



Distribution Finance Capital Holdings plc

Interim Results 2020

Building a specialist SME focused bank

30 September 2020

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What we intend to cover

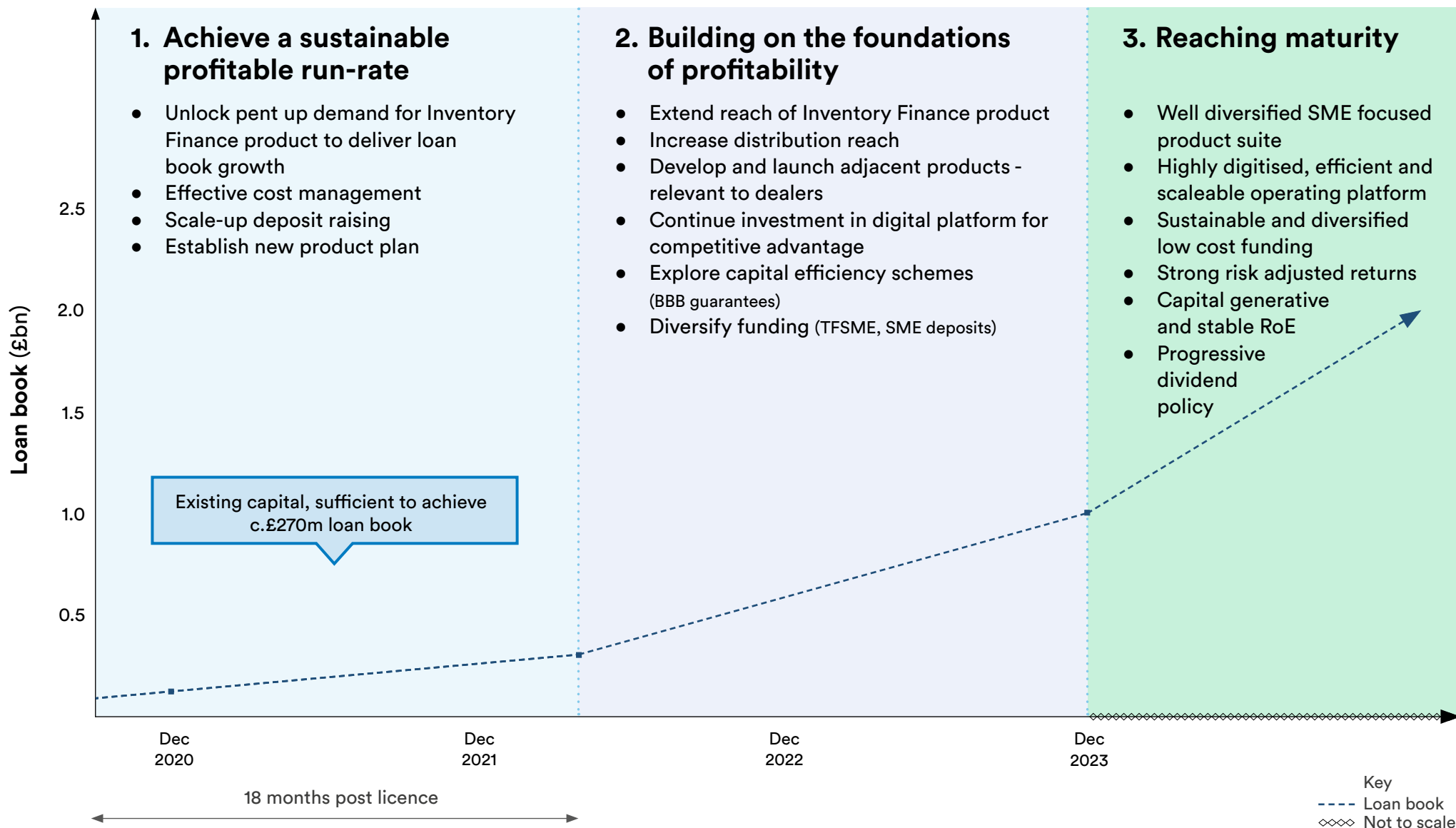
- Share our interim results and how we have responded to Covid-19
- Now that we are a Bank, lay out our strategic roadmap:
 1. Achieve a sustainable, profitable run-rate
 2. Building on the foundations of profitability
 3. Our aims as we reach maturity

Key takeaways



- We are one of a new breed of specialist Bank specifically focused on SMEs
- We have built a highly successful and proven secured lending franchise that has a clear runway for growth
- Now as a bank we have sustainable low cost funding to support our growth plan
- We are focused on achieving a profitable run-rate within the first 18 months of being a bank, so we have a stable foundation for growth
- There is significant growth potential in our existing and adjacent markets - enabled through our relationships with dealers and manufacturers
- We deliver our products digitally and have no legacy issues which unlocks efficiency and a low cost operating model
- We can deliver superior shareholder returns as a growth platform with strong margin performance

Strategic Priorities: Our phased objectives to deliver growth



Who we are



DF Capital is a niche lender, providing working capital solutions to dealers and manufacturers across the UK.

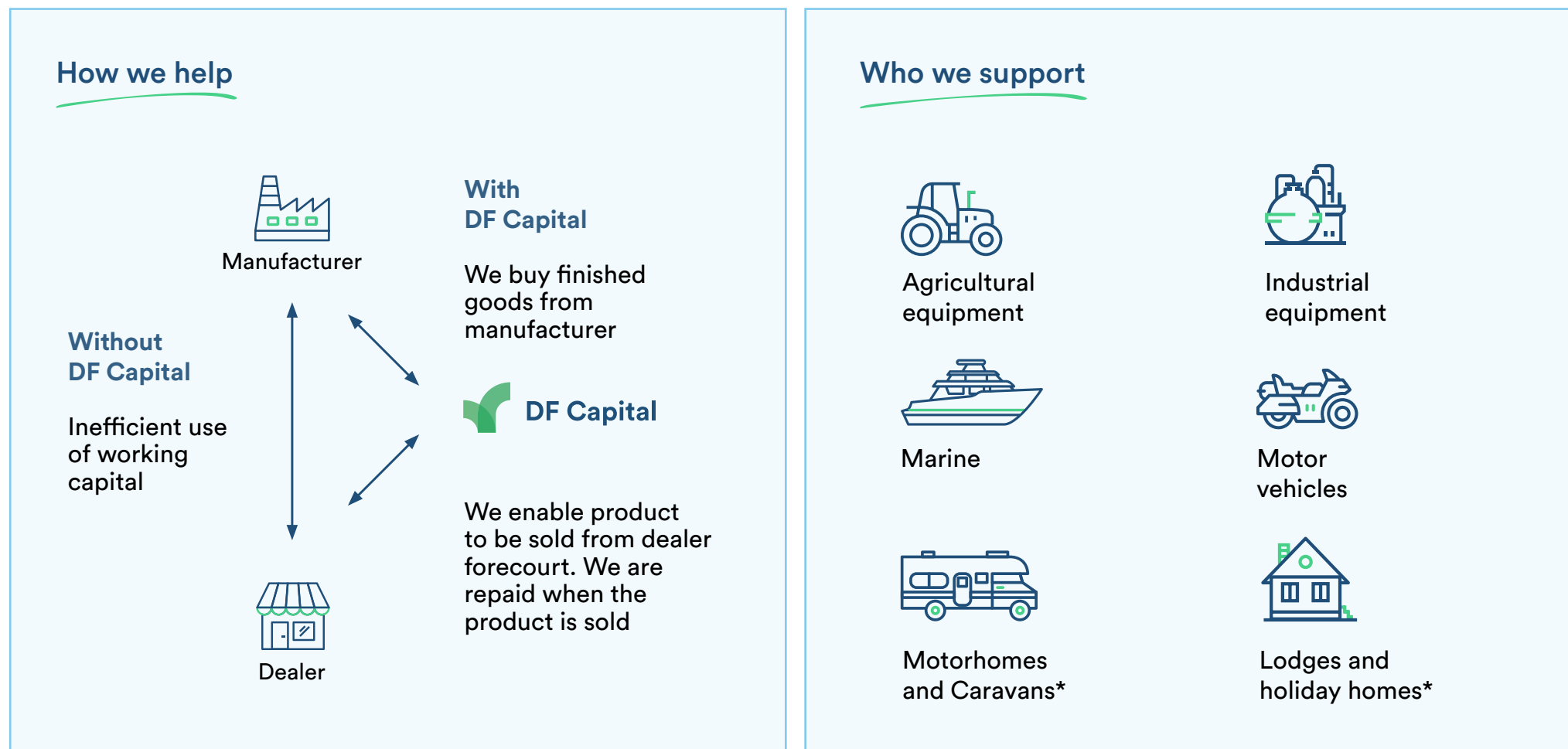
We are a team of experts, with specialist knowledge, who have ambitions to support the growth of poorly served SME businesses through a wider range of lending products and services.

We are now a bank.



How we lend today

Inventory finance for dealers



* Our recreational vehicles sector includes motorhomes, caravans, lodges and holiday homes.

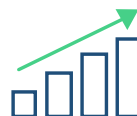
Why our customers value our products

The benefits



Grow sales

Allows dealers to have a greater range of products for customers to see and purchase



Increase profit

Dealers can sell products at full price without needing to discount to manage cash flow



Protects cash flow

Stock can be financed from order to sale by a dedicated credit facility



Frees up working capital

Working capital is freed up to allow dealers to invest these into other areas of their business



Speed and flexibility

Allows dealers to acquire the right product when they need it, with same day funding capability



Support and guidance

Dedicated industry teams support and guide dealers through the funding process

The foundations that characterise us

How we do things

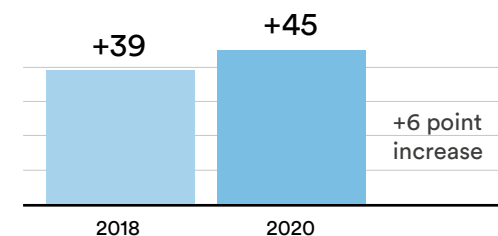
- **Straightforward**
Quality service and products that are easy to understand
- **Expert**
We apply our product and industry expertise to deliver practical solutions that work
- **Flexible**
A flexible approach that works in partnership with customers

What makes us different

- **Product and industry expertise**
Delivering in-depth product and industry knowledge to our customers
- **Relationships**
A business built on relationships, focused on supporting our customers
- **Agility**
Ability to react quickly to customer demand, products and services
- **Digital delivery**
Technology led approach to product delivery

What our customers think

Net Promoter Score



Measure of customer satisfaction on the basis of recommendation

- “ The staff are always friendly and easy to get on with which makes my job easier and more enjoyable. Quick response to queries and questions. ”
- “ Easy and straightforward to work with. I look forward to doing much more business together. ”

Trading update: working through Covid-19 and our interim results to 30 June 2020

Delivered actions since 2019 FY results



Obtained bank licence



Progressed wholesale funding alternatives, i.e. British Business Bank



Carefully managed portfolio through Covid-19 and supported our customers



Re-scheduled TruFin loan repayment



Protected and enhanced our lending franchise

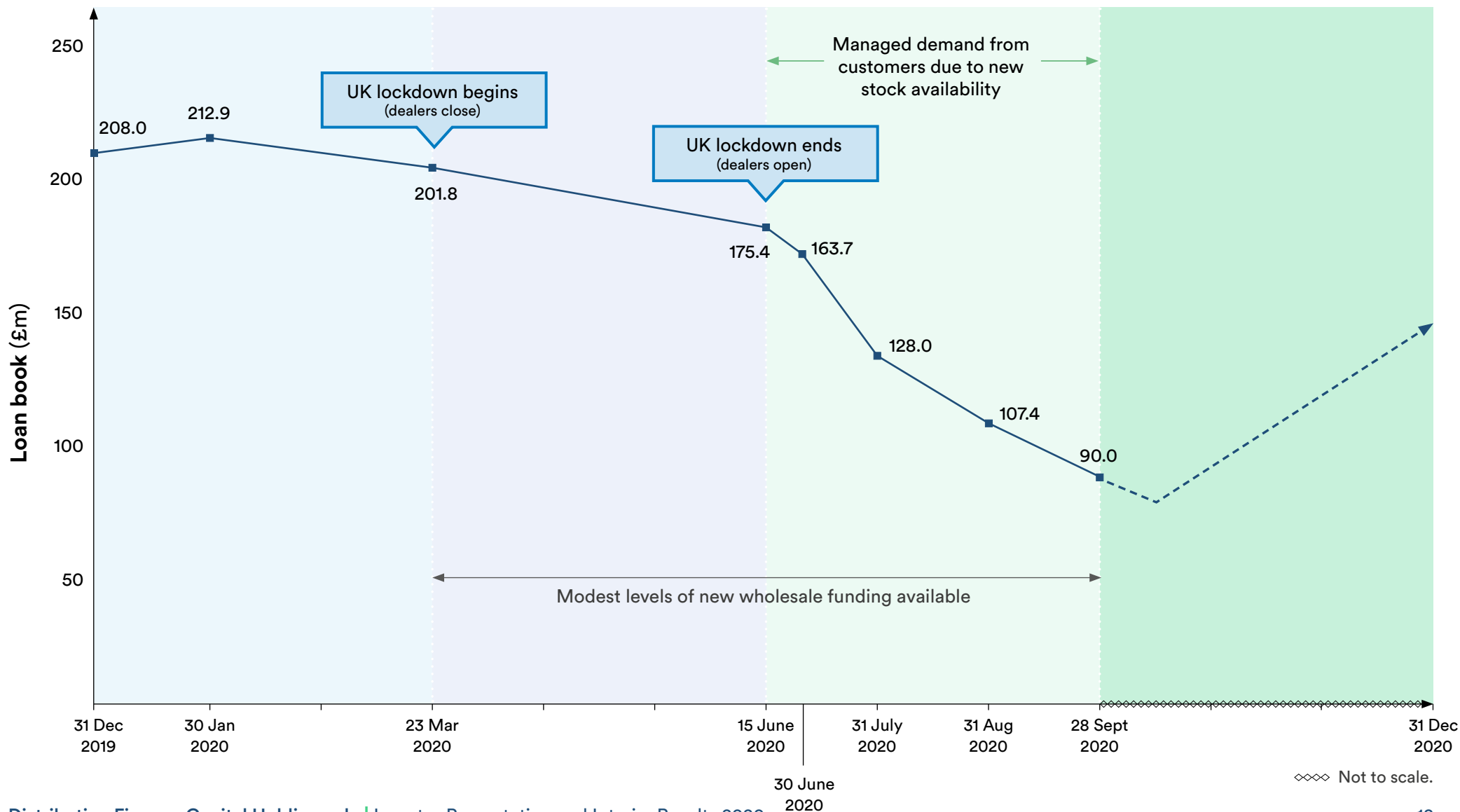


Continued investment in digital solutions to increase competitive advantage



Managed our cost base whilst preserving the required bank infrastructure

Our loan book through Covid-19: Potential for significant bounce back



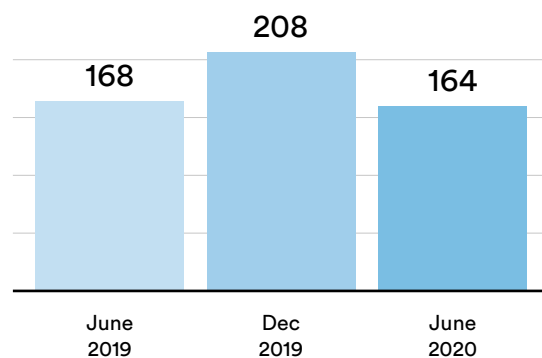
Interim results: financial highlights

Covid-19 has impacted our loan book growth...

...however we have managed our costs and taken actions...

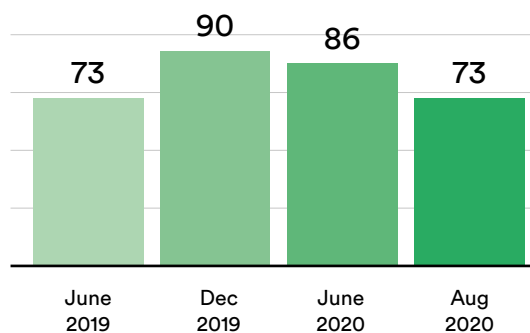
...to keep losses under control..

Loan book (£m)



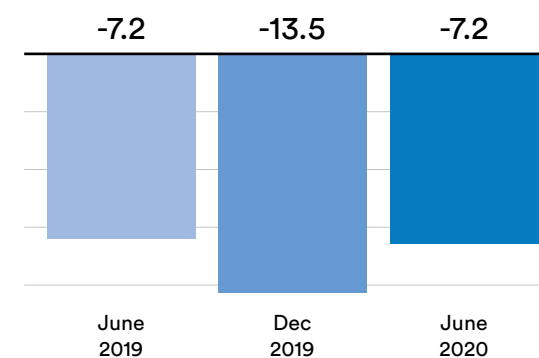
How much we have lent our customers

Headcount (no.)



Number of full time equivalent employees (excl non-executives)

Loss before tax (£m)



The profit or loss generated by the business after taxation

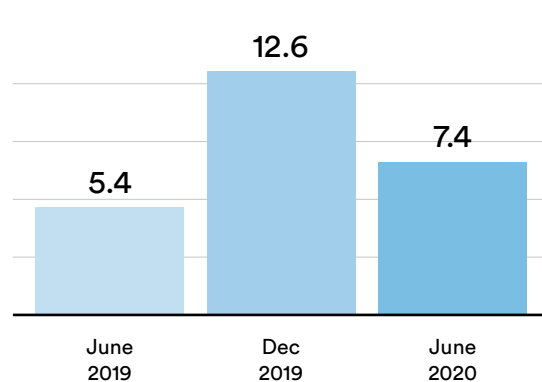
Revenue generation

YoY revenue is up
driven by larger average
loan book...

...but yields have been
adversely impacted by lower fees
and slower stock turn...

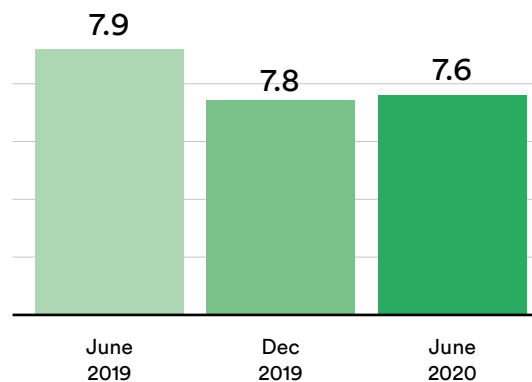
...which has impacted
margins along with higher
wholesale funding cost.

Gross revenue (£m)



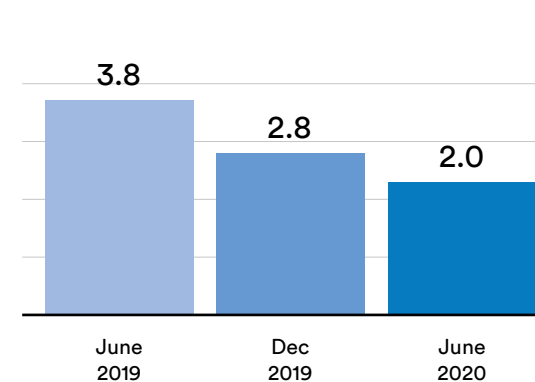
The interest and fees we earn on our loans

Gross yield (%)



The effective interest rate we charge our customers including fees

Net interest margin (%)

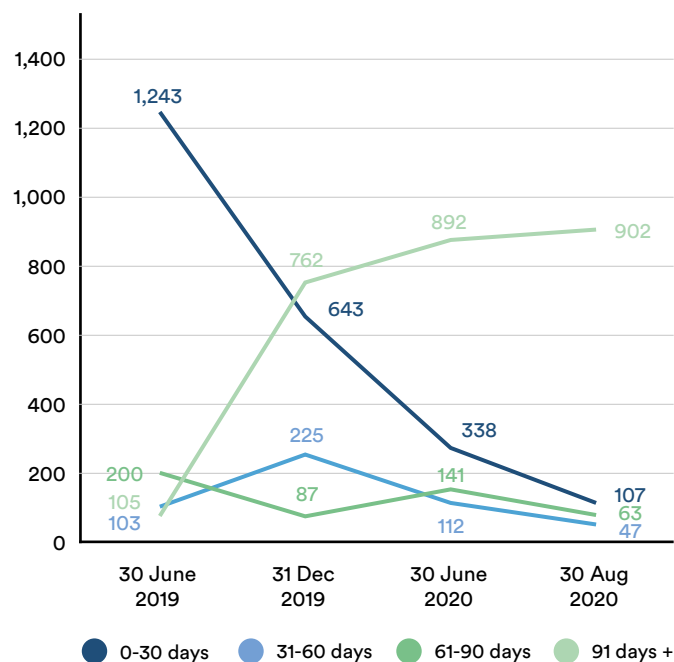


Gross yield less interest expense

Portfolio stewardship

Arrears have been carefully managed...

Arrears (£'000)

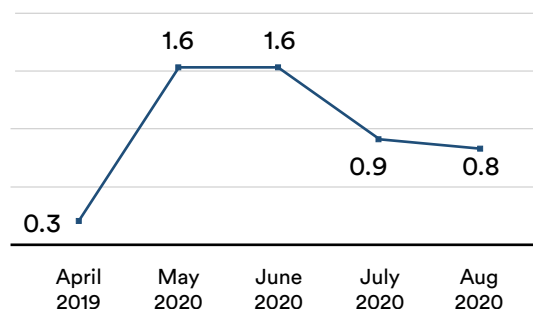


The amount of principal repayment, fees and interest that has fallen due but has not be paid in line with contractual terms.

* The June 2020 1-30 days past due balance excludes £1.0m arrears in respect of two related dealers who settled these outstanding balances on 3 July 2020.

...and we have provided forbearance where needed...

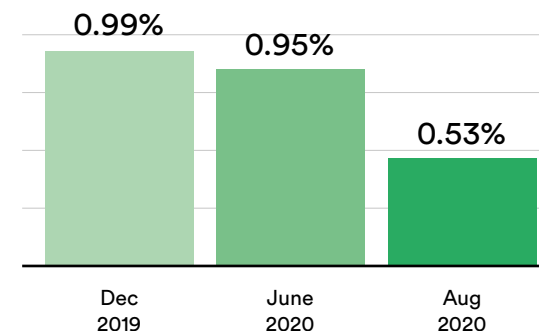
Forbearance granted (%)



Dealer payment deferrals given in excess of contractual terms as % of loan book.

...but have seen minimal insolvency and losses, with cost of risk impacted by IFRS9 assumptions.

Cost of risk (%)

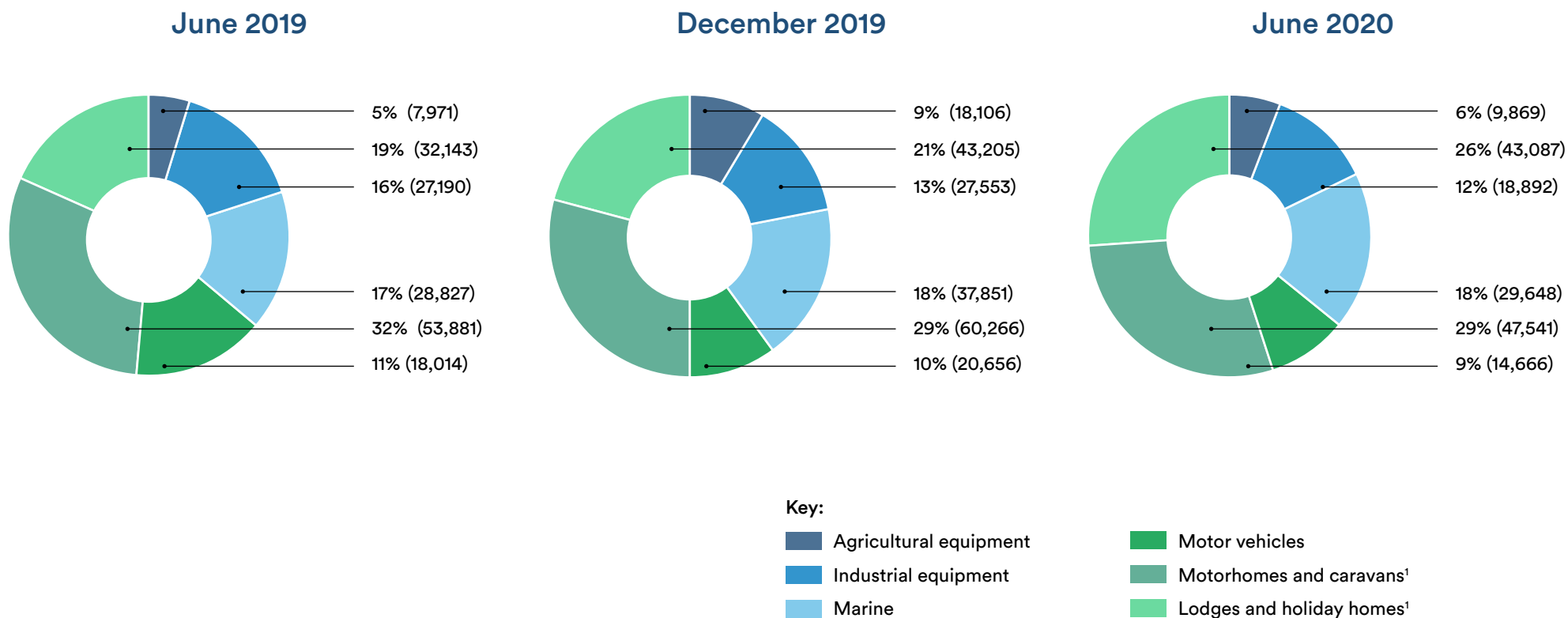


Impairments and provisions in the period as a % of avg. gross receivables

Exposure to end markets

We have continued to target the same end markets with a diverse portfolio with no significant sector concentration.

Portfolio by sector (£'000)

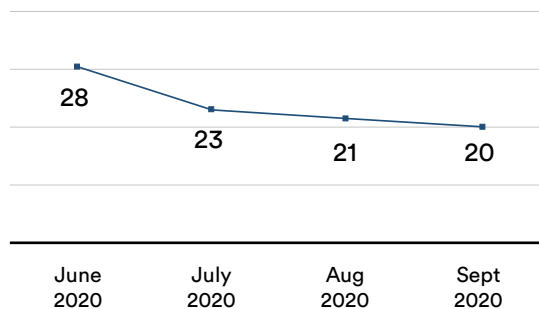


¹ Our recreational vehicles sector includes motorhomes, caravans, lodges and holiday homes

Security position

We have remained disciplined about audits and invested in digital solutions...

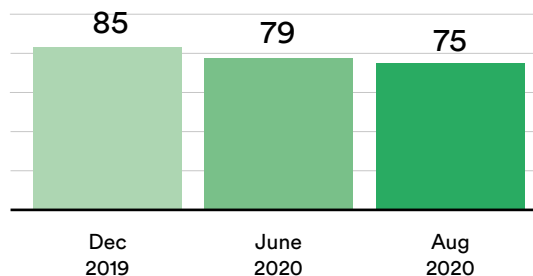
Asset audit duration (days)



The average time between individual asset audits weighted by loan balance

...thus protecting and improving our security position...

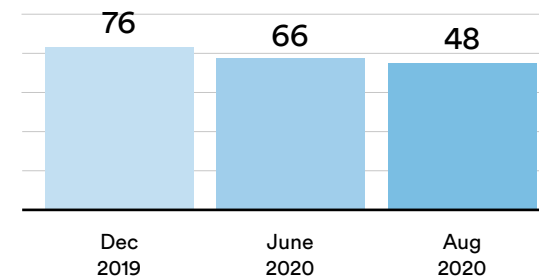
Loan to wholesale value (%)



The amount we borrow from our wholesale lenders as % of loan book

...whilst also seeing a reduction in wholesale funding %.

Wholesale advance rate (%)

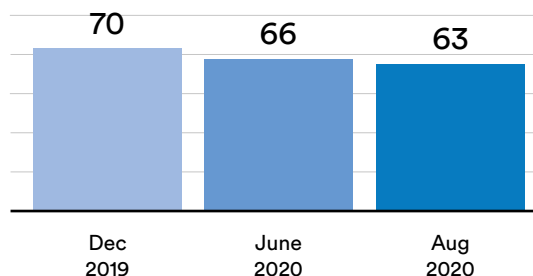


The amount we borrow from our wholesale lenders relative to the wholesale price paid for the asset

DF Check



Loan to retail value (%)



The loan balance outstanding relative to the expected retail price of the asset

Our sectors have performed well post lockdown

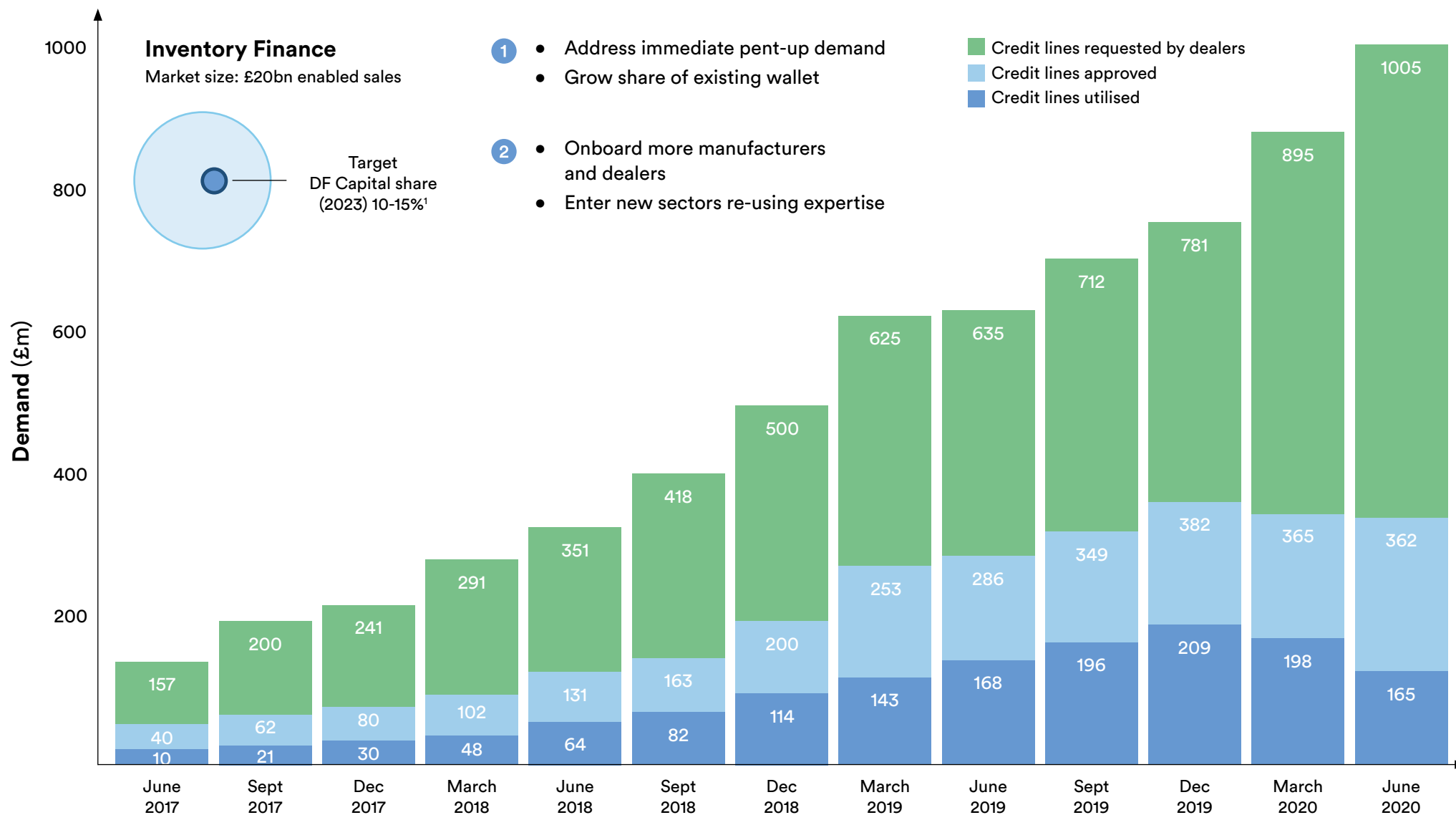
Sector	Trend ¹		Of loan book at 30 June 2020
 Lodges and holiday homes ²	▲	<ul style="list-style-type: none"> Parks in particular have noted 100% occupancy with manufacturers struggling to meet demand 	82%
 Motorhomes and Caravans ²	▲	<ul style="list-style-type: none"> High demand due to staycations. Minimal new stock is available but strong order book 	
 Marine	▲	<ul style="list-style-type: none"> New customer entrants trying smaller (<30ft) boats with an ongoing trend to replace overseas holidays with staycations 	
 Motor vehicles	—	<ul style="list-style-type: none"> Trend to replace public transport with two-wheel travel, with motorcycle registrations up 28% LCV demand is increasing due to couriers and home shopping, but still tracking down year-on-year 	
 Agricultural equipment	▼	<ul style="list-style-type: none"> Impacted by extreme weather earlier in the year and Covid-19 uncertainties 	18%
 Industrial equipment	▼	<ul style="list-style-type: none"> Whilst down year-on-year there are signs of recovery in construction and earthmoving equipment 	

¹ Sourced from relevant industry statistics or DF Capital obtained anecdote.

² Our recreational vehicles sector includes motorhomes, caravans, lodges and holiday homes.

Strategic outlook: growing the bank

The runway for loan book growth: A product in high demand



¹Not illustrative of loan book size

DF Capital Bank:

Successful ingredients that deliver sustainable and strong earnings

Service focused DNA

Always differentiated by digitally led product distribution

Legacy free modern scalable platform

Lending to SMEs in specialist, poorly and under-served sectors

Sustainable and diversified low cost funding predominantly through retail deposits

Highly secured and low risk lending

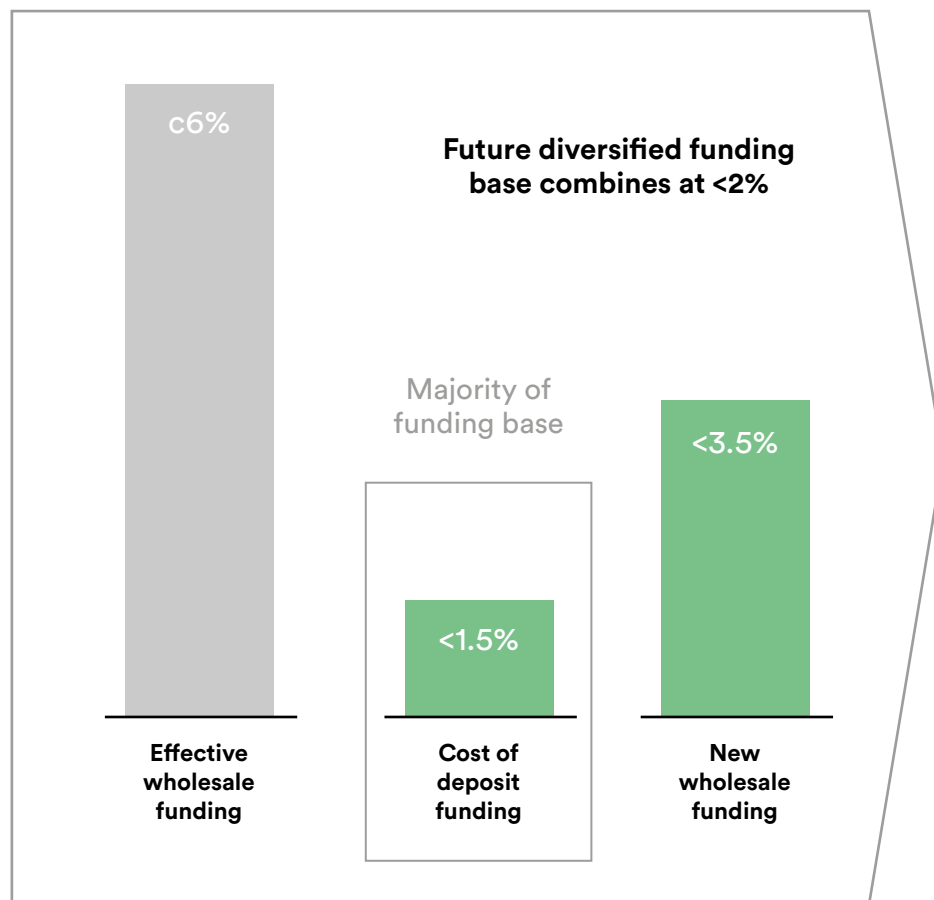
No back book challenges to work through (even through Covid-19)

Expert team with “through the cycle” and extensive banking experience

Strength of governance to ensure regulatory compliance

Banking licence is a game changer

Reducing funding cost



Ready to deliver profitable growth



Full authorisation

No mobilisation period



Deposit raising launch ready

Focus on 1 yr and Notice Accounts



Significantly improved profitability

NIM will increase from c2% to c6%



Significant growth potential

Access to large volumes from existing and new relationships



Digital led product development

Enter large markets poorly served by incumbents with highly efficient operation

Digitally enabled efficiency unlocks a low cost operating model

Today: Our proof points

- Paperless delivery of lending
- Portal based interface to review and manage facility
- Straight through processing of lending
- Innovative tools and proposition enhancements to make customers' lives easier
- Our customers say our lending platform is sector leading
- Our NPS score of +45 demonstrates the client value

How we implement

- Leverage standard back office platforms with unique DF Capital front end service wrapper
- We are a bank not software developers, but do deploy industry leading software

Our digital roadmap

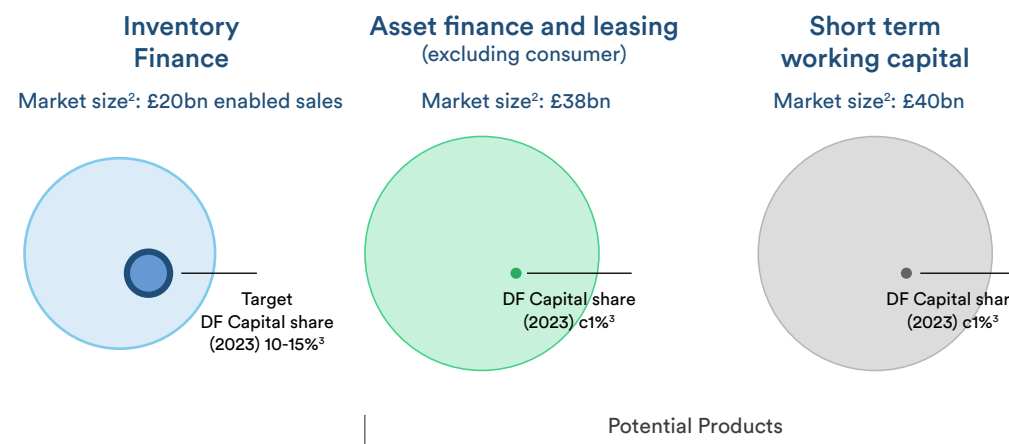
- Common lending platform across multiple products for a single customer view
- High degree of automation and self service
- Products delivered omni channel how, when and wherever SMEs need - location agnostic
- Credit management based on data and automation with a human touch to “get things done”
- Our expert team “enrich” the client experience; they won't shuffle paper through legacy and poor process

£22bn funding gap¹: opportunity roadmap

SME Finance – Current Landscape

- 5.9 million SMEs in the UK representing 60% of private sector workforce
- Lending to small businesses has reduced significantly and bigger banks are focused on larger corporates where they can generate higher returns
- Majority of SMEs consider their “own bank” first, but give up if rejected
- Incumbent lenders have focused on Government backed products through Covid-19 – a sign of reduced risk appetite
- Many banks are facing back book challenges that could contract lending further
- Covid-19 could amplify this funding gap and represents our opportunity

Product Sectors (Not Yet Prioritised)



- Focus on poorly or under-served SME sectors
- Establish longer tenor “term lending” styled products – build stickier loan balances
- Develop products that are attractive to dealers and distributable to their customers
- Digitally led omni-channel - built once and used across many products and distribution channels
- Play in big markets, but only need to build modest share to deliver targets

¹ Bank of England

² DF Capital estimates

³ Not illustrative of loan book size

SME market opportunity: Our products and digital solutions will address pain points

SME pain points

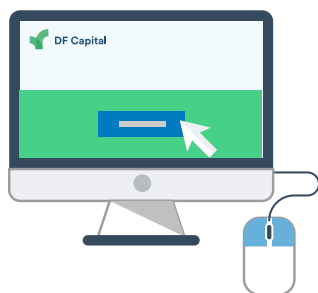
- Poor quality of service
- Products never easy to understand
- Banks have no understanding or perceived interest in my business
- Time consuming and inconvenient access to lenders (“hassle”)
- Onerous and lengthy application process
- Expectation of a decline

DF Capital score card

- ✓ Easy application and onboarding processes
- ✓ Timely credit decisions
- ✓ Transparent pricing and facility terms
- ✓ Omni-channel interaction through our technology stack
- ✓ Expert understanding of sectors and businesses
- ✓ Sufficient liquidity to support lending through deposit raising
- ✓ We are easy to do business with

Continuous improvement: existing product proof points of digital innovation

DF Onboard



Customer onboarding

An online application and onboarding solution for new dealers. A consistent, simplified process that streamlines application, documentation and credit decisioning, and provides a faster and transparent outcome to the customer.

DF Connect



Customer lending

Supports financing customers' assets in a seamless and paperless manner, ensuring assets are unencumbered and title transfers to DF Capital. Provides online loan requests, tracking of loan status, and loan repayment functionality (with real time settlement value) on a self-service basis.

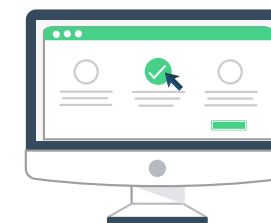
DF Check*



Customer asset auditing

A digital auditing solution that allows dealers or DF Capital staff to check assets using a smart phone. Provides real-time, analysed and validated data using AI technology, significantly improving speed and simplicity for audits, and increased transparency and visibility of asset locations, status and reporting.

DF Choice



Customer lending

A new feature of our Unit Stocking offering, launching soon. Provides customers with a range of available terms to choose from, on a unit by unit basis, providing increased choice and control to tailor individual funding requests. Launching through DF Connect allowing eligible funding requests to be submitted online in minutes.

* Powered by CheckVentory

Key takeaways



- We are one of a new breed of specialist Bank specifically focused on SMEs
- We have built a highly successful and proven secured lending franchise that has a clear runway for growth
- Now as a bank we have sustainable low cost funding to support our growth plan
- We are focused on achieving a profitable run-rate within the first 18 months of being a bank, so we have a stable foundation for growth
- There is significant growth potential in our existing and adjacent markets - enabled through our relationships with dealers and manufacturers
- We deliver our products digitally and have no legacy issues which unlocks efficiency and a low cost operating model
- We can deliver superior shareholder returns as a growth platform with strong margin performance

Appendices

Summary financial highlights

	30 June 2020 6 month	30 June 2019 6 month	31 December 2019 12 month
Financial Highlights:			
Gross revenues (£'000s)	7,405	5,406	12,655
Loans and advances to customers (£'000s)	163,704	168,027	207,636
Net assets (£'000s) ¹	56,967	70,780	64,556
Gross yield ²	7.6%	7.9%	7.8%
Net interest income ³	2.0%	3.8%	2.8%
Cost of risk ⁴	0.95%	0.75%	0.99%
Impairment loss coverage on loans to customers (%) ⁵	1.31%	0.38%	0.67%
Cost income ratio ⁶	426%	275%	317%
Key Performance Indicators:			
Loans advanced to customers (£million)	115	206	490
Number of dealer customers ⁷	779	658	747
Number of manufacturer partners ⁸	77	66	77
Total credit available to dealers (£million) ⁹	364	290	382

¹ The equity held in the Group

² The effective interest rate we charge our customers including fees

³ Gross yield less interest expense

⁴ Impairments and provisions in the period as a % of average gross receivables

⁵ Impairment allowance as a % of gross receivables at the period end

⁶ Operating cost as a % of total operating income

⁷ Number of borrower relationships

⁸ Number of vendors and manufacturers with whom we have programs that support our lending

⁹ Amount of credit available to our customers to draw

Summarised statement of profit or loss and other comprehensive income

	30 June 2020 6 month £'000	30 June 2019 6 month £'000	31 December 2019 12 month £'000
Gross revenues	7,405	5,406	12,655
Interest expense	(5,420)	(2,814)	(8,207)
Net income	1,985	2,592	4,448
Operating expenses	(8,474)	(7,130)	(14,080)
Impairment charges	(932)	(513)	(1,582)
Other provisions	193	(31)	(165)
Exceptional items	-	(2,187)	(2,125)
Loss before taxation	(7,228)	(7,269)	(13,504)
Taxation	-	-	-
Loss after taxation	(7,228)	(7,269)	(13,504)
Other comprehensive Income	(1)	9	4
Total comprehensive loss	(7,229)	(7,260)	(13,500)

Summarised statement of financial position

	30 June 2020 £'000	30 June 2019 £'000	31 December 2019 £'000
Cash held at bank	26,533	34,544	14,122
Loans and advances to customers	163,704	168,027	207,636
Other assets	10,131	24,723	13,242
Total Assets	200,368	227,294	235,000
Financial liabilities	136,650	141,459	164,663
Other liabilities	6,751	15,055	5,781
Total Liabilities	143,401	156,514	170,444
Total Equity	56,967	70,780	64,556

Portfolio by sector

	30 June 2020 £'000	30 June 2020 %	30 June 2019 £'000	30 June 2019 %	31 December 2019 £'000	31 December 2019 %
Motorhomes and caravans	47,541	29%	53,881	32%	60,266	29%
Lodges and holiday homes	43,087	26%	32,143	19%	43,205	21%
Marine	29,648	18%	28,827	17%	37,851	18%
Industrial equipment	18,892	12%	27,190	16%	27,553	13%
Motor vehicles	14,666	9%	18,014	11%	20,656	10%
Agricultural equipment	9,869	6%	7,971	5%	18,106	9%
Loans and advances to customers	163,704	100%	168,027	100%	207,636	100%

Security position – loan to wholesale and loan to retail value

	31 August 2020	30 June 2020	31 December 2019	30 June 2019
Loan to wholesale value ¹	75%	79%	84%	85%
Loan to retail value ²	63%	66%	70%	70%

¹ Wholesale price is the invoice value paid by the dealer to the manufacturer

² Retail price is the invoice value paid by the end user or purchaser of the asset

Shareholders as at 14 September 2020

Name	Holding
Arrowgrass Capital Partners	49.2%
Watrium AS	15.4%
Liontrust Asset Management	7.1%
Premier Miton Investors	4.6%
Directors and Employees	3.1%
Intertrust Employee Benefit Trustee	2.8%
Invesco	2.3%
Schroder Investment Management	2.3%
UBS Securities	2.0%
Mr. James van den Bergh	1.8%
CQS Management	1.4%
Legal and General Investment Management	1.4%
Mr. Henry Kenner	1.4%
Others	5.2%
	100%



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