



Distribution Finance Capital Holdings plc

Full Year 2020 Results Presentation

April 2021

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Introductions



Carl D'Ammassa
Chief Executive Officer



Gavin Morris
Chief Financial Officer

2020: a transformational year of delivery



Carefully managed the loan book through pandemic and delivered record low levels of arrears; successfully navigating impacts of COVID-19



Received bank licence, without restrictions, which delivers sustainable funding and net interest margin transformation



Repaid all expensive debt facilities early, having raised over £145m of retail deposits, start 2021 funded entirely by retail deposits



Recommended lending fully in early Nov 2020; the loan book up c36% to £113m (31 Dec 2020) - £1bn lending milestone achieved



Continued investment in digital solutions to increase competitive advantage (DF Check & Savings)



Closed 2020 with £850m pipeline for growth across existing sectors;



Loan book reached £193m at 31 March 2021, up 70% since year-end.



Post period end, successful £40m fundraise that supports our growth ambitions over next 18-24 months

Who we are



DF Capital is a specialist personal savings and commercial lending bank.

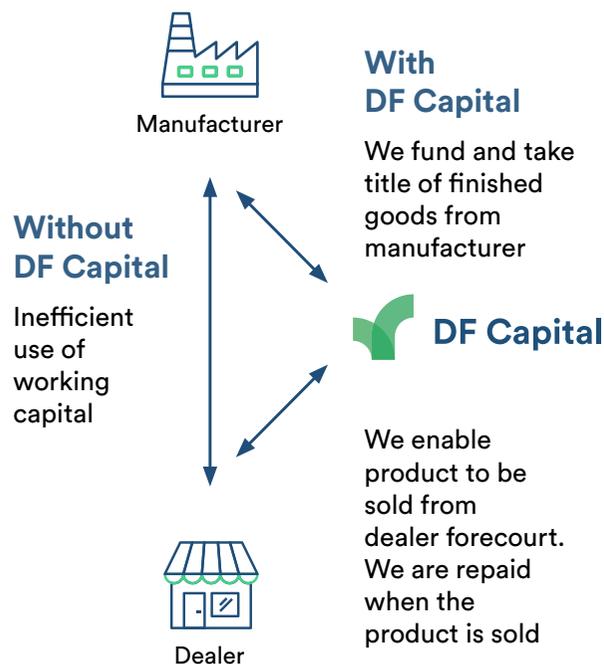
We provide niche working capital funding solutions to dealers and manufacturers across the UK, enabled by competitively priced personal savings products.

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.

Business overview: Current lending products

Core product: Inventory finance

How we help



Sectors¹

Who we support

-  Motorhomes and caravans (20%)
-  Lodges and holiday homes (26%)
-  Marine (19%)
-  Motorsports (7%)
-  Industrial equipment (8%)
-  Transport (16%)
-  Agricultural equipment (5%)

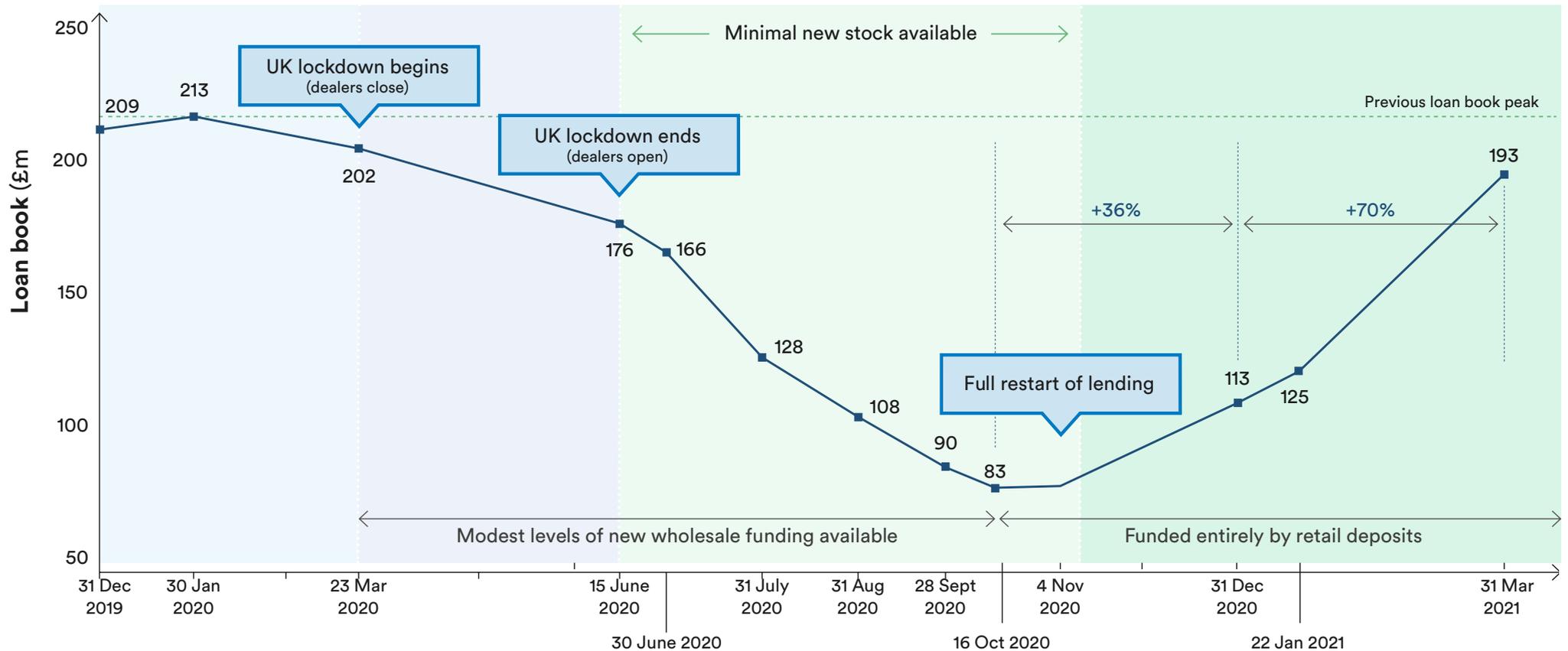
Product dynamic overview

- Strong security position against individual assets
- Loan to Value of c.85% of wholesale value or c70% of retail
- Repaid by dealer when asset is sold
- c.55% of the loan book part of manufacturer programmes benefitting from redistribution and repurchase arrangements
- Typical average loan of 150 days
- Fee based structure with gross yield of 7-8%
- Losses and impairments of c1%
- Strong client advocacy
– Net Promotor Score +45

¹ Sector penetration as at 31 December 2020.

Evolution of loan book through COVID-19:

Significant bounce back following bank licence and full restart of lending



Positive performance in context of a challenging year

Summarised Statement of Profit or Loss	2020 £m	2019 £m	Change £m	Change %
Gross revenues ¹	11.5	12.7	(1.1)	(9)
Interest expense ²	(9.2)	(8.2)	(1.0)	(12)
Net income	2.3	4.4	(2.1)	(47)
Operating expenses ⁴	(15.1)	(14.1)	(1.0)	(7)
Impairment charges	(1.3)	(1.6)	0.3	18
Provisions for commitments and other liabilities	0.4	(0.2)	0.6	353
Exceptional items		(2.1)	2.1	
Loss before taxation	(13.6)	(13.5)	(0.1)	(1)
Taxation	0.0	0.0	-	-
Loss after taxation	(13.6)	(13.5)	(0.1)	(1)
Other comprehensive Income	(0.0)	0.0	-	(1)
Total comprehensive loss	(13.6)	(13.5)	(0.1)	(1)

Key Performance Indicators	2020	2019	Change No.	Change %
Loan book - £m	113	209	(96)	(46)
Gross yield % ¹	7.7	7.8	(0.1)	(1)
Net interest income % ³	1.5	2.8	(1.3)	(46)
Cost of risk % ⁶	0.9	1.0	(0.1)	(13)
Cost income ratio % ⁴	641	317	324	102
Total Arrears % of loan book ⁵	0.2	0.8	(0.6)	(75)

- Gross revenue reduced by 9% due to loan book reduction driven by COVID-19. Gross yield remained stable at 7.7% (2019: 7.8%)
- Interest expense increased with more expensive mezzanine wholesale funding in place for majority of year
- Net interest income was sub 2% during the year due to expensive funding; going forward expect c6% as fully funded by retail deposits
- Cost reductions implemented reducing headcount to 74 (2019: 90). However operating inefficiently due to reduced loan book
- Very strong arrears performance ending year better than pre-pandemic levels
- Cost of risk reduced to 0.86% due to low impairments, despite increased loss provisioning due to COVID uncertainties

Highly secured and well capitalised balance sheet supports lending ambitions

Balance sheet & KPIs	2020	2019	Change No	Change %
Loan book - £m ¹	113	209	(96)	(46)
Customer deposits - £m ²	145	-	145	-
Wholesale Funding - £m ³	-	150	(150)	-
Cash held at bank - £m	21	14	7	50
Net Assets - £m	50.9	64.6	(13.7)	(21)
CET1 %	50	30	20	66
Impairment loss coverage on loans to customers % ⁴	1.14	0.67	0.47	70
Loan to wholesale value of asset % ⁵	80%	84	(4)	5
Loan to retail value of asset %	67%	70	(3)	4

- ¹ Loan book significantly impacted by COVID with very strong dealer sales post first lockdown combined with limited stock availability. Exacerbated by restrictions imposed by our wholesale funders
- ² Successful deposits launch Oct 2020 - £145m deposits raised in first 12 weeks
- ³ All wholesale Funding repaid early, prior to year end
- ⁴ Impairment coverage increased to 1.13% under IFRS9 to reflect COVID uncertainties
- ⁵ Strong security position with wholesale LTV 80% (2019: 84%) equating to c.67% retail LTV

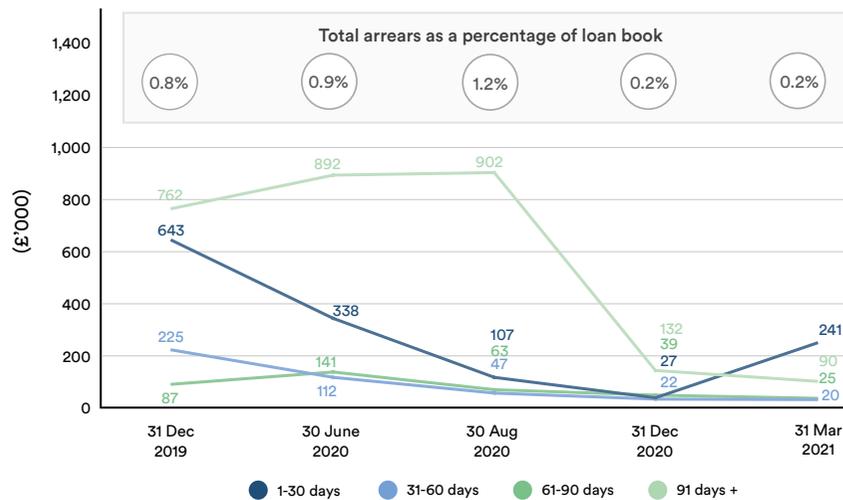
Excellent portfolio stewardship

Arrears have been well managed and beat pre-pandemic levels...

...and we have held strong security against the assets we finance...

...seeing minimal pandemic related losses, with reducing cost of risk even after IFRS9 assumptions are overlaid.

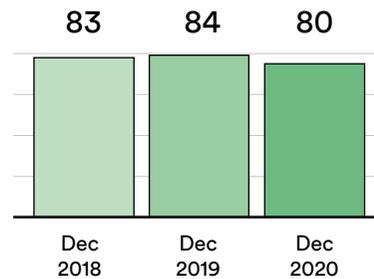
Arrears



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

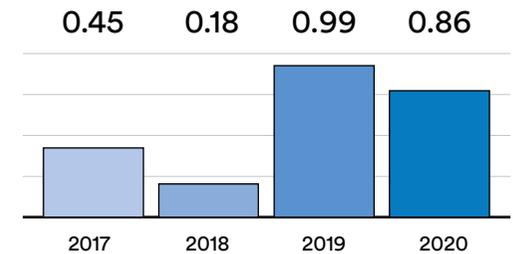
* The June 2020 1-30 days past due balance excludes £1.0m arrears in respect of two related dealers who settled these outstanding balances on 3 July 2020.

Loan to wholesale value (%)



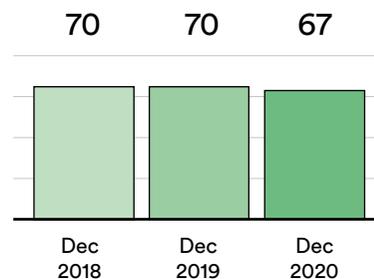
The loan balance outstanding relative to the wholesale price of the asset

Cost of risk (%)



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

Loan to retail value (%)



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

Successful launch of retail deposits supports loan book growth and transforms net interest margin

Since launch

- Deposit raising operations commenced 14 Oct 2020
- Highly digitised online application process – straight through process and account opened within minutes
- Featuring in Best Buy tables – not paid for
- Raised c£145m deposits as at 31 Dec 2020 – in c12 weeks
- ‘feefo’ customer rating score of 4.3 since launch; Dec 2020 4.5. ‘Trusted Service Award 2021’ winner.
- Good maturity profile of products already established
- Now entirely funded by retail deposits, reducing funding cost from c6% to <1.5%

Future developments

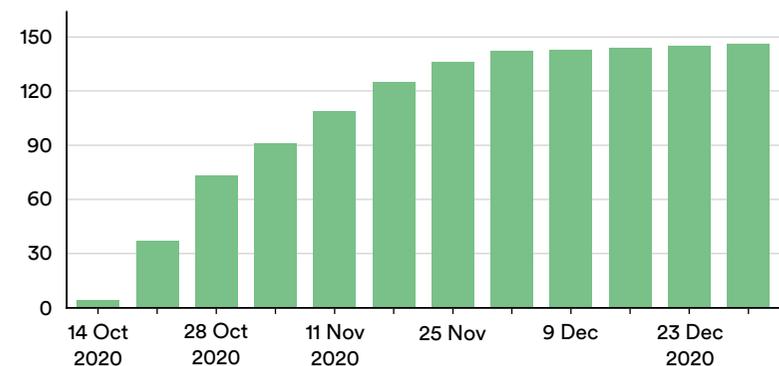
- Anticipated launch of self-service in-life management on track for Q3 2021
- Customer will be able to open new accounts and transfer funds between accounts
- Potential to lower funding cost further:
 - Launch Instant Access product
 - Considering Business Savings Account
 - Infrastructure to support future BoE schemes (e.g. TFSME) expected to be in place H2 2021 - do not currently anticipate participation in existing scheme

Savings products launched

Product	Issue	Launch date	Date closed	Rate*
90 day notice	Issue 1	14 Oct	21 Oct	1.12%
1 year fixed rate	Issue 1	14 Oct	16 Oct	1.18%
2 year fixed rate	Issue 1	16 Oct	27 Oct	1.23%
2 year fixed rate	Issue 2	02 Nov	06 Nov	1.20%
18 month fixed rate	Issue 1	02 Nov	19 Nov	1.10%
15 month fixed rate	Issue 1	04 Nov	17 Nov	1.10%
18 month fixed rate	Issue 2	19 Nov	27 Nov	0.95%
18 month fixed rate	Issue 3	27 Nov	17 Dec	0.85%

*AER is the Annual Equivalent Rate and it illustrates what the current interest rate would be if interest was paid and compounded each year.

Deposits raised (£m)



Strong demand across most sectors supports loan book ambitions

Of loan book at
30 December 2020

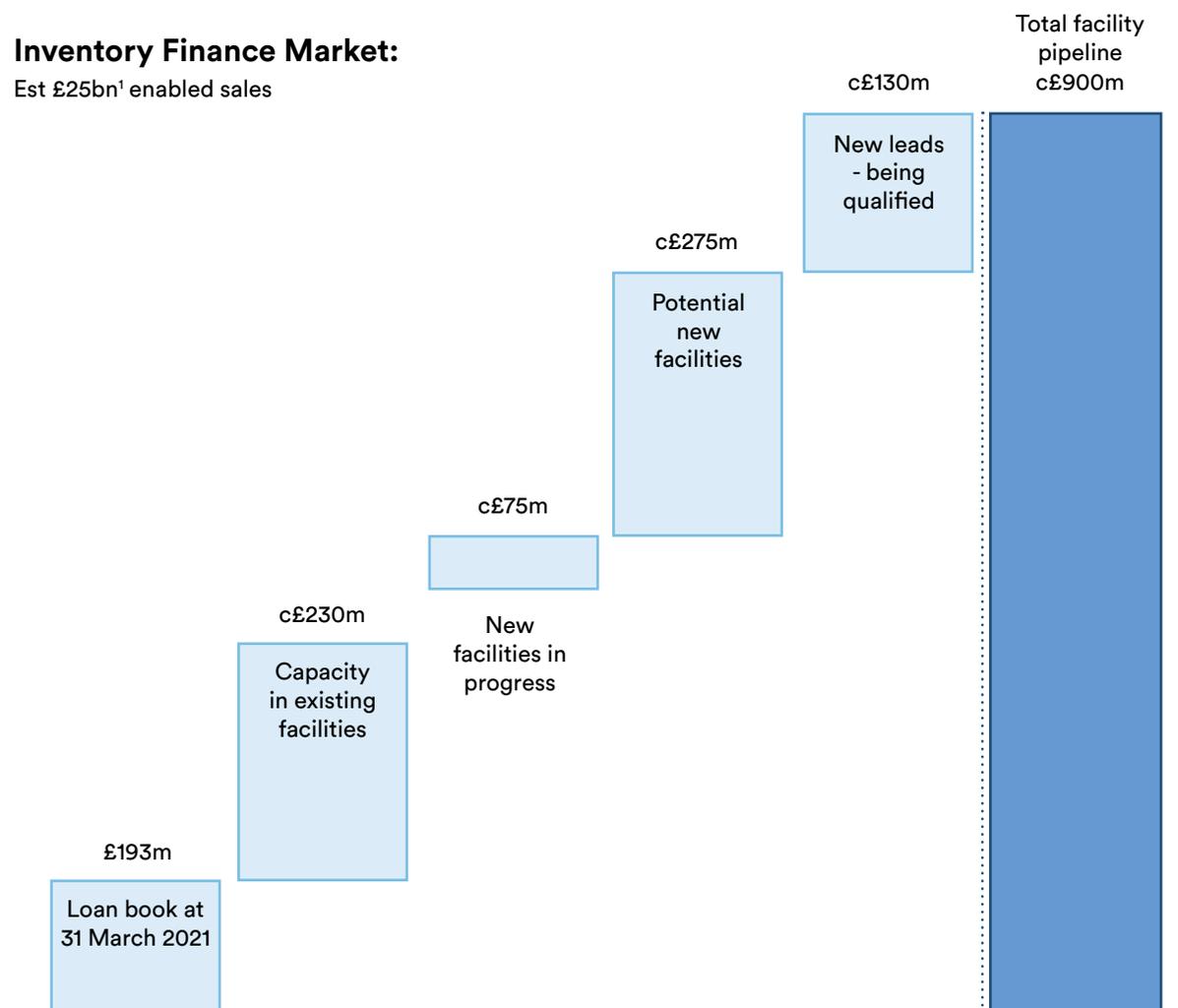
Sector	Anticipated trend ¹		£m	%
 Lodges and holiday homes ¹	▲	Continued high demand and many parks noting 100% occupancy. Manufacturers have strong order bank with challenge of meeting demand	28.9	25.5
 Motorhomes and Caravans ¹	▲	High demand due to staycations. Minimal new stock is available but strong dealer and manufacturer order books	22.4	19.8
 Marine	▲	Continued trend of new entrants focused on leisure time trying smaller (<30ft) boats with an ongoing desire to replace overseas holidays with staycations	21.1	18.7
 Motorsports	—	Increase in demand due to trend away from public transport, increasing demand for electric bikes and resurgence of leisure pursuits	8.1	7.1
 Transport	▲	LCV demand is increasing due to couriers and home shopping, significant growth sector for DF Capital, particularly electric vans	18.0	15.9
 Industrial equipment	—	Signs of recovery, particularly in plant and machinery sectors that support major infrastructure projects	9.5	8.4
 Agricultural equipment	—	Expecting flat performance as sector continues to bounce back from COVID-19 related impacts and poor weather	5.2	4.6

¹ Source: DF Capital obtained anecdote.

Strong and increasing pipeline in existing sectors supports loan book growth

Inventory Finance Market:

Est £25bn¹ enabled sales



Cleansed credit quality of dealer pipeline – reducing 747 to 623 live dealers



c1,200 prospective dealers in pipeline introduced by existing 65 manufacturer partners



Capacity to offer larger facilities to strongest counterparties – now up to £15m limit available



Activity underway to increase utilisation rates



Additional runway for growth in new manufacturers and/or sectors

	2020	2019	Change No
Number of dealer customers	623	747	(124)
Number of manufacturer partners	65	77	(12)
Total credit available to dealers - £m	358	382	(24)

¹ Estimated by DF Capital in 2018.

- Pipeline analysis as at 31 March 2021
- Typical facility utilisation c60-70% depending on seasonality
- Pipeline is subject to credit assessment and not all of pipeline opportunities will meet credit criteria or will complete

Q1 Trading Update and Outlook



Loan Book exceeded £193m at 31 March 2021, up 70% on year-end



Arrears have continued to perform well – only 0.2% as at 31 March 2021



£40m fundraise supports pipeline for growth



Minimal deposit raising required in Q1 given fundraise, however now re-entered market with 15, 18 and 24 month fixed rate products – all <0.80%



c6% NIM now flowing through financials from 1 Jan 2021



Expect loan book to grow through balance of year in line with our seasonality modelling



Current performance is in line with Board expectations despite the economic uncertainty

Conclusion



We have built a highly successful and proven secured lending franchise, that has fared well through the pandemic



As a bank we now have proven deposit raising capabilities and sustainable low cost funding in place, transforming our profitability by increasing net interest margin to c6%



The £40m fundraise, supports the pipeline of demand as we now have a clear runway to accelerate grow and target a loan book of c£550m, alongside new product development and inorganic opportunities



On the basis of our current assumptions, we expect to achieve monthly run-rate profitability during Q4 2021



We see DF Capital as a growth platform that can deliver superior shareholder returns through strong margin performance and digitally led delivery of SME focused lending products

Appendices

Summarised Statement of Profit or Loss

	2020 £'000	2019 £'000
Gross revenues	11,511	12,655
Interest expense	(9,174)	(8,207)
Net income	2,337	4,448
Operating expenses	(15,063)	(14,080)
Impairment charges	(1,294)	(1,582)
Provisions for commitments and other liabilities	417	(165)
Exceptional items	-	(2,125)
Loss before taxation	(13,603)	(13,504)
Taxation	-	-
Loss after taxation	(13,603)	(13,504)
Other comprehensive income	(22)	4
Total comprehensive loss	(13,625)	(13,500)

Consolidated Statement of Financial Position

	As at 31 December 2020 £'000	As at 31 December 2019 £'000
Assets		
Cash and cash equivalents	21,233	14,122
Debt securities	66,601	7,994
Loans and advances to customers	111,337	207,636
Trade and other receivables	1,154	3,506
Property, plant and equipment	139	242
Right-of-use assets	64	638
Intangible assets	794	862
Assets classified as held for sale	-	-
Total Assets	201,322	235,000
Liabilities		
Customer deposits	145,982	-
Financial liabilities	107	164,663
Trade and other payables	4,261	5,248
Provisions	83	533
Total Liabilities	150,433	170,444
Equity		
Issued share capital	1,066	1,066
Share premium	-	-
Merger relief	94,911	94,911
Merger reserve	(20,609)	(20,609)
Own shares	(364)	-
Retained (loss)	(24,115)	(10,812)
Total Equity	50,889	64,556
Total Equity and Liabilities	201,322	235,000

Consolidated Cash Flow Statement

	2020 £'000	2019 £'000
Cash flows from operating activities:		
Loss before taxation	(13,603)	(13,504)
Adjustments for non-cash items and other adjustments included in the income statement	2,060	1,711
(Increase)/decrease in operating assets	96,763	(95,015)
Increase/(decrease) in operating liabilities	(19,073)	92,034
Taxation paid	-	-
Net cash from/ (used in) operating activities	66,147	(14,774)
Cash flows from investing activities:		
Purchase of debt securities	(120,721)	(92,045)
Proceeds from sale and maturity of debt securities	62,107	89,116
Purchase of property, plant and equipment	(32)	(152)
Purchase of intangible assets	(226)	(397)
Net cash used in investing activities	(58,872)	(3,478)
Cash flows from financing activities:		
Issue of new shares	-	25,000
Repayment of lease liabilities	(164)	(182)
Net cash (used in)/ from financing activities	(164)	24,818
Net increase in cash and cash equivalents	7,111	6,566
Cash and cash equivalents at start of the year	14,122	7,556
Cash and cash equivalents at end of the period	21,233	14,122

Shareholders as at 6 April 2021

Top 10 shareholders	No. of shares	% IC
Arrowgrass Capital Partners	70,629,900	39.38
Watrium AS	23,646,093	13.18
Liontrust Asset Mgt	18,683,736	10.41
Premier Miton Investors	10,023,096	5.59
UBS Securities	6,494,517	3.62
Canaccord Genuity Wealth Mgt	5,454,545	3.04
BlackRock Investment Mgt	5,000,000	2.79
Lombard Odier Asset Mgt	4,090,908	2.28
Schroder Investment Mgt	4,047,474	2.26
River & Mercantile Asset Mgt	3,409,090	1.90
Total	151,479,359	84.45



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