4	0.4
Net tangible assets***, £m	13.6	19.8	25.9	28.2	27.0	27.8
Net assets, £m	28.5	47.7	53.8	56.1	55.2	56.6

Source: Company Historic Data. PER, Price to Book and Yield based on share price of 25p
*excluding unearned interest **interim dividend for half-years ***excluding goodwill

Company Data

EPIC	TIME
Price (last close)	25p
52 weeks Hi/Lo	38.5p/12.5p
Market cap	£23m
Net tangible assets	£28m
Avg. daily volume	283k

Share Price, p

Source: ADVFN

Description

Time Finance ('Time', previously 1pm plc), established in 1998, is a non-bank lender and loan broker. It has four operating divisions:

Asset finance: for SMEs to purchase hard and soft assets;

Invoice finance: for SMEs to borrow against debtors books;

Loans: commercial SME loans and consumer property loans;

Vehicle finance: for SMEs and consumers to purchase commercial or private vehicles.

Most asset, invoice, and SME loans are written to 'own-book'. Consumer and vehicle loans are 'broked-on'.

London Stock Exchange Group 1000 COMPANIES TO INSPIRE BRITAIN 2020

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Time Finance in a nutshell

Time Finance is a non-bank lender and loan broker. It was founded in 1998 and listed on the AIM in 2006. It employs around 170 people across six sites in the UK – a Bath head-office plus Cardiff, Manchester, Abingdon, Birkenhead and Warrington.

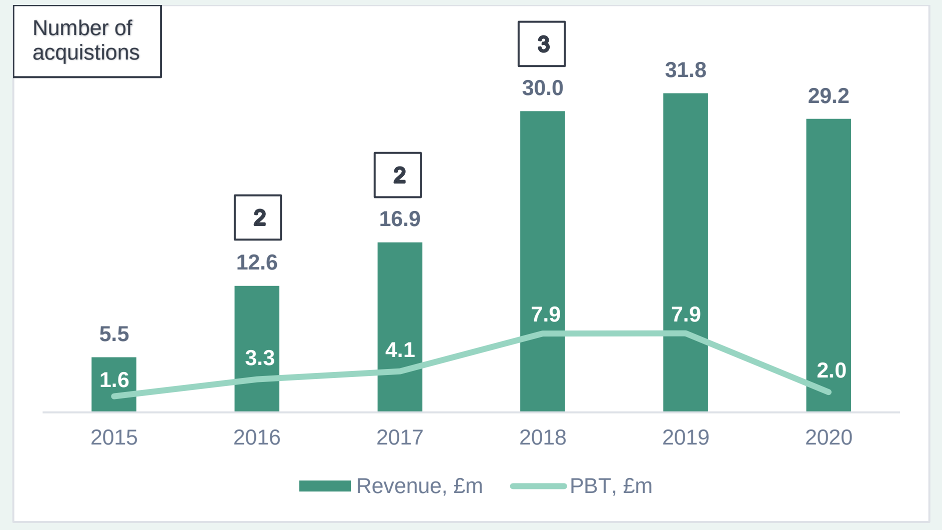
Its core business is providing loan finance to smaller UK SMEs although it also serves some segments of the consumer loan market. It has four operating divisions: *asset finance* (SME only, 53% of group revenue in 6m to 30 Nov 20), *invoice finance* (SME only, 28%), *vehicle finance* (SME and consumer, 11%), and *loan finance* (SME commercial loans and consumer property loans, 8%).

It operates a 'hybrid' model, underwriting most asset and invoice finance and some commercial finance loans on its own balance sheet (all SME loans), while acting as a broker for all consumer loans (vehicle and property), vehicle loans (SME and consumer), and other SME loans not meeting its credit criteria. **This model is core to the strategy and has two key advantages: it allows the business to present an attractive multi-product offering to introducers, brokers and borrowers; and it creates a risk reducing 'spread' of business by providing default risk and income stream diversification.**

Time sources its lending capital primarily from institutions with a blended cost of funds of around 4% and lends-on to clients at an average rate of around 16% resulting in a net interest margin of around 12%. It is not subject to any regulatory minimum capital requirements as a bank would be, but it does use some equity capital to underwrite a share of 'own book' loans (typically 15-20%).

Since 2015, Time has been executing a buy-and-build growth strategy which has seen it grow from a single site operation with 13 staff and £4m revenue in 2014, to a six-site operation with 170 staff and £29m revenue in 2020. It has concluded seven acquisitions during this time.

Results of successful buy-and-build strategy



Source: Company reports.

Despite the Covid-induced dip in revenue and profits in FY20, it is more than fair to say that the buy-and-build strategy has been successful. It did, however, result in a group of seven differing brands, which in December 2020 was consolidated with a **group-wide re-brand to Time Finance**. This provides a simplified message and story, a strengthened 'sense of group', an opportunity for further synergies, enhanced cross selling potential, and easier new product development and rollout.

The next phase of the growth strategy is to capitalise on these advantages and pursue both organic and acquisitive growth.

Half year results to 30 Nov '20

Although the first few months of H1 21 were still heavily impacted by the sharp fall in business activity associated with the first wave of the pandemic, a recovery is clearly underway. **The lending portfolio size recovered from a June 20 low of £95m to end H1 on £105.6m (30 Nov 19: £123m).** Originations for the 6m period were £56.6m compared to £59.1m in H2 20 (period ending 31 May 20) and £87.8m in H1 20, with **management reporting increasing activity levels in recent months**.

Revenue for H1 was £11.9m compared to £13.7m in H2 20 and £15.6m in H1 20, with around 85% of this revenue derived from own-book interest and related income, and 15% from broked-on income.

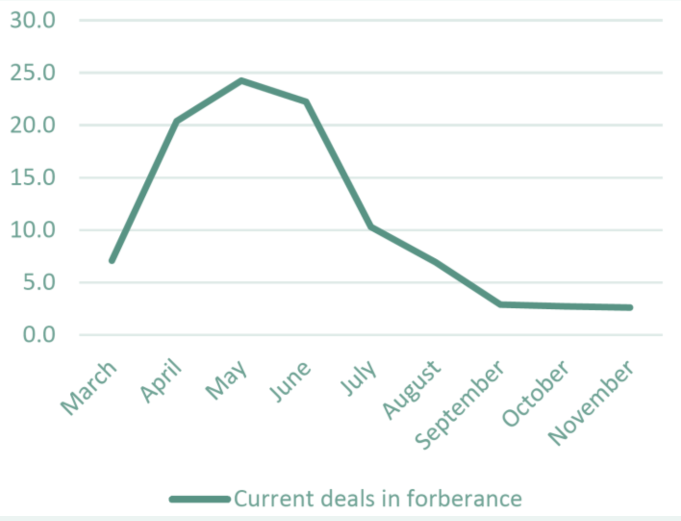
Pleasingly, the group returned to profitability with PBT for the half-year being £1.4m, compared to a £1.0m loss in H2 20 (which saw a jump in bad debt provision), and £3.0m in H1 20. EPS for the period was 1.20p, compared with 1.74p for the full year ending 31 May 20.

Time entered the economic downturn with a very strong balance sheet. This has been maintained. On 30 Nov 19 net assets totalled £56.1m, net tangible assets (which excludes goodwill) £ 28.2m, and cash £2.3m. The losses incurred in the 6m period ending 31 May 20 reduced these balances slightly (£55.2m, £27.0m, £1.3m), but the recovery in H1 and cash conservation measures has seen them strengthen again.

On 30 Nov 20 net assets stood at £56.6m, net tangible assets at £27.8m, and cash at £3.1m. The group did increase its borrowings during H1 by £2.2m.

Recovery from the pandemic shock is most starkly illustrated by loan repayment metrics. Between 30 Nov 19 and 31 May 20, the value of loans in arrears (any deal, aside from those in forbearance, which have not paid in line with obligations) jumped by £9.1m. In the following 6m period ending 30 Nov 20, this declined by £6.5m. **The value of loans in forbearance, after jumping to £25m in Jun 20, reduced to £2.6m.**

Forbearance, £m



Source: Company

To conserve cash in a period of high uncertainty, no dividend was declared for FY 20. In the light of continuing uncertainty, the Board has, correctly in our view, deferred any decision on dividend payments until the results of the FY ending 31 May 2021 are known. It has also not yet reinstated guidance on financial projections.

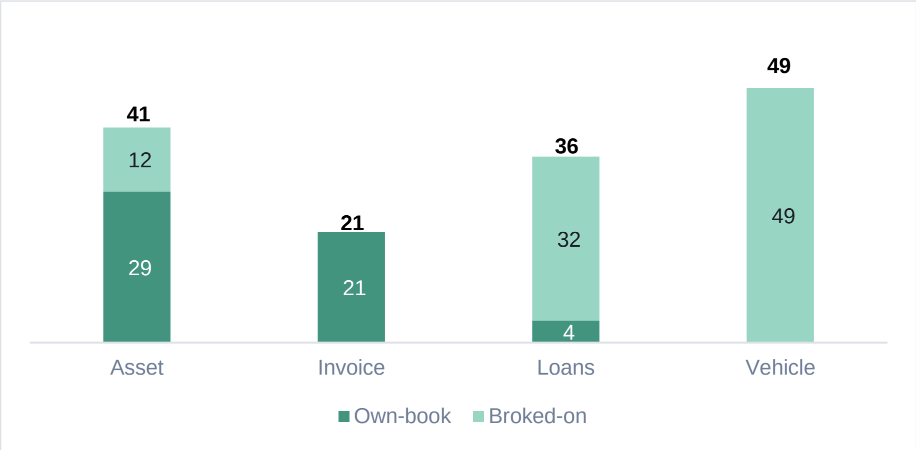
Lending strategy

Time pursues a hybrid model of underwriting some loans on its own balance sheet ('own-book' lending) and acting as a broker for some loans underwritten by others ('broked-on' business).

The primary logic to this strategy is that it allows Time to present a wide multi-product offering to its core target market of smaller UK SMEs – a powerful market-facing offering which allows it to deepen relationships with brokers (by placing the deal for them) and end clients by providing a one-stop-shop for the loan financing demands of this market.

At the same time, it provides Time with the ability to maintain a clearly defined credit policy for its own-book business - sticking to core competencies and risk tolerance levels – while broking on business which falls outside of this scope. Time has taken a decision not to write any consumer or vehicle finance (SME or consumer) to own-book, hence all of this business is broked-on. Those segments of SME asset-backed finance and SME commercial loans which do not meet Time's credit criteria are also broked-on.

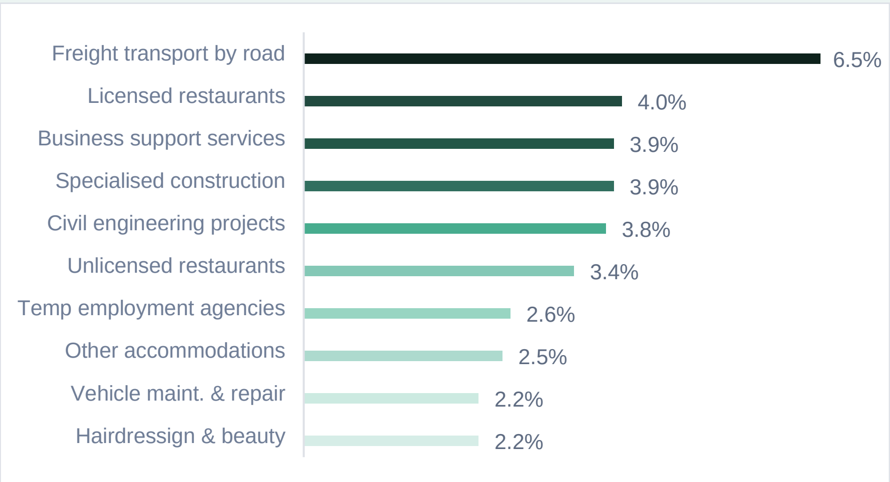
Own-book and broked-on originations by division, FY20 (£m)



Source: Company reports.

The group maintains a 'spread' in its lending activities, with diversity across new business introduction channels, asset types and categories, lending products, SME business sectors, geography, deal size and deal quality. Specifically, **there are no major sector-specific concentrations of risk**.

Top 10 sector exposures by principal outstanding



Source: Company reports.
Data as at 31 May 2020.

Lending capital for own-book business is secured through a range of debt funding arrangements from institutions (primarily) which is then used to lend-on to UK SMEs. Each lending division has its own dedicated funding facilities. The borrowing cost of these varies between 2.1% and 7.5% with a 'blended' cost of around 4%. The blended interest charged to clients is around 16% leaving a **net interest margin of around 12%**. Funding facilities are repaid in monthly instalments and security is provided to each lender in the form of an assignment of underlying leases, loans or invoice receivables.

Existing facilities are far from fully utilised and provide Time with **ample 'headroom' for further organic growth**. The company has reported that funding partners have been supportive throughout the pandemic and all funding facilities remain in place. A summary of funding facilities, as at 31 May 2020, is shown below. **As at 30 Nov 20, total facility capital stood at £170m with £97m headroom.**

Key Funding Lines

Products funded	**Facility**	**Providers**	**Facility capacity**	**Facility used** (31 May 20)	**Headroom** (31 May 20)
All	Bank overdraft	Natwest	£1m	£0m	£1m
Asset Finance	Block funding lines	Includes: British Business Bank Hitachi Siemens Aldermore Walbrook Weslyan	£103m	£47m	£56m
Invoice Finance	Back-to-back facility	RBS IF	£42m	£12m	£30m
Loan Finance	Block funding lines Secured Medium Term Loan Notes	As per asset finance High Net Worth Individuals	£29m	£7m	£22m
		Total	**£175m**	**£66m**	**£109m**

Source: Company reports.

The above Asset and Loan Finance facilities have no non-utilisation fees attached to them and once drawn, have a fixed interest rate.

Unlike banks, Time has **no minimum regulatory capital requirements** and there is therefore no 'direct' requirement to increase its own equity base as its loan book grows. It does however have gearing covenants attached to its funding facilities, but there is also ample headroom to grow without any need for additional equity capital. **The most stringent funding covenant demands a gearing ratio of 6 times net tangible assets, with the group's actual gearing on 31 May 2020 being 3.4x.**

Time does use some of its own capital to underwrite a share of own-book loans (typically 15-20% of each own-book loan)

Over the medium term, the strategy is to increase the proportion of own-book business. However, the relative share of own-book to broked-on business will change over time and be impacted by market cycles.

Own-book and broked-on originations, £m

Source: Company reports.

While broked-on business grew faster than own-book business between FY17 and FY19 - primarily because the markets for consumer vehicle finance and consumer property loans (which are all broked-on) have been more buoyant than the market for SME loans – this trend reversed dramatically in H1 21.

In H1, the ratio of own-book to broked-on originations was 52% (£29.6m) to 48% (27.0m). In the prior 6m to 31 May 20, 40% of originations were written own book and 60% broked-on. While both own-book and broked-on portfolios were heavily impacted by the pandemic, with its strong balance sheet and continued support of wholesale funding providers, **Time was able to adapt its own-book strategy and capture more business from those sectors with high-quality lending criteria, especially those that have traded well during the pandemic.**

This dampened the impact of the pandemic on own-book business in comparison to broked-on business.

As a consequence of increasing own-book activity, unearned interest income increased to £16.5m on 30 Nov 20 from £15.2m on 31 May 2020.

Also, a ‘de-risking’ of the book has occurred as some clients took advantage of government-backed loan schemes to settle outstanding loan balances early, and some riskier loans were placed within the government-backed Bounce Back Loan Scheme.

Asset Finance

Time's Asset Finance division lends money to UK SMEs to purchase physical assets: 'hard' assets such as plant or machinery which typically have a relatively high and tangible value that makes the asset suitable for loan security; or 'soft' assets such as office furniture or shop fittings which have little residual value that makes these assets unsuitable for loan security (so alternative forms of security is required such as personal guarantees). Hard asset lending made up 31% of originations in FY20 with soft asset lending making up 69%.

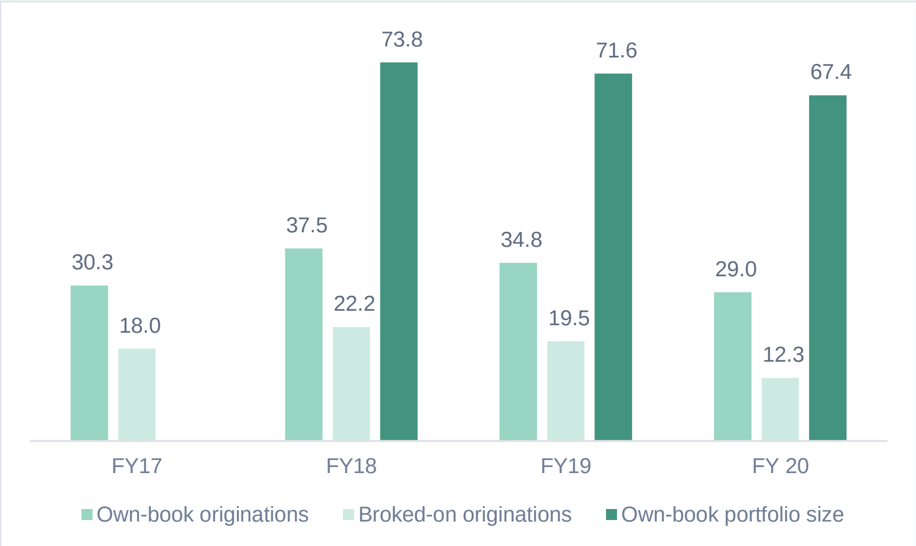
Most asset-backed loans are for 'business-critical' assets without which a small business would not be able to operate. Repayments are therefore usually prioritised by the borrower.

Lending periods are typically around three years, average deal sizes are around £50k for hard assets (but up to £500k) and £10k for soft assets, with pricing varying between 8% and 18%. Business is mostly sourced through loan brokers, equipment suppliers and vendors.

The division had been growing steadily in recent years but demand from SMEs was hard-hit by the Covid-19 pandemic with originations dropping sharply in the FY ending May 2020. The size of the loan book was also impacted by SMEs repaying loans early with capital obtained from government-backed Coronavirus Business Interruption Loan Scheme (CBILS) funding.

However, management have stated that a recovery in Asset Finance business has been evident since June, although divisional splits in lending originations are not disclosed in half-year results.

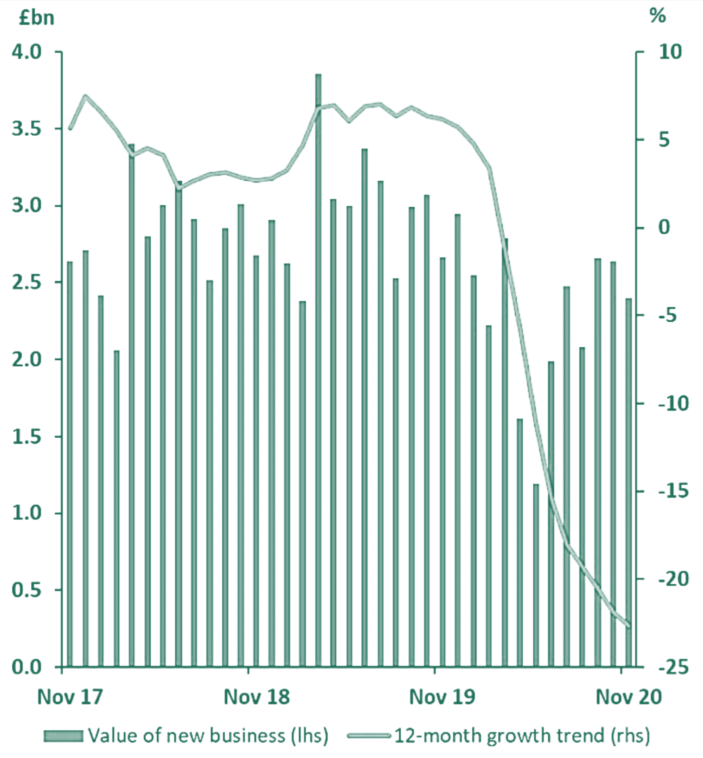
Asset finance: Loan originations, end of FY size of loan book (£m)



Source: Company reports

This trend follows that of the overall UK asset finance market as measured by the Finance and Leasing Association (FLA) which shows a dramatic fall in originations in the first wave of the pandemic with **early signs of a recovery**:

FLA asset finance new business trends



Source: Finance and Leasing Association (FLA)

Indeed, Geraldine Kilkelly, Head of Research and Chief Economist at the FLA, recently commented: "*In November, **the asset finance market recorded its smallest rate of (y-o-y) contraction in new business since the start of the pandemic**. This was despite increased restrictions across the UK to deal with rising cases of Covid-19, including a second national lockdown in England.*"[1]

FLA figures show that total asset finance new business (primarily leasing and hire purchase) fell by 10% in November 2020 compared with the same month in 2019, and that in the eleven months to November 2020, new business was 25% lower than in the same period in 2019.

However, she did also stress that an uncertain environment remains: "*UK-wide lockdowns during the first quarter of 2021 mean the near-term outlook remains challenging.*"

The prospects for bad debts in this division spiking as a result of the 2020 downturn was recognised in the full year results to 31 May 20 with provisions being raised from £1.8m to £4.2m, or from 2.5% of the average loan book to 6.2%. As at 30 Nov, Time had kept provisions at roughly the same level. This, coupled with the reductions in accounts in arrears and forbearance, would suggest that bad debt provisions are now more conservative when compared to 31 May 20. Over the next 3-4 years, we expect these provisions to return to historical levels of 2.5%-3.0% of average loan book.

[1] fla.org.uk/research/asset-finance/

Invoice Finance

Time entered the Invoice Finance business in June 2017 with the acquisition in that month of two entities specialising in invoice finance - Gener8 Finance Limited and Positive Cashflow Finance Limited.

This division lends money to SMEs against their debtors' books under two different scenarios: 'disclosed' or 'confidential' financing. Disclosed invoice financing involves financing plus a credit control service managed by Time (usually more suitable for smaller businesses). Confidential invoice financing excludes the credit control service and is usually more suitable for larger businesses with a robust internal credit control function.

Average facility sizes are between £250k and £500k (but up to £1m). Interest rates are typically around 4% but this business does attract significant fee income (such as for managing credit control), so average revenue is actually around 13%. Business is mostly sourced through insolvency practitioners and professional firms.

Business is written entirely to own book. **Originations have continued to grow since 2017** but the size of the invoice finance lending book does fluctuate quite significantly as facilities are drawn down (when invoices are issued) and repaid (when debtors pay).

Invoice finance: Loan originations and FY-end size of loan book, £m

Source: Company reports

The Invoice Finance division continues to have a relatively low level of bad debts, with provisions in the year end to 31 May 20 being raised from £0.2m to £0.4m, or from 0.5% to 1.1% of average loan book.

Loans

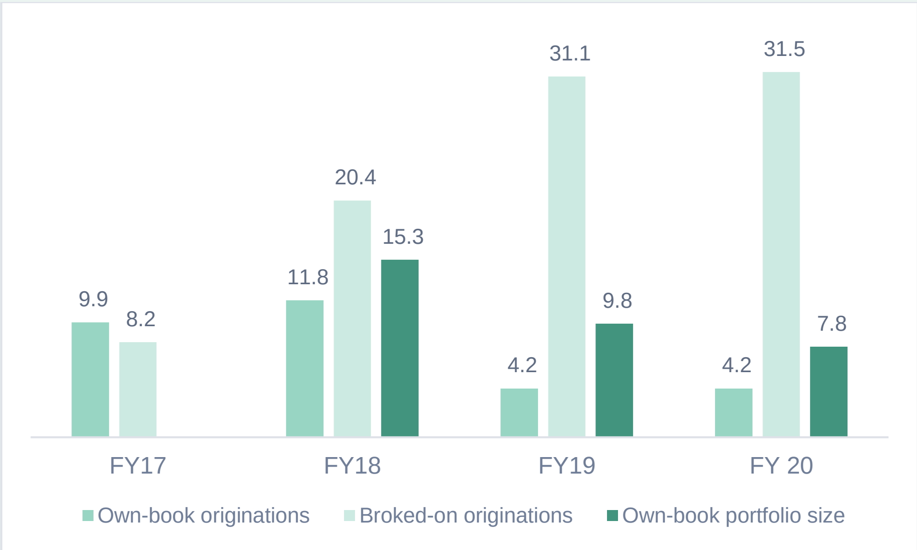
The Loans division of Time provides: commercial loans to UK SMEs (mostly loans to fund working capital requirements backed by personal guarantees); CBILS loans to UK SMEs (which are guaranteed by the UK government); and property loans to consumers (residential and commercial mortgages, bridging loans, buy-to-let loans).

Those commercial loans which meet Time's credit criteria are written to own-book with the balance broked-on; CBILS loans are written to own-book; and all property loans are broked-on.

The size of own-book commercial loans averages around £20k (but can be up to £250k) with CBILS loans averaging around £100k. Average pricing for own-book loans is around 16%. Business is mostly sourced through loan or mortgage brokers.

Over the last few years, cautious underwriting has resulted in a lack of growth in own-book originations and a decline in the size of the own-book portfolio.

Loans: Loan originations and FY-end size of loan book, £m



Source: Company reports

Like asset finance, bad debt provisions in the own-book loan division portfolio were increased significantly in the year to 31 May 2020 from £0.2m to £0.3m, or from 1.6% to 3.4% of the average loan portfolio.

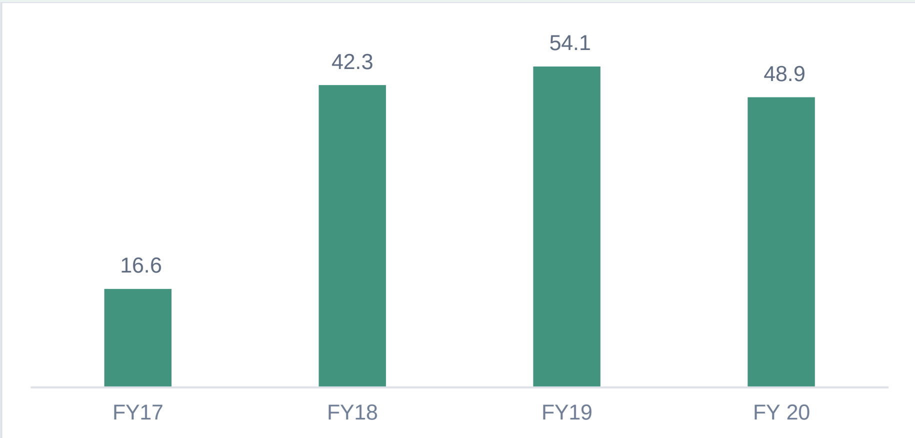
Vehicle Finance

Time's Vehicle Finance division offers loan finance to SMEs to purchase or lease commercial fleets and to consumers to purchase or lease new or second-hand cars.

It acts only as a broker for this business and writes no vehicle finance to its own book, which provides additional **diversification to Time's income streams**. Indeed, this was the original rationale for entering this market which was done via the acquisition of Academy in 2015. Business is sourced through vehicle dealerships and also via online direct channels.

The division has not been heavily affected by the Covid-19 pandemic.

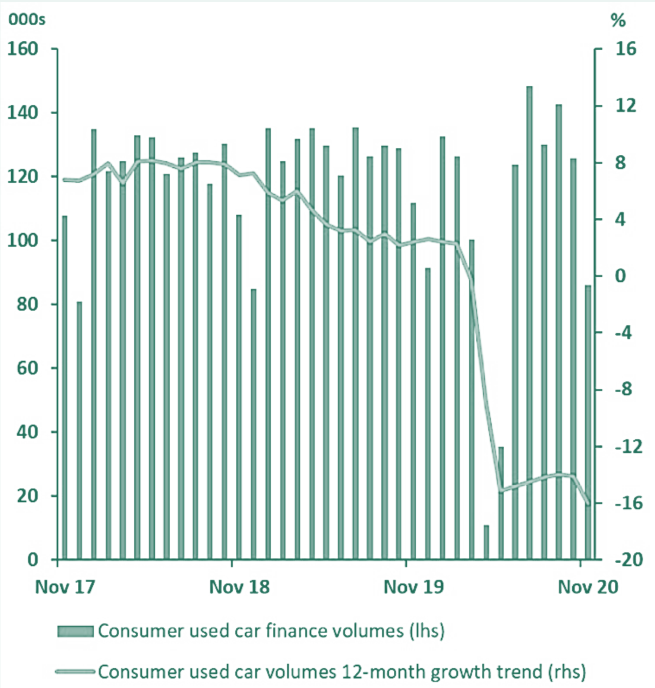
Vehicle Finance: Loan originations (broked-on), £m



Source: Company reports

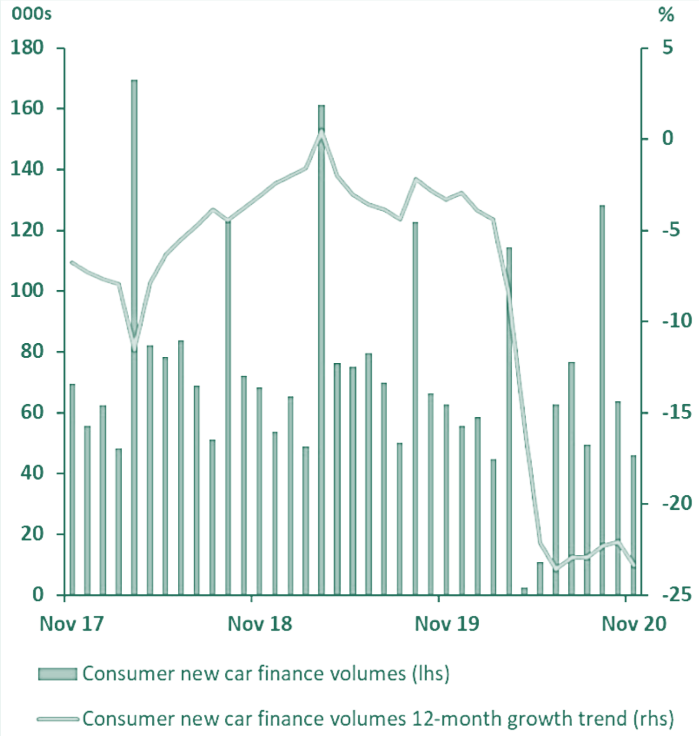
Market statistics for both used and new car finance reflect a sharp fall at the start of the pandemic followed by a rapid recovery:

FLA USED-CAR finance new business trends



Source: Finance and Leasing Association (FLA)

FLA NEW-CAR finance new business trends



Source: Finance and Leasing Association (FLA)

Management

Time is led by a highly experienced team with strong track records, deep sector-specific knowledge, and strategy-specific knowledge (high-growth businesses and buy-&-build strategies). The key individuals are:

Ian Smith, Chief Executive Officer. Ian is a qualified accountant with 30 years' board-level experience in finance and CEO roles. He has been Time CEO since January 2016 and under his leadership, the business has nearly tripled in size.

In previous roles Ian was Group Finance Director of LSE-listed UK Safety Group plc, CFO and CEO of Surface Technology Systems plc (which floated on AIM during his tenure), and CFO of UDEX Holdings Limited and Q Chip Limited – both of which secured successful shareholder exits during Ian's tenure.

In January 2021, the group announced that Ian will be leaving Time and that a new CEO will be appointed to lead the group through its next growth phase. A search to appoint a successor is currently underway.

James Roberts, Chief Financial Officer. James joined Time as CFO in 2017. He is a qualified accountant who started his career with PwC and has held leadership positions with several AIM listed companies.

He has significant experience in mergers and acquisitions within high-growth businesses including Jelf Group plc (an acquisitive insurance and financial planning business) and Horatio Investments (an investment company providing funding to start-up and early-stage businesses across the UK).

Immediately prior to joining Time, he was Finance Director of Catalyst Finance, a business also operating in the UK SME invoice and commercial finance sector.

Jennifer Bodey, Head of Governance & Compliance, IR & Company Secretary. Jennifer has had a career in financial services spanning more than two decades. The first 17 years were spent with the FSA / FCA before joining Time in 2018. During her regulatory career she supervised firms of all sizes and held also roles with responsibility for risk management, strategic planning and internal governance. Since joining Time as Head of Compliance, Jennifer's role has expanded to also include responsibility for operational risk management and governance. In addition to her Head of Compliance role, Jennifer is also the Company Secretary and Group MLRO.

Lorraine Neyland, Head of Risk. With an Asset Finance background spanning 30 years, Lorraine has built a robust reputation within risk management. She managed and led teams within Bank of Scotland, Lloyds Bank and Bibby Leasing.

Carol Roberts, Head of Asset Finance. With extensive experience in financial services, including 35 years as a Managing Director with GE Capital and Bibby Financial Services, Carol is a Board member of the Finance & Leasing Association and the Leasing Foundation.

Phil Chesham, Head of Invoice Finance. Phil has over 30 years of experience in Invoice Finance with a proven track record in client management and new business. He was a co-founder of Positive Cashflow Finance, which was acquired by Time Finance in 2017.

Alun Winter, Head of Loans. Alun was founder of Intelligent Loans, which fast became a leading property financial brokerage before being acquired by Time Finance. This acquisition established the Group's Loan division, which Alun continues to lead.

Shareholdings

The largest shareholdings in the group and directors' shareholdings are shown in the tables below.

Significant shareholdings	
Cloverleaf 374 Limited (Wellesley Group Investors Limited)*	19.7%
GPIM Limited	19.1%
Ron Russell (non-exec)	12.2%
Aeternitas Imperium Privatstiftung	3.9%

*Source: Time Finance, data as at 11/12/20 *NB holding moved on 12/01/21 to Wellesley Finance Limited*

Director shareholdings	
Ron Russell (non-exec)	12.2%
Ian Smith (CEO)	0.2%
Julian Telling (non-exec)	0.2%
John Newman (non-exec chairman)	0.2%
James Roberts (CFO)	0.1%

Source: Time Finance, data as at 11/12/20

There have been significant changes to the shareholding structure during the pandemic, with a number of transactions demonstrating confidence in the prospects of the group.

Cloverleaf 374 Limited (ultimately owned by Wellesley Group Investors Limited) acquired its full 20% stake in May 2020. According to Wellesley Group, this investment of £3.7m was seen as a 'strategic and time sensitive opportunity' (the 1pm share price had fallen 21% from a Jan 20 high of 37.5p to the 21p paid by Wellesley) and is held as a long-term investment.

GPIM Limited, an investment management firm with a discretionary investment management mandate to act on behalf of clients, **increased its stake from 15% in Nov 20 to 19% by Dec 20.**

Aeternitas Imperium Privatstiftung **increased its stake from 3% to 4% in Oct 20.**

Furthermore, in Nov 20 directors Ian Smith (CEO), James Roberts (CFO) and John Newman (Chairman) all acquired additional shares (0.11% in the aggregate). The total ownership by directors is 13% with the largest ownership being that of Ron Russell, a long-time non-executive (appointed 2009).

The above shareholdings result in 52% of shares not being in public hands, leaving a **significant free float of 48% for other investors.**

Strategy and outlook

Prior to the Covid-19 pandemic, Time had set itself a range of medium-term (by 2024) growth ambitions, including achieving:

- UK-wide coverage;
- a loan portfolio of around £200m from organic growth (net portfolio excluding unearned interest);
- a loan portfolio of around £300m including acquisitive growth (net portfolio excluding unearned interest);
- a staff complement of ~300; and
- originations of around £300m per annum.

The pandemic has obviously been a significant setback to achieving these ambitions, and although the Board has withdrawn financial guidance, management believe these ambitions are realistically achievable, albeit perhaps 18-24 months later than originally planned.

The recent re-brand from 1pm to Time Finance marks a consolidation of the last five years of buy-&-build growth. **Covid-setbacks aside, the group has successfully met its target financial and strategic metrics, and built a larger-scale, more diversified lender, with a more attractive market offering from which the next phase of growth can be launched.**

The re-brand provides a number of advantages:

- A simplified message and story (advantageous in attracting new introducers, clients, funding partners and acquisition targets);
- A strengthened 'sense of group' (which should further strengthen staff morale and interactions between group companies);
- An opportunity for further synergies (such reduced marketing, branding and support structure costs);
- Enhanced cross-selling potential (it is far easier to refer business to an entity with a common brand); and
- Ease of new product development and roll out.

Time is obviously partly dependent on the pace of UK economic recovery, and in particular, the recovery in demand for SME lending. While the pace of this recovery remains uncertain, we do believe it will accelerate in the next few years, given the likelihood of a return to 'more normal' economic activity as Covid-19 vaccines are rolled-out, a higher level of certainty provided by the post-Brexit UK-EU free trade agreement (FTA), and the high likelihood of new FTAs being struck with other markets.

We also believe that Time is in **a strong position to gain market share**. It has strengthened its market-facing offering with more products and a new brand, backed up by robust and competitive funding facilities.

Valuation: peer comparison

When the Board reinstates guidance, we intend to produce a five-year forecast for Time and our fundamental valuation of the business. Until then, we shall only highlight some observations from a peer comparison.

Time appears to be undervalued compared to peers, with peer group valuation ratio medians roughly double those of Time.

The peer group selected for comparison all have significant parts of their businesses that overlap with Time's core business – SME lending. While it is a peer group that certainly has limitations in terms of direct comparisons (a mix of bank and non-bank lenders, a range of market capitalisations, and differing year-ends making Covid-impact comparisons difficult) the analysis does produce some telling insights.

Most notably, the median price-to-book ratio of the peer group is 1.0, compared to the 0.4 of Time. Current PER comparisons are virtually meaningless, as some peers have not yet reported a set of full-year results that include some impact of the pandemic (mostly those with a 31 Dec year-end). These companies, such as Secure Trust Bank, have very low current PER's. Meanwhile, those that have already reported on the impact of the pandemic (including Time, PCF Group, and Close Brothers), have high current PERs because of their depressed most recent earnings.

However, it is worth comparing pre-pandemic PERs to get a perspective on relative valuations. **In January 2020, the median PER of the peer group was 11.0, compared to 5.0 of Time.**

It is also worth noting that five of the eleven companies were making losses pre-pandemic, with six now making losses. This makes Time's current position of profitability even more impressive, suggesting it might command a premium valuation within this peer group, not the discounted valuation that it currently does.

Peer Comparison

Name	Fin YE	Type	Mkt cap, £m	1Y Share price*	PER 15/01/20	PER 15/01/21	Price to Book 15/01/21
Close Brothers	31-Jul	Bank	2117	-14.0%	12.2	19.3	1.46
Funding Circle	31-Dec	Non-bank	318	-2.1%	-	-	1.00
S&U	31-Jan	Non-bank	269	3.7%	8.9	9.3	1.50
Metro Bank	31-Dec	Bank	228	-33.3%	-	-	0.14
Secure Trust Bank	31-Dec	Bank	168	-45.5%	9.9	5.4	0.66
Duke Royalty	31-Mar	Non-bank	68	-47.3%	45.7	-	0.92
Distribution Finance	31-Dec	Bank	66	-31.9%	-	-	1.02
City of London	31-Mar	Non-bank	65	-39.6%	-	-	2.61
PCF Group	30-Sep	Bank	63	-27.5%	12.8	41.7	1.05
Time Finance	**31-May**	**Non-bank**	**22**	**-32.9%**	**5.0**	13.9	**0.40**
GLI Finance	31-Dec	Non-bank	18	-21.1%	-	-	0.45
Median				**-31.9%**	**11.0**		**1.0**

*15 Jan '20 – 15 Jan '21
Where no PER is shown it is negative
Source: ADFVN. Company reports.

If Time continues to recover from the impact of the pandemic, we see significant upside potential for the share price on a rerating.

Investment case

In summary, investors in Time are backing:

- a lender which has already started to recover quickly from the Covid-induced slump in lending demand and spike in bad debt provisions, and is poised to return to a period of high-growth that is both organic and inorganic;
- which has developed an attractive market proposition, with a powerful multi-product offering, recently consolidated under a new group-wide single brand which offers a number of advantages such as cross-selling and cost reduction opportunities;
- with access to ample, relatively inexpensive capital that can be deployed to fuel growth;
- which has diversity across income streams and sectors that reduce risk; and
- appears undervalued on a peer comparison basis.

Appendix – Historical financials

Consolidated Income Statement					
12 months to end May, £'000s (H1 = 6 months to end Nov)	**2018A**	**2019A**	**H1 20 A**	**2020A**	**H1 21A**
Revenue	30,013	31,814	15,570	29,062	11,698
Other income	-	-	-	182	165
Total Revenue	**30,013**	**31,814**	**15,570**	**29,244**	**11,863**
Cost of sales	(10,118)	(10,271)	(5,537)	(13,319)	(4,315)
Gross Profit	**19,895**	**21,543**	**10,033**	**15,925**	**7,548**
Administrative expenses	(11,979)	(13,292)	(6,794)	(12,793)	(5,794)
Exceptional items	254	(221)	(122)	(909)	(224)
Share-based payments	(204)	(3)	(51)	(31)	-
Operating profit	**7,966**	**8,027**	**3,066**	**2,192**	**1,530**
Finance costs	(179)	(218)	(58)	(181)	(179)
Finance income	63	67	2	9	-
Profit before tax	**7,850**	**7,876**	**3,010**	**2,020**	**1,351**
Income tax	(1,448)	(1,524)	(572)	(465)	(257)
Profit after tax	**6,402**	**6,352**	**2,438**	**1,555**	**1,094**
Adjusted earnings before interest, tax, exceptional items and share-based payments					
Statutory profit before tax	7,850	7,876	3,010	2,020	1,351
Add back:					
Exceptional items	254	(221)	(122)	(909)	(224)
Share-based payments	(204)	(3)	(51)	(31)	-
Adjusted profit before tax	**7,800**	**8,100**	**3,183**	**2,960**	**1,575**

Source: Company Historic Data

Consolidated Balance Sheet

As at 31 May, £'000s (H1 as at 30 Nov)	2018A	2019A	H1 20A	2020A	H1 21A
Assets					
Non-current assets	**80,588**	**81,413**	**74,214**	**77,063**	**80,006**
Goodwill	27,847	27,847	27,847	28,241	28,241
Intangible assets	465	493	430	526	507
Property, plant and equipment	1,612	1,418	1,380	767	570
Right of use property, plant and equipment	-	-	-	428	338
Trade and other receivables	50,096	50,710	43,599	46,157	49,397
Deferred tax	568	945	958	944	953
Current assets	**78,012**	**76,283**	**89,585**	**61,527**	**60,267**
Inventories	365	-	-	-	-
Trade and other receivables	75,577	74,432	87,291	60,038	57,182
Tax receivable	-	-	-	185	-
Cash and cash equivalents	2,070	1,851	2,294	1,304	3,085
Total assets	**158,600**	**157,696**	**163,799**	**138,590**	**140,273**
Liabilities					
non-current liabilities	**36,762**	**31,075**	**30,744**	**28,877**	**24,808**
Trade and other payables	33,256	29,805	30,744	28,639	24,657
Financial liabiities - borrowings	1,603	469	-	-	-
Provisions	1,903	801	-	-	-
Lease liability	-	-	-	238	151
current liabilities	**74,159**	**72,841**	**76,970**	**54,490**	**58,907**
Trade and other payables	69,398	67,563	71,335	51,052	54,202
Financial liabiities - borrowings	2,625	3,278	3,425	2,407	4,343
Tax payable	918	1,309	967	287	176
Provisions	1,218	691	745	546	-
Lease liability	-	-	-	198	186
Total liabilities	**110,921**	**103,916**	**107,714**	**83,367**	**83,715**
Equity					
Called up share capital	8,621	8,760	8,899	8,899	9,037
Share premium	24,721	25,134	25,360	25,360	25,543
Employee shares	295	298	298	-	-
Treasury shares	(300)	(300)	(300)	(310)	(390)
Retained earnings	14,342	19,888	21,828	21,274	22,368
Total equity	**47,679**	**53,780**	**56,085**	**55,223**	**56,558**
Total equity and liabilities	**158,600**	**157,696**	**163,799**	**138,590**	**140,273**

Source: Company Historic Data

Consolidated Statement of Cash Flows

12 months to end May, £'000s (H1 = 6 months to end Nov)	2018A	2019A	H1 20A	2020A	H1 21A
Cash generated from operations					
Profit before tax	7,850	7,876	3,010	2,020	1,351
Depreciation & amortisation	571	778	364	883	380
Finance costs	179	218	58	181	179
Finance income	(63)	(67)	(2)	(9)	-
(Gain) on disposal of property plant & equipment	(30)	-	-	-	-
Decrease/(increase) in inventory	(230)	365	-	-	-
Decrease in trade and other receivables	2,854	531	(5,748)	18,947	(384)
(Decrease) in trade and other payables	(9,854)	(5,286)	4,711	(17,677)	(833)
Movement in other non-cash items	(453)	(1,131)	15	612	933
Cash flows from operating activities					
Interest paid	(179)	(218)	(58)	(181)	(179)
Tax paid	(1,612)	(1,510)	(913)	(1,488)	(368)
Tax received	-	-	-	-	-
Net cash flows from / (used in) operating activities	**(967)**	**1,556**	**1,437**	**3,288**	**1,079**
Investing activities					
Acquisition of subsidiaries	(9,879)	-	-	(500)	-
Purchase of software, property, plant and equipment	(1,034)	(778)	(261)	(375)	(119)
Proceeds from sale of fixed assets	278	-	-	-	-
Contingent consideration paid	-	(533)	(367)	(565)	(197)
Interest received	63	67	2	9	-
Net cash flows from / (used in) investing activities	**(10,572)**	**(1,244)**	**(626)**	**(1,431)**	**(316)**
Financing activities					
Payment of lease liabilities	-	-	-	(218)	(109)
Loan repayments in the year	(1,001)	(1,237)	(621)	(991)	(435)
Loans issued in the year	300	756	300	-	3,100
Purchase of own shares in EBT	(300)	-	-	-	(80)
Proceeds from issue of share capital	13,040	-	-	-	-
Transactions costs related to share issue	(853)	-	-	-	-
Change in overdrafts (Invoice Finance)	-	-	-	(349)	(729)
Dividends paid to equity holders	(419)	(806)	-	(498)	-
Net cash flows from / (used in) financing activities	**10,767**	**(1,287)**	**(321)**	**(2,056)**	**1,747**
Net incr/(decr) in cash & equivalents	**(772)**	**(975)**	**490**	**(199)**	**2,510**
Cash & equivalents brought forward	2,078	1,306	331	331	132
Cash & equivalents carried forward	**1,306**	**331**	**821**	**132**	**2,642**

Source: Company Historic Data, ED estimates

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