12th September 2017

hardman&co

1pm plc

Financing powerhouse: A lunchtime treat

1pm offers a unique exposure to the attractive UK, non-bank, SME financing market. We believe it can deliver superior growth from: (i) focussed business units delivering high service levels, (ii) the market trend away from bank finance, and (iii) group synergies in funding, centralised processing and cross-selling. Credit risk is key and 1pm adopts appropriate controls in each of its units, and at the Group level. Funding risk is also tightly controlled. Recent acquisitions look well priced and create strategic optionality as well as earnings diversity. We forecast EPS growth of 27% 2019 on 2017, for which investors are paying a 2019e PE of c6x.

- **Strategy**: After recent acquisitions, 1pm can provide all the major SME financing products through all the distribution channels. It is optimising discrete business brands with appropriate central efficiency, and the balance between broked and on-book loans. 1pm tightly controls credit, funding and customer behaviour risk.

- **Attractive market and market position:** We see a huge opportunity to take share (current level c 0.1%) in a market showing consistent growth. The group's above average risk is more than compensated for in a higher yield. 1pm is already delivering low teens RoE and we expect this to increase.

- **Valuation:** We detail the assumptions in dividend discount and Gordons growth models later. The average indicates an end 2018 value of c88p (GGM 103p, DDM 72p, DDM normal pay-out 81p). The current 2019e PE of 5.8x and P/B of 0.7x appears highly inconsistent with the group's profitability and growth.

- **Risks:** Credit risk is a key factor and is managed by each business unit according to its own specific characteristics, with a group overview of controls. Funding is widely diversified and at least matches the duration of lending. Acquisitions would appear well priced and delivery of synergies provides earnings upside.

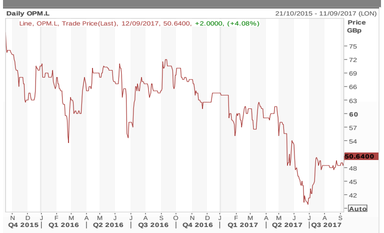
- **Investment summary:** 1pm offers strong earnings growth, in an attractive market, where management is tightly controlling risk. Targets to more than double the market capitalisation appear credible with triggers to a re-rating being both fundamental (delivery of earnings growth, proof of cross selling) and sentiment (payback for management actively engaging the investor community). A profitable, growth company should trade well above NAV.

Financial summary and valuation

Yr end May (£000)	2015	2016	2017	2018E	2019E
Revenue	5,534	12,554	16,944	29,596	32,946
Cost of sales	(2,503)	(4,480)	(6,094)	(9,650)	(10,604)
Admin expenses	(1,394)	(4,290)	(6,469)	(11,034)	(12,201)
Operating profit	1,637	3,418	4,121	8,621	9,825
Pre-tax profit	1,620	3,346	4,080	7,883	8,971
Adj EPS (p)	3.7	6.5	6.5	7.8	8.2
Total receivables	24,991	56,061	73,955	145,123	162,538
Equity to recbls (%)	49%	43%	39%	34%	35%
Shares in issue (m)	36.9	52.5	54.9	86.4	88.5
P/ Adj Earnings (x)	12.9	7.4	7.4	6.2	5.8
P/BV (x)	1.4	1.1	0.9	0.9	0.7
Yield	0.7%	1.0%	1.0%	1.3%	1.7%

Source: Hardman & Co Research

Financials



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	OPM
Price (p)	48.0
12m High (p)	70.5
12m Low (p)	40.3
Shares (m)	83.8
Mkt Cap (£m)	40.3
EV (£m)	39.3
Free Float*	41%
Market	AIM

**As defined by AIM Rule 26*

Description

1pm is a finance company / broker providing c16k UK SMEs with a variety of products including loans, lease, hire purchase, vehicle and invoice finance. Advances range from £1k-500k. The company distributes directly, via finance brokers and vendor suppliers.

Company information

CEO	Ian Smith
CFO	James Roberts
Chairman	John Newman

Tel number: 01225 474230
www.1pm.co.uk

Key shareholders (17 July 2017)

Lombard Odier	19.91%
Ronald Russell (director)	12.20%
Henderson Global	11.78%
Charles Stanley & Co	10.03%
Mike Nolan (director)	3.2%

Next event

9 Oct	AGM + trading update
Jan 18	Interim Results (Nov)

Analysts

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Executive summary

1pm is in an attractive market

SME numbers showing steady growth. Huge market share opportunity

The number of SME's in 1pm's target markets is growing steadily. More critically 1pm, post its acquisitions, is well positioned to take considerable market share from a very low base (<0.1%). The banks, by far the largest players, have been shrinking their lending and government initiatives are highly favourable for a challenger like 1pm. The business is profitable and in a growth market.

1pm offers company specific growth

1pm has specific opportunities to grow earnings faster than this attractive market.

1pm also offers company-specific growth. Its focus in niche areas, and managing each product brand, separately, should deliver better service which will, in turn, attract more business. Following recent acquisitions, we see significant opportunities to cross sell, reduce funding costs and manage some central efficiencies. We expect strong organic growth with better funding and more brokers.

Credit risk well controlled and built into yield

Controls tailored to specific product / customer risks. Experienced management team

Risk rewarded by yield

Credit risk is managed primarily within each business unit reflecting the specific risk dynamics of each customer base and product. We believe this is eminently sensible and the processes adopted by the group reflects its extensive experience as a lender. Compared with mainstream lending, we believe loan / lease credit risk is higher (current losses c 3x, 66bp above challenger banks) but the yield more than compensates for this (2.5x higher or 10% above). The losses since inception at Gener8 (£38k) and Positive Cashflow (£155k since 2007) are exceptionally low.

Other risks also well controlled

Other risks also well controlled. Companies whose strategy requires acquisition, have not rewarded shareholders well. However carefully targeted acquisitions at the right price, and strategically enhancing the business, can add value. We believe 1pm falls into this latter category with an estimated forward, post-synergy PE on recent deals of just 6x. Funding is well diversified and has longer duration than lending. Other risks appear modest.

Compelling valuation re-rating triggers

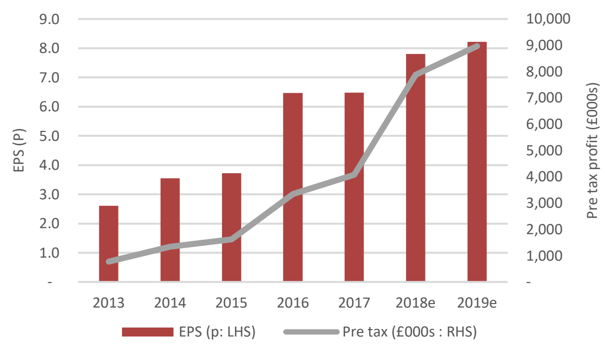
Near doubling of share price credible on both absolute and relative measures

We believe a price below NAV is inconsistent with 1pm's growth and profitability profile. Our valuation approaches indicate an average upside of 83%. 1pm's market capitalisation of £40m is only marginally above the £34m it has spent on acquisitions over the past two years, and implies a minimal value for its original, strong-growth and profitable business. We detail in the section on Acquisition Risk (below) why we believe the acquisitions were both well priced and strategically enhancing.

Triggers include delivery of expected earnings, achieving group synergies, greater investor engagement

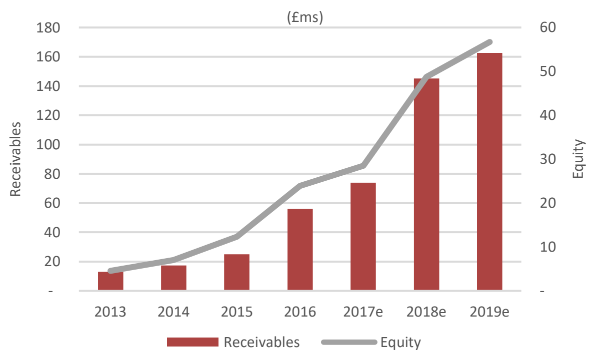
Over the next two years we see several triggers, both earnings and sentiment driven, for a re-rating. Management maintaining the FY17 dividend, despite the post period share issue is a real sign of their confidence. Firstly, delivery of our forecast earnings growth will prove the model works and we believe enhance the new management's credibility. Second, this will be re-inforced with announcements crystallising potential group synergies: e.g. a re-financing of debt at lower cost on better terms. Third the new management is pro-actively engaging with investors to broaden the distribution of the message about the new business model and its opportunities.

Pre-tax profit and EPS 2013 to 2019e



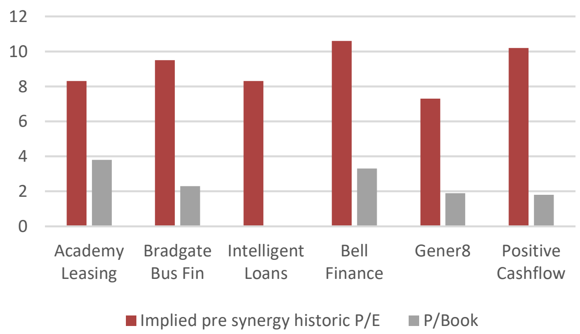
- Group changed dramatically over past two years. Despite the number of shares rising 3.8x (2019e on 2013) EPS is still expected to more than treble over the period.
- Sharp increase in pre-tax profits driven by acquisitions. Supported by double-digit underlying organic growth.
- With the transformation of the group in the past two years, investors should not place undue reliance on pre 2016 numbers.

Receivables and equity 2013 to 2019e



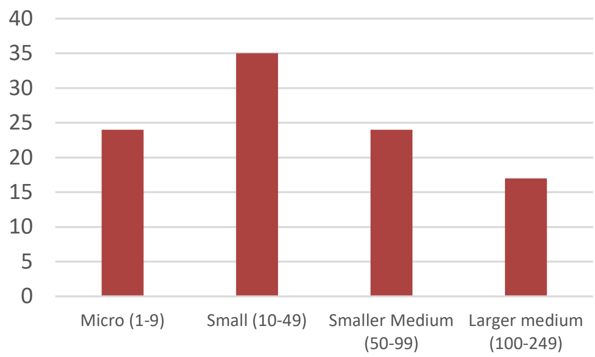
- Acquisitions driven strong receivables growth with double digit organic growth
- Opportunity to accelerate organic growth with cross selling opportunities, a key management focus.
- Balance sheet gearing stable with equity rising in line with receivables.
- Retained equity over period we estimate in excess of £22m. c£30m issued as consideration and to investors.

Price multiples for recent acquisitions



- Price to historic earnings range from 7-10x.
- Lower PE paid where there was no element of contingent consideration.
- Post synergy, year 2 prospective PE we estimate at c6x.
- Price to book ranged from 1.8-4.3x but reflects how the vendor wanted to get value from business and accounting issues.

Customers who feel bank does not understand them by number of employees



- Banks currently provide c£110bn of loans and overdrafts to SME customers.
- At smaller end, a significant proportion of business customers feel they are not understood.
- We are forecasting end 2019 1pm group receivables of £163m, 0.15% of the bank current financing. A tiny loss of share by the banks is a huge opportunity for 1pm.

Source: Company data; Hardman & Co Research

Company description

Summary

1pm is a finance company / broker lending to c16k UK SMEs with a variety of products including loans, lease, hire purchase, vehicle and invoice finance. Advances range from £1k-500k. The company distributes directly, via finance brokers and vendor suppliers

1pm is a finance company lending to UK SMEs with a broad range of products including asset finance (brands: Onepm Finance, Academy Leasing and Bradgate Business finance), business loans (brands: Onepm Finance, and the broker Intelligentloans.com) and invoice finance (brands Gener8 Finance and Positive Cashflow Finance). Unlike most lenders 1pm has built a broking capacity allowing flexibility when credit conditions or customer behaviour changes. It has been building its product range through company and portfolio acquisitions having completed six material deals over the past two years – the full benefit of which we only expect to be visible in the financial year ending May 2019. Advances range from £1-500k with both direct and broker distribution. Customers have historically been near prime, with yields (averaging c17%), write offs net of recoveries (average less than 1% 2012 to 2017) and costs reflecting both this risk and the relatively small amount of the average loan. More recent acquisitions, especially invoice finance, have more prime customers, lower expected losses and better cost ratios. It now has 152 employees across 7 sites. In FY17 it originated £83m in lending / broked deals and serves circa 16,000 SMEs customers.

Corporate History

Company transformed over past two years

1pm has been transformed into a broad SME financing business over the past two years (details in Figure 1 below). This has built a platform from which to generate economies of scale, improved funding terms, access and certainty, transfer best practices and cross-sell referrals. We would expect any further corporate activity to be tactical bolt-on rather than strategic development.

Figure 1 – Corporate history: company transformed over past two years

Date	Event
August 2006	1pm admitted to Aim raising £1.3m. At this stage, it was a sub prime SME lender.
Nov 2009	Underwriting criteria expanded to increase lending to established businesses and improve the credit profile.
March 2012	Asset range for lending widened, and maximum facility increased to £50k again to improve asset quality.
August 2015	Academy Leasing Ltd consideration £11.8m (£6m cash, £1m loan, £2.4m shares, £2.6m def shrs) and £7.26m equity raised.
March 2016	Acquisition of Bradgate Business Finance for £2.75m (£2.2m cash plus deferred £0.55m in shares).
May 2016	Acquisition of book of 1,000 SME vehicle finance lease receivables with gross book value £2.0m consideration £1.6m.
March 2017	Acquisition of Intelligent Loans brokerage business for £2m (£1m cash, £0.2m shares, £0.8m deferred shares).
March 2017	Establishment of £7.5m secured loan Note Programme (£1.1m drawn immediately, further £1.23m drawn in May).
April 2017	Acquisition of Bell Finance (“hard” asset finance) for £3.4m £2.3m cash, deferred cash of £0.3m and an £0.8m earn out.
May 2017	Acquisition of Tracx Finance (Gener8 Finance) for £5.25m cash consideration, taking group into invoice financing.
May 2017	Placing and open offer of £13m. Increasing shares in issue by 29m, 50%.
June 2017	Acquisition of Positive Cashflow for £9m (£4.3m cash, £2.2m 3 year loan, £2.5m deferred shares).

Source: 1pm Hardman & Co Research

Group strategy

Target to more than double market cap.

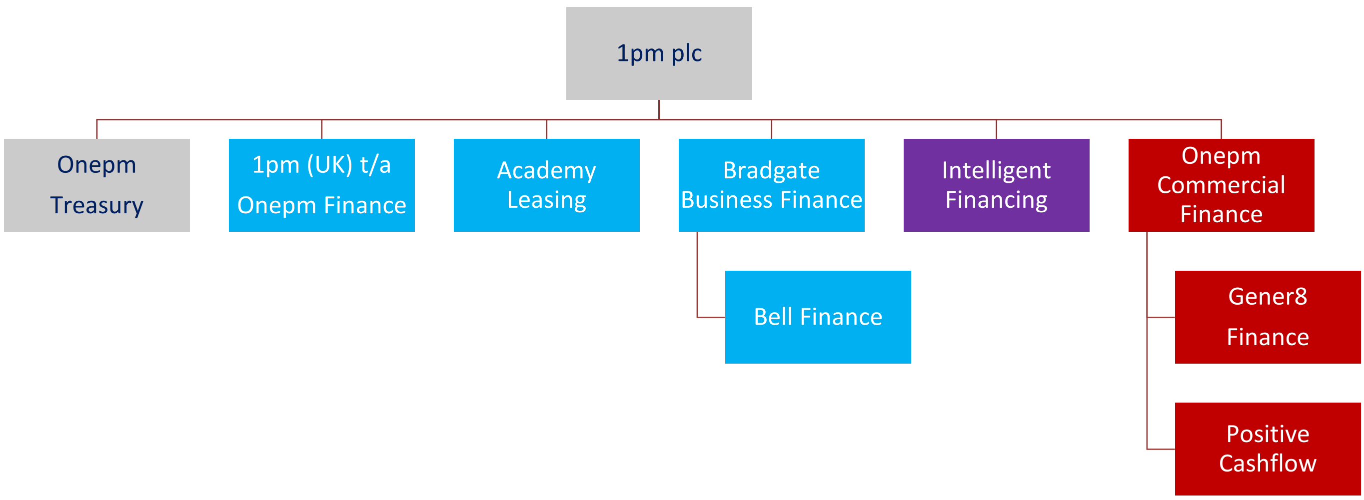
The Group strategy was outlined in 2014. The objectives were to move from a small loan/lease business into a £100m market cap business with broad product and channel distribution. Acquisitions have now built the infrastructure. Management is aiming to optimise the benefit from the platform by having niche, targeted brands offering specific products backed up by appropriate group back and mid office efficiencies and maximised cross sales. The strategy has six pillars to it.

Building scale through a model of distributed separate entities

The group is managed to optimise operational efficiency while not compromising the marketing / front office competitive advantages each of the acquired companies has brought.

A platform with broad product and distribution capacity has now been largely achieved through acquisition. 1pm now seeks to optimise sales by retaining the brand strength and product specific capabilities in each of the acquired and historic businesses. Each operation brings something unique and additional to the group and the benefit of that in the front office has been kept. By way of example, Onepm Finance, the original company is reliant on broker-introduced business, whereas Academy Leasing is all supplier and direct customer-introduced business, hence a totally different sales channel. Onepm Finance would not want its broker customers to think it was directly competing with them by going direct, so it is important to maintain the separate entities. Gener8 Finance and Positive Cashflow Finance have good 'brand' names and customer loyalty in two very distinct South and North regional markets in the UK for these products. While maintaining the front office value, 1pm will also seek operational efficiencies in the back office and central functions. Not all operations can be centralised (processing of invoices is very different from loans) but there are obvious synergies in HR, IT and funding which can be taken while still having distinct front office brands. Full details of each business are given in Appendix 1

Figure 2: Corporate structure



Source: 1pm, Hardman & Co Research

Having a multi-channel, multi-product offering

Broad reach by product, distribution channel, geography

The acquisitions have now completed this stage of the strategic development and 1pm now has a full range of channels (broker, supplier, direct), geographic coverage and products (loans, asset finance, broking, factoring and invoice finance).

Maintaining risk mitigation through funding and broking

Having a broking business helps manage credit risk but also customer behaviour risk

There are cycles within the SME financing industry where brokers are in the ascendancy and then funders are in the ascendancy, with changes from one to the other caused by availability of wholesale funding, deal price and wider economic factors. To have the ability to both fund when it suits and broke-on when appropriate is fundamental to managing this cycle, and protecting the bottom line. Furthermore, businesses like Academy and Bradgate can 'punch above their weight by undertaking larger deal, funding a portion of it and broking-on the rest, whilst managing the customer relationship and being able to remarket to that customer.

It should be noted that there is a temporary dip in revenue when the mix starts to change from predominantly commission generating broked-on business to more interest earning own-book business. The latter is more profitable over time, but due to spreading the interest, not necessarily in the early months.

Strict underwriting and credit control policies

Credit risk managed by specific characteristics in each business with broad group overview.

Above average risk more than compensated for by above average yield

We detail in the section below how 1pm goes about credit management and, in particular, how each unit, with the specific risk profile of the product and customer base, adopts credit risk processes appropriate to that business. The nature of the credit risk varies significantly and so does the risk controls, limits and procedures. 1pm's traditional loan and lease business are non-standard and the higher risk is more than compensated for yield. We note for example the loan/ lease gross yield compared with challenger banks is c3x the level (and is c10% higher) for a loss rate also c3x higher (but only an extra 65-70bp). The losses since inception at Gener8 (£38k, established 2008) and Positive Cashflow (£155k, from 2007) are exceptionally low. The group Chief Risk Officer is Mike Nolan – MD Asset Finance.

Being appropriately geared with cost-effective funding

Funding structured to lending needs. Well diversified. Opportunity to reduce cost and improve terms as a larger group

We again have a separate section on funding risk below. In summary, we believe 1pm adopts a low risk approach with highly diversified sources of funding, with funding duration at least matching lending duration and with committed lines. Optimising the funding structure is a target for the CFO, James Roberts.

Being digitally capable (Fintech)

IT upgrade as part of integration of business

Fintech elements will be introduced as part of the "Platform1" project, although data warehousing and CRM type applications (e.g. a single customer view) are the initial priorities. We understand there is a lot of process automation which can be achieved. We also believe that the group may consider a P2P type technology platform for use in loans at some stage, but this is unlikely in the immediate future.

Responsibility for delivering the IT has been given to a Fintech committee working to agreed plan of action under the direction of Ian Smith, CEO.

£100m market capitalisation target

Triggers to share price re-rating – delivery of earnings, expectations of future growth and simply delivering message to broader group of people

We see multiple drivers to increase the market capitalisation from its current level of £40m to the £100m. These include:

- Delivery of earnings growth: We are forecasting adjusted EPS in 2019 of 8.2p, 27% higher than those seen in FY17. The 2018 PEG (2018 0.3x) is undemanding and the delivery of growth is likely to see a share price re-rating.
- Delivery on strategy: Once the group can visibly demonstrate that the separate entity model is delivering the expected growth, and in particular the group cross selling synergies, the earnings stream is also likely to be re-rated.
- Greater market awareness: Management have been pro-actively engaging with a range of investors and delivering the restructured group message to an ever-broader group of shareholders.

FY17 Results (May period end)

Financial Highlights:

Revenue up 35%, cost of sales up 36%, administration costs up 51% (including investment in controls / infrastructure), profits up 17%, EPS +4%

- Revenue £16.9m (2016: £12.5m), up 35%. Within this £2.2m was commission (up 57%, FY16 £1.4m) with a greater proportion of broked-on business.
- Portfolio write-offs, net of recoveries, £0.9m, c1.0% of the gross portfolio (2016: £0.5m, 0.8%). Both these impairments, and the majority of funding costs, are included in cost of sales which in aggregate rose 36%.
- Administration expenses were £11.3m (2016 £6.5m) up 51% with investment in infrastructure and controls as well acquisition related costs.
- Profit before tax and exceptional items £4.3m (2016: £3.7m), up 17%. Basic earnings per share of 6.09 pence (2016: 5.87 pence), up 4%

DPS kept at 0.5p despite number of shares issued after year end. A real sign of management confidence

- Dividend per share kept at 0.5p (2016: 0.5p) despite the capital increase after the year end which is eligible for the dividend, a sign of management confidence.
- Net assets £28.5m (2016: £23.9m), up 19%
- The Group's combined gross lending portfolio £89.5m (2016: £67.7m up 32%). The balance sheet receivables (which exclude unearned interest) rose from £53.1m to £70.6m, up 33%.

Operational Highlights:

New originations up 67% with greater proportion broked on

- Combined origination, including acquired entities since their date of acquisition, amounted to £83.0m of new lease, hire and loan agreements (2016: £49.7m), an increase of 67%. Within the aggregate total, 48%, was written on 'own-book' and 52%, was broked-on to other funders to generate cash commissions (2016: 63% : 37% respectively). Over time management expect to keep more origination on balance sheet.

Like for like new origination +23%

- Combined new business origination on a like-for-like basis increased 23%.
- Finance provided or lending arranged for over 16,150 customers and end-users.

Cost of funds falling as higher cost borrowings mature

- Funding facilities of £74.5m were available of which £49.0m was utilised as at 31 May 2017 (2016: £61.5m of which £38.8m utilised). The blended cost of borrowings fell to approximately 5.3% (2016: 5.8%) with the maturity of some higher rate facilities. 1pm has especially reduced the cost of its longer-duration funding significantly with the range of costs 4.5% to 8.8% (prior year 4.8% to 12%).

Lead indicator arrears but not impaired balances falling in nominal terms

- £2.5m of the portfolio was in arrears but not impaired (2016 £2.9m, 4.3%). The lead indicator of less than 30 days arrears fell from £1.7m to £0.5m. Impaired trade receivables totalled £2.4m (£1.7m) with a cumulative bad debt provision of £1.2m. Given the nature of the security this level of coverage does not appear unreasonable.

UK SME funding: an attractive market

Summary

Market trends positive for 1pm volumes

We believe there are market, and market share, growth opportunities in UK SME financing market (Figure 3).

Figure 3: Market and market share opportunities for 1pm

Opportunity	Impact on 1pm
Number of SMEs	Positive (c2% p.a.)
Proportion of SMEs wanting finance	Short Term positive
Competition	
High street banks' ability / willingness to lend	Positive
Competition from P2P	Stable/ Positive
Competition from Challenger Banks	Stable
Competition from other specialist lenders	Stable
Impact of British Business bank	Positive

Source: Hardman & Co

Not only growth but profitable growth

A growth market is only attractive if the business is profitable. We outline below a model showing 1pm's profitability model for its lending businesses. This does not capture all the fees earned - for example documentation, early settlement and the broking divisions but is illustrative of this being an attractive market. The company's target RoE is 15%, which we believe is well above its cost of capital, and is broadly consistent with the model below.

Figure 4: Illustrative through the cycle profitability

% of balance advanced	Loans /Leases	Invoice finance
Gross revenue yield	17%	20.5%
Cost of sales / admin cost	(5%)	(10%)
Impairment	(1%)	0%
Funding costs	(5%)	(3.5%)
Pre-tax profit	6%	7%
Tax	(1%)	(1.5%
Post tax profit	5%	5.5%
RoE (on 30% gearing)	15%	16.5%

Source: Hardman &Co

Number of SMEs

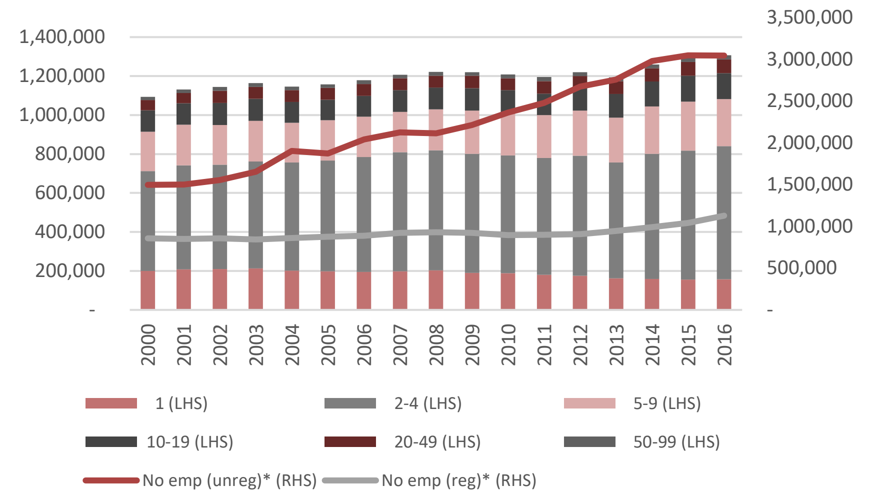
SME numbers growing and mix is favourable to 1pm

The Department for Business Innovation and Skills data (https://www.gov.uk/government/statistics/business-population-estimates-2016) indicates there are around 5.5m SMEs in the UK. This has increased from 4.7m in Q112, an increase of 15% over the five years. As we detail below, the mix of SMEs is important as smaller and newer SMEs typically have more difficulty getting finance and they are an area 1pm is most active in.

Figure 5 shows the trend in UK SMEs since 2000. The biggest area of growth has been in businesses with no employees (a slight misnomer as it does not include the director/owner-manager). These have grown from 2.4m in 2000 to 4.2m now. It reflects changing employment patterns with the growth of the gig economy and we note UK banks models do not serve these new start-ups well. Many of these businesses need modest financing (for example an IT consultant needs a computer) and they have an average turnover of £61k. While 1pm provides some finance to start-ups, but they do not form the core of the business.

Given 1pm's average lending / invoice financing facility we believe its sweet spot is with companies with turnover of £100k to £2m. Again, breaking this down by size, the growth from 2000 has been (i) 2-4 employers 33% to 683k (average turnover £340k), (ii) 5-9 employees 19% to 242k (average turnover £834k), (iii) 10-19 employees 22% to 133k (average turnover £1.8m) (iv) 20-49 employees 31% to 70k (average turnover £4.5m) and (v) 50-99 employees 37% to 22k (average turnover £10.3m). The number of single employee companies has fallen 21% to 157k (average turnover £175k). Including some of the higher turn-over zero employee companies we see a core target market of between 1.5-2m SMEs (current market share c 1% by number) with this growing at c2% p.a.

Figure 5: Number of UK SMEs by number of employees



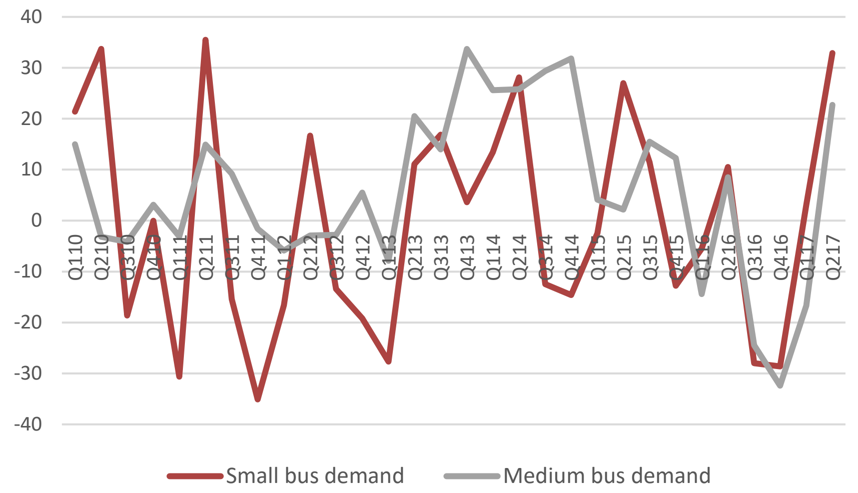
Source: Department for Business Innovation and Skills, Hardman & Co Research
**No employee business may or may not be registered for VAT / PAYE*

Proportion of SMEs wanting finance

Current demand good

While the number of target SMEs may be growing at c2% the second key variable is what proportion of these companies are wanting finance.

Figure 6: Net demand for credit over previous three months



Source: Bank of England Quarterly Credit Conditions survey, Hardman & Co Research

The Bank of England carries out a quarterly Credit Conditions Survey (http://www.bankofengland.co.uk/publications/Pages/other/monetary/creditconditions.aspx) looking at several demand and supply issues in the banking market. As can be seen in Figure 6 demand for credit is variable and for example fell sharply post the Brexit decision. The most recent data though indicates demand is close to recent highs with a net 33% of small business having higher demand for credit over the past 3 months.

BDRC Continental: SME finance Monitor

Coming from a low base where demand below long run average levels

Every quarter BDRC Continental publishes the results of its survey of 4,500 (previously 5,000) SME to identify important trends in SME finance (http://bdrc-continental.com/BDRCContinental_SME_Finance_Monitor_Q4_2016_Final.pdf). The latest survey published was end 2016 and so reflected the weak post Brexit demand seen in Figure 6 above. With that caveat, there were some interesting statistics which would confirm that 2016 was a below average period for demand.

- 37% of SMEs were using external finance. There was some variation within 2016, but overall levels of finance remained in line with 2015 and below levels previously seen (in 2012, 44% were using external finance). As in previous reports, use of external finance increased by size of SME from 33% of those with 0 employees to 64% of those with 50- 249 employees.
- 5% of SMEs had applied for a new or renewed loan or overdraft in the 12 months prior to interview (YEQ4 2016). This is the lowest level recorded to date on the Monitor, having been 11% in 2012 and 7-8% for 2013-15.
- Future would-be seekers made up only 13% of SMEs in 2016, almost unchanged from 2015 (11%) and remaining below the 23% meeting the definition in 2012.

Macro uncertainty

Major economic shock would be unhelpful

Clearly demand for SME finance is cyclical. In periods when there is considerable uncertainty, or a negative outlook, demand is likely to be weak. Corporates need to have confidence before they make the investment decisions which drive most of the demand for 1pms' products. We note the recently enhanced product diversity and sector spread should provide some resilience in a downturn.

Bank finance

High street banks are the dominant players . but knowledge of alternative sources of finance growing from low base

The third key variable is where do those companies that want finance get it from. By far the dominant players are the high street banks. Their lending is £110bn, over 60x that of the Peer-to-Peer market. Customers not only approach them first but have limited knowledge of non-bank providers. In 2013, over a third of these SMEs reportedly gave up after their first (bank) rejection, unaware of alternative forms of financing and other lenders that could be approached. (Source: SME Journey Towards Raising Finance, BMG Research Report on behalf of the Department for Business, Innovation and Skills, 2013). Addressing this knowledge gap has become government policy and is part of the mission of the British Business Bank (see below). The current trend of increasing awareness is good for the outlook of 1pm.

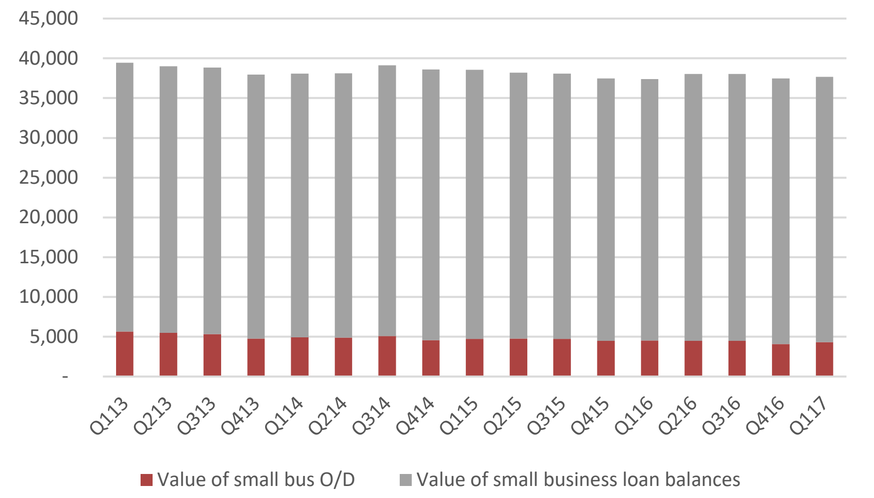
Over 50% of SMEs still go to their main bank when first identifying a financing need (British Business Bank Business Finance Survey: SMEs 2016). Most SMEs see new forms of financing as unsuitable and complicated. The financial options SMEs least consider to be suitable for their business are angel investing (20%), crowdfunding (21%), peer-to-peer loans (23%) and venture capital (23%). This compares to 73% of

SMEs saying bank loans are suitable. (Close Bros: Banking on Growth: Closing the SME funding gap Understanding the changing needs of Britain's SMEs November 2016)

Bank lending has been falling despite the rise in SME numbers

SME borrowing facilities from BBA banks at the end of Q117 stood at £109.7bn, of which structured term loans were £85.1bn, overdrafts were £9.4bn and facilities available but undrawn were £15.2bn. As shown in Figure 7, for small businesses alone, funding is down on the Q113 balances despite the rise in the number of businesses.

Figure 7: UK Small business funding through banks (£ms)



Source: BBA, Hardman & Co Research

Asset Finance

FLA data indicates c£17bn p.a. in asset finance to SMEs.

Finance and Lease Association (FLA) data indicates that in the year to end May 2017 there was £31.3bn of funding provided by its members (this figure falls to £30.0bn excluding the highest value items). In the areas of most relevance to 1pm the financing was for (i) plant and machinery finance £6.3bn (up 9% on prior year comparatives), (ii) commercial vehicle finance £7.4bn (up 4%), (iii) business equipment £2.5bn (up 18%). There was also £9.6bn of car finance. The latest British Business Bank report (quoting FLA sources) indicates c£16.8bn of asset finance to SMEs in the year to end November 2016 (over 12x the P2P lending) but under a third of the gross bank lending

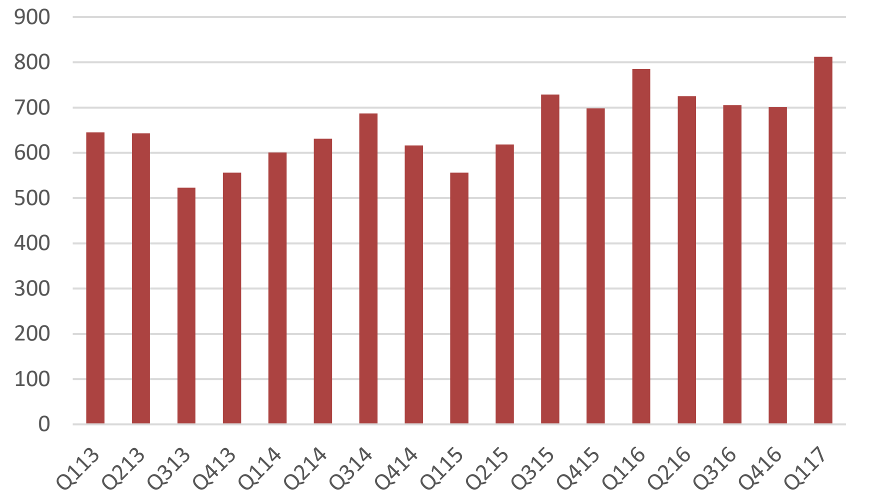
By channel the £31.3bn breaks down into direct finance £15.3bn (up 5%), broker introduced £5.5bn (up 15%) and sales finance £9.2bn (up 2%). 1pm is currently most active through the latter two channels.

By product the breakdown is lease / Hire purchase (£16.3bn, up 9%), finance leases (£4bn and operating leases (£7.0bn) and other finance (£4.0bn). In this area 1pm is most active in the highest growth lease/HP business.

Invoice Financing

From Q113 to Q117, the Asset Based Finance Association (ABFA) report a 26% growth in invoice finance advances to companies with a turnover of under £500k. This association indicates over 13k customers with this level of turnover use invoice financing with a further 6k with turnover of (£500k to £1m) and nearly 14k with turnover (£1m to £5m). Gener8 currently has 145 clients while Positive Cashflow 190 again giving a customer number market share of c1%.

Figure 8: Invoice Finance advances to cos with turnover <£500k (£ms)



Source: Asset Based Finance Association, Hardman & Co Research

Peer 2 Peer / alternative finance

P2P reported rapid growth but still only 1/60th of bank facilities

Peer to Peer financing is an increasing feature of business financing market and has some overlap with 1pm's areas of focus. The Peer to Peer Finance Association (P2PFA) reports cumulative lending of £4.6bn (to end July) of which c£1bn has been on invoice finance and the balance primarily loans. As can be seen in Figure 9 the growth in this business has continued a steady path (changes in membership makes a longer-term record inconsistent). The economic rationale of eliminating a bank's spread has some logic where the risks are fully understood and appreciated.

Figure 9: P2PFA outstanding loans, Net new loans & customer numbers

	Q3 2016	Q4 2016	Q1 2017	Q2 2017
Outstanding loans to bus (£ms)	1,280	1,444	1,694	1,827
Net new loans in quarter (£ms)	178	274	341	236
No of business borrowers	26,119	30,347	35,393	39,971

Source:P2PFA, Hardman &Co Research

The long term competitive position of the P2P players is currently unclear.

Funding Circle charges lower yield but has higher credit losses

- The P2P market leader in business loans (Funding Circle cumulative origination £2.6bn, loans outstanding £1.3bn) has a material element of its business in property development. It's all in cost to borrowers is c11-12% giving some overlap at 1pms lower price bracket although we note Funding Circle has to date incurred an average annualised loss rate of c2% (roughly twice that of 1pm) implying it has either looser credit controls or it is financing customers with a different risk profile from 1pm.

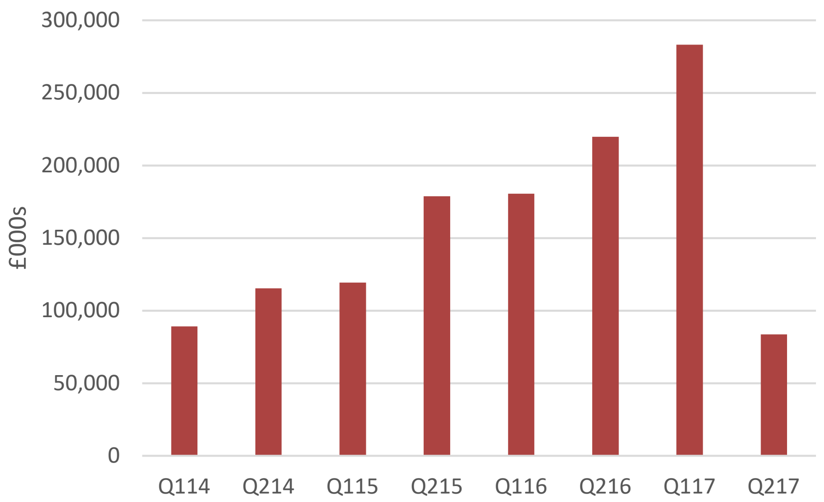
Funding Circle's stress case scenario inconsistent with lender's experience and may see dramatic shift in customer behaviour

- Unlike 1pm, we also note that FC was founded in 2010 and so has not been through an economic cycle. Its website has a stress test scenario indicating that the loss rate would double to 4%. By comparison 1pm's peak losses in the last downturn (which occurred in 2010) were 5x the current level. Barclays UK commercial bank division saw its impairment provisions rise from £292m in 2007 to £974m in 2009. Should FC's credit deteriorate materially more than the stress test on its website indicates, we question what the customer behaviour will be and the extent to which it will be a competitor to 1pm. As a minimum one may expect less activity.

MarketInvoice leading invoice finance P2P player volumes and returns collapsed in 2017

- The P2P market leader in invoice financing is MarketInvoice. As can be seen in Figure 10, the value of invoices it has financed has collapsed in Q217 and its statistic page (https://www.marketinvoice.com/investor-statistics) shows that investors earned a negative 0.5% return in 2017 as the gross yield nearly halved.

Figure 10: MarketInvoice value of invoices traded



Source: MarketInvoice statistics page accessed 4/8/17, Hardman & Co Research

Many high profile problems internationally

- Overseas comparisons also raise questions. LendingClub, which claims to be the world's largest and based in the US has seen its share price fall from c$14.50 down to c$6 over the past two years with H117 originations of $4.1bn against $4.7bn in H116. After a huge proliferation, the Chinese P2P market which had grown to be the world's largest, saw a regulatory crackdown in August 2016 after a serious of scandals including one scheme, Ezubao, which affecting 900,000 investors and HK$59bn (US$7.6bn) of investments

Challenger Banks

Several challenger banks offer same product range but they have much lower yields (for lower credit risk). Operational overlap appears modest.

Several quoted challenger banks are active in commercial lending / invoice finance. However, as can be seen in Figure 11, their gross yields and cost of risk suggest they are currently competitors only at the lower-end of 1pm's price range (although given 1pm's growth ambitions it is probable they will be more overlap in future). They are providers of wholesale finance to 1pm and 1pm also broke deals to them.

Figure 11: "Challenger Bank" activity in in SME financing

Bank	Activity
Aldemore	Asset Finance (H117 £2.1bn, 21% book, gross yield 5.4%, cost of risk 24bp), Invoice finance (£0.2bn, gross yield 4.0%, cost of risk 27bp)
Arbuthnot	H117 Loan book £147m (H116: £16m) and deposit book was £160m (H116: £23m). Purchased Renaissance Asset Finance (£60m leasing).
CYBG	Q3 trading statement: Core SME growth of 4.7% (annualised), with robust pipeline supporting £6 billion 3-year lending commitment
Metro	Asset and invoice Finance £194m H117 (£164m H116). Commercial lending heavily exposed to property finance. Cost of risk minimal.
PCF	Receivables £128m end March 2017. Target portfolio of £350m in three years and £750m in five years. New bank licence.
Secure Trust Bank	Asset Finance (end H117 £112m, -1% on H116, cost of risk 1%,), Invoice financing (£94m +73%, cost of risk 0%)
Shawbrook	End 2016 Business finance £1.1bn loans, Gross asset yield 8.6%, Cost of risk 31bp.

Source: Company reports, Hardman & Co

Other specialist lenders

Number of specialist lenders each with various advantages and disadvantages

There are a range of other specialist lenders including both subsidiaries of larger financial companies, manufacturers' financing arms and privately-owned companies. The former has the advantages of being within a large company (e.g. access to finance) as well as the disadvantages (potentially low strategic priority, mis-understood credit and risk management). For many of the latter, access to finance is an important issue and a disadvantage of being small.

Social media / search engine

1pm gets social media / search engine referrals through brokers t web-sites rather than direct

1pm is not active on social media / search engines for direct approaches. We note that a Google search of "asset finance rates UK" throws up three comparison websites (Know Your Money, BusinessComparison.com, and moneysupermarket.com), Hitachi Capital Asset Finance and Portman Asset Finance Looking at Know Your Money it then links to a number of brokers as well as some direct suppliers. 1pm thus accesses this market through the broker introducers rather than in its own brands.

Other sources of finance

Research by the P2P lender Thin Cats (reported in P2P Finance News) indicated 1.6m individuals had lent money to friends and family to help them grow a business. They estimated at least £7.2bn had been lent (average loan £4,479).

Role of British Business Bank (BBB)

Government set up BBB with specific objective of improving SME finance. Provides both direct financial support and education

The British Business Bank (http://british-business-bank.co.uk), was established by the government in November 2014, with a mission to make finance markets for smaller businesses work more effectively, enabling those businesses to prosper, grow and build UK economic activity. Its programmes support more than £3.4bn of finance to more than 59,000 smaller businesses and it participates in a further £5.8bn finance to small mid-cap businesses (as at year-end 2016-17). As well as increasing both supply and diversity of finance for UK smaller businesses, the Bank works to raise awareness of the finance options, including asset finance, available to smaller businesses. The latter is clearly a positive for 1pm although on BBB's own survey, only 50% of SMEs (up from 48% in 2015/16) are demonstrating heightened awareness of the range of finance options.

Historically, 1pm was too small but post acquisitions we expect it to be pitching to broader group of financers.

Among its 100 partners, BBB currently supports several competitors to 1pm including Skipton Business Finance (Invoice financing), Hitachi (asset finance), Private and Commercial Finance (motor and equipment finance), some challenger banks and peer to peer platforms. BBB provides cheap, and committed funding to its partners and is also a potential source of new business. We also believe it gives badge of credibility when a financer approaches potential customers as its systems and processes have been reviewed and approved by this government body. Historically 1pm would have been too small for some of the larger facility providers, like the BBB, but given its increased scale, we expect 1pm to be attractive to much broader group of financers.

OPM's profits & EPS should grow faster than this attractive market

Summary

We believe that 1pm should deliver better profit and EPS growth than the attractive UK SME market growth because of: (i) Specialism should mean better service thus attracting more clients, (ii) Increased broker penetration (iii) Economies of scale and operational efficiencies, (iv) Easier access to capital with cheaper funding on improved terms, and (v) Cross selling by channel and product.

Service better than market average

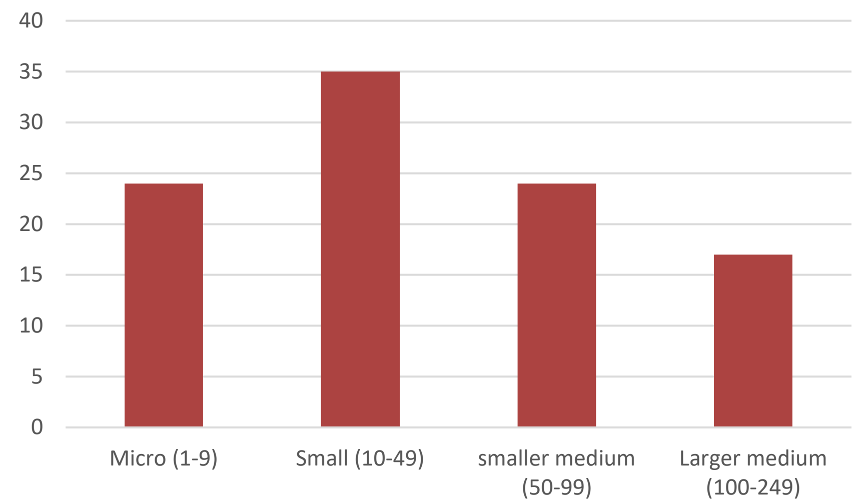
Specialism should deliver better service and so better growth

It is logical that 1pm as a specialist, focussed business should be able to deliver better service than broader service providers. 1pm cite an average underwriting decision within 4 hours which is important so the customer can focus on their business rather than waiting to see if finance will be available. 1pm also cite an average of 13 days from a new customer initial proposal to pay-out which it says compares with up to 60 days for high street banks. We believe for established bank customer the period would be much shorter, but it is completely logical to assume that a specialist SME provider focussed on a limited number of activities can deliver them better than a more generalist provider. By way of practical examples:

Bank managers generalists by both customer and product

- Branch bank managers are generalists and likely to have customers across a whole spectrum of sectors. They are trained to understand generic business drivers which may not be appropriate to specific clients or sectors. The Close Brothers survey noted 22 per cent said their lender did not understand their specific needs, while a further 25 per cent said their lender did not understand their sector at all. The lack of understanding rose with smaller companies as shown in Figure 12.

Figure 12: % of SME's who felt bank did not understand their needs



Source: Close Bros: Banking on Growth: Closing the SME funding gap Understanding the changing needs of Britain's SMEs November 2016, Hardman & Co Research

May be incentivised for non-lending targets

- The bank relationship manager's targets may be on non-lending products such as insurance or deposits so that is what they will prioritise.

Banks automated models do not process new / non-standard business customers well

- Banks' business models do not serve new or non-standard customers well. The banks approach to SME's is the same as the one they adopt to personal customers. As they are processing hundreds of thousands of such accounts, every aspect of the model is automated. As with personal customers, good quality SMEs who want to borrow but who may be new (and so have no track record) or whose businesses have irregular cashflows (e.g. many construction businesses) do not fit this automated approach.

Different portfolio demands may limit lending decisions, independent of the specific applications merits

- Additionally, a good new application may be rejected not on its own merits but because the bank is managing its portfolio and could be "full" on its appetite for say restaurants or businesses in a specific location. While such an approach is eminently sensible for the bank, it creates opportunities for a lender such as 1pm (although it is rather ironic that the same bank which turned down an SME loan may be perfectly happy to lend to the eventual financer of the loan). The Close Bros research noted that 23% of bank declines was because banks were not lending to SMEs at the time rather than customer specific factors

- Shorter, less formulaic approval chains, mean quicker decisions for customers.

Broking businesses mean 1pm can deliver high acceptance rates to introducers without compromising own credit standards

- Academy Leasing achieves 87% acceptance rates for propositions put to it by its equipment vendors, giving these introducers a high degree of certainty and thus satisfaction with the service (and so more repeat business). Many are pre-qualified easing the process and others are broked-on, so a home is found for the deal, even if not written on Academy's own balance sheet

Increase broker numbers

Onepm Finance growing number of brokers – still only at c half total members of industry association

We note the Onepm Finance gets business from 200-250 introducers. The National Association of Commercial Finance Brokers (NACFB) has over 1,600 members (400 of whom provide asset finance). Clearly 1pm will not want to serve them all (some may be too small, other specialising in particular needs, etc) but we believe there is scope to increase sales by further increasing the number of broker served. This is a continuation of an existing trend (the 2015 R&A notes 150 brokers, the 2016 200 brokers).

Group synergy (1): Economies of scale / Cost synergies

While maintaining front office integrity and identity, there are still opportunities for cost savings in back office functions

While the front offices (with the exception of Bell Finance) have been maintained as separate entities, this does not prevent management taking out over-lapping back and mid office costs where appropriate. We believe these account for 20% -25% of costs and that, over time, a quarter of these may save (i.e. c5-6% target's costs, c£300k p.a.). This number is lower than for in-market market deals as (i) front office cost savings are small, and (ii) the business overlap is some areas is modest – for example the factoring and invoice finance businesses are operationally very different to leasing and loans, so there is no benefit to integration.

Practical examples of cost synergies include:

- Bell Finance which was an almost identical business to Bradgate and geographically close, has been fully integrated and now operates as Bradgate Business Finance from one site.

- Intelligent Financing back office operations such as accounting have been absorbed into 1pm in Bath.

HR and IT cost saving synergies

- Each company operates its own payroll / HR systems and this is likely to be centralised for the group in one location.

- "Platform1" digital automation should yield data, credit assessment, cross-selling and efficiency benefits over time.

Group synergy (2) Funding

Scale brings potential funding cost savings as well as opportunity for longer term finance

Being a larger group creates options which were not available to each of the smaller entities individually. If bank finance is cheaper or on better terms through a central treasury function, it can now be taken. 1pm can balance the benefit of having diverse funders with the likely cost savings it could achieve by having a smaller syndicate of finance providers.

Management note that the provision of funding, both in quantity and at lower cost than as a stand-alone entity, is already facilitating more own-book growth at Bradgate Business Finance.

Group synergy (3) Cross selling

Cross selling key objective with number of strategies already introduced. Will take time and careful implementation so as not to distract from organic growth opportunities

Cross-selling is a high priority for the group although it is obviously still early days for the June acquisitions. A Steering Committee comprising Junior Board members and cross-selling champions from each company has been formed with a brief including (i) internal product briefs and training for sales teams, (ii) generation of group marketing material, (iii) design and implementation of reward and recognition structures for cross-selling including, (iv) the prioritisation of cross-selling opportunities, (v) customer experience and lead handling, and (v) cross selling target setting in each business. There have already been referrals to/from iLoans, to/from Bradgate, to/from Gener8 and to/from Positive. We note that Bradgate has been a broker (for invoice finance) and now all tappropriate referrals will be internal.

Figure 13: Source of new business

	Onepm Finance	Academy Leasing	Bradgate Bus Fin	Intelligent Loans	Gener8	Positive Cashflow
Broker / introducer	97.5	0	20%	100%	65%	80%
Direct	0	25%	5%	0	5%%	10%
Equipment vendors	0	60%	20%%	0	0	0
Repeat from existing clients	2.5%	10%	40%	0	10%	7.5%
Introduction by clients	0	5%	15%	0	20%	2.5%

Source: 1pm, Subsidiary R&A, Hardman and co analysis

Credit risk management key

Summary

Risk management tailored to specific exposures in each business with primary responsibility in the business units

Each of 1pm's risk-taking businesses finance different asset types (Academy soft assets; Bradgate hard assets), offer different products (loans; leases, invoice finance) and have a different core customer base (both in credit quality terms but also by sector). There is even geographic diversity with its inherently different risks. Each business therefore adopts credit policies and underwriting processes appropriate to its own needs as no-one credit policy will fit all businesses in the group. At the group level, the MD of Asset Finance and the MD of Commercial Finance are on the plc board, with the former also being Chief Risk Officer (CRO) for the group. The 'Platform1' digital capability project is designed to achieve 'one customer view' across the group for credit purposes. In summary, the group thus has an overview of credit risk processes and procedures with the primary responsibility being held at the entity level.

The risks

Some factors give 1pm a lower risk profile than the SME financing average because of (i) broking capacity, (ii) limited commercial property (iii) broad portfolio of small exposures (iv) sectoral specialisms (v) repayments by direct debit (vi) invoice finance requires double failure for major losses (vii) demand likely to increase in macro-uncertain times

1pm has some characteristics which should see credit risk lower than the average for SME financing as a whole. These include:

- Having a group with broking capacity means 1pm can rapidly respond to any market deterioration and reduce its on-balance sheet incremental risk without compromising customer relationships.
- Limited direct exposure to commercial property (by far the single most destructive sector for the banking system).
- Broad portfolio of lending with the maximum exposure to any specific name under 0.5% of the group's book.
- Sectoral knowledge is likely to be greater giving an advantage when assessing start ups in areas like restaurants or healthcare and beauty.
- Virtually all facilities are repaid by direct debit meaning most problems can be identified within a month.
- In most cases invoice finance receivables require a double failure (both of the borrower and the invoice payer) before losses are incurred. The losses since inception at Gener8 (£38k) and Positive Cashflow (£155k since 2007) are exceptionally low.
- In times of macro-economic stress, mainstream bank appetite to lend typically falls, meaning that more customers become available for 1pm. There is also some ability to re-price for the higher risk. We note that non-standard consumer lenders such as Provident Financial (2007 profit £115m, 2009 profit £130m) or S&U (2007 profit £6m, 2009 £6m) saw rising or stable profits as increased demand and wider margins offset higher credit impairment.
- The historical peak losses (2010 at c5% of receivables) arose from the sub-prime lending that went on before the financial crisis and washed through in those years. Post financial crisis, management stopped sub-prime lending, so losses

have reduced steadily since and this level of peak loss is unlikely to recur. The invoice financing portfolios in Gener8 and Positive Cashflow, whose minimal cumulative losses we highlighted earlier, should also reduce the group's overall stress scenario loss ratio.

But certain aspects give anabove average risk profile: (i)Onepm Finance is remote lender (ii) some lending to higher risk start-ups / impaired credits (iii) some exposure to cyclical sectors (iv) acquired assets often riskier than self-originated (v) no current account real time data (vi) rapid growth

Certain aspects of 1pm's business have incremental credit risk. This is not inherently a bad thing, as it is reflected in the rates charged, but it does mean managing credit risk is even more important. These higher-risk factors include:

- Onepm Finance's business model is broker introduced and so remote from the customer. Historic experience shows that physical proximity, and direct personal knowledge of the customer, is a factor mitigating ultimate credit losses.
- Several 1pm businesses are willing to lend to start ups. While the borrower may have considerable experience in the field there is no direct borrower track record of financial performance. There are also certain businesses which lend to historically impaired credits (but obviously not ones considered currently bad).
- Certain sectors are above average risk. 11% of the lease portfolio is to restaurants and cafes where on average the life expectancy of a business is under two years.

Overall, we believe it is above average risk but this is more than compensated for by above average yield

- 1pm does not provide current accounts. These provide a lender with real time information on customer cashflows and so early indications of problems.
- Rapid growth businesses are typically higher risk than slower growth ones as control processes can get strained to a greater degree. Mathematically, given it takes some time for impaired balances to show, strong growth can also depress lead indicating arrears ratios measured against book size. This feature reverses if the growth rate slows.
- 65% of invoice financing at Gener8 and Positive Cashflow are on a confidential basis where the cash is paid to the customer who then pays 1pm. This is higher risk than the 35% of business which is disclosed and where the cash passes through 1pm.
- Acquired assets often have more risk than own originated ones. For example, staff may during a takeover be more focussed on their jobs than credit quality.

Group

All the major credit indicators show good current credit conditions and an improving trend in customers in difficulty.

Figure 14 shows some key credit related statistics of the group. In summary, all the metrices have shown positive trends over recent periods which we believe is consistent with market trends in SME credit. We note:

- Impaired loans at end 2017 were 3.4% of advances (down from 4.7% end May 2015). Strong growth helps this number but there is no sign of underlying asset deterioration.
- Past due but not impaired loans were 3.5% of the portfolio (down from 7.1% end May 2015). Customers may be late with some payments but the ultimate repayment is not considered at risk. The lead indicating early arrears (under 60 days) have fallen sharply (£1.2m v £2.4m) although individual accounts can create volatility in this number. Part of the drop reflects a small number of situations which were at early stage arrears in May 2016 but which have since

matured. However, the 2017 number is just 7% up on May 2015 despite the strong book growth.

- Provisions account for c1.7% of balance sheet receivables (end May 2017), giving a coverage of 50% (up from 40% end May 2015, 46% May 2016) of impaired receivables. Given expected recovery rates from business assets and personal guarantees, this level of coverage is not unreasonable.

Allowances for doubtful debts are recognised against trade receivables based on estimated present value of irrecoverable amounts, determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position. The present value discount rate applied is the customer interest rate which on average is c16-17% for the loan / lease book. Any amount which is considered irrecoverable is provided against the profit or loss account (in cost of sales) initially creating a provision. The net balance is held on the balance sheet awaiting receipt of funds. The collection process can take some time as it may involve legal process and corporate insolvency proceedings so the discount can be material. In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period.

Figure 14: Key Group credit metrices

Year ending May	2015	2016	2017
Trade receivables	23,764	53,873	71,812
Allowance for bad debt	(453)	(785)	(1,215)
Net	23,311	53,088	70,597
			-1.7%
Movement in the allowance for doubtful debts			
Opening	385	453	785
Increase in provisions	68	332	430
Closing	453	785	1,215
Age of impaired receivables			
Within 1 year	222	655	815
1-2 years	38	132	448
2-5 years	152	179	233
> 5yrs	715	756	916
Total	1,127	1,722	2,412
% Gross receivables	4.7%	3.2%	3.4%
Provisions as % impaired receivables	40%	46%	50%
Age of receivables that are past due but not impaired			
Current	806	1,739	459
30-60 days	244	706	667
Over 60 days	634	469	1,372
Total	1,684	2,914	2,498
% Gross receivables	7.1%	5.4%	3.5%
Impairment in cost of sales	256,184	500,000	900,000
as % receivables	1.1%	0.9%	1.3%
as % gross rec inc interest	0.9%	0.8%	1.0%

Source: 1pm, Hardman & Co Research

Loans and Lease businesses

Loans and lease business requires manual judgement of the "story "and financial implications

Figure 15 gives the traditional CAMPARI lending analysis for the loan and lease businesses. Given the nature of Onepm Finance's lending, which is small ticket deals to smaller SMEs and therefore likely to be higher-risk (with a commensurately higher price), the nature of underwriting is essentially manual. There is always a 'pair of eyes' on a deal as there will typically be a 'story' and circumstances to understand. When a proposal is received, the underwriter collates independent external sourced information (including credit agency and Companies House data), the borrower's historic financial performance (recent bank statements) and prospective outlook (business plan) data. The reasons for the funding, nature of loan, term etc. are then examined. The underwriting assessment is based off this pack of data and considers ability and capacity to repay, creditworthiness, equity in the directors' personal property/ other assets and viability of the business. As we would expect, cashflow affordability is the key metric which customers have to pass.

This manual process is important and even though it may not guarantee consistency, since every situation is different. There is some use made of automated data gathering, ID checking etc. (which is in progress), but a human will always decide on whether a deal is funded, broked-on or declined.

Figure 15: CAMPARI analysis of credit process

Canon	Comment
Character	Bradgate / larger exposures have direct meetings with borrower and inspection of assets being financed.
Ability	Historic accounts, plans as well as detailed financial case for specific facility
Means	Typically, small businesses, often start ups, but personal assets also included
Purpose	Typically buying business essential equipment. ILoans mixed purposes
Amount	Typically, £1k-£75k in Onepm Finance, up to £250k for higher value equipment financed through Bradgate
Repayment	Onepm Finance covered by personal guarantees (may not take security over business asset). Bradgate loans secured on business assets.
Interest	Average gross yield mid-teens, more than twice mainstream pricing

Source: Hardman & Co Research

Bradgate will inspect assets directly while Onepm Finance is a remote lender. Specialist situations will see direct contact when iLoans starts to take risk on-balance sheet

In the case of the 'hard asset' leases (Bradgate), the asset will be inspected, the owner/proprietors met and an assessment made of loan to value given the residual value in the asset itself. Following acceptance, if the deal is going on own–book, the proposal will be passed to a pay-outs department for ID checks etc. and for all legal documentation to be processed.

iLoans has started a new on-book business in the summer of 2017. Selected, property-backed deals introduced by third parties such as accountants (and so not impacting broker introduced business) will now be kept on balance sheet. These special situations will be individually assessed for their merits and only secured.

100% of lending at Bradgate involves face to face meeting / site visit, while the figure is circa 25% at Academy. At Onepm Finance there is no direct contact. Management advice virtually all the new 'special situation' loans written on the iLoans balance sheet post year-end will have that direct contact.

Line management discretionary limits reflect risk

Different discretionary limits are allocated to the different entities. We understand the maximum that can be approved at Onepm Finance (soft assets) without CRO sign-off is under a third of that at Bradgate (Hard assets).

Where possible, risk functions are segregated from sales.

The underwriters at Onepm and Academy have no sales interface. There will be some overlap between sales and underwriting at Bradgate (as is normal in small hard asset businesses) but the arrears follow up operation is segregated from sales.

Most of the loans are relatively small ticket and so the portfolio achieves significant customer diversification. The largest loan/lease exposure is c0.5% of the total loan/lease book. In addition, as shown in Figure 16, there is a material diversity by business sectors with limited overlap between 1pm, Academy Leasing and Bradgate.

Figure 16: Sectoral exposures

1pm	Academy Leasing	Bradgate Business Finance
Restaurants / café (23%)	Telephone systems (13%)	Road freight transport (9%)
Beauty and Hairdressing (11%)	Survey equipment (11%)	Waste management (7%)
Garage (11%)	Garage (11%)	Construct/civil engineer (5%)
Retail (9%)	Data collection (9%)	Other transport (4%)
Health and fitness (5%)	Catering (9%)	Demolition (3%)

Source: 1pm, Hardman & Co Research

The hard assets financed by Bradgate typically have a much more resilient re-sale value than the “soft” assets financed by 1pm / Academy. A lot of the equipment that falls into the construction category, is quite often used for aggregate recycling, quarrying, demolition and is common across the industry. This commonality makes re-sale to other players in that market much easier.

Quality of broker introductions regularly reviewed

Introductions from brokers are regularly reviewed with additional attention to customers from those brokers where credit problems have developed and no further business taken from those brokers. Two broker managers continually review these relationships. Brokers are often involved in any collection process and most contracts have clawback clauses to share some of the loss.

Invoice Financing

Key difference is assessing risk of invoice payers – often much larger and more creditworthy than borrower.

Cashflows largely directed through 1pm customers

The management of credit in invoice financing has some similarities to the other businesses but there are important differences: - (i) the flow of cash from a third party is the critical difference so Gener8 and Positive Cashflow are not only assessing the borrower but also the ultimate invoice payer, (ii) The invoice payer is often a much larger and potentially better-quality customer than the SME itself. We note that in all cases where the invoice financing is disclosed (35% at both Gener8, and Positive Cashflow) the invoice must be paid directly to 1pm and it is only the residual amount (net of fees) that is paid to borrower. Controlling the cashflow is an essential element of credit control. We note since 2008 Gener8 has had an exceptional credit performance and only had to write off a cumulative £38k in bad debts prior to acquisition (the book acquired was £12m)

Figure 17: CAMPARI analysis of credit process

Canon	Comment
Character	Typically, more established businesses with more material turnover
Ability	Both the borrower and invoice payer (latter may be significantly larger / better quality than the borrower)
Means	Track record of both invoice payer and borrower considered
Purpose	Mainly cashflow but also some MBO/MBI financing
Amount	Typically, £50k to £500k
Repayment	Invoice payments directly made to Gener8/Positive Cashflow or a via a trust controlled by them. Also have recourse to the borrower via debentures in 100% of corporate cases.
Interest	Both interest on facility but also servicing fees for outstanding invoices

Source: Hardman & Co Research

Underlying approaches of assessing customer affordability not dis-similar

The process for credit assessment is not dissimilar to the lending businesses in that public information, recent trading and financial plans are all considered in a manually driven credit assessment. The size of the business allows segregation between risk controllers and marketeers. Management discretion is tiered with Gener8 and Positive Cashflow managements having similar discretion to the hard asset finance team at Bradgate, there is then a higher limit which can be signed off by the divisional head). Above a certain threshold the board is notified, often in advance, and ensuring good corporate governance of credit control.

There is a difference between disclosed invoice financing from when it is done on a confidential basis (so the end invoice payer is not aware their invoice has been financed). With the latter payments are collected by client and paid into a Trust account controlled by 1pm. While this introduces a potential risk of funds being diverted, the product is only available to higher-quality, more established, customers.

All invoices verified

Within invoice finance a critical credit control function is verifying that the invoices are genuine. This is normally achieved through phone calls (and sometimes email) to debtors to confirm balances; If it is a confidential facility, a “shell” company is used which Gener8 owns but which they front as being the client’s auditors so as not to breach confidentiality. All invoices are verified.

At Gener8, 10 years cumulative losses only 1% of annual revenue

The losses since inception at Gener8 (£38k) and Positive Cashflow (£155k) are exceptionally low. These numbers can be compared with annual revenue of £2.6m and £4.1m respectively (last year pre-acquisition). For Gener8 this means 10 years of losses are equivalent to just 1% of annual revenue and is arguably over-conservative as good risk reward deals may, at the margin, have been declined. It is also worth noting that most SME peak losses lag the economic cycle (e.g. Ipm’s peaked in 2010) and the losses above include an element of positions through the financial crisis.

Funding

Summary

Funding is critical.

1pm has multiple, diverse sources of funding.

It borrows longer term than it lends.

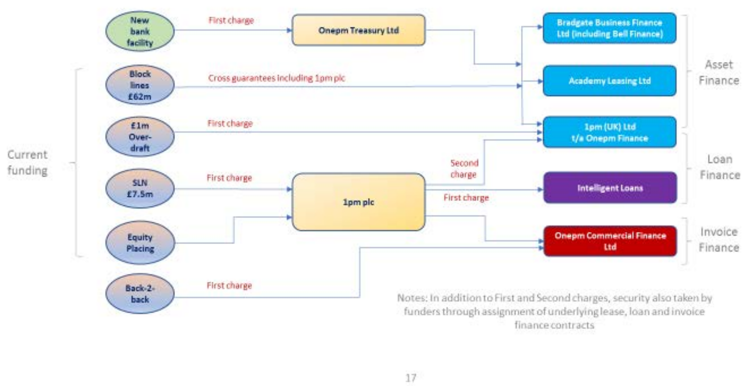
The enlarged group should be able to reduce funding costs and improve terms

Funding for a specialist non-bank lender is critical. Failing to get this right is often the cause of such companies failing / having to sell cheaply even if the credit losses could have been absorbed. The sale of Everyday Loans to Secure Trust Bank for £1 and their subsequent on-selling a few years later at a profit of £117m is an example. Funding risk is best managed by having access to multiple sources of funding, matching funding to loans and ensuring facilities are committed for an extended period. 1PM has done all three. The benefit from being a larger, and more diversified group, post recent acquisitions means that we expect the funding structure to be reviewed and for the net cost to fall and terms improved. The underlying principles of diversified sources, matching lending and with long term commitment, we expect to continue.

Diversified Funding

Figure 18 below shows the sources of 1PM's funding, which, as can be seen, is highly diversified by source. Wholesale facilities for leases and loans provided by banks tend to be different in form and nature from those for Invoice Finance, hence the separation. We note Onepm Treasury is not yet active but is expected to review all aspects of funding to optimise its cost and certainty.

Figure 18: Summary of diversified funding



Source: 1pm, Hardman & Co Research

Equity

Equity gearing kept to around a third of receivables with retentions expected to fund future lending growth at this level.

With the equity raise and acquisitions, we expect equity to be 34% of receivables at end FY18. The group has a stated gearing target of 5x in its invoice financing business and we would expect it to be comfortable with 3-4x in the loans/leasing business. The strong profitability of the group means that retentions are expected to keep gearing at around the FY18 level despite strong advances growth.

Bank loans

Bank funding an option if it improves costs / terms

Onepm Treasury is non-trading at present, but will be used if/when 1pm have a funding instrument (e.g. a revolving credit facility from a bank) that requires an SPV for lending and ring-fencing purposes. Onepm Treasury creates an optionality to reduce funding costs / increase certainty as market conditions allows.

Block lines

Currently use block funding to match loans/leases to cashflows

Within trade payables on the balance sheet, 1pm has funding blocks from 12 banks, 1 corporate lender and seven high net worth individuals. These blocks are subject to monthly amortisation. The original maturity ranged from 12 to 60 months and the interest rate paid from 4.5% to 8.8%The block facilities are typically committed for one year but once drawn down the funding is in place for the life of the lending which is up to 5 years.

Secured Loan Notes Programme (up to £7.5m, current headroom £5.2m, three-year initial duration).

Additionally introduced 3 year amortising loan notes as a funding option

On 7 March 2017, 1pm announced a £7.5m programme where the loan notes are secured by a first fixed charge on loans and leases written, plus a first fixed and floating charge over the Company's assets and undertakings. £1.1m was drawn down in March 2017 and further £1.23m in May. The loan notes have a monthly amortisation over their three-year life.

Back to Back for Invoice Financing

Both invoice financing business had back-to-back funding lines from banks – again matching assets cash flows

Prior to their acquisitionPositive Cashflow Finance and Gener8 had funding lines from RBS of £25m & LTSB of £12m respectively. Both banks rolled over these lines. The facilities provide back to back finance so as 1pm makes advances against invoices, the bank lends to 1pm on the same term and backed by the security of the invoices.

Duration matching / Commitment

Short term payables less than receivables

For a specialist lender having diversified funding is not the only issue. The timing of its liabilities should ideally be longer than its lending. The block funding and invoice back to back financing both match the duration of lending directly. The secured note programme is a three-year maturity. Equity is clearly non-rate sensitive and indefinite life. Overall the liquidity risk appears well managed by this structure and this also reduces interest rate sensitivity with fixed rate lending matched by fixed rate borrowings.

We expect consideration to be given to a longer term commitment exploiting group's increased size and diversity

Compared with many quoted specialist lenders, we note that 1pm does not have any long term committed funding lines (by way of example Non Standard Finance recently re-financed to get 6 year committed funding against a book with a much shorter duration than 1pms). 1pm's funding structure partially reflects its history (the original business was relatively small and block funding appropriate) and also the incremental cost of longer term finance. It is an area we expect the group treasury function to explore in due course as part of its overall financing of the group.

Acquisition risks

Strategic acquisitions completed at what should prove to be value enhancing prices. Earn outs are performance driven and material part of consideration

We believe the major risks in an acquisitive company like 1pm include over-paying, buying assets with unappreciated risks, earn -out incentivising overly risky behaviour and ineffective integration. We review each risk in the sections below and conclude (i) the prices of recent deals should see value enhancement to 1pm, (ii) the scale of the business acquired means due diligence should be effective at identifying risk, (iii) earn outs have been based off profit targets which we consider the most appropriate measure and (iv) as we noted in group strategy, the businesses' front offices will be significantly run as independent front-office entities with appropriate back office integration. This may limit cost savings but should lead to better sales and clearly defined management and control.

Over-paying risk – Recent deals c6x PE

We estimate prospective, post synergy PE is c6x

Price paid was lower when there was no contingent consideration

In Figure 19, we examine the recent deals and the valuation metrics paid. As can be seen the historic PE, pre-synergies have ranged from 7.3x to 10.6x with a weighted average pf 8.9x. Assuming that 1pm can get close to replicating the recent profit growth it has delivered in its non-acquired businesses, the year 2 prospective PE is c7x before synergies. Post synergies it is probably closer to 6x PE. Prima facie this indicates good financial discipline in acquisitions to date.

Figure 19: Analysis of price paid in recent acquisitions: PE and P/BV basis

	Academy Leasing	Bradgate Bus Fin	Intelligent Loans	Bell Finance	Gener8	Positive Cashflow
Maximum consideration £m	12.0	2.75	2.0	3.4	5.25	9.0
Last Reported adj pre-tax profit	1.8	0.36	0.3	0.4	0.9	1.1
Implied P/E	8.3x	9.5x	8.3x	10.6x	7.3	10.2x
Last reported NAV	3.1	1.2	0.2	1.1	2.7	2.1
P/NAV	3.8x	2.3x	n/m	3.3x	1.9x	4.3x

Source: 1pm, Subsidiary R&A, Hardman and co analysis

The price to book measures have been more variable but the accounting does not recognise the inherent interest in leases agreements in the book value pre-acquisition nor how vendors may have chosen to extract value from their businesses. 1Pm is not buying the historic value of the business but rather future earnings flows.

Earn-out incentivisation – 25% consideration performance related and paid in shares

Generally, a quarter of consideration is deferred and performance related. Significant elements have been paid in shares which also incentivise performance

In Figure 20 below, we examine the structure of deferred contingent consideration. In the main 20-30% of the maximum consideration has a c3 year performance related element, largely paid in shares which are set at fixed prices. Where there was no contingent consideration the PE paid was nearly 20% below the level paid in the cases where there was such a structure.

Figure 20: Contingent consideration key features

	Academy Leasing	Bradgate Bus Fin	Intelligent Loans	Bell Finance	Positive Cashflow
Maximum consideration £m	12.0	2.75	2.0	3.4	9.0
Contingent elements	2.65	0.55	0.8	0.8	2.5
% of maximum	22%	20%	40%	24%	28%
% contingent consid in shares	100% (at 66.7p)	100%	0%	75% (at 66.7p),	100% (at 60p)
Basis of contingent consid	New business origination	Gross profit less staff costs	EBITDA	Gross profit less staff costs	15% p.a. bottom line growth
Duration of earn out	2 years	3 years	29 months	3 years	3 years

Source: 1pm, Subsidiary R&A, Hardman and co analysis. Note: Gener8 had no contingent consideration

Integration risk

Delivery on group synergies provides upside to existing numbers rather than being required to meet them

It is still too early to comment on how the deals will be effectively integrated, especially with a model which still gives considerable autonomy to the operating businesses. However, we believe that management is adopting the right overall approach and is assigning specific tasks with named individuals responsible for implementation. The most obvious example is in cross selling where already we have seen (i) the appointment of 'cross sell' champion in each company (ii) cross sell targets set (iii) cross company training and sales pitches and (iv) the start of identification pf existing clients suitable for group cross-selling. Management has been cautious to date in guiding on synergies and we believe it thus represents an upside opportunity that is not build into consensus numbers.

By maintaining front office integrity, 1pm should avoid much of the business risk in changing the way staff work (the heart of the Provident Financial internally generated problems). Most staff at 1pm are doing exactly what they were, the way they were, with the people they worked with and with the same culture as before. This is a lower risk model than banging together diverse businesses.

Buying assets with unappreciated risks,

Hidden problems always a risk on acquisition but historic deals have been modest, overseen by experienced management, mis-selling risk on simple products is low, most invoice finance commitments will roll over within 12 months

It is also premature to be certain that there are no inherent problems in the businesses acquired. However, the probability would appear quite low given:

- The scale of businesses acquired is relatively modest allowing reasonable due diligence by experienced managers.
- The businesses were known to existing management teams – expansion into new product areas was only undertaken in invoice finance when a senior manager was appointed (Ed Rimmer) with direct experience of that business.
- Mis-selling risk is less likely in the SME space than the retail market. The credit processes identified above also mean affordability tests, a key potential defence against mis-selling lending products, should prove robust.
- The invoice finance facilities are relatively short term (commitment to the customer is usually an annual facility) which mean that rapid action can be taken to manage potential losses not identified by the due diligence.

Other risks including regulation

Regulation

Most of the lending is not regulated and cost/burden is thus less than for consumer finance providers

1pm part of solution for SME finance rather than problem

Across the group there are a range of regulatory licences which in practical terms means 1pm must comply with the FCA's principles for doing business although SMEs that are not micro enterprises are not covered by the FCA complaints-handling rules. 1pm does not have to report high-level information to the FCA on complaints they receive from them and the overall regulatory burden is less than for consumer finance companies. We also note that the FCA has a statutory duty to encourage competition and that for this, 1pm is part of the solution not the problem.

Operational risk

Responsibility lies with line management with some Group oversight.

IT upgrade should incorporate leading edge cyber security measures

Primary responsibility lies with the line management (many of whom are incentivised by the contingent consideration referred to above). On a group basis, this is addressed with the Group Compliance Manager responsible for maintaining the group risk register and reporting to the Risk Committee of the Board, comprising the non-executive directors. Bringing all newly acquired employees up to a consistent point in terms of FCA compliance training modules should be straightforward given the internet based training product. We would expect the IT upgrade to incorporate the latest cyber security features and we understand 1pm adopts industry standard practices and procedures against this at present (for example on the authorisation of funds, firewalls, client encryption etc).

New business origination

1pm is not dependent on any single source of new business

Onepm Finance has significantly diversified its distribution. 1pm Finance itself has c250 agents, of which its top 50 only account for c80% of new business. Academy has c100 introducers and Bradgate originates its business via c 30 vendors (of the equipment being financed), some brokers and its existing client base. I-loans distributes via a network of 1,200 introducers (nearly a third of whom have made introductions so far) and the top ten accounts for under 20% if completed transactions. With Gener8, 20% of new business is from customer introductions, 60% from brokers and the balance from third parties such as consultants and accountants. Positive Cashflow generates has a similar mix of business introductions.

Other risks

No DB pension risk. Senior personnel risk reducing

The group runs a defined contribution scheme and so does not carry defined benefit related risks. Senior personnel risk has been reduced through both external hires (CFO James Roberts from Catalyst Business Finance Limited and Ed Rimmer, MD Commercial Finance from Bibby) and the retention of management teams on acquisitions.

Financials

Profit and loss

We have built our forecasts from 1pm's 2017 accounts and adding in the effect of acquisitions. We estimate that the full period effect of those made in FY17, plus the ones completed in FY18, mean acquisitions will account for between three quarters and four fifths of FY18 incremental revenue, costs and profits growth. Our organic growth assumption continues the strong trend in FY17 delivering a mid-teen increase in incremental profits. We believe that increasing EPS 2018 on 2017 is a highly credible performance given the shares issued this year.

Figure 21: Profit and Loss (£'000s)

Year ended May	**2013**	**2014**	**2015**	**2016**	**2017**	**2018E**	**2019E**
Revenue	3,107	4,212	5,534	12,554	16,944	29,596	32,946
Cost of sales	(1,651)	(1,994)	(2,503)	(4,480)	(6,094)	(9,650)	(10,604)
Gross profit	**1,455**	**2,217**	**3,031**	**8,074**	**10,850**	**19,946**	**22,342**
Other Operating Income	0	0	0	2	3	4	4
Administration expenses	(663)	(845)	(1,394)	(4,290)	(6,469)	(11,034)	(12,201)
Exceptional Items	0	0	0	(368)	(263)	(294)	(321)
Operating profit	**792**	**1,372**	**1,637**	**3,418**	**4,121**	**8,621**	**9,825**
Finance costs	(17)	(26)	(21)	(74)	(82)	(778)	(895)
Finance Income	0	1	4	2	41	41	41
Profit before income tax	**775**	**1,346**	**1,620**	**3,346**	**4,080**	**7,883**	**8,971**
Income tax	(172)	(297)	(349)	(480)	(794)	(1,521)	(1,730)
Profit for Year	**603**	**1,049**	**1,271**	**2,866**	**3,286**	**6,362**	**7,240**
Average number of shares	23.15	29.60	34.18	48.85	**53.94**	**85.13**	**88.10**
Adjusted EPS (p)	**2.60**	**3.54**	**3.72**	**6.47**	**6.48**	**7.80**	**8.22**
Total dividend (p)	-	-	0.35	0.50	0.50	0.60	0.80
Dividend cover (adjusted EPS)	n/a	n/a	10.6	12.9	13.0	13.0	10.3
Ratios (%)							
Revenue to year end Balance sht	24%	24%	22%	22%	23%	20%	20%
Cost of sales to Revenue	-53%	-47%	-45%	-36%	-36%	-33%	-32%
Admin costs to revenue	-21%	-20%	-25%	-34%	-38%	-37%	-37%
Finance cost to revenue	-1%	-1%	0%	-1%	0%	-3%	-3%
Finance cost as % year end int bearing liabilities	-2%	-3%	-3%	-4%	-7%	-8%	-9%
Return on net assets	13%	15%	10%	12%	12%	13%	13%

Source: MCL, Hardman & Co Research

Issues investors should be aware of:

There are a few technicalities in the accounting which investors should be aware of:

- The block funding lines (and loan notes) are technically trade payables not interest-bearing debt. The cost of this funding goes through cost of sales. Should 1pm at any stage replace block funding with say bank finance this will switch to the finance cost line although if at a like for like cost there should be no impact on the bottom line. This accounting also means that when business is broked-on rather than kept on balance sheet there will be a change in the proportion of cost of sales to revenue (broked on having a lower cost of sales to revenue as it incurs no finance cost within cost of sales).

- Credit impairments are also within cost of sales although the company makes a detailed disclosure on them in the commentary section of its results.
- The IFRS9 impact is still uncertain. We understand 1pm and its auditors are still clarifying the implementation of the rules, like many companies in this sector.

Balance Sheet

Figure 22 details the expected balance sheet. In FY18 we expect acquisitions to add just over half to the balance sheet. We continue to expect very strong organic growth.

Figure 22: Balance sheet (£'000s)

Year ended May	2013	2014	2015	2016	2017	2018E	2019E
Non current assets							
Goodwill	-	-	-	10,289	14,908	23,358	23,358
Intangible asset					84	84	84
Property Plant and equipment	41	73	239	1,251	1,744	1,800	1,800
Trade and other receivables	-	-	14,502	33,166	49,966	60,959	68,274
Deferred tax	-	-	-	208	411	411	411
Total non -current	**41**	**73**	**14,741**	**44,914**	**67,113**	**86,612**	**93,927**
Inventories	-	-	-	81	135	135	135
Cash and cash equivalents	13	3	12	910	2,078	3,660	3,758
Trade and other receivables	12,900	17,324	10,489	22,895	23,989	84,164	94,264
Total current assets	**12,913**	**17,327**	**10,501**	**23,886**	**26,202**	**87,959**	**98,157**
Total assets	**12,953**	**17,400**	**25,242**	**68,800**	**93,315**	**174,571**	**192,084**
Non current liabilities							
Trade and other payables	3,112	4,405	5,685	19,664	32,097	35,314	41,814
Financial Liabilities - borrowings	100	100	100	399	250	3,450	3,450
deferred tax	-	-	40	-	-	-	-
Provisions (contingent consideration)	-	-	-	1,833	2,300	3,300	1,800
Total non current liabilities	**3,212**	**4,505**	**5,825**	**21,896**	**34,647**	**42,064**	**47,064**
Trade and other payables	4,109	4,807	6,182	19,979	26,533	76,091	79,896
Financial Liabilities - borrowings bank overdrafts	520	403	357	519	-	-	-
Interest bearings loans and borrowings	400	380	200	729	949	5,833	6,600
Provisions		-	-	1,245	1,733	854	854
Tax payable	148	297	310	543	943	943	943
Total current liabilities	**5,177**	**5,887**	**7,049**	**23,015**	**30,158**	**83,721**	**88,293**
Total liabilities	**8,390**	**10,392**	**12,874**	**44,911**	**64,805**	**125,785**	**135,356**
Share capital	2,315	2,997	3,685	5,253	5,494	8,504	8,714
Share premium	1,569	2,288	5,606	13,077	14,170	25,489	26,496
Employee share			83	90	91	95	99
Retained earnings	679	1,724	2,994	5,469	8,755	14,698	21,420
Total equity	**4,563**	**7,008**	**12,368**	**23,889**	**28,510**	**48,786**	**56,728**
Period end no shares	23.31	29.97	36.85	52.53	54.94	86.43	88.49
NAV per share	0.20	0.23	0.34	0.45	0.52	0.56	0.64
Tangible NAV per share	0.20	0.23	0.34	0.26	0.25	0.29	0.38
Ratios							
Equity/ total receivables	35%	40%	49%	43%	39%	34%	35%
Current Trade recs to payables	n/d	n/d	1.70	1.15	0.90	1.11	1.18

Source: MCL, Hardman & Co Research

Investors should be aware that when the company refers to own book loans and assets it is referring to the gross amount due which includes unearned interest. The accounting balance sheet lines excludes this and thus is a lower number. Similarly, when 1pm refers to drawn facilities it includes contractual interest due which again is larger number than appears in the balance sheet liabilities.

Cashflow

As a lender, we believe the cashflow needs to be treated with a degree of caution – there is likely to be positive cashflow when a business is shrinking and negative when growing. Investors should also be aware that, as noted above, the mix of funding between bank facilities (and so in financing activities) compared with block funding (in payables and so in operating activities) will impact on lines within the cashflow statement but not the overall cash position.

Figure 23: Cashflow (£'000s)

Year ended May	2013	2014	2015	2016	2017	2018E	2019E
Profit before tax	775	1,346	1,620	3,346	4,080	7,883	8,971
Depreciation charges	15	23	79	354	544	758	783
Finance costs	17	26	21	74	82	778	895
Finance Income	-	(1)	(3)	(3)	(41)	(41)	(41)
Increase in trade receivables	(2,787)	(4,425)	(7,667)	(12,649)	(9,134)	(16,990)	(17,415)
Increase in trade /other payables	1,168	1,990	2,656	11,996	11,476	3,210	10,305
Total cash from operations	**(812)**	**(1,039)**	**(3,294)**	**3,118**	**7,007**	**(4,401)**	**3,497**
Interest paid	(17)	(26)	(21)	(74)	(82)	(778)	(895)
Tax paid	-	(148)	(297)	(637)	(615)	(1,157)	(1,543)
Net cash from operating activities	**(829)**	**(1,213)**	**(3,612)**	**2,407**	**6,310**	**(6,336)**	**1,059**
Acquisition of subsidiaries	-	-	-	(7,588)	(3,141)	(12,017)	(467)
Purchase of prop, plant & equip	(17)	(55)	(246)	(547)	(1,089)	(758)	(783)
Interest Received	-	1	3	3	41	41	41
Net cash from investing activities	**(17)**	**(55)**	**(243)**	**(8,132)**	**(4,189)**	**(12,734)**	**(1,209)**
New loans / Loan repayments	400	(20)	(180)	(179)	(22)	8,084	767
Share issue	-	1,395	4,090	6,769	(150)	12,988	-
Equity Dividend paid	-	-	-	(129)	(262)	(419)	(519)
Net cash from financing activities	**400**	**1,375**	**3,910**	**6,461**	**(434)**	**20,653**	**248**
Increase in cash and cash equivalents	(446)	107	55	736	1,687	1,582	99
Opening cash/ cash equivalents	(61)	(507)	(400)	(345)	391	2,078	3,660
Closing cash / cash equivalents	(507)	(400)	(345)	391	2,078	3,660	3,758

Source: MCL, Hardman & Co Research Note that the cash and cash equivalents is net of overdrafts and so may not match cash in Bal sht

Valuation

Summary

Average valuation upside on absolute measures 83%

Our absolute valuation techniques imply an average upside of 83%. The limited peer group relative valuation measures would indicate between 60% to 100% upside.

Figure 24: Summary of different valuation techniques

	Implied Price (p)	Upside (%)
Gordon's Growth	103	115%
DDM	72	50%
Average absolute measures	**88**	**83%**

Source: Hardman & Co Research

Gordon's Growth Model

GGM captures both value added and growth. Upside more than double.

Our preferred valuation approach is to consider the value added by a business. The GGM assumes that the price to book should be equivalent to the (sustainable return on equity – growth in equity) / (sustainable cost of equity – growth in equity). A business delivering above its cost of capital should thus trade above book value because it is adding value. Critically this model captures growth as a growing profitable business is more valuable than a shrinking one.

Figure 25: Gordon's Growth model and sensitivities

	Base	+1% ROE	+1% COE	+0.5% G
ROE (%)	15	16	15	15
COE (%)	11	11	12	11
G (%)	5	5	5	5.5
P/BV (x)	1.7	1.8	1.4	1.7
Discount re near term (%)	10.0%	10.0%	10.0%	10.0%
P/BV (x)	1.8	2.0	1.6	1.9
BV 2018 (£ per share)	0.56	0.56	0.56	0.56
Valuation (£ per share)	1.03	1.14	0.89	1.07
Variance		0.10	-0.15	0.04

Source: Hardman & Co Research

Assumed ROE is 15%

Assumed COE 11%

Assumed G 5.5%

Premium added for short term performance to reflect near term growth

Taking 1pm specifically, the Hardman 2018E book value is 56p. Our assumed long run sustainable ROE is 15% in line with management targets and marginally above the average we are forecasting for 2018-2019 (13%). We have assumed a long-term cost of equity of 11% to reflect the above average risk profile of the customer base. Growth we have assumed to be 5%, marginally above long-term nominal GDP – while in theory this would in perpetuity see 1pm bigger than the UK economy, we are comfortable that it gives appropriate credit for the business's growth opportunities over the next decade. Given our forecast strong profitability growth, we have built in a 10% premium / discount for near term performance compared with our long-term assumptions. Based off these assumptions, 1pm has an implied value of c103p per shares. Figure 25 also demonstrates the sensitivity of this valuation to changes in the key assumptions.

Rolling forward to 2019 NAV increases the valuation by c14p

For a business like 1pm, which is growing its equity base rapidly (partially due to our assumed low dividend pay-out ratio), rolling forward to a new base year will see a material increase in valuation. For example, if we used 2019e NAV rather than 2018 the valuation would be 117p.

Dividend Discount Model

DDM 72p, upside 50%

Rises to 81p if company immediately adopted long term pay-out ratio

We have built a dividend discount model using forecast dividends to 2019E, followed by a step change in the pay-out ratio to two thirds (the required level of retained equity to fund 5% growth on a 15% ROE). We have assumed 15% growth for three years and then 10% for two years, followed by 5% growth for twenty years. We have applied a 10x multiple to the terminal value and all cashflows have been discounted at the cost of equity (11%). This produces a valuation of 72p of which just 12p is in the terminal value. As the base year valuation rolls forward, and so we capture more maturing growth, this valuation would increase year on year.

It is also worth noting that the short-term pay-out ratio is well below that we expect over the long term. If the company immediately adopted our long-term ratio it would add a further 9p to the valuation under this methodology. The model is also sensitive to the discount rate (cost of capital). If we used 10% rather than 11% the base valuation would increase from 72p to 81p.

Peer comparisons

Closest peers indicate share price could double. Broader range suggest 60%+ upside

1pm has no immediate quoted peers (indeed investors should be aware that Thomson Reuters, in its peer's comparisons as at end August 2017, includes an investment company in wind down and a spread better). For illustrative purposes only, we have included in the table (i) other specialist lenders in the SME space, (ii) smaller consumer finance companies including Non Standard Finance (a lending business with multiple channels which has been built through acquisitions in recent years) and (iii) selected challenger banks. Using the quoted specialist lenders on PE or P/BV measures it would suggest a share price broadly double the existing one. The smaller consumer finance companies imply c60% upside. The challenger banks are more mixed but again have upside.

Figure 26: Peer valuation comparisons

	Shr price (p)	Market Cap (£m)	2018 PE (X)	2018 Yield (%)	P latest tangible BV
1pm	**48**	**40**	**6.2**	**1.3%**	**0.9**
SME finance					
PCF (Sept)	24.25	51	12.4	1.4%	1.7
Orchard Funding Group (July)	101	22	15.3	3.0%	1.7
Average			13.9	2.2%	1.7
Smaller consumer financials					
Non-Standard Finance	74	235	10.4	4.4%	1.0
Ramsdens (mar following year)	169	52	12.4	4.2%	2.2
H&T	323	120	12.4	3.5%	1.2
			11.7	4.0%	1.5
Challenger Banks					
Aldermore	217	750	6.8	3.7%	1.1
Secure Trust	1749	323	9.6	4.9%	1.5
Metro	3340	2,953	56.6	0.0%	2.7

Source: Share prices and consensus forecasts as at 11/9/17 Hardman & Co Research

Additionally, there are certain funds invested in secured debt (e.g. RM Secured Direct Lending, P2PGI, Funding Circle SME Income Fund, SQN Secured Income Fund plc, SQN Asset Finance Income Fund Limited, Fair Oaks Income Fund) which are trading at around the same p/b as 1pm. However, these investments do not have the same growth or profitability profiles and we again do not consider them an appropriate peer group.

There have been several deals concluded in both asset finance and invoice finance but most have been private (e.g.: Maxxia acquired Capex Asset Finance, an independent asset finance brokerage, and Scottish Pacific Business Finance acquired trade and debtor finance business Sterling Trade Finance). In April, Arbuthnot Banking Group completed the acquisition of Renaissance Asset Finance with customer assets of £56m, underlying earnings of c£0.6m, NAV £1.9m for an initial consideration of £2.1m and three contingent payments up to £6.5m.

There are some limited international comparators. These include: (i) Accord Financial (Canadian Factoring), (ii) Albis Leasing (German Leasing), and (iii) Deutsche Forfait – emerging market invoice discounting company which only recently came out of bankruptcy proceedings. Two Italian banks (Banca IFIS and Banca Sistema) were historically in the same business but both have diversified. Given the different stock market ratings, business models and economic risks we do not believe investors should make rating comparators but they are provided in case investors wish to do so.

Reasons 1pm may trade at such a low rating and what will change

The rating could imply a range of investor concerns. Firstly, that they do not believe near term forecasts and that investors' perceptions of the ratings being paid is higher than the sell side forecasts. Second even if the near-term forecasts are correct, they are not sustainable in the future. Third that there are some other risks depressing the price. Fourth that investors are not aware / do not understand the story. We believe delivery on earnings and the planned enhanced investor relations programme should address these issues and so see a share price re-rating.

Near term forecasts driven by actual historic numbers delivered by acquired companies. Not dependent on unknown synergy benefits which provide upside

- We believe concerns over near term numbers is the least probable factor. While there are elements of uncertain organic growth, in our numbers most of the increase revenue and profits is derived from simply adding the actual last year's performance of the acquired targets. Our numbers are not reliant on unproven synergies and these provide upside.

- The main driver to unsustainability would be credit. We have discussed why we feel credit management processes are appropriate in the earlier section of the report. We see two aspects to this.

Normalising bad debts only a minor impact on rating and will affect peers too.

  - Firstly, that current credit conditions are unusually good so a normalised credit market would see higher impairments. We believe this is the case but the scale of uplift is important. Even if write-offs doubled it would only reduce our 2019e profits by £1.6m and increase the 2019 rating to c7x (from 6x).

Deep recession scenario very different from last time due to business mix changes

  - Second, that in a deep recession scenario, losses would become unacceptably high. As we noted in the credit section we do not expect a repeat of the 5% losses seen in 2010 as the business mix is fundamentally different with a focus away from sub-prime customers and the group has acquired lower risk invoice-financing. Additionally, the funding diversity and duration adopted by 1pm mean it should not face a financing crisis in this economic scenario.

Other risks appear modest

- Other risks could include that the acquisitions go wrong (again covered earlier). A related issue could be that the flow of deferred consideration in shares means there will be steady stream of sellers. The deal structures included the usual range of lock-ins and orderly market constraints so we believe this issue is more sentiment than reality. We also note though that the 2018/2019 deferred contingent shares on offer would be a quarter of the recent placing / open offer even if all the shares were sold which we do not expect to happen. A further acquisition risk related issue could be that investors fear continuous offerings of equity to finance further deals. As noted above, we believe the strategically necessary deals have now been completed and any further acquisitions are likely to be smaller, tactical in fills which are likely to have visible cost saving synergies. Ironically, the modest liquidity in the shares (excluding June an average c£55k of shares traded per day in 2017) could also be a risk factor for some investors.

Lack of understanding appears to be the most likely cause of low rating. Management adopting pro-active IR programme targeting not only institutions but also smaller investors who can provide more liquidity.

- Lack of understanding is, we believe, the most likely reason for the rating. As a £40m market cap company, investors do not have to hold 1pm and there has to be a compelling reason for investors to consider holding it. This is especially the case for a business where: (i) the investment case has been transformed over a short period making for a more complicated story. Complex, dynamic stories take more time to understand and time, for most investors, is a precious commodity (ii) the value added by the historic model was questionable, and (iii) investors may associate the name with historic risks (such as losses in 2010) rather than the new business profile. Addressing this concern, and making sure a broad range of potential investors appreciate the new “story” requires a management commitment to investor relations. We note the new team has already started this process and that this programme is not only targeted at institutions but also investors that can provide liquidity.

Company matters

Registration

Incorporated in the UK with company registration number: 05845866

Board of Directors

John Newman – Non-executive Chairman

John is a qualified accountant and has worked in audit with Coopers & Lybrand and as a management consultant with Price Waterhouse. His extensive corporate experience includes executive directorships of four quoted companies. In the last ten years of his executive career John was CEO of LSE-listed UK Safety plc. Since then he has been a non-executive director of three AIM-listed companies and of a NHS Trust. John's voluntary work has included being Chairman of Headway Bristol and a business adviser for The Prince's Trust. In addition to Chairing the Board, John also Chairs the Nominations and Audit Committees and is a member of the Remuneration and Risk Committees.

Ian Smith – Chief Executive Officer

Ian has 30 years' experience in business as a board level Finance Director and Chief Executive following qualification as an accountant. Previously, Ian was a member of the management team which successfully sold Q Chip Ltd to Midatech plc in 2014 and also sold UDEX Limited on behalf of 3i plc in 2006 and, as Finance Director of Surface Technology Systems plc, he was instrumental in its flotation on AIM in December 2000, subsequently leading the business as Chief Executive through the technology sector downturn from 2001 to 2003. Prior to that Ian was Group Finance Director to LSE-listed UK Safety Plc. Ian is responsible for all the Strategic and Operational activities of the group in the CEO role and also sits on the Nominations, Remuneration and Risk Committees of the Board of Directors.

James Roberts – Chief Financial Officer

James has worked in the financial services sector since 2000 initially qualifying as a Chartered Accountant with PwC in the City. For the past decade James has held senior management and Director level roles for AIM listed, global organisations and rapid growth early stage companies including Finance and Operations Director of AIM listed Jelf Financial Planning and Finance Director of invoice finance and commercial loan provider Catalyst Business Finance. James brings with him extensive experience of mergers and acquisitions and fast moving and rapidly growing businesses. James has overall responsibility for all financial aspects of the group from reporting through to funding.

Mike Nolan – MD Asset Finance / Chief Risk Officer

Mike was a founder director of Academy Leasing having worked in the asset finance sector since 1978 originally with Lloyds and Scottish Finance. He has been MD of Academy since its inception in 1987. Mike is responsible for the credit decisions taken by each group company in his role as Chief Risk Officer. Mike is also Chief Strategic Officer with responsibility for assessing strategic developments along with the CEO.

Ed Rimmer – MD Commercial Finance

Ed joined Bibby Financial Services in 1995 as a Graduate Trainee. After forging a successful career in sales, he moved into management. He was appointed as UK CEO in 2007 where he was responsible for a business with turnover of £90m, a lending book of c£340m and c700 staff. During his time in this role, profitability doubled from £16m to £32m with sales increasing by 50 per cent. After 5 years as UK CEO, he was offered another challenge internally within the Bibby Group to lead the Ship Management business, where a growth strategy as a niche operator in the oil and gas market was successfully delivered resulting in the company being sold in 2016. Ed has overall responsibility for the Commercial Finance division of the Group.

Ronald Russell – Non-Executive Director

Ronald Russell has been a strong supporter of the Company since flotation. He has an extensive background in both investing and advising smaller businesses. Ron is currently a director of UK Private Healthcare Limited, Scot-Leasing Limited, Polish Private Healthcare Limited, and a partner of Delron LLP. Ron is also a qualified accountant. Ron is a member of the Audit and Risk Committees.

Julian Telling – Non-Executive Director

Julian Telling has been involved in the financial services sector since the early 80's. Having established his own retail financial service group in the mid 80's, it was listed in 2005 and sold in 2008. Since then he has been involved in a number of AIM listed financial service businesses and has extensive experience in acquisitions, rights issues and trade sales. Julian has a variety of other business interests ranging from property to aviation and is also actively involved in a number of charities. Julian is the senior independent director on the Board and Chairs the Remuneration and Risk Committees. He is also member of the Audit and Nominations Committees.

Management incentives

LTIP directly incentives management on the share price performance

On 5th July 1pm announced conditional awards under the Group's Long Term Incentive Plan ("LTIP") amounting to 7.9m options (7.75% of the share capital). Of these 2.8m were awarded to the CEO, 1.7m to each of the divisional MDs and 0.8m to the CFO. The share options vest proportionately based on the quoted price of the Company's shares in the range from 60 pence to 110 pence per share. Irrespective of this market based performance condition, no vested share options may be exercised unless the recipient completes three years' service as an employee from the date of the award. In addition, all recipients will be required to meet the cost of the Company's National Insurance liability arising. Under the terms of the LTIP, the conditional share options are nil-cost to the recipient. The total aggregate value that may ultimately accrue to the recipients of the awards may not, however, exceed 15% of the total aggregate increase in value attributable to all shareholders, measured from a starting price of 55 pence per share.

Appendix 1 Businesses in more detail

1pm Finance

Onepm Finance (http://onepmfinance.co.uk/) based in Bath, originates it business through 200-250 finance introducers who are serviced through a dedicated broker team. As is usual for this type of business, c20% of introducers account for c80% of the business flow. Assets financed are “soft” (in that they have a low residual value) and include assets like catering, point of sale, garage and office equipment and are typically small ticket. The funding provided includes:

- Lease finance: Facilities range from £1,000 – £75,000 over terms of 12 – 60 months. There are no restrictions on the type of business considered, including new start businesses, nor the asset to be leased, provided there is a clear business rationale. SME borrowers who are tenants will be considered. Onepm Finance earns interest on the advances, charges an administration fee of £150+ VAT but does not have penalties for early repayment of the lease. For equipment that costs more than £3,500 it may ask for 1 or 3 months rentals or 10% of the equipment cost up front (dependent on status and term of the lease).

- Hire Purchase: The maximum facility and term is the same as for a lease and again the company will consider financing any asset and any type of non-regulated UK business. Sole traders and partnerships of 3 or less must borrow over £25,000 to be unregulated. Up front, 1pm Finance always ask for an administration fee of £150+ VAT and the VAT on the equipment cost upfront as a deposit. At the end of a HP agreement 1pm Finance will invoice for a ‘title’ payment. Once this is paid the equipment belongs to the customer.

- Business loans: Loans available for any business reason will be considered so long as the SME has a minimum 2 years trading and is non-Regulated (sole traders and partnerships of 3 or less must borrow over £25,000 to be unregulated). Facilities range from £1,000 – £75,000 with terms from 3-60 months.

The nature of the borrowers mean that credit risk is much higher than high street bank lending and the yield reflects this (historically the average yield has been in the high teens). We also note that the business loans are unsecured against specific assets but Onepm Finance takes personal guarantees from directors in all instances. All repayments are collected by direct debit which is an important tool to recognise problems quickly and so limit losses (see risk section above).

Academy Leasing (Acquired August 2015)

Established in 1987, Academy Leasing (http://www.academyleasing.co) based in Warrington, provides finance for equipment, vehicle and invoice finance on own balance sheet or with vehicle and invoice finance broked-on. Its distribution is “vendor introduced”. i.e. via the sellers of the equipment being provided. Its products include:

- Equipment Finance: Academy’s focus is on smaller-ticket, soft assets where residual values may be uncertain.

- Vendor equipment finance

- Academy Fleet Solutions: Academy specialises in providing complete funding and fleet management services to UK car fleets. This includes service and maintenance, repairs, driver risk management and training and vehicle hire with the non-finance work outsourced to third parties.

- Vehicle sourcing and financing: Academy Leasing have been sourcing and broking for funding vehicles throughout the UK for over twenty years. It uses volume buying power to optimise customer prices, cutting out expensive main dealerships. 75% of customers use the service more than once. Academy Leasing is authorised and regulated by the Financial Conduct Authority for consumer credit where it acts as a credit broker, not a lender. In its acquisition announcement 1pm noted that vehicle supply revenue accounted for c20% of total revenue. The vehicles Academy directly sources and supplies are nearly always new, with a broad range of values provided (from £5k to well beyond £100k). The average at end May 2017 was £17k per unit. Discounts can vary dramatically but typically they supply more volume manufacturer vehicles so discount levels are pre-negotiated by the funders themselves.

Academy leasing has a broad sectoral exposure (no individual sector accounts for more than 4% of the book) but claims specific sector expertise in beauty, catering, CCTV, coffee shops, education, garages and workshops, laundry, LED lighting, office equipment, surveying and heavy equipment. As a consequence, it is a member of several industry bodies including: British Vehicle Leasing and Rental Association, National Association of Commercial Finance Brokers, The Survey Association, Catering Equipment Distributors Association, The Catering Equipment Suppliers Association and the Garage Equipment Association.

It may surprise investors that Academy is so involved in fleet servicing but it sees competitive advantages in offering multiple fleet services. These include: (i) Academy can position itself as a preferred funding & fleet management partner with a fleet management agreement based over a defined period, such as 3 years, which helps with locking the client in. (ii) minimising client attrition rates, as the more services taken, the more difficult it is to exit any fleet management arrangement, due to the hassle factor and cost of change, and (iii) access to the clients/prospects complete fleet information e.g. vehicle types & numbers, dates vehicles are due to be replaced, so they can be more pro-active in winning brokered vehicle opportunities. (iv) Margins are built into each applicable service and profitability grows with volumes signed (v) Additional fleet services support brokering more vehicles and assists in attracting larger fleet sizes that want to bundle fleet services with one main provider/point of contact. It is not a distraction of management time because the additional services are mainly administered by the third-party providers (e.g. service via Autoserve Ltd, Breakdown via RAC, Driver licence checking by Licence Bureau). Once the initial set up has been completed with each client, apart from updating any vehicle/driver changes and invoicing, everything from a day to day perspective is looked after by our third-party providers.

Academy's new business is partially retained on balance sheet and partially broked to third party providers. Vehicle deal originated in Fy17 had a capital value of £16.6m (2016 £10.9m) or £17k per car.

Academy also acts a broker and compared with the competition we see Academy's competitive advantages as being: (i) an established business trading over 30 years and with the credibility of being backed by 1pm and so financially stable, (ii) Academy are not just a vehicle broker, but can offer wider finance products from other parts of the business and group. These include fleet related products/services to clients with our additional services proposition so they can have one point of contact/invoicing for multiple fleet related policy areas. We understand it is also planning to offer an on-line fleet management tool that can assist clients with managing vehicles, drivers, fleet policy, fuel, reporting. This will not only differentiate ourselves from brokers but will assist in negotiating with potentially larger fleets that have direct relationships with funders. (iii) Academy believes its scale is such that it is likely to have access to more funders/better terms than other brokers and (iv) it is a customer facing business which is an advantage over brokers who only provide service on the phone

Consideration and financial information:

The consideration was: (i) £6m paid in cash on completion; (ii) £2.385m by way of the issue of 3.6m new shares on completion; (iii) Deferred consideration of up to £2.615m by way of the issue of up to 3.9m new shares, subject to the satisfaction of certain performance conditions over two years; and (iv) £1m by the issue of Vendor Loan Notes.

Bradgate Business Finance (BBF) (acquired March 2016)

Bradgate Business Finance ((http://bradgatefinance.co.uk/), based in Lutterworth, Leicestershire, was established in 2006 and provides Asset & Invoice finance for the construction, recycling and haulage industry including finance for plant, business equipment, trucks, and vehicles. The assets financed are described as "hard" as there is typically a much higher residual value than for say office equipment. Again, distribution is "vendor introduced" i.e. the sellers of the equipment being financed. They work with all types of business from the small owner managed through to SMEs. Where appropriate it is willing to consider higher risk, customers including new start businesses, and borrowers with poor credit rating and County Court Judgements, although this is a small part of the business and reflected in the yield.

BBF acts a broker for invoice discounting. It is not targeting mainstream business having developed specialism in (i) new start businesses, (ii) growing businesses and (iii) companies wanting to turn their businesses around. They also structure invoice finance for mergers, acquisitions, MBOs and MBI transactions. In terms of sectors, it focuses on providing factoring facilities to plant hire, printing, transportation, manufacturing and distribution companies. It also as a broker for business loans. Looking forward, BBF will refer business to other parts of the group which previously may have gone to third parties.

Consideration and financial information:

The aggregate consideration was up to £2.75m, comprising £2.2m paid in cash on completion and up to a further £0.55m in shares over three years subject to certain performance targets being achieved.

In 2017 BBF originated £15.3m (2016 £2.2m) of which £10.3m was retained on own book (2016 £1m) and £5.0m (2016 £1.2m) broked for commission

In its unaudited results for the year ended 31 January 2016 (the last full year prior to acquisition) BBF recorded a profit before tax and after dividends of £0.37m on turnover of £1.36m. In addition, at the year-end, the aggregate balance of its loan book stood at £3.45m, with net assets at that date of £1.2m. Bad debt write-offs during the year to 31 January 2016 amounted to £0.04m, representing 1.2 per cent. of the book.

Bell Finance (Acquired April 2017)

Launched in 2000, Bell acts as both a lender and a broker specialising in deals for hard assets – such as plant and machinery – in the construction, manufacturing and recycling sectors primarily to owner-managed businesses. 2016 saw material growth in net receivables (end November 2013 £4.2m, 2014 £4.6m, 2015 £5.4m 2016 £8.0m) when Bell accessed new funding and showing the potential growth opportunity as part of the larger, well financed, 1pm group.

Richard Batchelor and Mark Durman (the directors and principal shareholders of Bell) have joined 1pm working in conjunction with Bradgate directors Richard Arnold and Ian Sullivan. The merged business operates under the Bradgate name from the company's premises in Leicestershire. As Bell has been integrated into BBF it does not have its own branding / website.

Consideration and financial information:

The consideration was:

- £2.3m in cash paid completion including £0.3m placed in escrow for up to six months, to be released on achievement of certain integration milestones;
- a further £0.3m of deferred cash over three years; and
- an earn-out of £0.8m, comprising £0.6m worth of 1pm plc shares at the fixed price of 66.7 pence per share and £0.2m in cash, conditional on the achievement of trading forecasts over the three- year period following completion.

Bell is FCA registered with a loan book which at the time of acquisition comprised over 400 live agreements amounting to £10.3m of receivables, including £2.3m of unearned interest, i.e. future revenue. For its financial year ended 30 November 2016, the Company's unaudited results included revenue of £1.7m, profit before tax and dividends of £0.4m and net assets of £1.1m. The Company is originating approximately £6.0m of new business a year, c85% kept on its own balance sheet, and c 15% of deals brokered-on.

Intelligent-Loans.com (acquired March 2017)

Intelligent-Loans.com (http://www.intelligent-loans.com/) based in Cardiff Bay is a specialist lending packager focused on second charge (i.e. secured) loans, bridging finance and specialist buy to let. It is not tied to a panel and guarantees to search the entire market. iLoans earns commission income from a wide panel of lenders and a growing network of approximately 1,200 introducers from whom a significant level of repeat business is generated. Its products include:

- Second charge loans: iLoans gets introductions from mortgage brokers (to whom it pays a commission) who have a customer with non-standard needs. IL is careful to emphasise the client relationship remains with the broker so as to ensure an ongoing flow of business. The broker's client usually needs funds but does not want to disrupt their existing mortgage. Examples include where their client (i) is in a tie-in period and does not want to pay a large penalty, (ii) is or has been in arrears with their current lender and wants to avoid disturbing their current low rate for sub-prime rate (iii) Their client is benefiting from a low SVR (iv) can't get the income multiples and (v) has an interest only mortgage and does not wish to re-mortgage to capital and repayment. The funds are used for a variety of reasons including debt consolidation, home improvements, and injecting cash into a business. A full range of customers are serviced including those with adverse credit and the self-employed.

- Bridging Finance: IF arranges bridging finance (via brokers) on loans ranging from £25k to £10m (up to £15m for experienced property developers/investors) with rates as low as 0.55% per month (6.6% per annum). It can also source funding with the option to roll up part of the interest to improve cash flow, believing it can offer property finance at the same level as a traditional high street lender. It claims competitive advantage in servicing level noting same day decisions on loans and a complete product range so the borrower has no need to look elsewhere.

- Specialist Buy to Let. IF organises loans with 85% loan to value (LTV) (100% available with additional security) at rates from 2.99% above the base interest rate. Duration can be from short-term interest only facilities to 30-year mortgages with part capital-repayment options. It will organise loans for individuals, partnerships, limited liability partnerships, limited companies, pension trustees and charities and trusts. Properties lent on include residential properties (including houses for multiple occupation), and most types of commercial property.

Looking forward, the funding available as part of 1pm, means that IF may choose to retain certain exposures on balance sheet. This is not business sourced from brokers but other introducers such as accountants so there should be no impact on those relationships. The amount retained is likely to be modest and so funders are also unlikely to affected.

Consideration and financial information:

The consideration is a maximum of £2.0m comprising £1.0m in cash and £0.2m in shares (at a price of 56.5p per share) paid on completion. In addition, further cash payments of up to £0.8m in total may be payable contingent upon the achievement of iLoans' forecast profits in the period from 1 February 2017 to 31 May 2019.

In the financial year to 31 January 2017, iLoans completed over 250 commission-earning transactions, recording £1.5m of commission income (average c£6k), an EBITDA of £0.4m and a PBT of £0.3m. The company has been listed within Wales Fast Growth 50 companies for 2017 and revenue in FY17 was nearly four times that of FY14 showing the growth in this business. As a broker, the business is very cash generative with minimal operating cash requirements and invoices paid within 30 days (the majority are settled within seven days).

Gener8 Finance (acquired 8th June 2017)

Established in 2008 Gener8 Finance (http://www.gener8finance.com/) based in Abingdon, Oxfordshire has now financed over £1bn in receivables. The business employs 15 staff and predominantly targets clients south of Birmingham. At present it has 145 clients, with approximately a four and a half year average client life. Gener8 typically lends between £50k and £500k, with an average of £90k. Approximately 60 per cent. of new clients are generated though the brokers, with the remaining 40 per cent originated directly, half of which is introductions from existing clients and the balance from sources such as accountants. Gener8 charges a range of fees and interest on loans, with recurring annual service fees accounting for approximately half of revenue. Interest is the second largest revenue contributor; typically charged at three to four per cent. per annum and accounting for 15 -20% of annual revenue. Service fees are charged on each invoice that is discounted; while interest is charged on the revolving balance of funds that are advanced daily (in the same way an overdraft would incur interest).

It provides a full range of invoice financing including:-

- advancing up to 90% of the invoice value within 24 hours. Once payment has been received from the invoice payer, Gener8 releases the balance to its customer less the pre-agreed fee.

- Invoice collection services, including-credit control and bad debt protection.

- Both confidential and disclosed financing

Gener8 created a Service Charter which states that it will provide a service fee refund to any client who is not entirely happy with its service or any other aspect of the Gener8 experience. To date, no-one has claimed under the Charter and they are confident that they can maintain these high standards for many years to come.

The CEO and principal shareholder of Gener8, Mr. David Richards, ceased his employment upon completion of the deal but was retained as a consultant for a six-month period to complete an orderly handover.

Consideration and financial information:

The consideration was £5.25m, payable in cash on completion.

In the year to 31 December 2016, Tracx Finance (Gener8's holding company) generated revenue of £2.6m and adjusted profit before tax of £0.9m, lending £12m on a receivables book of £30.3m. The book had shown c3% growth on end 2015 (£29.3m) which was down on end 2014 (£31.6m) as there was a change in sales strategy whereby the business moved from an employed sales team to a small number of self-employed "super brokers". The latter approach is more profitable and over the longer term likely to deliver more growth although during the transition it impacted on growth.

Positive Cashflow Finance (acquired June 2017)

PCF (http://positivecashflowfinance.co.uk) is a Manchester-based business which provides invoice finance facilities of between £10k and £1m to businesses across a broad range of industries. The company has over 190 customers and employs 24 members of staff at offices in Manchester and Birmingham. The management team, led by David Smith, is highly experienced and continues to manage the business within the 1pm group following the acquisition. PCF provides a full range of invoice financing solutions including:

- Disclosed Invoice finance: Finance is provided up to 85% of the value of the outstanding invoices with a comprehensive credit control service (including access to credit information on existing or potential new accounts). They offer facilities from £10k up to £1m for businesses with annual sales of £100k and above. Customers include new start-up businesses. In terms of sectors it has focused on recruitment, haulage, manufacturing, printing and engineering, but is not restricted to these areas.

- Confidential Invoice Discounting: Where the customer is a larger (turnover £500k+), profitable businesses who have an in-house credit controller and strong backed systems (verified by PCF) there is a non-disclosed service. Here the end invoice payer is not aware that the invoice has been discounted. Again, there is an 85% limit and facilities can be from £100k to £1m. PCF note this option can be attractive for MBOs/MBIs and acquisitions.

- Positive Plus Where additional advances can be made over and above the agreed prepayment against invoices, normally up to a maximum of 100% of invoice value and sometimes against additional security taken e.g. a charge of property.

- Positive Credit Management (http://www.positivecredit.co.uk/) offers a fully integrated credit management system to relieve businesses of the administrative burden of running their sales ledgers. This includes services to: (i) Insolvency Practitioners – where PCF collects the outstanding sales ledgers of companies who are in liquidation or administration on behalf of insolvency practitioners. (ii) other invoice finance companies who wish to outsource the recovery side of their business. PCM claim particular expertise in the collection of disputed or difficult debts. (iii) Businesses- PCM can offer a collections service to companies who want to replace their internal credit control function or to outsource their sales ledger management to cover short term staffing issues caused typically by illness or maternity leave.

Consideration and financial information:

The consideration will be up to £9.0m with £4.3m cash paid on completion and £2.2m in 5% loan notes redeemable in quarterly payments over the 13 calendar quarters commencing on 30 September 2017. The deferred element (up to £2.5m) will be paid in shares priced at 60p per share based on a three year earn-out, conditional on achieving certain financial performance targets.

Revenue for the year ended 30 November 2016 was £4.1m (2015 £4.2m, 2014 £3.8m) with adjusted profit before tax of £1.1m (2015 £1.1m, 2014 £0.6m). Cost control was good with administration expenses in 2016 lower than 2015 (£1.989m v £2.017m) and interest payable also fell (£729k v £750k). As at 30 November 2016, the company had a loan book of £22.7m (2015 £17.4m, 2014 £18.7m) and receivables of £47.3m (2015 £42.5m, 2014 £41.3m). The November 2016 equity base was £0.55m down from £1.22m in November 2015 with the payment of a £1.77m dividend. Since 2014 management has reduced the size of the sales team from 8 to 4, removing some underperformers and maintaining the size of the business with a smaller cost base.

Notes

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