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1pm plc

Group synergies coming through

The FY'18 results delivered exactly what management promised. Loan origination was up 72%, revenue rose 78%, pre-tax profits increased 93%, while EPS grew 24%. The synergies from being a bigger group are emerging. Funding costs have fallen rapidly. Perhaps of greater importance, cross-group sales leads were £13m in 4Q FY'18. Not all will convert, but this represents nearly 10% of FY'18 origination. While we note a retiring director's 6% stake may be viewed as a stock overhang, the implied May 2019 P/E of 6.7x and price to book of 0.9x, appears an anomaly given the downside risk highlighted in our sensitivity analyses.

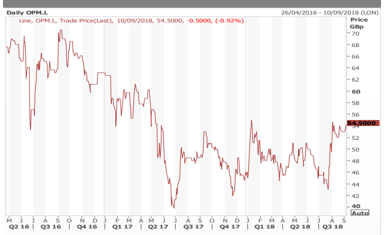
- **FY'18 results:** These results confirm all the company promises. Strong franchise growth has been delivered. Provisioning continues to be conservative ("general" provisions are over a third of the charge). Our updated credit sensitivity scenario (detailed below) indicates 2020E EPS above 2017, even in a hard landing.
- **Outlook:** We have continued to accelerate investment into 2019 and this has led to a 2% trimming of EPS estimates for that year. We have introduced 2020 estimates showing further double-digit EPS growth. 1pm has previously announced an intent to increase dividend by 30% p.a. to FY'21.
- **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.
- **Valuation:** We detailed the assumptions in our valuation approaches in our initiation note, "Financing powerhouse: A lunchtime treat". The GGM indicates 116p and the DDM 70p (DDM normal payout 78p). The 2020E P/E (6.7x) and P/B (0.9x) appear an anomaly with 1pm's profitability, growth and downside risk.
- **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-driven (payback for management actively engaging the investor community). Profitable, growing companies generally trade well above NAV.

Financial summary and valuation

Year-end May (£000)	2015	2016	2017	2018	2019E	2020E
Revenue	5,534	12,554	16,944	30,103	33,503	36,854
Cost of sales	-2,503	-4,480	-6,094	-10,118	-11,264	-12,672
Admin. expenses	-1,394	-4,290	-6,469	-12,183	-13,603	-14,419
Operating profit	1,637	3,418	4,121	7,966	8,914	9,763
Pre-tax profit	1,620	3,346	4,080	7,850	8,708	9,537
Adj. EPS (p)	3.7	6.5	6.5	7.9	8.1	9.0
Total receivables	24,991	56,061	73,955	126,069	141,197	155,317
Eq. to receivables	49%	43%	39%	38%	40%	41%
Shares in issue (m)	36.9	52.5	54.9	86.2	88.4	90.5
P/adj. earnings (x)	14.7	8.4	8.4	6.9	6.7	6.1
P/B (x)	1.6	1.2	1.1	1.0	0.9	0.8
Yield	0.6%	0.9%	0.9%	1.2%	1.6%	2.0%

Source: Hardman & Co Research

Financials



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**OPM**
Price (p)	54.5
12m High (p)	55.0
12m Low (p)	42.0
Shares (m)	83.8
Mkt Cap (£m)	45.7
EV (£m)	44.8
Free Float*	51%
Market	AIM

**As defined by AIM Rule 26*

Description

1pm is a finance company/broker providing almost 20k 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

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www.1pm.co.uk

Key shareholders

Lombard Odier (31/5/18)	22.84%
Sapia Partners (31/5/18)	12.66%
Ronald Russell (director 27/10/17)	12.25%
Mike Nolan (director 31/5/18)	6.30%
Charles Stanley (31/5/18)	3.53%

Diary

25 Oct'18	AGM

Analyst

Mark Thomas 020 7194 7622
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FY'18 results summary

Financial highlights

Revenue growth 78%, organic growth 31%

- FY'18 revenue increased 78% to £30m (FY'17 £16.9m, an acceleration on the 1H'18 growth rate of 74%). Organic growth was 31% (1H'18 22%). Included in revenue is £5.2m (FY'17: £2.4m) of broked commission income.

Cost of sales +66% – primarily broker commission

- The cost of sales (£10.1m, up 66% on FY'17, 1H growth 64%) is predominantly expenses, such as broker commissions, and this has risen with volumes.

"General" provisions up £0.6m, specific write-offs £3.1m, recoveries £2.2m

- Additionally, cost of sales includes credit impairments (net write-offs using 1pm terminology), which, in the period, were £1.5m, 1.2% of total receivables at period-end (1H'17: £0.3m; 2H'17: £0.6m; 1H'18: £0.7m; 2H'18: £0.8m). The charge included £3.1m of gross new provisions, £2.2m in recoveries (net £0.9m charge) and a further £0.6m added to the provision for potential impairments.

Stock of provisions rising

- At end May 2018, the stock of bad debt provisions was £1.8m (2017: £1.2m). The impact of IFRS9 is detailed below but the transition effect is minimal because of historic conservatism in provisioning.

Admin. expenses up 88% but this includes re-classification of some interest as well as accelerated investment

Profit up 93%, EPS up 24%

- Administration expenses rose 88% to £12.2m. As detailed in the financial section below the group includes some elements of interest cost within administration expenses but it has also accelerated front line hires and control functions (compliance now four staff up from one). Despite this investment, group profit before tax and exceptional items increased 93% to £7.9m (FY'17: £4.1m). Basic earnings per share increased 24% to 7.57p (1H FY'18: 3.23p), despite the increase in shares in issue (average 84.6m vs. 53.9m).

- Net assets increased 69% to £48.1m (31 May 2017: £28.5m).

Operational highlights

New origination +72%; similar proportion has been broked on

- Combined origination amounted to £142.9m of new lease, hire and loan agreements (FY'17: £83m), an increase of 72%. 1pm maintained flexibility to either fund on 'own-book' or generate cash commissions from broking, (ca.56% of new lease and loan contracts brokered for commission.)

- The combined 'own-book' assets, loans and invoice finance portfolios increased to £142.1m (31 May 2017: £89.5m) principally reflecting the addition of the Commercial Finance division receivables in June 2017. At end May 2018, there were ca.20k customers, against ca.£16k in September last year.

Funding well diversified. Cost of funding down nearly a third, partially mix but also group benefit.

- Funding facilities were £162.6m at 31 May 2018 (31 May 2017: £74.5m, November 2017 £137m). Block funding facilities continue to be the largest element, but the group has actively expanded and diversified its funding, including a £35m line from the British Business Bank. Blended cost of borrowings fell to ca.4.1% (year to 31 May 2017: 5.3%).

Synergy from group cross-selling is rising

- Integration and cross-selling progress at each entity is said to be in line with operational expectations and objectives set by management. Origination of new leads from cross-selling is increasing month-on-month with £13m of leads generated in the final quarter of the financial year.

Strategic update

Group summary

As detailed in the figure below, 1pm offers a diversified portfolio of SME financing products, sourced from a diversified source of channels, with a broad (match) funding. It maintains significant strategic flexibility to retain lending on balance sheet or broke to other lenders. This, coupled with a client base of ca.20k, generates growth options, including an increasing degree of cross selling. 4Q FY'18 leads of £13m, if converted, would represent nearly 10% of the annual origination).

Strategic summary

Brand	Introducer channel	Products	Funder or broker	Customer focus	Funding
onepm FINANCE	Finance Brokers	Soft Asset Leases	Funder only	UK SMEs	Block Discount Facilities
ACADEMY LEASING LTD	Suppliers and Manufacturers	Soft Asset Leases and New Vehicles	Funder and Broker	UK SMEs	Block Discount Facilities
bradgate BUSINESS FINANCE	Brokers and Suppliers	Hard Assets	Funder and Broker	UK SMEs	Block Discount Facilities (British Business Bank in due course)
INTELLIGENT-LOANS.COM	Mortgages Advisors and Brokers	Property and PG-backed Loans	Funder and Broker	Both consumers and UK SMEs	Secured Loan Note
Gener8 Finance FOR GROWING COMPANIES	Professional firms and Brokers	Invoice Finance	Funder only	UK SMEs	Back-to-back Bank Facility
POSITIVE CASHFLOWFINANCE	Professional firms and Brokers	Invoice Finance	Funder only	UK SMEs	Back-to-back Bank Facility
CarFinance2u	Car Dealers and Customers	Used Vehicles	Broker only	Consumers	Operating cash flow

Source: 1pm, Hardman & Co Research

The table below gives a business line rather than brand summary for the group. As can be seen, the asset finance and loan books have broadly similar yields (mid-to-high teens) and credit experience (net write-offs ca.1%) generating excellent risk adjusted, post funding margins of ca.10%. The commercial financing business is very different with a much lower margin but significant fee generation. This revenue mix, and the volatility of the business balance sheet at specific dates (let alone with seasonality around things like Christmas) means that a risk adjusted margin based off spot numbers needs to be treated with great caution. The key risk dynamic, though, is that the acquired businesses in 10 years have incurred ca.£300k in total impairments and yet they currently generate ca.£7m in revenue.

Summary by division			
£m	Asset finance and vehicle broking	Asset secured and personal G'tee loans	Commercial (invoice) financing
Origination	102	28	12
Own Book	70.7	15.3	36.8
Divisional equity	11	9	6
Funding Facilities	112	12	37
Headroom	52	6	6
Average yield	Fixed 16%	Fixed 18.5%	ca.4% + 15% fees
Average cost of funds	Fixed 5%	Fixed 6.5%	ca 2.5%
Impairments	Net write-offs 1%	Net write-off 1%	Minimal to date
Risk adjusted margin	ca.10%	ca.11%	N/M as fee business
Duration	3 years	1-3 years	1-year facilities
Stock of provisions	Approaching 2%	2.0%	ca 1%

Source: 1pm, Hardman & Co Research

Growth

Strong growth in all businesses

As can be seen in the table below, there was strong growth across all business lines. This was driven by the origination growth highlighted on p2 with 44% of new loans and leases retained on book and 56% was broked on for commission. The rise in commission also has been helped by greater vehicle related business. Of the £5.2m commission income (£2.2m in FY'17) £2.4m related to vehicles, £1.1m to equipment and £1.7m in loan finance arrangement.

Business line pricing stable; group yield little lower due to lower risk mix of business

We understand that new business pricing in each business line has been stable with the gross yield being 16.1% in FY'18 (16.8% FY'17) and the reduction reflecting mix effects of an increasing proportion of lower-risk lower-yield assets. The fall in funding costs detailed below means the group NIM has risen from 11.5% to 12%.

Revenue by product area				
£m	FY'17	FY'18	Growth	% FY'18 total
Own book lease	12.1	15.2	26%	51%
Own Book loans	2.6	3.1	19%	10%
Own book invoice finance	0.0	6.5	N/A	22%
Commission	2.2	5.2	136%	17%
Total	**16.9**	**30.0**	**78%**	

Source: 1pm, Hardman & Co Research

Credit risk management

Summary

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

We detailed how 1pm manages credit on pp21-26 in our initiation Financing powerhouse: A lunchtime treat published on 12 September 2017 and in our recent note Give credit where it is due. There are a number of factors why 1pm may be considered low risk, including: (i) broking capacity; (ii) no commercial property lending (broking only); (iii) very broad portfolio of small exposures; (iv) no specific sector concentration, but sectoral knowledge of smaller SMEs including 'high-street' businesses; (v) repayments by regular direct debit; (vi) invoice finance requires double failure for major losses; and (vii) demand and pricing is likely to increase in macro-uncertain times. There are also some factors which indicate it is above average risk, including: (i) OnepmFinance is wholly reliant on broker-introduced business, so a remote lender; (ii) some lending to higher risk start-ups/impaired credits, but subject to appropriate security; (iii) some exposure to cyclical sectors; (iv) acquired assets often riskier than self-originated; (v) not a bank, so no current account real time data; and (vi) rapid growth. Overall, we believe 1pm's lease and loan book is above average risk but this is more than compensated for by above average yield and the ability to broke-on for immediate cash and profits as well as the positive mix effects of a significant invoice discounting business.

FY'18 update

Gross new specific write-off £3.1m, Recoveries £2.2m, "general" provisions up £0.6m

During the year, the group recovered £2.2m from previously fully written-off impaired receivables and incurred £3.1m of new write-offs with a net £0.9m impairment from specific loans. 1pm also increased its provision for potential impairments by £0.6m. The total profit and loss charge of £1.5m, is 1.2% of the year-end net portfolio (2017: £0.9m, 1.2%).

Stock of provisions 1.5% net portfolio vs. 1.3% end FY'17

At 31 May 2018, the group's balance sheet included £1.8m of bad debt provision, representing 1.5% of the year-end net portfolio (2017: £1.2m, representing 1.3% of the year-end net portfolio). The group's stated policy is to gradually increase provisions against the lease and loan component of the portfolio to ca.2.0%.

Top 10 sectors just 1/3 of portfolio, lending highly diversified by customer, region, sector, etc.

The portfolio is very diverse. (i) Largest sector by value (freight transport) is only 5% of portfolio. The top 10 sectors account for only a third of the portfolio and range from transport through to hairdressing and beauty to takeaway food and specialist construction. (ii) The largest lease is ca.£300k while the average lease deal size £15k. (iv) The largest Invoice finance facility is ca.£1.0m with an average of £150k. (v) Loan-to-value advance on hard assets, is typically 60-70%; on IF facilities, typically 55% of sales ledger.

Conservative provisioning

In the table below, we highlight the different stocks of provisions held ranging from 2% for the loan book down to 1% for the invoice finance business. We note that the IF provision of £0.3m is very conservative with the combined businesses in this area having taken a total of £0.5m in provisions over the past 10 years (against annual revenue currently at ca.£7m).

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Net portfolio

£m	Net portfolio	Provision	% cover
Asset	70.7	1.2	1.6%
Loan	15.3	0.3	2.0%
Invoice Finance	36.8	0.3	1.0%
Group	122.8	1.8	1.5%

Source: 1pm, Hardman & Co Research

IFRS9 impact tiny because of conservative provisioning; see our note "Give credit where it is due"

The Group International Financial Reporting Standard 9 ("IFRS9") 5 September guidance confirmed that had the adoption of this accounting standard occurred in the financial year ended 31 May 2018, the impact would have been 0.25% of NAV, a tiny figure compared with virtually all quoted companies (e.g. P2P Global Investments 2.5% announced on 6 September). We reviewed the transition in detail in our note Give credit where it is due published on 5 September 2018.

Scenario sensitivity update

We reviewed the group's credit with detailed scenario testing in our note Give credit where it is due published on 5 September 2018. In the section below, we provide an updated sensitivity analysis to our 2020 estimates assuming a range of scenarios from continuing current low loss rates through to an extreme hard landing. We highlight the impact on the whole profit and loss and not simply the impairment line. For example, harsher credit conditions are likely to see improving yields and more customers fall into 1pm's space providing material offsets to higher credit losses.

Moving scenario tests to 2020 estimates means downside has less of an effect (underlying earnings growth faster than loan growth)

In all but hardest landings 2020E earnings above 2017 actual earnings

Our initial review focused on 2019. By moving to 2020, we incorporate in revenue the whole year impact of lending made through 2019. With the greater visibility in the full year numbers we have also split out commission revenue and adjusted for the accounting alignment of receivables (see financial section). The change in base case is slightly lower than in our previous note as the growth in receivables (and so impairments) is slower than revenue. With an extra year of profit growth in our base case, it now requires impairments at 1.5x the level 1pm's IFRS 9 worst case scenario AND either slower growth or slower spread expansion before our forecast 2020 earnings are below the level of 2017.

Sensitivity analysis

Year-end May 2020E (£000)	Base	Current provisioning continues	IFRS 9 worst case	1.5x IFRS9 worst case	1.5x IFRS 9 worst case + no growth	1.5x IFRS 9 worst case + half spread change
Revenue	36,854	38,053	38,892	40,455	39,197	39,242
Impairments in cost of sales	-1,864	-1,584	-5,040	-7,147	-6,872	-7,147
Impairment loss as % group receiv.	-1.20%	-1.00%	-3.18%	-4.42%	-4.42%	-4.42%
Cost of sales	-10,808	-11,024	-11,024	-11,241	-10,808	-11,241
Gross profit	**24,182**	**25,444**	**22,827**	**22,068**	**21,516**	**20,854**
Gross profit margin	66%	67%	59%	55%	55%	53%
Administration expenses	-14,419	-14,491	-14,491	-14,635	-14,563	-14,635
Exceptional items	0	0	0	0	0	0
Operating profit	**9,763**	**10,953**	**8,336**	**7,433**	**6,953**	**6,219**
Finance costs	-226	-231	-233	-247	-238	-235
Profit before income tax	**9,537**	**10,722**	**8,103**	**7,186**	**6,716**	**5,984**
Income tax	-1,621	-2,037	-1,540	-1,365	-1,276	-1,137
Profit for year	**7,915**	**8,685**	**6,563**	**5,821**	**5,440**	**4,847**
Change in profit from base case		**10%**	**-17%**	**-26%**	**-31%**	**-39%**
Change in profit from 2017 actual	**141%**	**164%**	**100%**	**77%**	**66%**	**47%**
Change in EPS from 2017 actual	**39%**	**52%**	**15%**	**2%**	**-5%**	**-15%**
Assumptions						
Assumed loan/lease book	120,000	122,400	122,400	124,800	120,000	124,800
Book growth v base		2%	2%	4%	0%	4%
Yield on closing balance sheet	17.50%	18.00%	18.45%	18.91%	18.91%	18.21%
Income	21,000	22,032	22,583	23,601	22,694	22,721
Bad debt write-off rate	1.50%	1.25%	4.00%	5.55%	5.55%	5.55%
Losses in cost of sales	1,800	1,530	4,896	6,926	6,660	6,926
Assumed invoice finance book	35,317	36,023	36,023	36,730	35,317	36,730
Book growth v base		2%	2%	4%	0%	4%
Yield on closing balance sheet	23.65%	23.65%	24.24%	24.85%	24.85%	24.25%
Income	8,353.71	8,521	8,734	9,128	8,777	8,908
Bad debt write-off rate	0.18%	0.15%	0.40%	0.60%	0.60%	0.60%
Losses in cost of sales	64	54	144	220	212	220
Commissions	7,500	7,500	7,575	7,727	7,727	7,613
Administration expenses vs. base		0.5%	0.5%	1.5%	1.0%	1.5%
BP increase in funds		-	4	20	21	-
Cost of funds vs. base		0%	1%	5%	5%	0%
Valuation implications						
EPS (p)	9.0	9.9	7.5	6.6	6.2	5.5
Implied P/E (x)	5.8	5.3	7.0	7.9	8.5	9.5
Dividend (p)	0.85	0.85	0.85	0.85	0.85	0.85
Dividend cover (x)	10.64	11.67	8.82	7.82	7.31	6.51

Source: 1pm, Hardman & Co Research

Funding

Funding costs continue to fall. Partially due to operational improvements, partially due to group synergies and partially due to mix. Further reductions may be expected over medium term.

We note the average funding costs has been on a downward trajectory (FY'16 5.8%, FY'17 5.3%, FY'18 4.1%) with the sharp fall this year. In FY'18, the range of funding costs was 2.5% through to 8.5% (prior year 4.5% through to 8.8%). This demonstrates that the cheapest funding has got materially cheaper but even the top of the range financing cost is lower than last year. The falling cost of funds has been driven by: (i) continued reduction in 'Block' rates due to treasury 'bulk buying. In FY'18 a Group Treasury function was established, which rationalised group-wide "block-discounting" facilities for asset businesses. (ii) group synergies as the enlarged group is a lower risk than each of the parts individually; and (iii) mix with cheaper invoice finance facilities.

Short-term noise around things like interest rates and timing of specific debt issues

We do not expect the fall to be smooth in every period (e.g. 2H'18 rose on 1H'18) as it is influenced by factors such as: (i) the.25bp bank rate increase reflected in some of the block funding drawn; and (ii) more drawings on the Secured Loan Note, which is a higher rate instrument, and so, an adverse mix effect. We do, however, expect the direction of falling funding costs to continue over time.

2018 been very positive year for diversifying and increasing funding sources. Most importantly now got support from government-backed British Business Bank.

We note 2018 has been a year with many funding initiatives through the year, highlighting increased levels of facilities and their diversity. The group continues to match fund, so its financing at least matches the duration length of its lending. Some of the key announcements in 2018 have been:

- 12 April 2018: £14.5m increase in block funding from six providers;
- 27 March 2018: an asset finance facility with the government's British Business Bank ("BBB") under BBB's ENABLE Funding programme that will provide £35m of additional funding to 1pm's Bradgate subsidiary;
- 27 February 2018: access to 50,000 international retail investors through the Mintos marketplace.

Material headroom to fund further growth on balance sheet and group still has option to broke on business if required

As can be seen in the table below, 1pm has put in place a broad range of facilities and has material headroom to support growth with pre-committed lines of match duration funding. It also of course has the ability to broke business as required.

Revenue by product area

£m	Facility	Usage at 31 May	Headroom
Overdraft	1.0	0	1.0
Block Funding	112.6	59.3	53.3
Secured loan note and other HNWI loans	12.0	6.1	5.9
Back to Back facilities	37.0	30.7	6.3
Total	**162.6**	**96.1**	**66.5**

Source: 1pm, Hardman & Co Research

As at 31 May 2018, the group's gearing ratio was 4.8 times its Net Tangible Assets, which is comfortably within the most stringent funder covenant of 5.5 times.

Financials

Changes to estimates

We have not made any material changes to our 2019 EPS forecasts with these results other than to marginally accelerate investment. We have introduced 2020 estimates. Specific lines have, however, been affected by accounting treatments. In particular:

Acquired invoice finance companies had different accounting policy. Aligning them has reduced receivables and payables but no effect on revenue.

- Invoice finance providers can show either net receivables from clients, or the gross receivable and the amount payable back to them. So, for example; advances to borrowers of £100, their sales ledger (over which 1pm has control) £200 could be shown in the accounts as either £200 receivable and £100 payable back to the borrower, or a net £100 receivable. 1pm is now aligned on the latter. The two acquired companies historically adopted different approaches to each other and in our old forecasts we had carried through the historic practices. The netting of receivables is the primary driver to the decline in the receivables forecasts but it does not have an impact on revenue estimates.

Group focused on lower risk businesses; has seen reduction in higher risk lending

- We note from the cashflow statement that the organic level of receivables was down £2.6m despite new origination. We understand this is primarily due to the group focusing on lower risk deals and pulling back on some higher risk lines such as working capital. We understand this re-calibration is now largely complete and so, going forward, more of the own-book origination will feed through to growth in on-balance sheet receivables.

Alignment of accounting also seen switch from finance expenses into administration expense. No net change, just move between lines.

- The alignment of accounting on acquired business also means that ca.£0.5m costs incurred by positive cashflow, which it reported in finance expense have been reclassified into administration expenses. Again, we had applied the historic acquired company accounting approach. With the aligned accounting policy now being adopted, operating profit is lower and finance costs fall, but there is no net effect on pre-tax profits

Figure 4: Estimate changes

	2018			2019E			2020E
Year-end May (£000)	**Old**	**New**	**% change**	**Old**	**New**	**% change**	**1st forecast**
Revenue	29,596	30,103	2%	32,946	33,503	2%	36,854
Cost of sales	-9,849	-10,118	3%	-10,820	-11,264	4%	-12,672
Administration expenses	-10,834	-12,183	12%	-11,983	-13,603	14%	-14,419
Operating profit	8,619	7,966	-8%	9,822	8,914	-9%	9,763
Pre-tax profit	7,946	7,850	-1%	9,048	8,708	-4%	9,537
EPS (p)	7.85	7.90	1%	8.28	8.11	-2%	8.99
DPS (p)	0.65	0.65	0%	0.85	0.85	0%	1.10
Total receivables	150,893	126,069	-16%	169,000	141,197	-16%	155,317
Equity to receivables	32%	38%		33%	40%		41%

Source: Hardman & Co Research

Profit and loss

Profit and loss								
Year-end May (£000)	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019E**	**2020E**
Revenue	3,107	4,212	5,534	12,554	16,944	30,103	33,503	36,854
Cost of sales	-1,651	-1,994	-2,503	-4,480	-6,094	-10,118	-11,264	-12,672
Gross profit	**1,455**	**2,217**	**3,031**	**8,074**	**10,850**	**19,895**	**22,240**	**24,182**
Other operating income	0	0	0	2	3	0	0	0
Administration expenses	-663	-845	-1,394	-4,290	-6,469	-12,183	-13,603	-14,419
Exceptional items	0	0	0	-368	-263	254	277	0
Operating profit	**792**	**1,372**	**1,637**	**3,418**	**4,121**	**7,966**	**8,914**	**9,763**
Finance costs	-17	-26	-21	-74	-82	-179	-206	-226
Finance income	0	1	4	2	41	63	0	0
Profit before income tax	**775**	**1,346**	**1,620**	**3,346**	**4,080**	**7,850**	**8,708**	**9,537**
Income tax	-172	-297	-349	-480	-794	-1,448	-1,572	-1,621
Profit for year	**603**	**1,049**	**1,271**	**2,866**	**3,286**	**6,402**	**7,136**	**7,915**
Average number of shares (m)	23.15	29.60	34.18	48.85	53.94	84.60	88.03	88.03
Diluted No shares	0	0	0	3.15	3.82	14.49	13.49	13.49
Statutory EPS	2.60	3.54	3.72	5.87	6.09	7.57	8.11	8.99
Diluted EPS	2.58	3.52	3.70	5.51	5.69	6.46	7.03	7.80
Adjusted EPS (p)	**2.60**	**3.54**	**3.72**	**6.47**	**6.48**	**7.90**	**8.11**	**8.99**
Total dividend (p)	-	-	0.35	0.50	0.50	0.65	0.85	1.10
Dividend cover (adjusted EPS) (x)	N/A	N/A	10.6	12.9	13.0	12.2	9.6	8.2
Ratios (%)								
Revenue to year-end bal. sht.	24%	24%	22%	22%	23%	24%	24%	24%
Cost of sales to revenue	-53%	-47%	-45%	-36%	-36%	-34%	-34%	-34%
Admin. costs to revenue	-21%	-20%	-25%	-34%	-38%	-40%	-41%	-39%
Finance costs to revenue	-1%	-1%	0%	-1%	0%	-1%	-1%	-1%
Finance cost as % year-end Int.-bearing liabilities	-2%	-3%	-3%	-4%	-7%	-4%	-4%	-5%
Return on net assets	13%	15%	10%	12%	12%	13%	13%	13%

Source: 1pm, Hardman & Co Research

Balance sheet

We have adjusted our balance sheet forecast to reflect the alignment of the invoice discounting business. Underlying assumptions are broadly unchanged.

Balance sheet								
As at 31 May (£000)	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019E**	**2020E**
Non-current assets								
Goodwill	-	-	-	10,289	14,908	27,847	27,847	27,847
Intangible assets					84	465	750	1,000
Property, plant and equipment	41	73	239	1,251	1,744	1,612	1,612	1,612
Trade and other receivables	-	-	14,502	33,166	49,966	50,096	56,108	61,718
Deferred tax	-	-	-	208	411	568	750	900
Total non-current	**41**	**73**	**14,741**	**44,914**	**67,113**	**80,588**	**87,067**	**93,077**
Inventories	-	-	-	81	135	365	397	397
Cash and cash equivalents	13	3	12	910	2,078	2,070	2,622	810
Trade and other receivables	12,900	17,324	10,489	22,895	23,989	75,973	85,090	93,599
Total current assets	**12,913**	**17,327**	**10,501**	**23,886**	**26,202**	**78,408**	**88,109**	**94,805**
Total assets	**12,953**	**17,400**	**25,242**	**68,800**	**93,315**	**158,996**	**175,175**	**187,883**
Non-current liabilities								
Trade and other payables	3,112	4,405	5,685	19,664	32,097	33,256	39,756	43,732
Financial liabilities - borrowings	100	100	100	399	250	1,603	1,603	1,603
Deferred tax	-	-	40	-	-	-	-	-
Provisions (contingent consideration)	-	-	-	1,833	2,300	1,903	569	-
Total non-current liabilities	**3,212**	**4,505**	**5,825**	**21,896**	**34,647**	**36,762**	**41,928**	**45,335**
Trade and other payables	4,109	4,807	6,182	19,979	26,533	69,398	72,868	75,000
Financial liabilities - borrowings incl. bank overdrafts	520	403	357	519	-	-	-	-
Interest-bearing loans and borrowings	400	380	200	729	949	2,625	3,392	3,392
Provisions		-	-	1,245	1,733	1,218	200	200
Tax payable	148	297	310	543	943	918	918	918
Total current liabilities	**5,177**	**5,887**	**7,049**	**23,015**	**30,158**	**74,159**	**77,378**	**79,510**
Total liabilities	**8,390**	**10,392**	**12,874**	**44,911**	**64,805**	**110,921**	**119,306**	**124,845**
Share capital	2,315	2,997	3,685	5,253	5,494	8,621	8,831	8,831
Share premium	1,569	2,288	5,606	13,077	14,170	24,721	25,727	25,727
Employee share			83	90	91	295	299	299
Treasury shares						-300	-300	-300
Retained earnings	679	1,724	2,994	5,469	8,755	14,738	21,313	28,481
Total equity	**4,563**	**7,008**	**12,368**	**23,889**	**28,510**	**48,075**	**55,870**	**63,038**
Period-end no. shares (m)	23.31	29.97	36.85	52.53	54.94	86.20	88.44	90.48
NAV per share (p)	0.20	0.23	0.34	0.45	0.52	0.56	0.63	0.70
Tangible NAV per share (p)	0.20	0.23	0.34	0.26	0.25	0.23	0.32	0.39
Ratios								
Equity/total receivables	35%	40%	49%	43%	39%	38%	40%	41%
Current trade recs. to payables	n/d	n/d	1.70	1.15	0.90	1.09	1.17	1.25

Source: 1pm, 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 line excludes this, and thus is a lower number. Similarly, when 1pm refers to drawn facilities, it includes contractual interest due, which again is a 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 it is 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 affect lines within the cashflow statement, but not the overall cash position.

Cashflow

Year-end May (£000)	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019E**	**2020E**
Profit before tax	775	1,346	1,620	3,346	4,080	7,850	8,708	9,537
Depreciation charges	15	23	79	354	544	571	528	528
Finance costs	17	26	21	74	82	179	206	226
Finance income	0	-1	-3	-3	-41	-63	0	0
Gain on disposal of property	0	0	0	0	0	-30		
Increase in trade receivables	-2,787	-4,425	-7,667	-12,649	-9,134	2,624	-15,128	-14,120
Increase in trade/other payables	1,168	1,990	2,656	11,996	11,476	-10,233	9,970	6,108
Total cash from operations	**-812**	**-1,039**	**-3,294**	**3,118**	**7,007**	**898**	**4,283**	**2,279**
Interest paid	-17	-26	-21	-74	-82	-179	-206	-226
Tax paid	0	-148	-297	-637	-615	-1,612	-1,139	-2,021
Net cash from operating activities	**-829**	**-1,213**	**-3,612**	**2,407**	**6,310**	**-893**	**2,938**	**32**
Acquisition of subsidiaries	0	0	0	-7,588	-3,141	-9,879	-1,300	-569
Purchase of prop., plant & equip.	-17	-55	-246	-547	-1,089	-1,034	-528	-528
Interest received	0	1	3	3	41	63	0	0
Net cash from investing activities	**-17**	**-55**	**-243**	**-8,132**	**-4,189**	**-10,850**	**-1,828**	**-1,097**
New loans/loan repayments	400	-20	-180	-179	-22	-701	767	0
Share issue	0	1,395	4,090	6,769	-150	12,091	0	0
Equity dividend paid	0	0	0	-129	-262	-419	-562	-747
Net cash from financing activities	**400**	**1,375**	**3,910**	**6,461**	**-434**	**10,971**	**205**	**-747**
Increase in cash and cash equivalents	-446	107	55	736	1,687	-772	1,316	-1,812
Opening cash/cash equivalents	-61	-507	-400	-345	391	2,078	1,306	2,622
Closing cash/cash equivalents	-507	-400	-345	391	2,078	1,306	2,622	810

Source: 1pm, Hardman & Co Research.

Valuation

Summary

Average valuation upside on absolute measures 70%

Our assumptions were detailed in our initiation note (Financing Powerhouse: A lunchtime treat), and these have not changed. With the revisions to forecasts, our absolute valuation techniques imply an average upside of 70%. The limited peer group relative valuation measures would indicate between 60% and 100% upside.

Summary of different valuation techniques

	Implied price (p)	Upside (%)
Gordon Growth Model	116	113%
Dividend Discount Model	70	28%
Average absolute measures	93	70%

Source: Hardman & Co Research

Gordon 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, which is captured by the Gordon Growth Model (GGM). A growing business delivering above its cost of capital should trade above book value because it is adding value. This model still indicates a value of 116p. The increase from our last report (103p) is due to rolling forward our valuation by a year. For a business like 1pm, which is growing its equity base rapidly (partially due to our assumed low dividend payout ratio), rolling forward to a new base year will see a material increase in valuation. For example, if we used 2020E NAV rather than 2019E, the valuation would be 129p.

Dividend Discount Model

DDM 70p, upside 28%; would rise to 78p if company immediately adopted long-term payout ratio

Our Dividend Discount Model (DDM) produces a valuation of 70p, of which just 12p is in the terminal value. It is also worth noting that the short-term payout ratio is well below that we expect over the long term. If the company were to immediately adopt our long-term ratio, it would add a further 8p to the valuation under this methodology.

Peer comparisons

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

1pm has no immediate quoted peers. Using the quoted specialist lenders on P/E or P/B measures would suggest a share price broadly double the existing one. The smaller consumer finance companies imply ca.60% upside. The challenger banks are more mixed, but again have upside.

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In particular, Article 12(3) of the Directive states: 'The following benefits shall qualify as acceptable minor non-monetary benefits only if they are: (b) 'written material from a third party that is commissioned and paid for by a corporate issuer or potential issuer to promote a new issuance by the company, or where the third party firm is contractually engaged and paid by the issuer to produce such material on an ongoing basis, provided that the relationship is clearly disclosed in the material and that the material is made available at the same time to any investment firms wishing to receive it or to the general public…'

The fact that Hardman & Co is commissioned to write the research is disclosed in the disclaimer, and the research is widely available.

The full detail is on page 26 of the full directive, which can be accessed here: http://ec.europa.eu/finance/docs/level-2-measures/mifid-delegated-regulation-2016-2031.pdf

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