

Funding Circle Holdings plc

Full Year 2018 Results

Embargoed until 7.00am, 07 March 2019

Funding Circle Holdings plc ("Funding Circle" or the "Company"), the leading small and medium enterprise ("SME") loans platform in the UK, US, Germany and the Netherlands, today announces results for the year ended 31 December 2018 ("2018").

Financial Highlights:

- Strong Group performance delivering IPO guidance whilst continuing our strategy of investing for growth
- Revenue of £141.9 million (2017: £94.5 million). Year-on-year growth of 55%¹ (excluding property²) exceeding c.50% guidance stated at IPO
- Segment adjusted EBITDA³ of £7.0 million (2017 loss: £3.9 million) with margin of 5% (2017: negative 4%)
- Adjusted EBITDA⁴ loss of £28.5 million (2017 loss: £25.1 million) with margin improving to negative 20% (2017: negative 27%)
- Basic loss per share of 18.2 pence (2017 loss: 14.0 pence)
- Loss before tax £50.7 million (2017 loss: £36.3 million)
- Free cash outflow⁵ of £42.0 million (2017 outflow: £35.3 million)
- Cash of £333.0 million, £244.1 million higher than at the end of 2017 (£88.9 million), including IPO proceeds of £300.0 million, before expenses of £15.0 million

Operating and Strategic Highlights:

- Leading lending platform in UK, US, Germany and the Netherlands:
 - Loans under management of £3.15 billion (2017: £2.11 billion). Year-on-year growth of 55% (excluding property⁶)
 - Originations of £2.29 billion (2017: £1.74 billion). Year-on-year growth of 40% (excluding property⁷)
 - In the UK, net lending (£723 million) to SMEs through Funding Circle in 2018 was higher than all UK high street banks combined (£515 million)⁸
 - In the US, loans under management recently passed \$1 billion and was larger than ~98% of FDIC-insured banks⁹ in 2018 (\$939 million); if Funding Circle were a bank it would be among the 50 largest for SME loans in the US
- Strong repeat dynamics from existing investors and borrowers:
 - 43% of Group revenue from existing customers, year-on-year growth of 67% (excluding property)
 - 74% of lending from existing investors in 2018
- Deep and diverse investor base:
 - More than 85,000 investors at the end of 2018 earning projected annual returns of 5-8% across all geographies¹⁰
 - New lending commitments signed with institutional investors in 2018, including Waterfall Asset Management (£1 billion) Alcentra (\$1 billion) and the British Business Bank (£150 million)
- Market-leading customer satisfaction scores for borrowers:
 - More than 60,000 small businesses have accessed funding through the Funding Circle platform as at the end of 2018
 - Net Promoter Score between 80-90 for borrowers in the UK and US; 85% of borrowers would approach Funding Circle first in the future for finance¹¹, rather than their bank
- Marketing spend as a percentage of revenue maintained at 41% (2017: 41%)

1 Revenue of £141.5 million (2017: £91.4 million) with year-on-year growth of 55% when property revenue of £0.4 million (2017: £3.1 million) is excluded

2 In 2017, Funding Circle took the decision to cease lending to property developers in the UK, the one market in which it had previously expanded its product set beyond amortising SME loans. As a result, this is excluded when measuring ongoing business performance.

3 Segment adjusted EBITDA represents adjusted EBITDA before central costs

4 Adjusted EBITDA represents operating profit before depreciation and amortisation, share based payments and associated social security costs, foreign exchange gains / (losses), and exceptional items. A reconciliation between adjusted EBITDA and operating profit is shown in note 3

5 Free cash flow represents net cash flows from operating and investing activities

6 55% year-on-year growth when property loans of £25 million (2017: £95 million) are excluded

7 40% year-on-year growth when property loans of £6 million (2017: £107 million) are excluded

8 Data taken from Funding Circle and Bank of England.

9 Funding Circle data and Federal Deposit Insurance Corporation (FDIC) Statistics on Depository Institutions. December 2018. "Amount of currently outstanding commercial and industrial loans less than \$1,000,000 held in domestic offices."

10 Based on loans originated in 2018

11 Oxford Economics – Economic Impact of Funding Circle, April 2018

Continuing to execute our three year strategic plan - FC2020:

- **Drive a better borrower experience:** maintaining marketing spend at consistent levels in 2019 and continuing to invest in UK TV brand advertising to drive higher awareness and engagement amongst UK SMEs
- **Invest in data, technology and analytics:** more than 150 of our engineers are working on delivering our global platform, as well as implementing our goal of 50% of all loan applications fully automated by 2020
- **Diversify funding sources:** launching two new institutional investor products in H1 2019: a US asset-backed bond product and a private direct lending fund in Continental Europe. These new products, together with our existing range of investor products, will increase the total investor addressable market by four times to approximately £2.5 trillion
- **Build a highly scalable global business:** expand international operations into Canada in H2 2019, opening up a ~£45 billion SME addressable market and helping creditworthy Canadian SMEs to access the finance they need to grow and stimulate job creation

Samir Desai CBE, CEO and co-founder, said: “2018 was another record-breaking year for Funding Circle. The business delivered against the guidance set out at the time of our IPO and it is especially pleasing to report revenue growth of 55%¹² with revenue of £141.9 million and a positive segment adjusted EBITDA of £7 million.”

“Our focus has always been on delivering an exceptional customer experience to both borrowers and investors, leading to strong and consistent repeat behaviour, and I am proud that, in 2018, 43% of our Group revenue came from existing customers.”

“As we look ahead to the rest of 2019, we remain focused on continuing our strategy of investing for growth and building on our number one market positions across the UK, US, Germany and the Netherlands.”

“We have exciting plans to enter the Canadian market later this year and to launch two new institutional investor products in 2019 that will significantly increase the universe of investors who can access Funding Circle loans.”

“Funding Circle is in a strong position financially and operationally, and we are confident of meeting our growth expectations for the year.”

Brexit

We recognise the increasing economic uncertainty caused by Brexit and we remain vigilant and prepared for the possible outcomes. Our international operations represent approximately 30% of our overall business and our UK business is not directly affected on a day-to-day operational basis by the prospect of the UK leaving the EU. However, we continue to monitor macroeconomic indicators for any possible impact on UK SMEs. Whilst current business insolvencies remain low, we regularly stress test the loanbooks in each of our geographies to ensure that investor returns would remain resilient in an economic downturn.

Outlook

In 2019, we expect to report revenues above £200 million with transaction yields remaining at 2018 exit levels, providing a year-on-year revenue benefit as lower average 2018 yields are lapped. Segment adjusted EBITDA margin (including costs associated with organic expansion into Canada) will approximately double with marketing spend as a percentage of revenue remaining broadly flat year-on-year.

Adjusted EBITDA losses will reduce from 2018 as a result of central costs falling to 20%+ of revenue, including investment in product development and a full year of plc related expenditure. Capitalised development spend, recorded as intangible fixed assets, will grow modestly.

This guidance is pre-new investor products and IFRS16. We expect additional incremental impact from new investor products and IFRS16 in 2019. New investor products are expected to add c.£2-3m to both revenue and adjusted EBITDA in 2019, and IFRS16 is expected to add a further c.£5m to both segment adjusted EBITDA and adjusted EBITDA, but minimal impact on loss before tax.

Analyst presentation

A presentation for analysts will be held today at 9:30am at Goldman Sachs, Peterborough Court, 133 Fleet Street, London EC4A 2BB. Please contact fundingcircle@TBCardew.com if you wish to attend.

¹² Revenue of £141.5 million (2017: £91.4 million) with year-on-year growth of 55% when property revenue of £0.4 million (2017: £3.1 million) is excluded

An on-demand replay will also be available on the Funding Circle website following the presentation.

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Funding Circle

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About Funding Circle:

Funding Circle (LSE: FCH) is a global SME loans platform, connecting SMEs who want to borrow with investors who want to lend in the UK, US, Germany and the Netherlands. Since launching in 2010, investors across Funding Circle's geographies - including more than 85,000 retail investors, banks, asset management companies, insurance companies, government-backed entities and funds - have lent more than £6 billion to over 60,000 businesses globally. Funding Circle is a member of the FTSE 250 Index.

Forward looking statements and other important information

This document contains forward looking statements, which are statements that are not historical facts and that reflect Funding Circle's beliefs and expectations with respect to future events and financial and operational performance. These forward looking statements involve known and unknown risks, uncertainties, assumptions, estimates and other factors, which may be beyond the control of Funding Circle and which may cause actual results or performance to differ materially from those expressed or implied from such forward-looking statements. Nothing contained within this document is or should be relied upon as a warranty, promise or representation, express or implied, as to the future performance of Funding Circle or its business. Any historical information contained in this statistical information is not indicative of future performance. The information contained in this document is provided as of the dates shown. Nothing in this document should be construed as legal, tax, investment, financial, or accounting advice, or solicitation for or an offer to invest in Funding Circle.

Business Review

Overview

2018 was a strong year for Funding Circle. Over the period, Group revenue (excluding property) for the year grew 55%, exceeding the c.50% guidance we provided at IPO, continuing our strategy of investing for growth.

In 2018, the Group saw loans under management growth of 55% and origination growth of 40% (excluding property).

	Loans under Management (as at 31 December)			Originations (year ended 31 December)		
	2018	2017	Change	2018	2017	Change
	£m	£m		£m	£m	
United Kingdom	2,183	1,489	47%	1,525	1,157	32%
United States	736	427	72%	596	396	51%
Developing markets	204	96	113%	165	78	112%
Total (excl. property)	3,123	2,012	55%	2,286	1,631	40%
Property (UK only)	25	95	(74%)	6	107	(94%)
Total	3,148	2,107	49%	2,292	1,738	32%

A segment adjusted EBITDA profit was recorded at a Group level for the first time with profitability in all three geographic segments improving year-on-year. We were pleased to deliver a 5% positive segment adjusted EBITDA margin (£7.0m), up from negative 4% (loss: £3.9 million) in 2017, and reducing overall adjusted EBITDA loss margin to negative 20%, down from negative 27% in 2017.

In October, we raised gross proceeds of £300 million through our IPO on the London Stock Exchange and were admitted into the FTSE 250 at the end of the year.

Our international business has continued to go from strength-to-strength and now represents approximately 30% of our overall business.

Operational highlights

Market Analysis

There has been a steady increase in consumer borrowing in the UK since 2013 as wages have struggled to keep up with the cost of living. This has led to an increase in the number of consumer insolvencies. We have not seen this trend replicated in SME borrowing as small businesses continue to be underserved by banks and small business insolvencies remain low across all our geographies.

Across the four markets Funding Circle operates in, the total addressable market is £470 billion. In the UK, our most mature geography, our share of market reached a high of 2.6% in 2018. However, we still remain less than a 1% share of the combined global addressable market and there is significant opportunity to increase this substantially over the medium term.

Funding Circle is the leading online SME loans platform. In 2018, we had record levels of lending across all of our geographies, helping SMEs globally to grow their business, support their local economies and create new jobs.

Loans under management as at the end of December 2018 were £3.15 billion, significantly higher than other online competitors. This includes captive networks, who are typically payments companies or ecommerce platforms that lend directly to their customers, and online balance sheet platforms that provide short-term high interest rate loans to SMEs.

In the UK, in 2018 net lending (gross lending minus repayments) to SMEs through Funding Circle was £723 million compared to £515 million for all UK high street banks combined. Net lending is the Bank of England's preferred measure of lending to SMEs as it highlights how much money is being directed into the real economy.

2020 Strategy

In 2018, we launched *FC2020*, our three year strategic plan. *FC2020* is based on four key areas of focus and we are pleased to report on the progress we have made over the last 12 months:

- **Drive a better borrower experience**
 - We are committed to delivering the best possible experience for small businesses. In 2018, we supported 27,000 SMEs to access finance, with borrowers being able to complete an application form in as little as 10 minutes and receive a decision within 24 hours – a significantly faster and more efficient process than traditional sources of finance. This enhanced experience leads to high satisfaction scores (measured as a Net Promoter Score) of between 80-90 in the UK and US, and strong repeat rates. On average, a borrower in the UK takes out two loans every 60 months at Funding Circle.
 - We are committed to engaging and influencing more SMEs and, in 2018, we launched our Captain Galactic TV advertising campaign and rolled the campaign out across outdoor advertising and radio. The initial results have been very pleasing with the number of online search terms for Funding Circle now exceeding the number of searches for the term “business loans” in the UK.
- **Invest in data, technology and analytics**
 - Our sophisticated technology, data and analytics drive a superior experience for both borrowers and investors. In 2018, our global marketplace platform went live in the US and we launched our global collections system. More than 150 of our engineers are working on delivering our global platform, as well as implementing our goal of 50% of all loan applications being fully automated by 2020.
 - Delivering our automation plans will only be possible with industry-leading proprietary credit models and the most sophisticated SME data lakes. Over the past 12 months, we have made significant progress in both areas, launching new proprietary bank account transaction models in both the UK and US and expanding our proprietary marketing and analytics SME data lake by approximately 1.2 billion data-points. This puts us on track to create the largest SME data lakes in each of our geographies by 2020.
- **Diversify funding sources**
 - Our goal is to attract a diverse and sustainable investor base across all our geographies. In 2018, 74% of lending came from existing investors, highlighting the attractive repeat dynamics of the platform. 28% of funding came from retail investors and the balance from institutional investors,

including banks, asset management companies, insurance companies, government-backed entities and funds. Returns for loans originated in 2018 were 5-8% on a net basis.

- As part of our goal of diversifying and deepening funding sources, in 2018 we saw a £200 million uptake of our new Innovative Finance ISA product and agreed new institutional investor deals with Alcentra (\$1 billion), Waterfall Asset Management (£1 billion) and the British Business Bank (£150 million). In 2019, we plan to launch two new institutional investor products to widen the universe of potential investors. These new products, together with our existing range of investor products, will increase the total investor addressable market by four times to approximately £2.5 trillion. These products will include:
 - A Funding Circle asset-backed Bond product in the US. The first stage of this new product is entering into a loan purchasing facility with a bank, which will begin in H1 2019. This product will provide access to investors who can only, or prefer to, purchase bonds. As a result of this new product, we are targeting an additional >\$500m of funding in the US over the next two years.
 - In H1 2019, we will also launch a private direct lending fund in Continental Europe, which will provide access to investors who cannot hold individual loans, but can invest in private funds. We are targeting an additional >€200m of funding in Germany and the Netherlands through this product over the next three years.
- **Build a highly scalable business**
 - We believe being a great place to work is an end in itself and it is our aim to be the best FinTech company to work for in the world. In 2018, we added 217 new roles, taking the total number globally to more than 1,000. We are proud that every employee at Funding Circle is a shareholder and we were delighted to be named as the 16th Best Company to Work For in The Sunday Times' 2018 annual survey. Our culture survey results also reflect the open and transparent culture we have built at Funding Circle, with 83% of Circlers recommending Funding Circle as a place to work, and 86% stating they are proud to work here.
 - In 2019, we plan to enter Canada, further expanding our addressable market. Canadian SMEs make up a significant portion of their economy but their share of funding has been consistently decreasing over the past years. We look forward to helping this underserved segment of creditworthy SMEs access the finance they need to grow and stimulate job creation.

Geographic highlights

United Kingdom

In Funding Circle's largest and most mature business unit, loans under management (excluding property) grew by 47% to £2.18 billion and originations (excluding property) rose by 32% to £1.53 billion with nearly 40% of these originations from loans to existing customers. Together, this loan growth delivered revenue (excluding property) of £93.2 million, with 49% generated from existing customers (2017: 45%). Revenue growth of 43% in excess of origination growth of 32% reflected higher transaction revenue yield and servicing revenue growth aligned to the change in loans under management.

The funding for these loans continued to come from a diversified range of sources, comprising c.40% retail with the balance from institutions, supranational banks and the Funding Circle SME Income Fund (FCIF), the FTSE listed fund.

During the year, we also saw a £200 million uptake of our new Innovative Finance ISA product and secured a number of funding deals, including a £1 billion funding commitment from Waterfall Asset Management and an additional £150 million of funding from the British Business Bank. In addition, European government and supranational entities continued to play a valuable role supporting UK small businesses. The European Investment Fund and KfW, the German development bank, announced their investment in a securitisation of loans originated by Funding Circle in May.

Finally, we were delighted to launch Captain Galactic onto people's screens with our new TV advertising campaign in autumn 2018. The campaign is focused on helping those who want to go further with their business and we have enjoyed the positive reaction so far.

United States

In the US, loans under management ended the year at £736 million, an increase of 72% with originations in the year up to £596 million, a rise of 51%. This strong growth was achieved despite policy changes that resulted in

a reduction in the amount of originations introduced by third-party referral partners and less originations from consolidation of existing loans by repeat borrowers. Revenues of £37.1 million rose 66%, with the amount earned from existing customers increasing to 35% of revenue (2017: 28%). Servicing yield was slightly lower than in 2017 but transaction yields rose steadily through 2017 and again in 2018 as fewer, low transaction yield, loan consolidations were originated. The US represented 26% of the Group's total revenue in 2018 (2017: 24%).

Funding in the year came primarily from institutional investors and FCIF with a small contribution from accredited retail investors. In August 2018, we announced a significant funding deal with Alcentra, an alternative fixed income specialist for BNY Mellon Investment Management, which committed to purchase up to \$1 billion in loans originated on the platform over a period of up to three years.

Since the start of 2019, we have confirmed a new partnership with the payments infrastructure company Stripe, helping connect even more US business owners with the affordable capital they need to go further.

Developing Markets

The Developing Markets' businesses of Germany and the Netherlands are in their third full year of operation, lagging the US by approximately two to three years in terms of maturity. Both countries delivered significant year-on-year growth, with increases in both loans under management and originations of over 100%. Revenue almost trebled in the year to £11.2 million, including other revenue of £2.6 million (2017: £0.3 million) and contributed 8% to Group revenues, twice that of the previous year.

Retail investors funded c.20% of Developing Markets originations with the rest from institutions, supranational banks and FCIF.

Segment results and adjusted EBITDA

i) Revenue

In 2018, revenue grew 50% to £141.9 million (2017: £94.5 million) and 55% to £141.5 million when property revenue is excluded.

	Revenue		
	2018 £m	2017 £m	Change
United Kingdom	93.2	65.3	43%
United States	37.1	22.3	66%
Developing markets	11.2	3.8	195%
Total (excl. property)	141.5	91.4	55%
Property (UK only)	0.4	3.1	(87%)
Total	141.9	94.5	50%

Revenue is mainly a function of transaction fees earned on originations and servicing income earned from servicing the loans under management.

The growth in revenue within each geography reflected a combination of price increases, increases in originations, changes in the mix of originated loans on which different fees are charged depending on the length of loan and risk bands, as well as the growth in servicing fees for loans under management.

ii) Segment adjusted EBITDA

The Group uses segment adjusted EBITDA as an alternative profit measure to manage the segments as this removes the impact of items that are not controllable at a segment level, including the centralised product development and corporate costs, as well as the depreciation and amortisation which arises principally on previously capitalised development spend.

For the first time, the Group was profitable at the geographic segment level, recording a segment adjusted EBITDA of £7.0m (2017: loss £3.9 million) and margin of 5% (2017: loss 4%).

	2018	2017	Change
	£m	£m	
United Kingdom	21.8	16.9	29%
United States	(7.4)	(10.9)	32%
Developing Markets	(7.4)	(9.9)	25%
Segment Adjusted EBITDA	7.0	(3.9)	279%

United Kingdom

Segment adjusted EBITDA increased 29% year-on-year. Segment margin of 23% was slightly lower than the prior year (2017: 25%), following a 3% point increase in marketing spend as a percentage of revenue related to investment in above-the-line marketing activities. Revenue from new borrowers returned a negative 16% segment margin, which included most of the marketing spend. This compared to a positive 64% in respect of revenue from existing customers, which accounted for nearly half of total revenue in 2018, where marketing expenditure is limited.

United States

Segment losses narrowed to £7.4 million from £10.9 million in 2017, an improvement in segment loss margin from 49% to 20%. This reflected cost growth of only 34% compared to revenue growth of 66% as the business demonstrated operational leverage as it scaled in each year. The segment margin on new borrower revenue was negative 48% reflecting the relatively high cost of direct marketing as the business matures, but the segment margin on existing revenue was positive 32%, reflecting the higher margin servicing revenue.

Developing Markets

A segment loss of £7.4 million in 2018 was 25% lower than in 2017 with the segment loss margin improving significantly to 66% (2017: 261%). This reflected the business growing significantly in scale and spreading its fixed cost base across a much larger volume of loan originations as well as generating increasing servicing revenue on a growing base of loans under management.

iii) Adjusted EBITDA

	2018 £m	2017 £m	Change
Segment Adjusted EBITDA	7.0	(3.9)	279%
Product development	(24.5)	(13.6)	(80%)
Corporate costs	(11.0)	(7.6)	(45%)
Adjusted EBITDA	(28.5)	(25.1)	(14%)
Depreciation and amortisation	(8.2)	(6.8)	(21%)
Share-based payments	(8.6)	(4.4)	(95%)
Foreign exchange loss	(0.4)	(0.6)	33%
Exceptional items	(5.9)	-	n/m
Operating loss	(51.6)	(36.9)	(40%)
Finance income	0.9	0.6	50%
Income tax	1.4	1.0	40%
Loss for the year	(49.3)	(35.3)	(40%)
Loss per share	(18.2p)	(14.0p)	(30%)

Product development costs of £24.5 million (2017: £13.6 million) relate to the people and overhead costs of running and maintaining the Group's IT platforms and the ongoing investment in the business, and is stated after development costs are capitalised onto the balance sheet as intangible fixed assets.

The growth in **corporate costs** from £7.6 million to £11.0 million included additional costs of operating as a listed company following the IPO.

Share-based payment costs of £8.6 million (2017: £4.4 million) shown within people costs below include the associated social security costs of £3.6 million (2017: £nil). During 2018, as Funding Circle neared IPO, the share awards were determined to be readily convertible assets and the Group was required to withhold and pay employment taxes to the tax authorities on the exercise of options.

Exceptional items include the sponsor and adviser costs associated with the IPO. The total costs associated with the IPO were £15.0 million, of which £5.9 million has been expensed to the income statement with the remainder offset against share premium as is required for costs directly associated with the primary offering.

Operating loss grew to £51.6 million (2017: £36.9 million) with the operating loss margin reducing to 36% compared with 39% in 2017.

The Group received a research and development **tax credit** of £1.4 million (2017: £1.0 million) but remains non-corporate tax paying given the losses incurred to date.

The **loss per share** was 18.2 pence (2017: loss per share 14.0 pence) based on a weighted average number of ordinary shares in issue of 271.3 million (2017: 251.9 million).

Profit and loss

	£m	£m	
Revenue			
Transaction revenue	112.9	76.5	48%
Servicing revenue	24.9	17.1	46%
Other revenue	4.1	0.9	n/m
	<u>141.9</u>	<u>94.5</u>	<u>50%</u>
Operating expenses			
People costs (incl. contractors)	(79.2)	(52.3)	(51%)
Marketing	(57.8)	(38.7)	(49%)
Data and technology	(9.2)	(6.5)	(42%)
Property related costs	(8.9)	(6.8)	(31%)
Depreciation and amortisation	(8.2)	(6.8)	(21%)
Other costs	(24.3)	(20.3)	(20%)
Exceptional items	(5.9)	-	n/m
	<u>(193.5)</u>	<u>(131.4)</u>	<u>(47%)</u>
Operating loss	<u>(51.6)</u>	<u>(36.9)</u>	<u>(40%)</u>

Revenue

Transaction revenue grew 48% to £112.9 million, driven by origination increases of 40% and a 12% increase in transaction yields to 4.93% (2017: 4.40%) following price rises.

Servicing revenue, which is a function of loans under management, grew 46% to £24.9 million. Loans under management (excluding property) increased by 55% to £3.12 billion, although the servicing yield reduced to 0.94% (2017: 0.98%).

Other revenue of £4.1 million (2017: £0.9 million) arose predominately from excess premium on financial guarantees given on past Developing Markets funding.

Operating expenses

Total operating costs increased during the year by 47% to £193.5 million (2017: £131.4 million) compared with growth in revenues (including property) of 50%. Excluding exceptional items of £5.9 million and social security costs of £3.6 million that arose due to the IPO, operating expenses increased by 40%.

People costs represent the Group's largest proportion of expenditure. People cost increases during the year of 44% (£27.6 million) were principally driven by the 36% growth in average headcount, increases in the average cost per head and the growth in share-based payments of £4.2 million.

	2018 £m	2017 £m	Change
People costs	90.0	62.4	44%
Less capitalised development spend	(10.8)	(10.1)	7%
People costs net of capitalised development spend	79.2	52.3	51%
Average headcount (incl. contractors)	1,004	739	36%
Year-end headcount (incl. contractors)	1,074	857	25%

Marketing overhead spend in the year rose to £57.8 million (2017: £38.7 million) as the Group continued its strategy of investing significantly in a diverse range of media channels to drive increased awareness of Funding Circle and grow originations. Overall Group spend remained at 41% of revenue (2017: 41%) as efficiencies and operational leverage were re-invested in above-the-line channels, mainly in the United Kingdom, including a new brand campaign in the autumn of 2018.

Data and technology costs consisting of software support, licenses and data feed expenses, grew by £2.7 million to £9.2 million driven primarily by headcount increases and growth in data consumption.

Property related costs increased by £2.1 million to £8.9 million following the opening of a new office in Denver, a replacement office in Amsterdam and no longer subletting a proportion of the main UK office following growth in London headcount.

Capital reorganisation

Prior to the IPO, the Group undertook a capital reduction in order to eliminate its deficit on distributable reserves. It then converted the different classes of ordinary shares and preferred shares into one class of ordinary shares.

Funding and liquidity

At 31 December 2018, the Group held cash and cash equivalents of £333.0 million, significantly increased from 2017 following net funds of £285.0 million raised through the Group's IPO. The Group maintains the majority of its cash in the UK with 95% of the Group's cash denominated in pounds sterling.

	2018 £m	2017 £m
Cash generated from operations	(29.9)	(23.6)
Tax received	1.4	1.0
Net cash outflow from operations	(28.5)	(22.6)
Net cash outflow from investing activities	(13.5)	(12.7)
<i>Free cash flow</i>	<i>(42.0)</i>	<i>(35.3)</i>
Net cash inflow from financing activities	285.6	81.9
Effect of foreign exchange	0.5	(1.0)
Movement in year	244.1	45.6
Cash and cash equivalents at the beginning of the year	88.9	43.3
Cash and cash equivalents at the end of the year	333.0	88.9

Cash generated from operations was £29.9 million, reflecting the adjusted EBITDA loss of £28.5 million and net working capital outflows.

Net cash generated from operating and investing activities is defined by the Group as "free cash flow". This is a key liquidity measure and is the amount of cash required to operate and develop the Group's platform each year. In 2018, this was a £42.0 million outflow (2017: £35.3 million outflow)

The Group continued to invest in technology during the year with £10.8 million (2017: £10.1 million) spent on internal software engineers to develop intangible fixed assets, £2.3 million on office refurbishment and improvement, and £0.2 million on non-cloud based software.

Interest earned on the Group's cash rose to £0.9 million (2017: £0.6 million) following increased funds from the IPO.

Net cash flows from financing activities of £285.6 million for the year ended 31 December 2018 related to funds raised through the IPO of £300.0 million, less sponsor and professional adviser fees totaling £15.0 million.

Additionally, the Group paid the £0.5 million dividend on the Series A preference shares which was triggered by the completion of the IPO.

Adoption of IFRS 16

From 1 January 2019, the Group will adopt the new leasing standard (IFRS 16) retrospectively. The impact will be to recognise a right to use asset and a lease liability. The adoption, when applied, will result in an increase to adjusted EBITDA of £5.1 million for 2018 with an increase in depreciation of £4.3 million.

Subsequent events

There have been no subsequent events since the balance sheet date.

Samir Desai
Chief Executive Officer

Andrew Learoyd
Chairman

Statement of Directors' Responsibilities

The Funding Circle Report and Accounts for year end 31 December 2018 contains a responsibility statement in the following form:

Each of the Directors confirm that, to the best of their knowledge:

- the Group and Company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group and profit of the Company; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each of the Directors in office as at the date of the approval of the Annual Report and Accounts:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board

Samir Desai, Chief Executive Officer

Sean Glithero, Chief Financial Officer

7 March 2019

Forward looking statements

The financial information contained in this announcement has not been audited. Certain statements made in this announcement are forward-looking statements. Undue reliance should not be placed on such statements, which are based on current expectations and are subject to a number of risks and uncertainties that could cause actual results to differ materially from any expected future results in forward-looking statements.

The Company accepts no obligation to publicly revise or update these forward-looking statements or adjust them to future events or developments, whether as a result of new information, future events or otherwise, except to the extent legally required.

Consolidated statement of comprehensive income

for the year ended 31 December

	Note	2018 £m	2017 £m
Revenue	3	141.9	94.5
Operating expenses	4	(193.5)	(131.4)
Operating loss		(51.6)	(36.9)
Finance income		0.9	0.6
Loss before taxation		(50.7)	(36.3)
Income tax	5	1.4	1.0
Loss for the year		(49.3)	(35.3)
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit and loss:			
Exchange differences on translation of foreign operations		2.4	(1.9)
Total comprehensive loss for the year		(46.9)	(37.2)
Total comprehensive loss attributable to:			
Owners of the parent		(46.9)	(37.2)
Loss per share			
Basic and diluted loss per share	6	(18.2p)	(14.0p)

Consolidated statement of financial position

at 31 December

	Note	2018 £m	2017 £m
Non-current assets			
Goodwill	8	42.3	41.3
Intangible assets		21.5	16.2
Property, plant and equipment		5.3	4.7
Investments	9	0.3	0.3
		<hr/>	<hr/>
		69.4	62.5
Current assets			
Investments	9	4.7	3.1
Trade and other receivables		23.0	13.4
Cash and cash equivalents		333.0	88.9
		<hr/>	<hr/>
		360.7	105.4
		<hr/>	<hr/>
Total assets		430.1	167.9
		<hr/> <hr/>	<hr/> <hr/>
Current liabilities			
Trade and other payables		23.1	12.0
Short-term provisions	10	3.8	2.1
		<hr/>	<hr/>
		26.9	14.1
Non-current liabilities			
Long-term provisions	10	0.8	0.4
		<hr/>	<hr/>
Total liabilities		27.7	14.5
		<hr/> <hr/>	<hr/> <hr/>
Equity			
Share capital		0.3	0.2
Share premium account		291.8	278.0
Foreign exchange reserve		15.7	13.3
Share options reserve		6.0	13.9
Retained earnings / (accumulated losses)		88.6	(152.0)
		<hr/>	<hr/>
Total equity		402.4	153.4
		<hr/> <hr/>	<hr/> <hr/>
Total equity and liabilities		430.1	167.9
		<hr/> <hr/>	<hr/> <hr/>

Consolidated statement of changes in equity

for the year ended 31 December

	Note	Share capital £m	Share premium account £m	Foreign exchange reserve £m	Share options reserve £m	Retained earnings / (accumulated losses) £m	Total equity £m
Balance at 1 January 2017		0.2	196.0	15.2	9.5	(116.7)	104.2
Loss for the year		-	-	-	-	(35.3)	(35.3)
Other comprehensive (loss)/income							
Exchange differences on translation of foreign operations		-	-	(1.9)	-	-	(1.9)
Transactions with owners							
Issue of share capital		-	82.0	-	-	-	82.0
Employee share schemes – value of employee services		-	-	-	4.4	-	4.4
Balance at 31 December 2017		0.2	278.0	13.3	13.9	(152.0)	153.4
IFRS 9 expected credit loss restatement		-	-	-	-	(1.2)	(1.2)
Balance at 1 January 2018		0.2	278.0	13.3	13.9	(153.2)	152.2
Loss for the year		-	-	-	-	(49.3)	(49.3)
Other comprehensive income/(loss)							
Exchange differences on translation of foreign operations		-	-	2.4	-	-	2.4
Transactions with owners							
Transfer of share option costs		-	-	-	(13.0)	13.0	-
Capital reduction		-	(278.1)	-	-	278.1	-
Issue of share capital		0.1	301.0	-	-	-	301.1
Equity issuance costs		-	(9.1)	-	-	-	(9.1)
Employee share schemes – value of employee services		-	-	-	5.1	-	5.1
Balance at 31 December 2018		0.3	291.8	15.7	6.0	88.6	402.4

Consolidated statement of cash flows

for the year ended 31 December

	Note	2018		2017	
		£m	£m	£m	£m
Net cash outflow from operating activities	7		(28.5)		(22.6)
Investing activities					
Purchase of intangible assets		(11.0)		(10.7)	
Purchase of property, plant and equipment		(2.3)		(1.3)	
Investment in loan securities		(1.1)		(1.3)	
Interest received		0.9		0.6	
Net cash outflow from investing activities			(13.5)		(12.7)
Financing activities					
Proceeds on issue of preferred shares		-		82.0	
Preferred share issue costs		-		(0.1)	
Preferred dividend payment		(0.5)		-	
Proceeds on the issue of Ordinary shares on IPO		300.0		-	
Payment of IPO costs		(15.0)		-	
Proceeds from the exercise of share options		1.1		-	
Net cash inflow from financing activities			285.6		81.9
Net increase in cash and cash equivalents			243.6		46.6
Cash and cash equivalents at the beginning of the year			88.9		43.3
Effect of foreign exchange rate changes			0.5		(1.0)
Cash and cash equivalents at the end of the year			333.0		88.9

Notes

1. Basis of preparation

The results for the year ended 31 December 2018 have been extracted from the audited financial statements of Funding Circle Holdings plc. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and IFRIC interpretations as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared on a going concern basis.

The financial information in this statement does not constitute statutory accounts within the meaning of s434 of the Companies Act 2006. The statutory accounts for the year ended 31 December 2018, on which the auditors have given an unqualified audit report, have not yet been filed with the Registrar of Companies.

Except as described below, the principal accounting policies applied in the preparation of the consolidated financial statements are consistent with those of the annual financial statements for the year ended 31 December 2017, as described in those financial statements.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

2. New accounting standards and interpretations

The Group has adopted the following new and amended IFRSs from 1 January 2018 prospectively. There has not been a material impact to the Group when adopting these new and amended IFRSs:

- IFRS 9 – Financial instruments: Classification and measurement. The impact is shown below.
- IFRS 15 – Revenue from contracts with customers. The implementation of IFRS 15 has not resulted in any impact to revenue

The Group did not early adopt any of IFRS 9 in previous periods and, as permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures.

There have been no adjustments to the carrying value of financial assets and liabilities at the date of transition that have been recognised in the opening retained earnings, save the expected credit loss provision ("ECL") relating to financial guarantee contracts:

	Performing: 12-month ECL	Underperforming: Lifetime ECL	Non- performing: Lifetime ECL	Total
	£m	£m	£m	£m
Expected credit loss provision as at 31st December 2017	0.4	0.3	0.6	1.3
Amounts restated through opening retained earnings	1.2	-	-	1.2
Expected credit loss provision as at 1st January 2018	1.6	0.3	0.6	2.5

3. Segmental information

IFRS 8 Operating segments requires the Group to determine its operating segments based on information which is provided internally. Based on the internal reporting information and management structures within the Group, it has been determined that there are three geographic operating segments supported by two centralised cost segments. Reporting on this basis is reviewed by the Global Leadership Team ('GLT') which is the chief operating decision-maker ('CODM'). The GLT is made up of the Executive Directors and Key Management and is responsible for the strategic decision-making of the Group.

The five reportable segments consist of the three geographic segments: United Kingdom, United States and Developing Markets; plus the two centralised cost segments: global product development and corporate costs. The Developing Markets segment includes the Group's less mature marketplaces in Germany and The Netherlands.

The GLT measures the performance of each segment by reference to a non-GAAP measure, Adjusted EBITDA which is defined as profit/loss before finance income and costs, taxation, depreciation and amortisation ("EBITDA") and additionally excludes share-base payment charges and associated social security costs, foreign exchange and exceptional items (comprising IPO costs). Together with operating profit/loss, adjusted EBITDA is a key measure of Group performance as it allows better interpretation of the underlying performance of the business.

Capital expenditure is predominantly managed centrally and depreciation and amortisation are not allocated to individual segments for decision making and accordingly has not been allocated to segments.

	2018	2017
	£m	£m
Revenue from continuing operations		
United Kingdom	93.6	68.4
United States	37.1	22.3
Developing Markets	11.2	3.8
Total revenue	141.9	94.5

During 2017 Management took the decision to cease originating loans to property developers. This activity only took place in the United Kingdom and to aid interpretation of revenue trends the following analysis is provided:

	2018	2017
	£m	£m
Supplementary analysis:		
Other business loans	93.2	65.3
Property loans	0.4	3.1
United Kingdom revenue	93.6	68.4

Adjusted EBITDA and operating loss

	2018	2017
	£m	£m
United Kingdom	21.8	16.9
United States	(7.4)	(10.9)
Developing Markets	(7.4)	(9.9)
Segment adjusted EBITDA	7.0	(3.9)
Product development	(24.5)	(13.6)
Corporate costs	(11.0)	(7.6)
Adjusted EBITDA	(28.5)	(25.1)
Depreciation and amortisation	(8.2)	(6.8)
Share-based payments and social security costs	(8.6)	(4.4)
Foreign exchange loss	(0.4)	(0.6)
Exceptional items	(5.9)	-
Operating loss	(51.6)	(36.9)

Revenue by type

In addition to the segmental reporting of revenue, the table below sets out revenue by its type:

	2018	2017
	£m	£m
Transaction revenue	112.9	76.5
Servicing revenue	24.9	17.1
Other revenue	4.1	0.9
Total revenue	141.9	94.5

4. Operating expenses

	2018	2017
	£m	£m
Depreciation	2.1	1.6
Amortisation	6.1	5.2
Impairment of intangible assets	-	0.5
Rental income and other recharges	(0.8)	(1.2)
Operating lease rentals		
- Other assets	0.1	0.1
- Land and buildings	5.2	4.8
Employment costs (including contractors)	79.2	52.3
Marketing costs (excluding employment costs)	57.8	38.7
Data and technology	9.2	6.5
Expected credit losses	2.6	-
Exceptional items	5.9	-
Foreign exchange loss	0.4	0.6
Other expenses	25.7	22.3
Total operating expenses	193.5	131.4

Exceptional items relate to advisor costs associated with the IPO. IPO costs of £5.9 million recognised in the profit and loss represent the portion of directly attributable costs relating to the secondary shares traded on admission and other costs attributable to the listing. Further IPO costs of £9.1 million have been deducted from share premium.

5. Taxation

	2018	2017
	£m	£m
Current tax		
Research and development tax credit	(1.4)	(1.0)
Total current tax	(1.4)	(1.0)
Total tax credit	(1.4)	(1.0)

The Group has unrelieved tax losses of £182.3 million (2017: £130.0 million) that are available for offset against future taxable profits. The Group has not recognised a deferred tax asset in respect of these losses as there is not sufficient visibility of suitable profits being generated to utilise these losses.

6. Loss per share

	2018 £m	2017 £m (restated)
Loss attributable to owners of the parent	(49.3)	(35.3)
Weighted average number of ordinary shares in issue (million)	271.3	251.9
Basic and dilutive loss per share	(18.2p)	(14.0p)

The comparative basic and diluted loss per share have been restated as the previous calculation had incorrectly used total comprehensive loss for the year rather than loss for the year.

7. Cash outflow from operations

	2018 £m	2017 £m
Loss before taxation	(50.7)	(36.3)
<i>Adjustments for:</i>		
Depreciation of property, plant and equipment	2.1	1.6
Amortisation of intangible assets	6.1	5.2
Impairment of intangible assets	-	0.5
Interest receivable	(0.9)	(0.6)
Non-cash employee benefits expense – share based payments and associated social security costs	8.1	4.4
IPO costs re-allocated to financing activities	5.9	-
Tax credit received	1.4	1.0
Movement in provisions	0.2	-
<i>Changes in working capital:</i>		
Movement in trade and other receivables	(9.3)	(2.9)
Movement in trade and other payables	8.6	4.5
Net cash outflow from operating activities	(28.5)	(22.6)

8. Goodwill

	£m
Cost and carrying amount	
At 1 January 2017	41.4
Exchange differences	(0.1)
At 31 December 2017	<u>41.3</u>
At 1 January 2018	41.3
Exchange differences	1.0
At 31 December 2018	<u><u>42.3</u></u>

	2018	2017
	£m	£m
Funding Circle USA, Inc.	11.7	11.0
Funding Circle CE GmbH	30.6	30.3
	<u>42.3</u>	<u>41.3</u>

9. Investments in loan securities

	2018	2017
	£m	£m
Investment in loan securities under cure period	4.7	3.1
Investment in loan securities	0.3	0.3
	<u>5.0</u>	<u>3.4</u>

10. Provisions

	Dilapidation £m	Credit loss provision £m	Other provisions £m	Total £m
At 1 January 2017	0.4	0.1	0.6	1.1
Additional provision	-	2.4	0.2	2.6
Amount utilised	-	(1.2)	-	(1.2)
At 31 December 2017	0.4	1.3	0.8	2.5
IFRS 9 opening balance restatement	-	1.2	-	1.2
<i>Charged / (credited) to income statement:</i>				
Additional provision	0.4	2.6	1.0	4.0
Amount utilised	-	(2.0)	(1.1)	(3.1)
At 31 December 2018	0.8	3.1	0.7	4.6

11. Related party transactions

In previous years the Group identified Funding Circle SME Income Fund Limited ("FCIF") as a related party by way of common directorship for Samir Desai. Samir Desai resigned as a director of FCIF on 18 May 2017 and therefore from 2018 FCIF have ceased to be classified as a related party of the Group.

12. Contingent liabilities

There are currently no contingent liabilities expected to have a material adverse financial impact on the Group's consolidated financial statements.