lendinvest

Full year results for 12 months ended 31 March 2024

24 July 2024

Introduction

Rod Lockhart
Chief Executive Officer

Hugo Davies
Interim Chief Financial Officer
and Chief Capital Officer

Stephen Shipley
Finance Director

Agenda

Summary

- **Challenging market backdrop** for first 9 months of financial year but signs of recovery
- Key strategic objectives progressed
  - **Released** our fully integrated Mortgages Portal & product transfer process
  - **Expansion** of funding partnerships
  - Successfully **refinanced** £42.5m strategic funding facility post period end
- Prioritised strength in the balance sheet and financial position:
  - **Debt reduced** by £645m (56%), extended funding facilities and grew cash & cash equivalents by £9m (19%)
  - **Accelerated recovery** of underperforming assets
  - **Restructured cost base**, laying foundations for return to profitability during FY25
- Disappointed to announce a **full year loss** of £20m

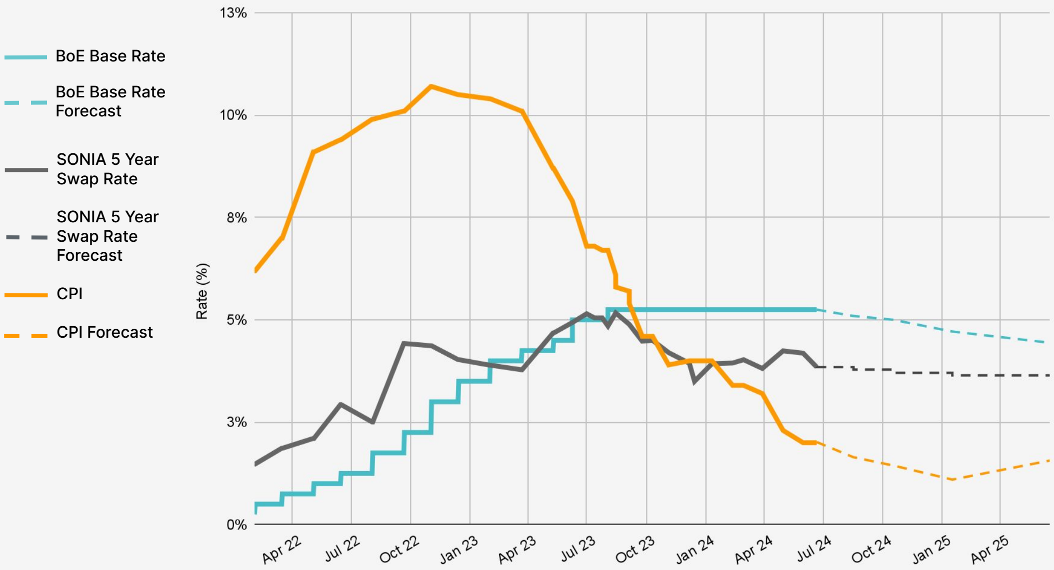
About us

- **Pioneering mortgage platform** that develops technology to simplify the process of securing a mortgage
- **Connect borrowers** with diverse funding sources and **offer investors** access to the UK mortgage market
- We **simplify** the mortgage application process by reducing extensive paperwork and shortening approval times
- Facilitated **over £7 billion** in mortgages to date
- Established a **broad, international capital base** allowing us to offer extensive access to the UK mortgage market and attractive investment opportunities.
- **Trusted partner** for leading global financial institutions such as Barclays, BNP Paribas, Citigroup, HSBC, J.P. Morgan, Lloyds Bank and National Australia Bank.

Business Review

Challenging market backdrop but tentative signs of progress

Base rate rising to its highest point since 2008 [1]



- **Base rate** - 9 increases in FY 2023 and FY 2024[1]
- **Swap rates** - continued volatility, however now below 4% from peak of over 5%
- **CPIH[2]** - 3.8% in 12 months to March 2024, reduced from 6.3% in September 2023
- **New Buy-to-Let** house purchase lending fell by 53% and remortgaging by 47% in 2023[3]
- **House prices** - Mainly flat. Expectations of falls took confidence out of the market.
- **Market strengthening** - Q1 FY25 new lending 20% higher than FY24 quarterly average

[1] Source: BoE, 'Official Bank Rate history'
[2] CPIH - incl. owner-occupier housing costs; Source - ONS
[3] Mortgage Lending to Fall in 2024; Source - UK Finance

A year of transition preparing us for a market rebound

1

Less debt, longer maturities and more cash

- **Repaid £127.5m** in mezzanine funding and **raised £81.5m** in new 3 year strategic capital
- **Continued simplification of funding** model, with **total debt reduced** by £645m, while FuM up 15%
- **Completed our fifth securitisation** in respect of a £410m BTL loan portfolio and **sold residual interest**
- **Prioritised the sale of assets** to raise cash and **remove future NIM dilution**

2

Restructured the cost base laying foundations for profitable recovery

- **Headcount restructured** to c.200 employees with payroll costs reduced by c25% but also resulted in one-off costs in period
- **Origination capacity retained**, focus primarily on group costs and technology resource
- Focus on **cost discipline** expected to benefit FY25 and FY26
- **Launch of proprietary next-gen Mortgages** portal will generate operating efficiencies whilst maintaining capacity for high-volume operations as the market recovers

3

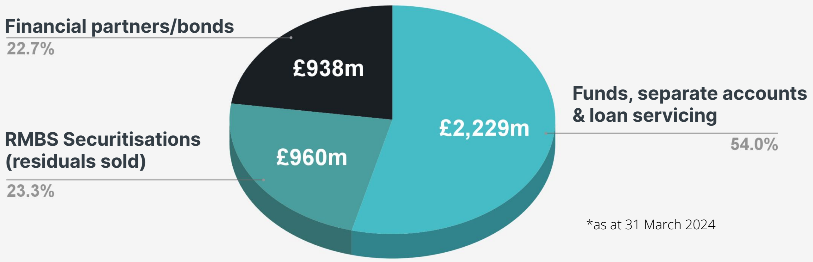
Long held market position and competitive moat underpinned by technology

- **Superior commercial agility** as a result of **same day product launch** and price change capability
- **Sub-5 minute** full **mortgage applications** and high, instant DIP success rate
- Operating leverage allows **100 new applications to be reviewed per underwriter per month**
- **8-11 daily tech deployments**, cloud only infrastructure, fully digital experience, Machine Learning credit modelling

Building strong foundations for the future

FuM +15% YoY to £4.1 billion

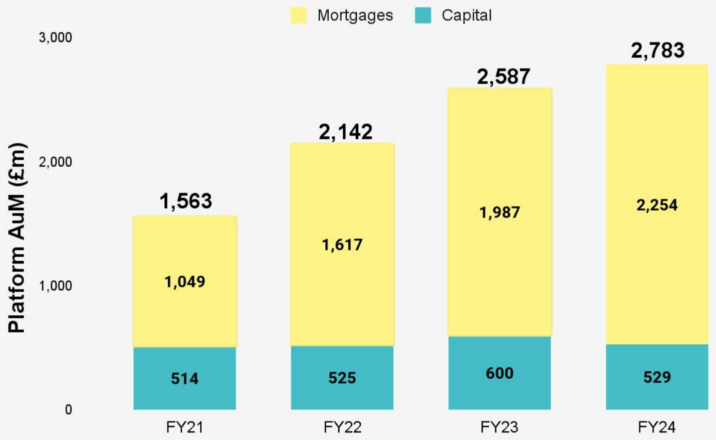
- **BNP Paribas** added £100m to our short-term mortgages financing syndicate
- **New £500m** separate account mortgage partnership
- **£200m** separate account short-term mortgages partnership
- Issued our **fourth listed bond** and repaid our second listed bond
- Completed our fifth Securitisation of a £410m pool of UK prime BTL loans, and closed two residual interest deals



*as at 31 March 2024

Post-year end transactions

- Successfully closed a three-year **£45m** strategic funding facility with a global alternative investment manager



- **13% increase** in Mortgages AuM year on year
- **8% growth** in Group AuM year on year
- After the **launch of our residential mortgage product**, at period end AuM was £76m
- Strong performance for our **short term mortgages** product with 26% growth in AuM year on year

Mortgages

Provides **fast, flexible and simple mortgages** to homeowners, experienced property investors and portfolio landlords.

Key achievements in period:

- New lending of **£666m** in period
- **Launch** of the LendInvest Mortgages Portal
- **New** Product Transfer Process
- Continued **product innovation**
- **Expansion** of Funding Partnerships

Capital

Dedicated division for our **specialist investment products**, including funds and our investment platform

Key achievement in period:

- New lending of **£221m** in period
- Divisional profit before tax of **£6.1m**
- **Prioritised cash generation** and accelerated recoveries in first half leading to one-off high ECL Charge of £6.4m **reduced** in second half to £1.2m

Financials

Group profit & loss

Group P&L (£'m)	Year to 31 March 2024	Year to 31 March 2023	Change %
Platform Assets under Management	**2,783**	**2,587**	**8%**
On balance sheet	477	1,123	(58%)
Off balance sheet	2,306	1,464	58%
New Lending	**887**	**995**	**(11%)**
Net interest income	8.5	38.4	(78%)
Net fee income	15.9	11.2	42%
Net gains/(loss) on derecognition of financial assets	(1.0)	4.9	(120%)
Net other income	0.1	0.2	(50%)
Net operating income	**23.5**	**54.7**	**(57%)**
Administrative expenses	(42.4)	(34.5)	23%
Impairment losses on financial assets	(8.4)	(5.9)	42%
Total operating expenses	**(50.8)**	**(40.4)**	**26%**
(Loss)/Profit before tax	**(27.3)**	**14.3**	**(291%)**
(Gains) from derecognised cash flow hedge	-	(9.2)	-
Losses/(gains) from derivative hedge accounting	4.0	(5.1)	(178%)
Restructuring costs	1.6	-	-
Exceptional professional costs	1.1	-	-
Underlying (Loss)/Profit before tax	**(20.6)**	**0.0**	**-**
Adjusted EBITDA	***(15.1)***	***14.3***	***(206%)***
(Loss)/Profit after tax	***(20.1)***	***11.4***	***(276%)***

Several one-offs have negatively impacted FY24 performance:

- **Net gain/(loss) on derecognition of financial assets**: Gains of £12.1m from the sale of Morti-21 residual interest and individual loans were offset by £13.1m losses from portfolio and residual interest sales.
- **Administration expenses** : Exceptional and restructuring costs of £2.7m led to a £6m (25%) reduction in annualised staff-related costs.
- **Impairments**: Increased by 42%, partly due to accelerated debt recovery efforts in HY1 FY24.
- **Unrealised loss on hedge accounting**: A £4m loss in FY24, contrasting with a £5.1m gain in FY23.

This was partially offset by a 42% increase in **net fee income** from higher separate account originations.

Due to the scale of negative reserves, a dividend will not be declared, but we remain committed to a progressive dividend policy as soon as it is prudent to do so.

Group FY24 H2 vs FY24 H1

Group (£'m)	Half year to 31 March 2024	Half year to 30 September 2023	Change (%)
Net interest income	2.2	6.3	(65)%
Net fee income	9.3	6.6	41%
Net gains/(loss) on derecognition of financial assets	(1.1)	0.1	(1200)%
Net other operating income	0.0	0.1	(100)%
Net operating income	**10.4**	**13.1**	**(21)%**
Administrative expenses	(21.3)	(21.1)	1%
Impairment losses on financial assets	(1.3)	(7.1)	(82)%
Total operating expenses	**(22.6)**	**(28.2)**	**(20)%**
(Loss)/profit before tax	**(12.2)**	**(15.1)**	**(19)%**
Losses/(gains) from derivative hedge accounting	3.7	0.3	1133%
Restructuring costs	1.3	0.3	333%
Exceptional professional costs	0.5	0.6	(17)%
Underlying (loss)/profit before tax	**(6.7)**	**(13.9)**	**(52)%**
Adjusted EBITDA	***(4.3)***	***(10.8)***	***(60)%***

Net interest income substantially reduced as a result of £3.7m unrealised loss on hedge accounting in H2, compared to £0.3m loss in H1.

Net fee income increased as new lending volumes to our separate account providers increased.

Net losses on derecognition of financial assets increased as a result of loss on sale of Morti-23 residual interest

Administrative expenses slightly increased but £1.8m driven by exceptional items.

Impairment losses substantially reduced, reflecting 'one off' nature of H1 charges

Underlying loss before tax improved by 52% and Adjusted EBITDA by 60%

Balance sheet

Group Balance Sheet £'m	31 March 2024	31 March 2023	Change (%)
Cash and cash equivalents	55.7	46.7	19%
Trade and other receivables	11.9	6.1	95%
Loans and advances	477.0	1,122.9	(58)%
Investment securities	41.1	23.9	72%
Derivative financial asset	0.0	46.0	(100)%
Other assets	15.9	17.2	(8)%
Total assets	**601.6**	**1,262.8**	**(52)%**
Trade and other payables	(23.4)	(23.7)	(1)%
Other liabilities	(2.3)	(3.3)	(30)%
Derivative financial liability	(2.0)	0.0	-
Interest bearing liabilities	(514.6)	(1,159.3)	(56)%
Total liabilities	**(542.3)**	**(1,186.3)**	**(54)%**
Equity	**59.3**	**76.5**	**(22)%**
Leverage ratio	**10.1**	**16.5**	**(39)%**

The balance sheet has been significantly **de-leveraged**, evidenced by a £645m (56%) reduction in debt and concurrently achieved a 39% reduction in our leverage ratio.

Investment securities has increased as a result of the 5% risk retention we hold in our latest securitisation.

Cash and Cash Equivalents have increased 19% over the period with £17.2m in unrestricted cash available at the end of the period providing us with ample liquidity to support ongoing operations, invest in growth opportunities, and navigate any potential uncertainties in the market.

Looking ahead, we remain focused on maintaining a prudent capital structure while pursuing opportunities that drive innovation and profitability. However, in the short term, as we increase assets in advance of our next securitisation there will be corresponding rise in interest bearing liabilities.

Strengthening the balance sheet and reducing risk profile

% of AuM which is on Balance Sheet

17% ⬇

-26pps vs March 2023

Cash & cash equivalents

£55.7m ⬆

+19% vs March 2023

Unrestricted cash*

£17.2m ⬆

+16% vs March 2023

- Material reduction in proportion of loan book held on balance sheet as a result of deleveraging the business.
- Strong focus on cash management including accelerated debt recovery, leading to an increase in cash & unrestricted cash.

* **Unrestricted cash refers** to funds that are readily available for a company to use without any constraints or limitations imposed by external parties such as creditors, regulatory bodies, or contractual agreements. This means the company can freely allocate these funds for any legal business purpose, including operating expenses, investments and debt repayment.

Outlook and long-term opportunity

Our technology remains a key competitive advantage

Rapid product launch of lending products

- Same day product launch and price change capability
- Clear user feedback driven product feature roadmap
- Product attributes are customised and managed directly through our agile proprietary platform which enables product innovation at pace

Seamless broker journey

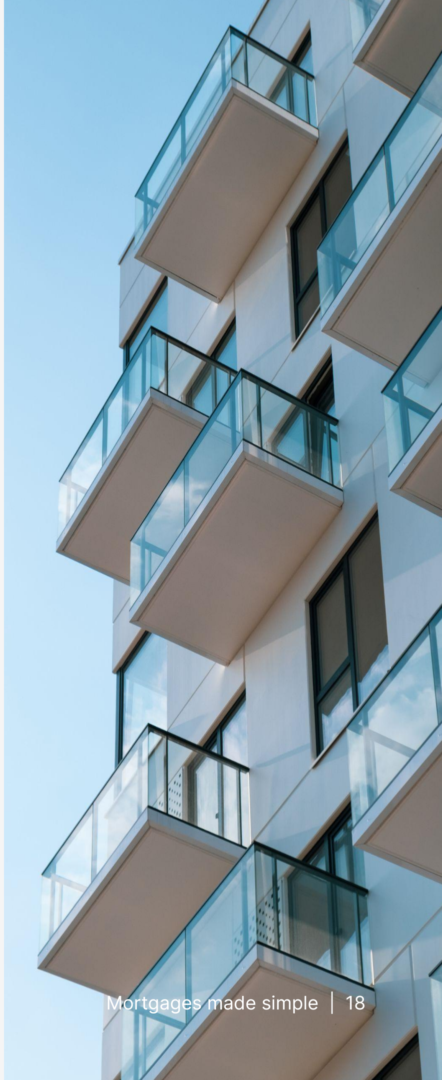
- Positive broker experience for a network of >4,400 registered broker firms
- Designed to meet specific broker requirements
- Ability to submit a full mortgage application in <5 minutes
- 85% DIPs instantly approved. Referrals reviewed within 2 hours

Underwriting technology

- Able to support 100 new BTL applications per underwriter per month
- Real time borrower concentration reporting and wider portfolio assessment tool with AVM capability
- Machine Learning credit modelling trained on over £6bn LendInvest mortgage completions

Clear market opportunity

- We have moved all of our mortgage products onto a single platform to facilitate cross selling, product transfers and product switches providing **opportunities for growth and operating leverage.**
- The new **Basel 3.1 capital reforms** are likely to **impact many specialist banks**, which provide a significant proportion of new BTL lending, presenting an **opportunity for non-bank lenders** like us. We have worked with our funding partners to ensure that we are well-placed to take advantage of this dynamic.
- Our platform affords us an edge in **designing customer-oriented solutions**; well positioned to capitalise on opportunities like long-term fixed rate mortgages.
- **Clear countercyclical resilience** and demand for our **Short-term Mortgages and Structured Bridging** products.
- **Potential tailwinds from planning and land reform** from Government could grow **Development finance** market, alongside continued commitment to deliver 1.5m homes over next 5 years.



Strong foundations and more positive outlook

Substantial funding headroom

Large broker network & excellent reputation

Market-leading Technology

Cost efficiencies through technology

On track to return to profitability

Q&A

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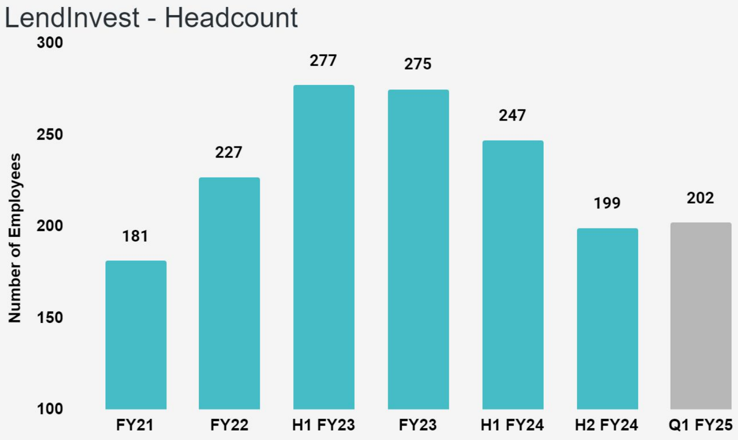
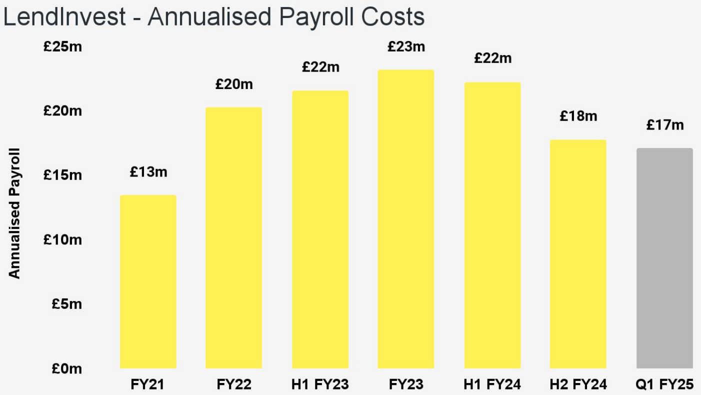
Mortgages made simple

Appendices

Cost base restructured





Employee related costs

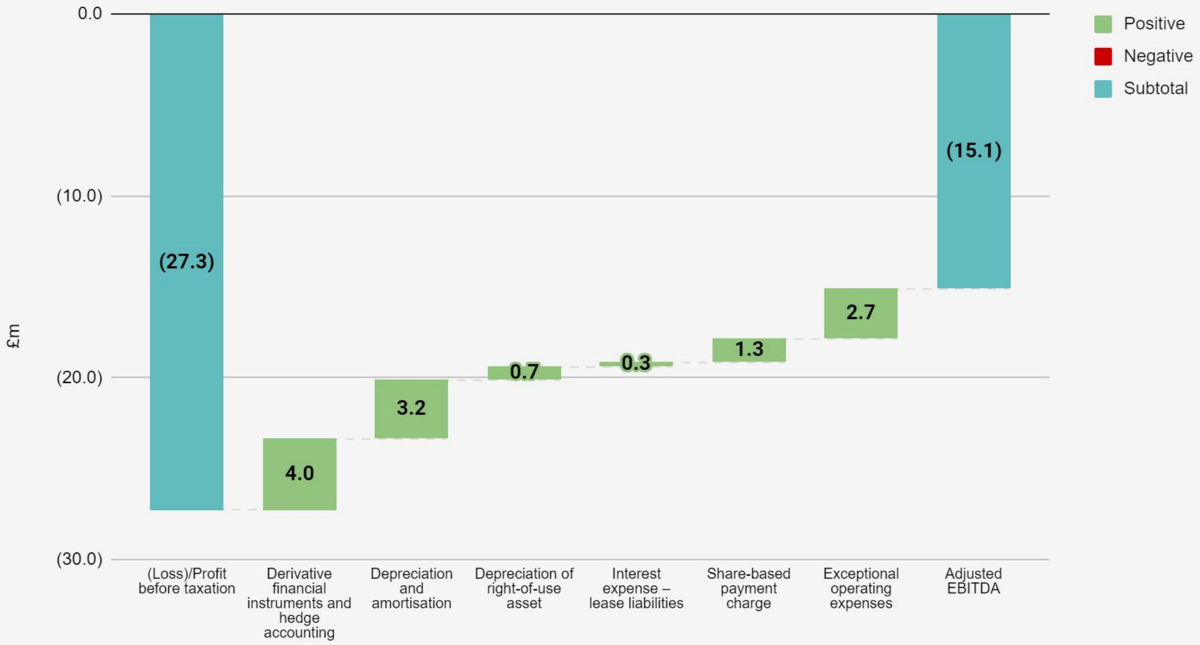
- Headcount Peaked at 277 in H1 FY23
- In FY24 a restructuring process reduced headcount by 27% compared to start of period
    - The **restructuring** mainly related to central services and technology resource
    - **Origination capacity** has been maintained to ensure we are well positioned as the market recovers
    - **Restructuring cost is £1.6m**, but has reduced payroll expense by c.£5m per annum.
- Other initiatives include moving roles to the Glasgow office driven by attrition in the London office and creating a lighter London presence, realising lower office costs

Other Administrative Expenditure

- Target to return total administrative expenses to levels similar to FY23 through reduction in third party costs and realising efficiencies through our technology.

Adjusted EBITDA to Profit (Loss)/Before Tax

Adjusted EBITDA defined as Group profit or loss before finance income, finance expenses, income tax, depreciation and amortisation, share-based payment charge, and exceptional operational expenses.



Segmental analysis of profit & loss

Segmental (£'m)	Mortgages	Capital	Central	Group
Platform Assets under Management	**2,254**	**529**	**-**	**2,783**
On balance sheet	335	142	-	477
Off balance sheet	1,919	387	-	2,306
New Lending	**666**	**221**	**-**	**887**
Net interest income	(1.7)	10.2	0.0	8.5
Net fee income	7.9	8.0	0.0	15.9
Net gains/(loss) on derecognition of financial assets	(1.6)	0.6	-	(1.0)
Net other income	0.1	0.0	-	0.1
Net operating income	**4.7**	**18.8**	**0.0**	**23.5**
Administrative expenses	(11.6)	(5.1)	(25.7)	(42.4)
Impairment losses on financial assets	(0.8)	(7.6)	-	(8.4)
Total operating expenses	**(12.4)**	**(12.7)**	**(25.7)**	**(50.8)**
(Loss)/Profit before tax	**(7.7)**	**6.1**	**(25.7)**	**(27.3)**

New divisional structure implemented at the beginning of the period.

Mortgages division focused on lower value, higher volume lending. Mortgages net interest income impacted by £4m unrealised hedge accounting loss

Capital division lending is higher value, lower volume and higher risk profile, and loans are usually off balance sheet in funds and separate accounts. High impairment charge, however these were isolated cases, as loans to three borrowers made up 50% of the total Capital impairment charge.

Central includes support costs with direct costs allocated against divisional profits. £2.7m of exceptional and restructuring costs are included in the FY24 cost base. Post restructuring we have delivered a 25% reduction in the annualised payroll run-rate.