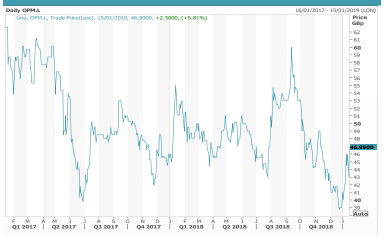
16 January 2019

HARDMAN & CO.

1PM PLC

Interim results 1H FY'19: geared up for growth

Financials



Source: Eikon Thomson Reuters

Market data

EPIC/TKR	**OPM**
Price (p)	46.0
12m High (p)	55.0
12m Low (p)	42.0
Shares (m)	87.6
Mkt Cap (£m)	40.3
EV (£m)	39.4
Free Float*	35.1%
Market	AIM

**As defined by AIM Rule 26*

Description

1pm is a finance company/broker providing ca.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

+44 1225 474230
www.1pm.co.uk

Key shareholders (end-Nov)

Lombard Odier	22.5%
Sapia Partners	14.8%
Ronald Russell (director)	12.1%
Mike Nolan (director)	5.1%

Diary

June 2019	Trading update

Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

We had been looking for two key themes with the 1H FY'19 results: i) that any early signs of credit deterioration were modest; and ii) that the integrations were going well. 1pm delivered on both. On credit, the net bad debt write-off was down on last year. Management detailed the diversification of the business, and commented how its operating flexibility, small individual exposures, human underwriting and fixed-rate lending should limit losses in a downturn. On group synergies, we note cross referrals are ticking up each month and the cost of group funds is falling. 1H FY'19 saw good franchise and revenue growth. The valuation appears anomalous with the group's prospects.

- **1H FY'19 results:** New business origination was up 10%, and revenue rose 15%. With cost of sales (including bad debts) increasing more slowly than revenue, gross profit was up 17%. Central control investment saw expenses rise 20%, and profit before tax was up 11%. Cost of funds continues to fall.
- **Outlook:** These results were consistent with our FY'19 estimates, which are unchanged. Management outlined aggressive new targets for 2023, with a lending /invoice finance book of £350m (2018: £145m, 2014: £19m) and £90m+ of revenue (2018: £30m, 2014: £4m). It also outlined its strategy to achieve these targets, implying significantly more of the same, with selective acquisitions.
- **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 69p (DDM normal pay-out 77p). The 2020E P/E (5.1x) and P/B (0.7x) appear an anomaly with 1pm's profitability, growth and downside risk.
- **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 including the very recent appointment of a Group Head of Risk. Funding is widely diversified, and at least matches the duration of lending. Acquisitions would appear well priced, and delivery of synergies provides earnings upside.
- **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)	2016	2017	2018	2019E	2020E
Revenue	12,554	16,944	30,103	33,503	36,854
Cost of sales	-4,480	-6,094	-10,118	-11,264	-12,672
Administration expenses	-4,290	-6,469	-12,183	-13,603	-14,419
Operating profit	3,418	4,121	7,966	8,914	9,763
Pre-tax profit	3,346	4,080	7,850	8,708	9,537
EPS (p)	6.5	6.5	7.9	8.1	9.0
Total receivables	56,061	73,955	126,069	136,197	149,817
Equity to receivables	43%	39%	38%	41%	42%
Shares in issue (m)	52.5	54.9	86.2	88.6	90.7
P/adjusted earnings (x)	7.1	7.1	5.8	5.7	5.1
P/BV (x)	1.0	0.9	0.8	0.7	0.7
Yield	1.1%	1.1%	1.4%	1.8%	2.4%

Source: Hardman & Co Research

1H FY'19 results summary

Financial highlights

- New business origination increased 10% to £82.3m (1H FY'18: £74.9m).

Revenue up 15%, costs of sales up 10%, gross profit up 17%. Investment continues (expenses +20%, so PBT up 11%).

- Group revenue increased 15% to £16.0m (1H FY'18: £13.9m), with four-fifths in interest received (growing 11%) and one-fifth from broking commissions (growing 35%). Cost of sales grew 10%, with gross profit up 17%. There continues to be heavy investment in control processes, including the very recent appointment of a Group Head of Risk (administration costs rose 20% compared with 1H FY'18). Group operating profit before exceptional items increased 14% to £4.1m (1H FY'18: £3.6m), and profit before tax was up 11% to £3.9m.

Results consistent with our FY estimates, which are unchanged

- 1H FY'19 revenue accounted for 48% of our FY'19 estimates (47% of cost of sales, 49% of expenses, 38% of finance costs), and pre-tax profit for 44% (the same proportion as in FY'18). We note that 2H FY'18 saw some incremental acquired profits, while we expect 2H FY'19 to see some incremental deal synergies. We have not changed our estimates following these results.
- Basic earnings per share increased 12% to 3.62p (1H FY'18: 3.23p).
- Net assets at 30 November 2018 increased 6% to £51.0m (31 May 2018: £47.9m).

Bad debt write-offs down on 1H FY'18

- Net bad debt write-offs in the period were £0.5m (1H FY'18: £0.7m).
- At period-end, total bad debt provisions were £2.4m, representing 2.0% of the total net portfolio (30 November 2017: £2.1m, representing 1.8% of the total net portfolio).

Operational highlights

60% of new business brokered, slightly up on last year

- The flexible operating model of either funding on 'own-book' or generating broking commissions resulted in ca.60% of all origination being brokered onto other lenders for commissions (1H FY'17/18: 58%).

Own book assets (including income up 9%)

- Combined 'own-book' assets, loans and the invoice finance portfolio increased 9% to £142.1m (30 November 2017: £130.1m). The balance sheet trade receivables were flat on the year-end, at £126m, as more business has been brokered on and higher-risk loans reduced. Management has prudently made the decision to reduce certain types of loans kept on the balance sheet, and the origination of this business fell 39%. Consequently, receivables were a little below our expectations, and we have trimmed our forecasts for both receivables and payables.

Funding robust and committed. Cost of funds falling.

- Funding facilities available to the Group as at 30 November 2018 stood at £169.5m (31 May 2018: £162.6m). The blended cost of borrowings in the period was 4.0% (31 May 2018: 4.1%).
- The integration of business functions continues to accelerate, with origination of new leads from cross-selling the Group's products progressing in line with management expectations.

A video commentary on the results by management is available at http://bit.ly/OPM_H1_19

Group evolution

As detailed in the figure below, 1pm offers a comprehensive and diversified portfolio of SME financing products, sourced through a range of channels, and with a broad (match) funding. It maintains significant strategic flexibility to retain lending on the balance sheet or brokered to other lenders. This, coupled with a client base of ca.20k, generates growth options, including an increasing degree of cross-selling.

Group 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

Each of the separate businesses has a unique model, and 1pm has not tried to integrate front offices or risk control. The businesses have been left with the operational units, while back office synergies have been taking in things like funding. One key issue for the group in 1H FY'19 was how these opportunities had been taken, with the number of cross sales increasing month-on-month and the further reductions in average cost of funds. The ability to invest in further central controls that scale provides is another, although unquantifiable, benefit.

Summary of different valuation techniques

	Asset Finance	Vehicle Finance	Asset-secured and PG-backed Loans	Commercial (invoice) Finance
Origination (£m)	30.4	24.9	17.8	9.2
Book (£m)	91.5	Brokered	14.5	36.1
Interest rate	12-18%	n/a	14-22%	4% + fees
Typical duration (yrs)	3	n/a	3	2
Net bad debt	1%	Nil	1%	<0.5%
Revenue				
1H FY'19 (£m)	9.1	1.8	1.4	3.7
1H FY'18 (£m)	7.9	0.7	2.3	3.0

Source: 1pm, Hardman & Co Research

Aggressive new target outlined for 2023

1pm also outlined a new strategic plan, with a 2023 target book of £350m (2018: £145m, 2014: £19m) and £90m+ of revenue (2018: £30m, 2014: £4m).

Mostly achieved by maintaining the progress already seen, together with selective acquisitions

The group intends to achieve this and become "the speciality finance provider of choice" by:

- building scale through both organic growth and accretive acquisitions;
- reducing cost of borrowing through optimising size, term, cost and mix of funding lines;
- increasing own-book lending, while maintaining broker panel relationships;
- investing in brand promotion, marketing and Business Intelligence;
- introducing selected new products and territories;
- innovating, using financial technology and investment in systems to create a digital offering;
- investing in key hires, training and succession; and
- delivering operational leverage from cross-selling and group synergies.

We do not believe equity-funded deals are likely on 1pm's current rating

Given the 10% origination growth seen in 1H FY'19, we believe further acquisitions will be important to deliver the scale of business implied by the strategic plan. We do not believe that such deals are likely in the short term, given 1pm's share price rating.

Credit

1H FY'19 update

Bad debt write-off down on last year

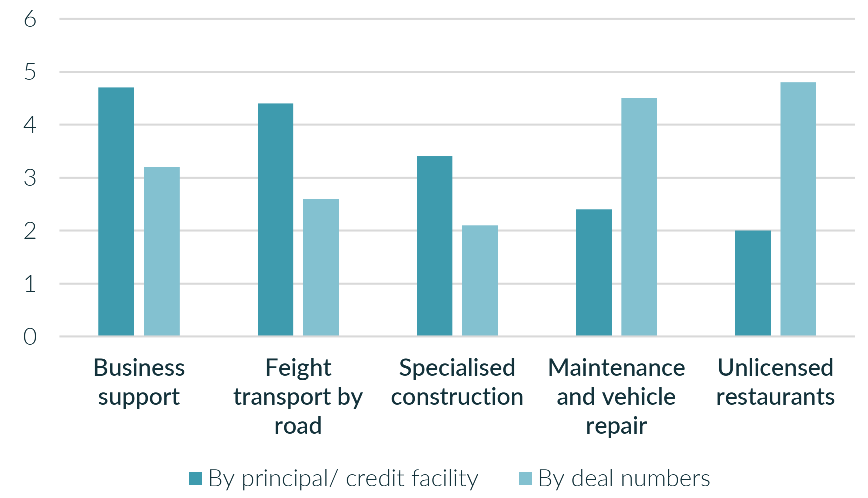
Net bad debt write-offs in 1H FY'19 were £0.5m, down from £0.7m in 1H FY'18.

With the interim results, management highlighted why it believed it should stay strong through the credit cycle. The key points are detailed below. On the key issues, our view is consistent with management's:

Highly diversified portfolio

- Spread and diversity – of introducer channel, asset category, lending product, sector, geography, deal size and deal quality. We note that the top 10 sectors accounted for only 25.8% of the group's total principal outstanding (loans and leases) and credit facilities (invoice financing). In aggregate, they account for over 30% of lending, indicating a smaller-than-average deal size and a broader customer spread. Management also advised an average lease size if £15k and average invoice discounting of £150k (largest individual exposures £450k and ca.£1.2m, respectively).

% of total accounted for by five largest sectors – by risk and deal numbers



Source: 1pm, Hardman & Co Research

Can broke deals to manage credit risk

- Operating model flexibility – i.e. can lend on balance sheet or broke. We believe this gives considerable flexibility for managing credit – the most important risk. In terms of income, it remains to be seen what the appetite for brokered deals will be in a downturn. If there is no end lender, it will be difficult to generate income.

Small exposure helps diversification but also collections

- Small individual exposures – meaning that impaired receivables can be typically recovered through charging orders and payment plans. We believe this means that the amount owed is more manageable by the individual backing the businesses than where large sums have been advanced.

Human underwriting gives sense check

- Human underwriting – eyes on every deal. We like this aspect of the business, as it introduces a sense check, which automated processes do not allow. It also means that a lender can include anticipated events – not just historical data.

Fixed rates mean no deterioration in customer affordability if interest rates increase

- Fixed interest rate deals – no exposure to interest rate rises for businesses already written, which should help the affordability of facilities and so moderate credit losses.

Stock of provisions has been increasing (now at 2x annual write-off). Management also prioritises customers whose income is based off non-discretionary spend.

We note that the company sees some further offsets in a downturn. On these, we agree that 1pm's starting position is helpful, but we can see some downside in an extended deep recession scenario: (i) well provided – carrying bad debt provisions twice the amount of annual net write-offs – we believe this is a helpful starting position, although, through an extended deep recession, further provisions will be required; (ii) borrower resilience, lending to independent businesses for 'staple-diet' consumer products, not multiple-outlet, retail chain businesses reliant on consumer discretionary spend – we believe that, in a deep recession, even standard cafés are likely to suffer.

We also believe that investors should recognise the following:

Spreads on new business should be easier to increase

- It is easier to add 1% or 2% to a gross yield of 12%-22% than it is where the starting yield is 4%-5%. New business flows for 1pm are thus more likely to re-price more quickly and by more than the mainstream market.

Likely to see more demand

- In a downturn, banks' willingness to lend to SMEs has historically reduced. This is likely to increase the demand for 1pm's products – so there may be a volume gain in a downturn too.

Value of strong recovery rates recognised more under IFRS9 accounting than previous methodology

- 1pm's recovery rate has been around 75% of impaired value over the past 10 years. This can be taken as a reflection of the effectiveness of practices and procedures (noting that the acquired businesses may have a different profile). We highlight the good recovery because IFRS9 gives an upfront recognition of the benefit of recoveries, as well as losses, which means businesses with high recovery rates should have less credit volatility.

Invoice financing should be very low-risk

- We believe the <0.5% loss rate for the invoice finance businesses is likely to be conservative. Such exposure requires a broad range of invoice payers, in addition to the SME, with the facility to default and the track record of 1pm's acquired businesses suggesting they should be very low-risk indeed (only three instances of loss since their foundation).

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 show the unchanged 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 falling into 1pm's space, providing material offsets to higher credit losses.

One further key sensitivity in a downturn is funding. We note that 1pm at least match- funds the duration of its lending, and so should not face any liquidity issues in financing existing business. It has significant committed funding lines and also has a broad spread of funders. This is important, as it is not dependent on the lending appetite or capacity of any single provider. We believe this prudent approach to funding should serve 1pm well in any recession.

Scenario sensitivity

Year-end May 2020E (£000)	Base	Current provisioning continues	IFRS9 worst case	1.5x IFRS9 worst case	1.5x IFRS9 worst case + no growth	1.5x IFRS9 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 vs. 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 vs. 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)	8.3	8.9	6.4	5.3	4.7	4.6
Implied P/E (x)	6.4	5.9	8.3	10.1	11.3	11.6
Dividend (p)	0.85	0.85	0.85	0.85	0.85	0.85
Dividend cover (x)	9.8	10.6	7.6	6.2	5.5	5.4

Source: 1pm, Hardman & Co Research

Financials

Profit & Loss

Profit and Loss						
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
Gross profit	3,031	8,074	10,850	19,895	22,240	24,182
Other operating income	**0**	**2**	**3**	**0**	**0**	**0**
Administration expenses	-1,394	-4,290	-6,469	-12,183	-13,603	-14,419
Exceptional items	0	-368	-263	254	277	0
Operating profit	1,637	3,418	4,121	7,966	8,914	9,763
Finance costs	-21	-74	-82	-179	-206	-226
Finance income	**4**	**2**	**41**	**63**	**0**	**0**
Profit before income tax	1,620	3,346	4,080	7,850	8,708	9,537
Income tax	-349	-480	-794	-1,448	-1,572	-1,621
Profit for year	**1,271**	**2,866**	**3,286**	**6,402**	**7,136**	**7,915**
Average number of shares (m)	**34.18**	**48.85**	**53.94**	**84.60**	**88.20**	**88.20**
Diluted number of shares (m)	0	3.15	3.82	14.49	13.49	13.49
Statutory EPS (p)	**3.72**	**5.87**	**6.09**	**7.57**	**8.09**	**8.97**
Diluted EPS (p)	3.70	5.51	5.69	6.46	7.02	7.78
Adjusted EPS (p)	3.72	6.47	6.48	7.90	8.09	8.97
Total dividend (p)	0.35	0.50	0.50	0.65	0.85	1.10
Dividend cover (adjusted EPS) (x)	10.6	12.9	13.0	12.2	9.6	8.2
Ratios (%)						
Revenue to year-end balance sheet	22%	22%	23%	24%	25%	25%
Cost of sales to revenue	-45%	-36%	-36%	-34%	-34%	-34%
Admin. costs to revenue	-25%	-34%	-38%	-40%	-41%	-39%
Finance costs to revenue	0%	-1%	0%	-1%	-1%	-1%
Finance cost as % year-end Interest-bearing liabilities	-3%	-4%	-7%	-4%	-4%	-5%
Return on net assets	10%	12%	12%	13%	13%	13%

*Source: 1pm, Hardman & Co Research *IFRS9 basis*

Balance sheet

Balance sheet						
@ 31 May (£000)	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 & equipment	239	1,251	1,744	1,612	1,612	1,612
Trade and other receivables	14,502	33,166	49,966	50,096	51,108	56,218
Deferred tax	-	208	411	568	750	900
Total non-current	14,741	44,914	67,113	80,588	82,067	87,577
Inventories	-	81	135	365	397	397
Cash and cash equivalents	12	910	2,078	2,070	2,621	808
Trade and other receivables	10,489	22,895	23,989	75,973	85,090	93,599
Total current assets	10,501	23,886	26,202	78,408	88,108	94,803
Total assets	25,242	68,800	93,315	158,996	170,175	182,381
Non-current liabilities						
Trade and other payables	5,685	19,664	32,097	33,256	34,756	38,232
Financial liabilities – borrowings	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	5,825	21,896	34,647	36,762	36,928	39,835
Trade and other payables	6,182	19,979	26,533	69,398	72,868	75,000
Financial liabilities – borrowings incl. bank overdrafts	357	519	-	-	-	-
Interest-bearing loans and borrowings	200	729	949	2,625	3,392	3,392
Provisions	-	1,245	1,733	1,218	200	200
Tax payable	310	543	943	918	918	918
Total current liabilities	7,049	23,015	30,158	74,159	77,378	79,510
Total liabilities	12,874	44,911	64,805	110,921	114,306	119,345
Share capital	3,685	5,253	5,494	8,621	8,831	8,831
Share premium	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	2,994	5,469	8,755	14,738	21,312	28,479
Total equity	12,368	23,889	28,510	48,075	55,869	63,036
Period-end no. shares (m)	36.85	52.53	54.94	86.20	88.62	90.74
NAV per share (p)	0.34	0.45	0.52	0.56	0.63	0.69
Tangible NAV per share (p)	0.34	0.26	0.25	0.23	0.32	0.39
Ratios						
Equity/total receivables	49%	43%	39%	38%	41%	42%
Current trade recs. to payables	1.70	1.15	0.90	1.09	1.17	1.25

*Source: 1pm, Hardman & Co Research *IFRS9 basis*

Cashflow

Cashflow statement						
Year-end May (£000)	**2015**	**2016**	**2017**	**2018**	**2019E***	**2020E***
Profit before tax	1,620	3,346	4,080	7,850	8,708	9,537
Depreciation charges	79	354	544	571	528	528
Finance costs	21	74	82	179	206	226
Finance income	-3	-3	-41	-63	0	0
Gain on disposal of property	0	0	0	-30		
Increase in trade receivables	-7,667	-12,649	-9,134	2,624	-15,128	-13,620
Increase in trade/other payables	2,656	11,996	11,476	-10,233	9,970	5,608
Total cash from operations	-3,294	3,118	7,007	898	4,283	2,279
Interest paid	-21	-74	-82	-179	-206	-226
Tax paid	-297	-637	-615	-1,612	-1,139	-2,021
Net cash from operating activities	-3,612	2,407	6,310	-893	2,938	32
Acquisition of subsidiaries	**0**	**-7,588**	**-3,141**	**-9,879**	**-1,300**	**-569**
Purchase of property, plant & equip.	-246	-547	-1,089	-1,034	-528	-528
Interest received	**3**	**3**	**41**	**63**	**0**	**0**
Net cash from investing activities	-243	-8,132	-4,189	-10,850	-1,828	-1,097
New loans/loan repayments	-180	-179	-22	-701	767	0
Share issue	4,090	6,769	-150	12,091	0	0
Equity dividend paid	0	-129	-262	-419	-562	-749
Net cash from financing activities	**3,910**	**6,461**	**-434**	**10,971**	**205**	**-749**
Increase in cash and cash equivalents	**55**	**736**	**1,687**	**-772**	**1,315**	**-1,814**
Opening cash/cash equivalents	-400	-345	391	2,078	1,306	2,621
Closing cash/cash equivalents	-345	391	2,078	1,306	2,621	808

*Source: 1pm, Hardman & Co Research *IFRS9 basis*

Valuation

Our absolute valuation techniques are unchanged and imply average upside potential of over 100%. If 1pm was to trade on "peer" multiples the share price would be significantly higher.

Summary of different valuation techniques

	Implied price (p)	Upside potential (%)
Gordon Growth Model (GGM)	116	151%
Discounted Dividend Model (DDM)	69	51%
Average absolute measures	92	101%

Source: Hardman & Co Research

Gordon Growth Model

GGM captures both value-added and growth; on our assumptions more than double current share price

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 69p
would rise to 77p if company immediately adopted long-term payout ratio

Our Dividend Discount Model (DDM) produces a valuation of 69p, 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,

Peer comparisons

Closest quoted specialist lenders indicate share price could double. Broader range suggests 60%+ upside potential.

1pm has no immediate quoted peers. Using the quoted specialist lenders on P/E or P/B measures would suggest a share price significantly more than double the existing one. If 1pm were to trade at an average of the smaller consumer finance companies , the share price would be ca.60% above the current level. The challenger banks are more mixed, but again have upside potential if 1pm were to trade on their multiples.

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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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research@hardmanandco.com

35 New Broad Street
London
EC2M 1NH

+44(0)20 7194 7622

www.hardmanandco.com