



DF Capital

Distribution Finance Capital Holdings plc

Interim Results 2021

September 2021

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Introductions



Carl D'Ammassa
Chief Executive Officer



Gavin Morris
Chief Financial Officer

Performance highlights



c6% NIM now flowing through financials from 1 January 2021



£2.4m loss for 6 months to 30 June 2021, a reduction of £4.8m (2020: loss £7.2m)



After strong Q1 performance, loan book exceeded £166m at 30 June 2021, up 47% on year-end (31 December 2020: £113m)



Record new loan volumes, however supply chain headwinds and strong product demand have slowed loan book growth



£40m placing concluded in February 2021 supports pipeline for growth. Capacity to grow loan book to c£550m



Arrears have continued to perform well – reducing further to 0.2% as at 30 June 2021 (2020: 0.9%)



Business now entirely funded by retail deposits



Loan book pipeline has increased to over £1.5bn and more dealers converted and new manufacturers added



Loan facilities to dealers now exceed £500m (31 December 2020: £358m)



Loan book growth normalising during dealer restocking period, already reached £194m at 20 September 2021

Who we are



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



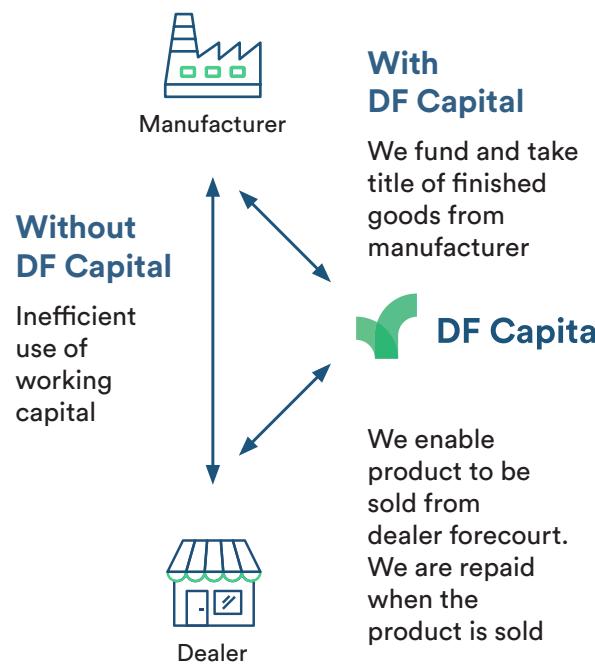
We provide niche working capital funding solutions to dealers and manufacturers across the UK, enabled by competitively priced personal savings products.

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

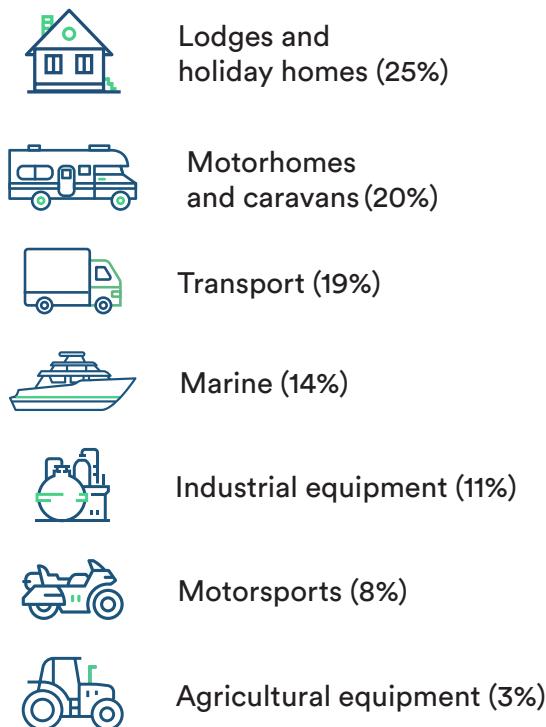
Core product: inventory finance

How we help



Sectors¹

Who we support



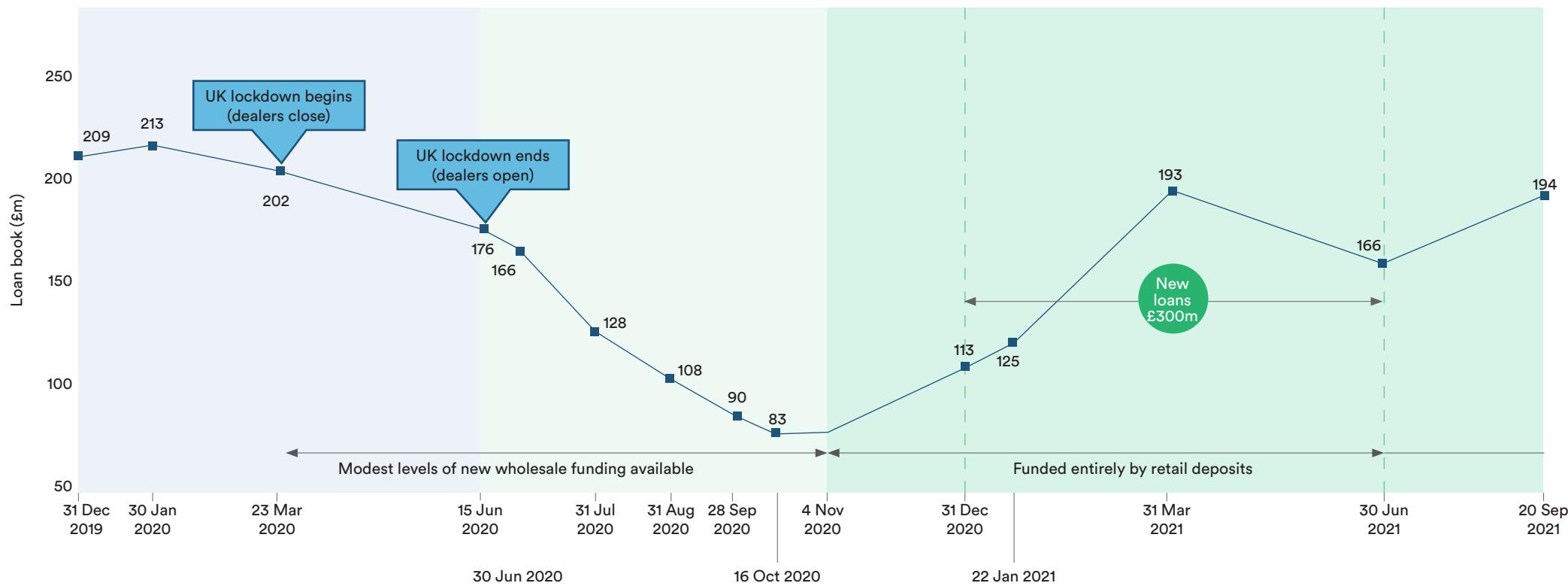
Product dynamic overview

- Strong security position against individual assets
- Loan to Value c.85% of wholesale value, with further valuation buffer of c.20% retail margin
- 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 30 June 2021.

Restoring growth despite COVID-19 related challenges:

Recovery in loan book growth as normalised dealer restocking commences



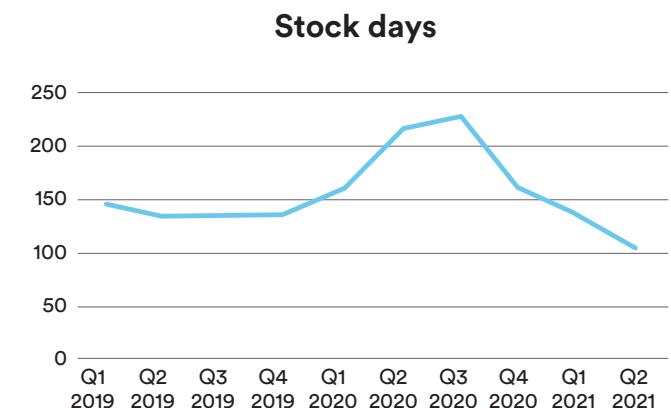
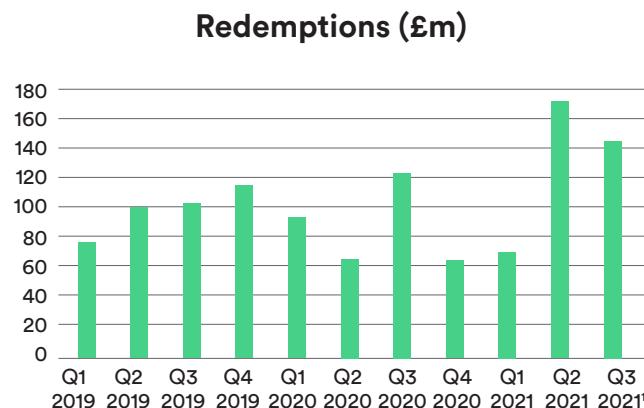
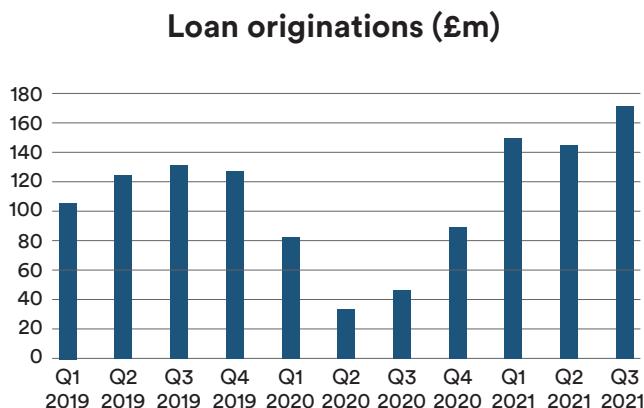
Speed of loan book growth curtailed by redemptions

Builds strong business case for new product development and capitalising on the opportunity to lend “beyond the forecourt”

Originating record levels
of new lending...

...but repayments have been high
due to strength of demand for
product from end-users

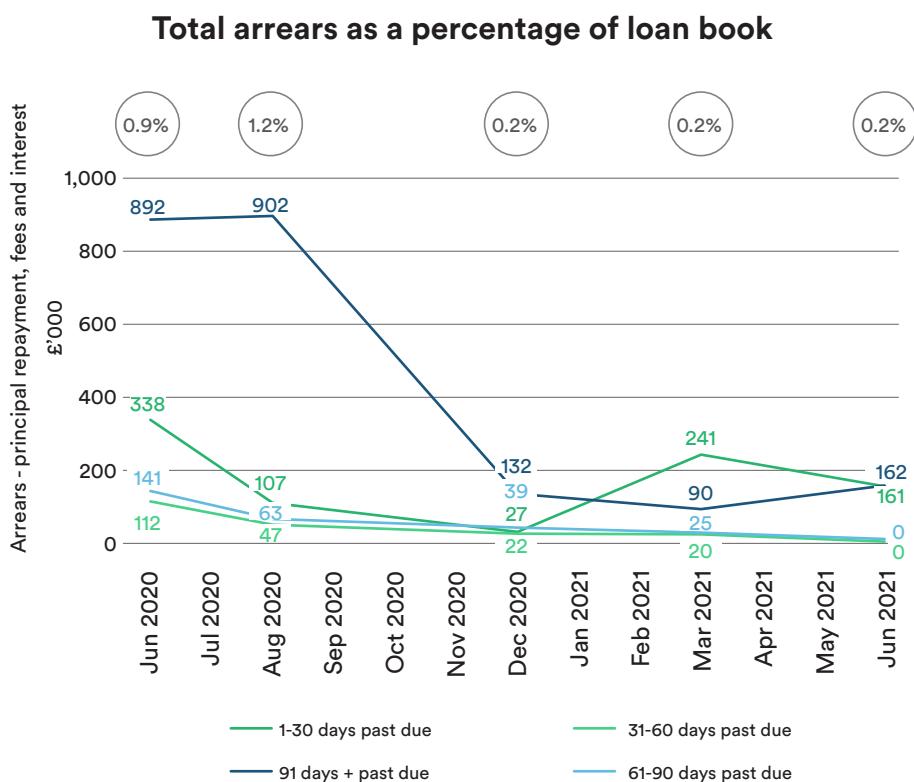
...which has increased our stock
turn, which we expect to slow
through the re-stocking period



¹1 July to 20 September 2021

Loan book has continued to perform exceptionally well

Arrears have continued to be well managed
and ahead of pre-pandemic levels...

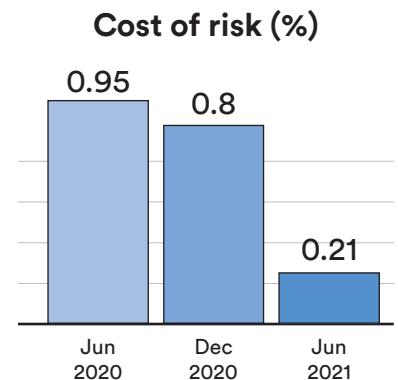


...our security position
remains stable...

...and with greater
economic confidence
has allowed us to reduce
our IFRS9 overlay.



The loan balance outstanding relative to
the wholesale price of the asset + valuation
buffer of c.20% retail margin



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

The June 2020 0-30 days past due balance excludes £1.0m arrears in respect of two related dealers who settled these outstanding balances on 3 July 2020.

Total arrears as a percentage of loan book would have been 1.5% if these two balances were included.

Transformed net interest margin with deposit funding

Summarised statement of profit or loss	30 Jun 2021 6-month £m	30 Jun 2020 6-month £m	Change £m	Change %
Gross revenues 1	6.1	7.4	(1.3)	(17)
Interest expense 2	(0.9)	(5.4)	4.5	84
Net income	5.3	2.0	3.3	165
Operating expenses 4	(7.4)	(8.5)	1.0	12
Impairment charges	(0.2)	(0.9)	0.8	83
Other provisions	0.0	0.2	(0.2)	87
Loss before taxation	(2.3)	(7.2)	4.9	68
Taxation	-	-	-	-
Loss after taxation	(2.3)	(7.2)	4.9	68
Other comprehensive loss	(0.1)	0.0	0.1	-
Total comprehensive loss	(2.4)	(7.2)	4.8	67

Key performance indicators (KPIs)	30 Jun 2021 6-month	30 Jun 2020 6-month	Change	Change %
Loan book - £m	167	166	1	1
Gross yield % 1	7.9	7.6	0.3	4
Net interest income % 3	6.8	2.0	4.8	240
Cost income ratio % 4	142	426	(284)	(67)
Total arrears % of loan book 5	0.2	0.9	(0.7)	(78)
Cost of risk % 6	0.2	1.0	(0.8)	(80)

- 1 Gross revenue reduced by 17% given lower average loan balance compared to H1 2020. Gross yield increased by 30bps to 7.9% (H1 2020: 7.6%)
- 2 Interest expense decreased reflecting lending being entirely funded by cheaper retail deposits
- 3 Net interest income increased to 6.8% (H1 2020 2.0%) reflecting the transformational impact of being deposit funded
- 4 Operating expenses reduced by 12% to £7.4m (H1 2020: £8.5m) reflecting the benefit of prior year cost reductions
- 5 Very strong arrears performance better than pre-pandemic levels
- 6 Cost of risk reduced to 0.21% (H1 2020: 0.95%) reflecting strong loan book performance and improving economic conditions, which enabled a reduction in IFRS9 overlays

Highly secure and well capitalised balance sheet supports lending ambitions

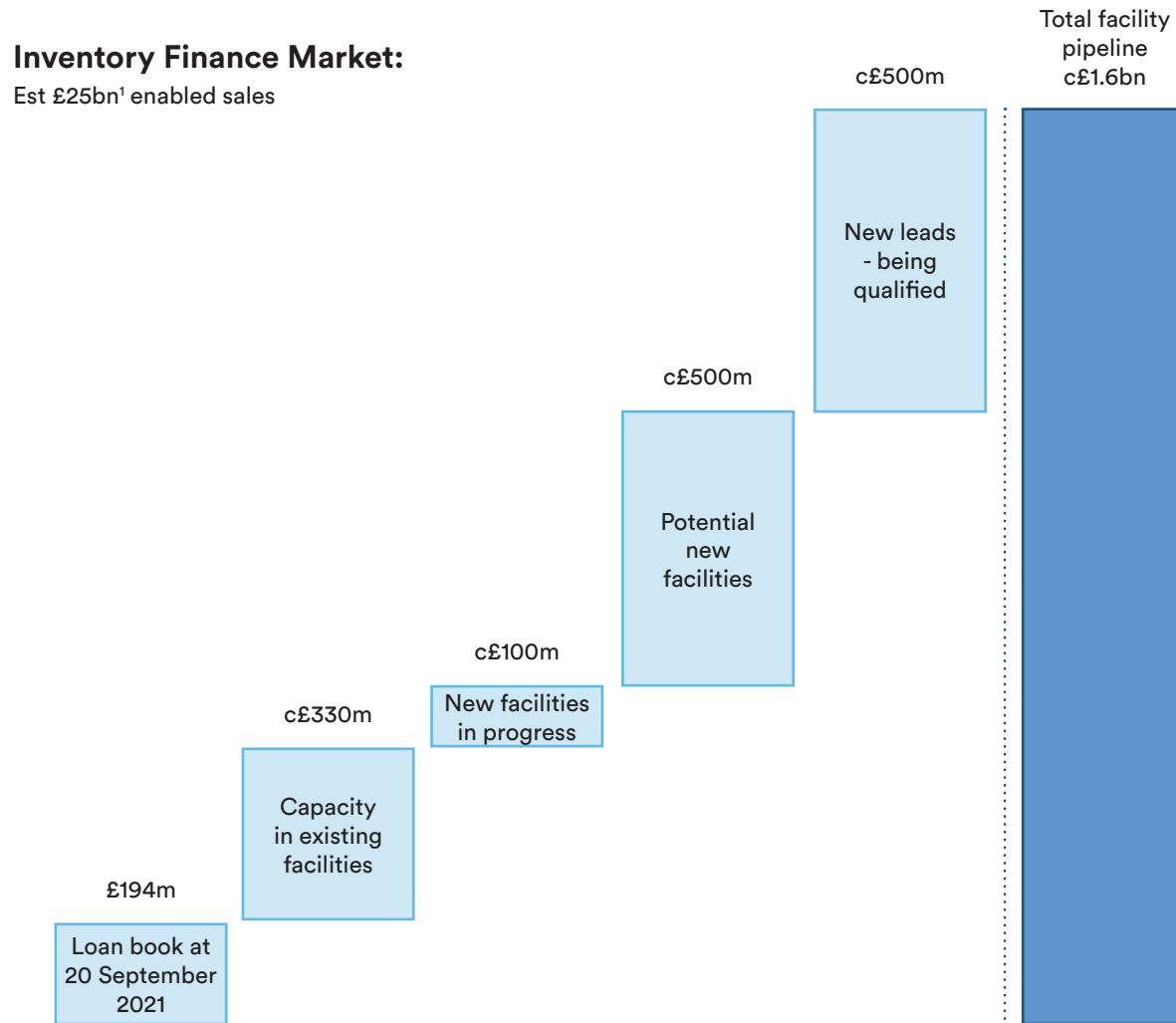
Balance sheet and KPIs	30 Jun 2021	31 Dec 2020	Change	Change
	£m	£m	£m	%
Loan book - £m 1	167	113	54	48
Customer deposits - £m 2	160	146	14	10
Cash held at bank £m	35	21	14	67
Net assets - £m 3	87.4	50.9	36.5	72
CET1 %	57	50	7	14
Impairment loss coverage on loans to customers % 4	0.8	1.14	0.3	30
Loan to wholesale value of asset % 5	85	80	(5)	(6)

- ① High loan originations driven by dealers experiencing strong demand for their products resulted in a 48% increase in the loan book to £167m (31 December 2020: £113m), but growth slowed due to faster payments
- ② Modest deposit raising required to support additional lending following the successful deposits launch in Q4 2020
- ③ Net assets increased following £40m capital raise in February 2021
- ④ Impairment coverage reduced following reduction in COVID-19 IFRS9 model overlay
- ⑤ Strong security position with wholesale LTV 85% (2020: 80%)

Our pipeline now exceeds £1.5bn with more converted into loan facilities

Inventory Finance Market:

Est £25bn¹ enabled sales



¹Estimated by DF Capital in 2018.



Added 10 new manufacturers and 158 new dealers during 2021



c2,000 prospective dealers in pipeline introduced through 75 manufacturer relationships



Total facilities to dealers up £160m and now exceeds £500m



Availability of inventory will normalise utilisation rates through re-stocking period



Growth targeted from existing core sectors, new manufacturers and/or new sectors

	Dec 2020	New	Closed	31 August 2021	Change No
Number of dealer customers	623	158	(40)	741	118
Number of manufacturer partners	65	10	-	75	10
Total credit available to dealers - £m	358	193	(33)	518	160

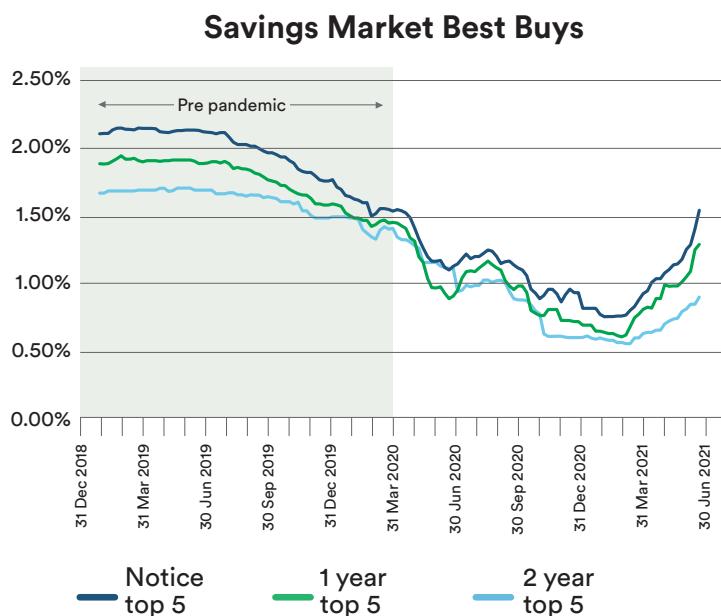
- Pipeline analysis as at 31 August 2021
- Historic facility utilisation c60-70% depending on seasonality.
- Pipeline is subject to credit assessment and not all of pipeline opportunities will meet credit criteria or will complete. New includes increases/ extensions

Progress in re-balancing the loan book, despite most sectors struggling to meet end-user demand

Sector	Of loan book at 30 Jun 2021		Of loan book at 30 Dec 2020		
	£m	%	£m	%	
 Lodges and holiday homes	41.0	24.6	28.9	25.5	Continued high demand outstripping supply of product. Many holiday parks noting 100% occupancy on rental. Manufacturers have strong order bank but have faced challenges in meeting demand partly exacerbated by supply side challenges and “pingdemic”. Some factories closed during summer to allow component replenishment
 Motorhomes and caravans	34.2	20.5	22.4	19.8	2022 model year and demonstration fleet expected to leave factories from September 2021 to support restocking needs of dealers
 Marine	24.1	14.4	21.1	18.7	Supply side challenges in meeting strong demand for leisure crafts. Manufacturer lead times reasonably long and for some vessels now stretch into 2022
 Motorsports	12.9	7.8	8.1	7.1	Increased demand due to trend away from public transport, resulting in higher demand for smaller bikes and electric bikes supporting resurgence of leisure pursuits. Demand for larger bikes falling behind but market up overall. Dealers reporting record levels of sales
 Transport	31.7	19.0	18.0	15.9	LCV demand, particularly electric, is very strong – significant growth sector for DF Capital. After some delay, product now flowing into UK and backlog expected to unwind during Q4 2021 with continued growth into 2022
 Industrial equipment	17.9	10.8	9.5	8.4	Strong order books, particularly in plant and machinery sectors that support major infrastructure projects Supply side challenges relating to components and raw material prices has caused challenges in meeting all demand but now starting to abate
 Agricultural equipment	5.0	3.0	5.2	4.6	Stable market that hasn't seen as many supply side issues. Expecting flat performance as sector continues to bounce back from COVID-19 related impacts and poor weather

Source: DF Capital obtained anecdote

Retail deposits proves sustainable funding model



Retails deposits now exceed £280m and 7,200 accounts



Minimal deposit raising during 1H, however launched new products in August 2021 to support projected loan book growth and maturity profile



Raised in excess of £120m during August and September 2021 at an average rate of 1.3%, with a well diversified maturity profile

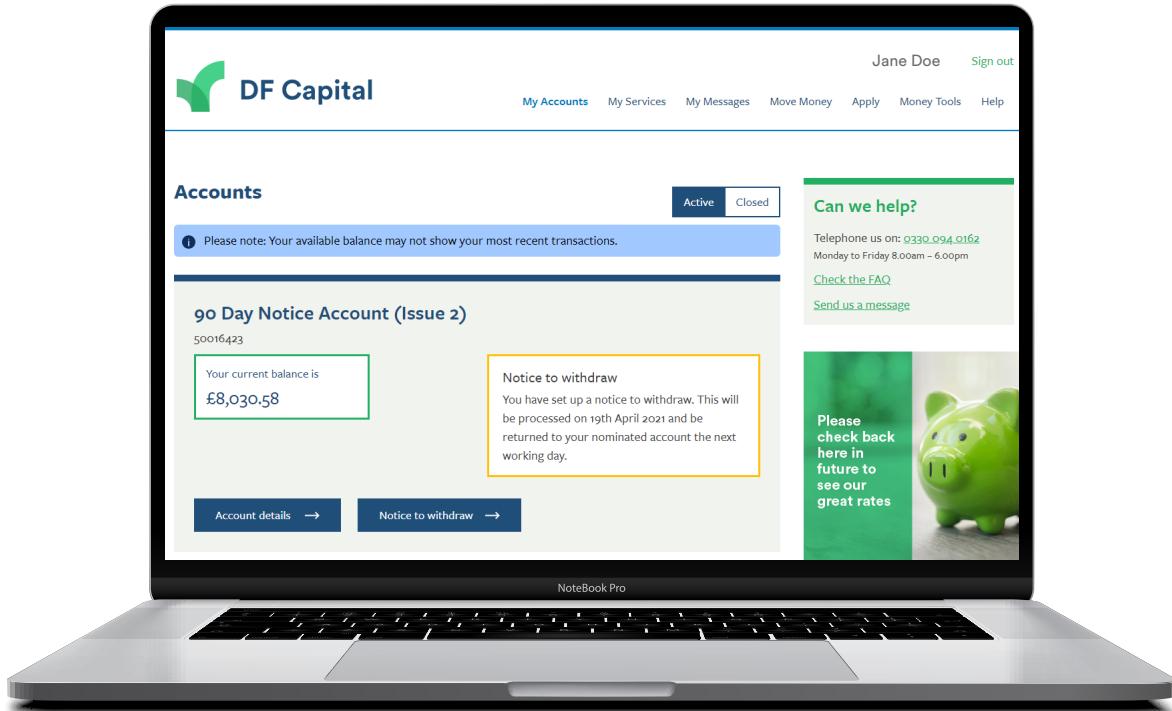


Market more competitive during August 2021, however rates still remain lower than pre-pandemic levels



Infrastructure now in place to support participation in eligible Bank of England schemes

Online capability transforms customer experience



Delivered in line with our plan, whilst addressing earlier client feedback



Account application process further streamlined



Track balances across products and issue instructions



Open new accounts including unique loyalty products as part of deposit retention strategy



Enables “Easy Access” product in future and potential joint and business accounts



Feefo score of 4.5 since online account management launch

Highly digitised customer facing capabilities that unlock a scalable lending platform

Fast and efficient facility activation with DF Onboard



Our easy and efficient digital on-boarding process that allows customers to activate a facility same day

New features

- E-sign documentation
- Online direct debit sign-up

Online account management with DF Connect



Our bespoke account management portal that allows our customers to transact with us entirely digitally with many self-service features

New features

- Request or accept credit limit increases
- Access to DF Choice – flexing terms to suit our customers' immediate needs
- Manufacturer overviews
- Online access to documentation

Making auditing easier with DF Check



Our real-time digital asset auditing app that allows our customers to quickly and simply supply asset information. With built in GPS and VIN recognition technology, it allows us to keep track on our assets and security.

Future developments

- Responsive to customer feedback – continuous improvement approach in place
- Further back-office enhancements to automate processing and validation checks – reducing need for people to process business
- Automated manufacturer funding with direct customer system integration, providing frictionless payment processing
- Extend our digital first mindset to new product development, so lending activities are scalable from the outset

Product diversification unlocks further growth with existing customers

	High priority		Lower priority
	Asset Finance	Invoice Finance	Secured Loans
Leasing product enabled	<ul style="list-style-type: none"> Hire purchase Off-balance sheet brokerage 	<ul style="list-style-type: none"> Invoice discounting ABL Factoring 	<ul style="list-style-type: none"> Secured loans
Customer type	<ul style="list-style-type: none"> Consumer Business 	<ul style="list-style-type: none"> Business 	<ul style="list-style-type: none"> Business
Dealer or manufacturer need	<ul style="list-style-type: none"> Sales-aid retail finance to dealer customers Finance for dealers and OEM capital investment 	<ul style="list-style-type: none"> Cashflow product to support stock of parts and accessories Upstream supply chain finance for OEMs; goods in transit 	<ul style="list-style-type: none"> Fit-outs Franchise acquisition Investment in facilities Infrastructure investment
Estimated opportunity size	<ul style="list-style-type: none"> 2021 YTD enabled product sales of c£500m Existing sectors have enabled product sales in excess of £25bn 	<ul style="list-style-type: none"> 2,700 dealers & 75 manufacturers 	<ul style="list-style-type: none"> 2,700 dealers & 75 manufacturers

- New products are in demand and will resonate with dealers and manufacturers
- Risk adjusted returns expected to align with core product
- Focused on enriching relationships with existing customer segments
- Redemptions builds a strong business case for Asset Finance
- Looking to establish at least one new product in 2022
- Considering organic build, partnerships and joint ventures as well as targeted business acquisitions

Trading update and outlook



Loan book reached £194m at 20 September 2021, now entering restocking period



Raised in excess of £120m in August and September 2021 at 1.3% despite rate competition



Retail deposits now fully online with self service account management of maturity options including unique loyalty rates



Expect loan book to grow through re-stocking period



Continued re-balance of loan book towards commercial assets



Manufacturer supply chains expected to stabilise through balance of year to deliver strength of dealer orders for 2022



Redemptions trend highlight the business case for new products



Strong liquidity with retail deposits now exceeding £280m and own equity



Developing growth capital strategy: evaluating Tier 2 capital raise



Despite challenges, the Board believes run-rate profitability is achievable during Q4 2021

Appendices

Summarised statement of profit or loss

	30 June 2021 6-month £'000	30 June 2020 6-month £'000
Gross revenues	6,122	7,405
Interest expense	(871)	(5,420)
Net income	5,251	1,985
Operating expenses	(7,438)	(8,474)
Impairment charges	(163)	(932)
Other provisions	25	193
Loss before taxation	(2,325)	(7,228)
Taxation	-	-
Loss after taxation	(2,325)	(7,228)
Other comprehensive loss	(89)	(1)
Total comprehensive loss	(2,414)	(7,229)

Consolidated statement of financial position

	30 June 2021 £'000	30 June 2020 £'000
Assets		
Cash and cash equivalents	34,904	26,533
Debt securities	59,750	6,341
Loans and advances to customers	164,841	163,704
Trade and other receivables	1,427	2,361
Property, plant and equipment	94	199
Right-of-use assets	748	388
Intangible assets	1,059	842
Total assets	262,823	200,368
Liabilities		
Customer deposits	159,988	-
Financial liabilities	604	136,650
Trade and other payables	14,729	6,414
Provisions	129	337
Total liabilities	175,450	143,401
Equity		
Issued share capital	1,793	1,066
Share premium	39,273	-
Merger relief	94,911	94,911
Merger reserve	(20,609)	(20,609)
Own shares	(364)	(364)
Retained (loss)	(27,631)	(18,037)
Total equity	87,373	56,967
Total equity and liabilities	262,823	200,368

Consolidated cash flow statement

	30 June 2021 £'000	30 June 2020 £'000
Cash flows from operating activities		
Loss before taxation	(2,325)	(7,228)
Adjustments for non-cash items and other adjustments included in the income statement	653	1,013
(Increase)/decrease in operating assets	(53,900)	43,783
Increase/(decrease) in operating liabilities	24,474	(26,628)
Taxation paid	-	-
Net cash (used in)/from operating activities	(31,098)	10,940
Cash flows from investing activities		
Purchase of debt securities	(42,367)	(20,598)
Proceeds from sale and maturity of debt securities	49,182	22,265
Purchase of property, plant and equipment	(199)	(25)
Purchase of intangible assets	(409)	(96)
Net cash used in investing activities	6,207	1,546
Cash flows from financing activities		
Issue of new shares	38,646	-
Repayment of lease liabilities	(84)	(75)
Net cash from/(used in) financing activities	38,562	(75)
Net increase in cash and cash equivalents	13,671	12,411
Cash and cash equivalents at start of the year	21,233	14,122
Cash and cash equivalents at end of the period	34,904	26,533

Shareholders as at 6 September 2021

Top 10 shareholders	6 Sep 2021	% IC
Arrowgrass Capital Partners	70,629,900	39.38
Watrium AS	23,646,093	13.18
Liontrust Asset Mgt	20,412,228	11.38
Premier Miton Investors	10,023,096	5.59
BlackRock Investment Mgt	6,000,000	3.35
Canaccord Genuity Wealth Mgt	5,454,545	3.04
UBS Securities	5,394,517	3.01
Lombard Odier Asset Mgt	4,090,908	2.28
Schroder Investment Mgt	4,047,474	2.26
Killik Asset Mgt	3,485,671	1.94
Total	153,184,432	85.40



DF Capital

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