Monday, 11 March 2019

Orchard Funding Group PLC

("Orchard Funding Group" or the "company" or the "group")

Half Year Results

For the six months ended 31 January 2019

Orchard Funding Group, the finance group which specialises in insurance premium finance and the professions funding market, is pleased to announce its unaudited results for the six months ended 31 January 2019.

Highlights

- Revenue grew 3.75% from £2.67m in the six months to 31 January 2018 to £2.77m in the six months to 31 January 2019.
- The loan book grew by 9.65% from £28.80m for the six months to 31 January 2018 to £31.58m in the six months to 31 January 2019.
- Group profit before tax has increased to £1.18m for the six months to 31 January 2019 from £1.00m for the six months to 31 January 2018; on a like for like basis, an extra £0.18m, an 18.19% improvement.
- Earnings per share grew in the period by 19.15% over the comparative half year to 31 January 2018 from 3.76p per share to 4.48p per share.
- The group lent £36.38m to clients in the 6 months to 31 January 2019 an increase of 5.91% over the equivalent six months last year.
- Since 31 January 2019, Barclays Bank has agreed to increase our facility to £17m, confirming the confidence that they have in the group.
- Conister Bank has renewed our £2m facility.
- Our application for a banking licence is progressing in a satisfactory manner.
- The board is again recommending an interim dividend of 1 pence per share (31 January 2018: 1 pence).

Ravi Takhar, Chief Executive Officer of the company, stated:

"We continue to grow in a conservative and controlled manner. The market is full of existing and new sources of liquidity including challenger banks and debt funds and this is therefore a satisfactory achievement by the group. Our bank application continues to move forward in a positive manner and we have managed to control our costs on the application with the prudent use of advisors.

Our new in-house IT system continues to deliver a market leading software to our market.

We have a great team of highly experienced and loyal staff who continue to deliver excellent service to our customers.

We are looking forward to an exciting year for the group and the continued growth and development of our business."

For further information, please contact:

Orchard Funding Group PLC
Ravi Takhar, Chief Executive Officer +44 (0)1582 346 248

Liberum (Nomad and Broker)
Investment banking
Neil Patel +44 (0)20 3100 3222
Richard Bootle
Laura Hamilton

For Investor Relations please go to: www.orchardfundinggroupplc.com

Chairman's statement

I am pleased to report on the group's results for the half year ended 31 January 2019.

The group continued to grow its new lending and loan book strongly in the first half of the current financial year. Lending has achieved approximately 6% growth and the loan book has increased by almost 10% compared to the six month period to 31 January 2018. We have stepped up new business sales activity and have recently increased the size of our sales force. Indeed, we are actively looking to expand further our sales capacity. We have a strong capability to process short term loans efficiently, our processing platform is scalable and we are confident in our operational capability to handle further growth in lending volumes. Accordingly we continue to look at adjacent sectors (as we did with school fees funding) to complement our lending in insurance premium financing and professional fees.

We have a small market share in both our core markets and we compete with some very large lenders. However, our personal and distinct customer service sets us apart and we intend to continue with this personal touch. The insurance premium financing market continues to grow strongly and we expect to see further growth in our lending over the remainder of the financial year.

We have a strong capital position and adequate external funding lines through Barclays and Conister Bank to finance the expected growth. However, we continue to review our liquidity strategies including our application to the Prudential Regulation Authority (PRA) for the company to secure a banking licence which would allow us much greater flexibility to raise funding in the future. As we have reported previously, a banking licence has been a long-standing strategic goal for Orchard but, in keeping with our cautious approach to growth, we have made sure we understand the costs and the risks associated with being a bank. We are clear it is the right thing for us to do, so we are progressing this much more strongly now.

Over the past year, we have taken steps to prepare for the issuance of a banking licence through the appointment of additional personnel who understand the regulatory environment. We will continue to add people as required in order to provide the required assurance to the banking regulator and to our shareholders.

I have confidence in the management team and the company's ability to expand given its extremely high quality loan book. We are encouraged by the potential for growing the new business lending, the loan book, interest income and profits whilst maintaining the quality of the loan book.

Current trading and outlook

We are pleased with the new business momentum which has continued to build in the third quarter and there has been no material change to the underlying performance of the business since the start of the current financial year.

I believe there remains considerable scope to pursue our strategic priorities by developing the business model organically and pursuing attractive acquisition opportunities, if and when something arises which would build shareholder value.

Gary Jennison
Chairman

Chief Financial Officer's summary

The figures for the six month period ended 31 January 2019 demonstrate growth over the equivalent half year in 2017/2018 - in lending, turnover and profitability.
Gross revenue is up 3.75% compared to the six months to 31 January 2018.

Profit before tax has increased by 18.19% over the same period, mainly as a result of lower costs in this half year.

Key Performance Indicators (KPIs)

KPIs for the group continue to revolve around good quality lending, evidenced by a sound underwriting process and multiple layers of credit protection. However, like all similar businesses, lending is not risk free.

The group still lends into insurance premium funding and funding for professionals but has added school fee, home report and leisure lending. Each new area is only taken on when management is happy that it fits with our current model. It is then monitored carefully and if it is not performing against target it will not be continued.

All these areas are managed on a similar basis, carry similar risks and rewards and need to comply with the same regulations. They are therefore combined for reporting purposes.

The board has identified the following financial KPIs:

- Lending.
- Gross rate on loans made.
- Borrowing and owners' equity.
- Cost of borrowing.

These are key because profitable lending drives what we do and the availability and cost of funding has a serious impact on our profitability and therefore stakeholder protection and return.

Group	**6 months to 31 January 2019**	**6 months to 31 January 2018**	**Year to 31 July 2018**
Loans made in the period (£m)	£36.38	£34.35	£68.73
Average gross rate on loans made	6.22%	6.54%	6.29%
Level of borrowing (£m)	£16.01	£14.87	£16.06
Equity (£m)	£14.57	£13.55	£14.04
Cost of borrowing (£m)	£0.28	£0.24	£0.45

The average gross rate on loans made is slightly lower for this half year than the equivalent in the previous period. As was stated in the financial statements for the year ended 31 July 2018, the market for professional fee finance slowed last year and has not substantially picked up. Coupled with an aggressive response from our competitors, we have had to adjust pricing to a degree to increase our lending.

Cost control has been good for the period. Overall costs are lower (by £123,000) compared to the six months to 31 January 2018. Within the total cost reduction are certain costs which have risen. Staff costs are the biggest increase as additional employees have had to be taken on to advance the business and further progress the banking licence. This accounts for a £60,000 increase in costs. There has been no need to make further provision for impaired debts during this period and this has been the biggest cost reduction.

With International Financial Reporting Standard 9 (IFRS9) becoming mandatory for the first time for the financial statements for the year ended 31 July 2019, entities have needed to assess a variety of factors to establish if there may be impairment of debts. In addition, as part of the bank application process, we are required to assess and measure a number of risks, including credit risk. As a result of this assessment the board have decided that no additional provision needs to be made in respect of impaired debts for the current half year period. In the equivalent half year to 31 January 2018 a provision of £0.18m was considered reasonable.

Since 31 January 2019, Barclays Bank plc has agreed to increase our banking facility from £15m to £17m. At 31 January 2019 all of the £15m was in use (£15m and 92% respectively at 31 January 2018). There is also a facility with Conister Bank of £2m of which £1m (50%) was utilised during the period (£1 million and 25% in the period to 31 January 2018).

With this additional availability of bank funding, together with our own net assets of £14.56m at 31 January 2019 (£13.54m at 31 January 2018), the group is well set for continued growth.

The board is pleased to declare an interim dividend of 1 pence per share to be paid on 28 June 2019 to shareholders on the register at 14 June 2019, with an associated ex-dividend date of 13 June 2019.

Liam McShane
Chief Financial Officer

Consolidated income statement

	Notes	6 Months to 31 January 2019 £000	6 Months to 31 January 2018 £000	Year to 31 July 2018 £000
Continuing operations				
Revenue	2	2,769	2,670	5,174
Finance costs	2	(283)	(240)	(452)
Other operational costs	2	(38)	(38)	(83)
Gross profit		2,448	2,392	4,639
Administrative expenses	2	(1,272)	(1,397)	(2,746)
Operating profit before income tax		1,176	995	1,893
Income tax expense	3	(222)	(191)	(381)
Profit for the period		954	804	1,512
Other comprehensive income		-	-	-
Total comprehensive income for the period attributable to the owners of the parent		954	804	1,512
Earnings per share attributable to the owners of the parent during the period (pence)				
Basic and diluted	4	4.48	3.76	7.08

Consolidated statement of financial position

	At 31 January 2019	At 31 January 2018	At 31 July 2018
	£000	£000	£000
Assets			
Non-current assets			
Property, plant and equipment	50	68	59
Intangible assets	51	59	42
Trade and other receivables	15	21	18
	116	148	119
Current assets			
Trade and other receivables	31,719	28,899	31,084
Cash and cash equivalents:			
Bank balances and cash in hand	1,696	2,481	1,286
	33,415	31,380	32,370
Total assets	33,531	31,528	32,489
Equity and liabilities			
Equity attributable to the owners of the parent			
Called up share capital	214	214	214
Share premium	8,692	8,692	8,692
Merger reserve	891	891	891
Retained earnings	4,767	3,746	4,240
Total equity	14,564	13,543	14,037
Liabilities			
Non-current liabilities			
Borrowings	6	53	49
Deferred tax	4	7	5
	10	60	54
Current liabilities			
Trade and other payables	2,384	2,628	2,051
Borrowings	16,006	14,821	16,008
Tax payable	567	476	339
	18,957	17,925	18,398
Total liabilities	18,967	17,985	18,452
Total equity and liabilities	33,531	31,528	32,489

Consolidated statement of changes in equity

	Called up Share capital £000	Retained earnings £000	Share premium £000	Merger reserve £000	Total Equity £000
Balance at 1 August 2017	214	3,369	8,692	891	13,166
Changes in equity					
Total comprehensive income	-	804	-	-	804
Transactions with owners:					
Dividends paid	-	(427)	-	-	(427)
Balance at 31 January 2018	214	3,746	8,692	891	13,543
Changes in equity					
Total comprehensive income	-	708	-	-	708
Transactions with owners:					
Dividends paid	-	(214)	-	-	(214)
Balance at 31 July 2018	214	4,240	8,692	891	14,037
Changes in equity					
Total comprehensive income	-	954	-	-	954
Transactions with owners:					
Dividends paid	-	(427)	-	-	(427)
Balance at 31 January 2019	214	4,767	8,692	891	14,564

The merger reserve arose through the formation of the group on 23 June 2015 using the consolidation method which treats the merged companies as if they had been combined throughout the current and comparative accounting periods. The accounting principles for these combinations gave rise to a merger reserve in the consolidated statement of financial position, being the difference between the nominal value of new shares issued by the company for the acquisition of the shares of the subsidiaries and each subsidiary's own share capital.

The share premium account arose on the issue of shares on the IPO on 1 July 2015 at a premium of 95p per share. Costs directly attributable to the issue of shares have been deducted from the account.

Consolidated statement of cash flows

	6 Months to 31 January 2019 £000	6 Months to 31 January 2018 £000	Year to 31 July 2018 £000
Cash flows from operating activities:			
Profit before tax	1,176	995	1,893
Adjustment for depreciation and amortisation	35	31	56
Hire purchase interest	-	1	2
	1,211	1,027	1,951
Increase in trade and other receivables	(632)	(373)	(2,556)
(Decrease)/increase in trade and other payables	334	(555)	(1,131)
	913	99	(1,736)
Income tax received/(paid)	4	5	(323)
Net cash generated/(absorbed) by operating activities	917	104	(2,059)
Cash flows from investing activities			
Purchases of property, plant and equipment	-	(1)	(1)
Expenditure on software development	(35)	(5)	(5)
Net cash absorbed by investing activities	(35)	(6)	(6)
Cash flows from financing activities			
Dividends paid	(427)	(427)	(641)
Net proceeds from borrowings	-	1,088	2,276
Borrowings repaid	(45)	(6)	(12)
Net cash (absorbed)/generated by financing activities	(472)	655	1,623
Net increase in cash and cash equivalents	410	753	(442)
Cash and cash equivalents at the beginning of the period	1,286	1,728	1,728
Cash and cash equivalents at the end of period	1,696	2,481	1,286

Cash and cash equivalents consists of bank balances.

Notes to the financial statements

1. General information

Orchard Funding Group PLC ("the company") and its subsidiaries (together "the group") provide funding and funding support systems to insurance brokers and professional firms. The group operates in the United Kingdom. The company is a public company listed on AIM, a market operated by the London Stock Exchange, incorporated and domiciled in the United Kingdom. The address of its registered office is 721 Capability Green, Luton, Bedfordshire LU1 3LU.

The condensed consolidated interim financial information for the six months ended 31 January 2019 has been prepared in accordance with the presentation, recognition and measurement requirements of applicable International Financial Reporting Standards adopted by the European Union ('IFRS') except that the group has not applied IAS 34, Interim Financial Reporting, which is not mandatory for UK groups listed on AIM, in the preparation of the condensed consolidated interim financial information.

The financial information does not include all of the information required for full annual financial statements and should be read in conjunction with the financial statements of the group for the year ended 31 July 2018 which are prepared in accordance with IFRS.

The accounting policies used in the preparation of condensed consolidated interim financial information for the six months ended 31 January 2019 are in accordance with the presentation, recognition and measurement criteria of IFRS and are consistent with those which are expected to be adopted in the annual statutory financial statements for the year ending 31 July 2019. A number of IFRSs and Interpretations have been endorsed by the EU that will apply for the first time in the period to 31 July 2019 and, although they have been adopted by the group, only IFRS 9 has had a material impact on the group's financial statements. Under the expected credit loss (ECL) model required in the standard, no further provision is required to be made in these financial statements for impaired debts. In the six months ended 31 July 2018, provision was made for debts amounting to approximately 0.63% of trade receivables. In assessing potential provisions, the group has adopted the simplified approach which requires the entity to recognise a loss allowance based on lifetime ECLs at each reporting date, right from origination. This is appropriate as all receivables are within the scope of IFRS15. The adoption of IFRS 15 has not resulted in any changes to the recognition of revenue.

The group's 2018 annual report provides full details of significant judgements and estimates used in the application of the group's accounting policies. There have been no significant changes to these judgements and estimates during the period.

The financial information included in this document is unaudited and does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. The comparative figures for the financial year ended 31 July 2018 are the group's statutory accounts for that financial year. Those accounts have been reported on by the company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

2. Segmental reporting

The group operates wholly within the United Kingdom, therefore there is no meaningful information that could be given on a geographical basis.
In the past, the group has reported in terms of there being two core areas - insurance premium funding and funding for professionals. The group still lends into insurance premium funding and funding for professionals but has added, in this reporting period, school fee, property and leisure lending.

The board decided some time ago that there is very little to be gained in separating its lending by product line for reporting purposes. They meet the criteria for aggregation - the underwriting process, management of the loans, distribution channels, risks and rewards are similar for both areas. The customer base does differ (we have insurance brokers, professional firms, sports clubs and schools) but our lending is still via a guarantor partner.

2. Segmental reporting

6 months ended 31 January 2019

	Total	**Central**	**Funding**
	£000	**£000**	**£000**
Revenue	2,769	-	2,769
Interest payable	(283)	-	(283)
Other operational costs	(38)	-	(38)
Administrative expenses	(1,272)	(323)	(949)
Operating profit/(loss) before tax	1,176	(323)	1,499

6 months ended 31 January 2018

	Total	**Central**	**Funding**
	£000	**£000**	**£000**
Revenue	2,670	-	2,670
Interest payable	(240)	-	(240)
Other operational costs	(38)	-	(38)
Administrative expenses	(1,397)	(305)	(1,092)
Operating profit/(loss) before tax	995	(305)	1,300

Year ended 31 July 2018

	Total	**Central**	**Funding**
	£000	**£000**	**£000**
Revenue	5,174	-	5,174
Interest payable	(452)	-	(452)
Other operational costs	(83)	-	(83)
Administrative expenses	(2,746)	(658)	(2,088)
Operating profit/(loss) before tax	1,893	(658)	2,551

3. Taxation

The tax assessed for the period differs from the main corporation tax rates in the UK (19% for the half years to 31 January 2019 and 2018 and for the full year to 31 July 2018) because of the effect of items disallowed for tax and accelerated capital allowances.

4. Earnings per share

Earnings per share are based on the total comprehensive income shown above, for each relevant period, and the weighted average number of ordinary shares in issue during each period. For all three periods, this was 21,354,167. There are no options or other factors which would dilute these, therefore the fully diluted earnings per share is identical.