Orchard Funding Group PLC

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

Half Yearly Results

For the six months ended 31 January 2018

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 2018.

Highlights

- The group lent £34.35 million for the six months to 31 January 2018; on a like for like basis, an extra £3.24 million of lending over the six months to 31 January 2017 and a 10.4% improvement.
- Group turnover has increased by 25.9% from £2.12 million in the six months to 31 January 2017, to £2.67 million in the six months to 31 January 2018.
- Group profit before tax was £0.99 million, up by 22.2% on the six months to 31 January 2017.
- The board is again recommending an interim dividend of 1 pence per share (31 January 2017: 1 pence).

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

"Orchard continues to perform in a consistent and positive manner. The leading players in our market continue to compete aggressively with our offering, but we are still standing firm and continuing to grow. We have a number of exciting new initiatives including the launching of new product lines in the school fees market, property market and leisure market, which we intend to launch over the coming year. Our bank licence application process is moving forward in a positive manner and we have appointed a new Chairman, Gary Jennison, the former CEO of Secured Trust Bank, to add to the strength of our existing team. I am also delighted to confirm that we have created and implemented new state of the art IT, and this will further enhance our competitiveness going forward. We continue to offer outstanding and personal service to our clients and look forward to the continued and consistent growth of our business."

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Chairman's statement

I am pleased to report on my first set of results since I was appointed on 1 November 2017. The group has delivered on some of its potential by growing its new lending and its loan book strongly in the first half of the current financial year. Both measures have shown double digit growth over 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 and, indeed, 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 such as school fees funding to complement our lending in insurance premium financing and professional fees.

We have a very 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 Trust to finance the expected growth. However, we continue to review our liquidity strategies including the possible 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. We are confident that the PRA will welcome our application later this year. As we have reported two years ago, 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 now 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 agreed to join the board as 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 as the third quarter progresses and there has been no material change to the underlying performance of the business since the start of the second half of the financial year ending 31 July 2018.

Our long term strategic objective is to have a banking licence to have flexibility to raise funding in the future, I believe there remains considerable scope to pursue our strategic priorities by developing the business model organically and pursuing attractive acquisition opportunities.

Gary Jennison
Chairman

Chief Financial Officer's summary

The figures for the six month period ended 31 January 2017 demonstrate growth over the equivalent half year in 2016/2017 - in lending, turnover and profitability.

Gross revenue is up 25.9% compared to the six months to 31 January 2017. Profit before tax has likewise increased by 22.2%.

The bank application process announced last year continues to move forward in a positive manner.

Key Performance Indicators (KPIs)

KPIs for the group 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.

In the past, the group has reported in terms of there being two core areas - insurance premium funding and funding for professionals. The nature of these is so similar that any segregation would not give meaningful information to users of the financial statements. Both areas are managed on a similar basis, carry similar risks and rewards and need to comply with the same regulations.

The board has identified the following financial KPIs:

- Lending.
- Gross rate on loans made.
- Borrowing and other capital resources.
- Cost of borrowing.

Group	6 Months to 31 January 2018	6 Months to 31 January 2017	Year to 31 July 2017
Loans made in the year (£m)	£34.35	£31.11	£63.35
Average gross rate on loans made	6.54%	5.75%	6.06%
Level of borrowing (£m)	£14.87	£12.16	£13.79
Own capital resources (£m)	£13.54	£12.68	£13.17
Cost of borrowing (£m)	£0.24	£0.15	£0.33

Costs have also risen over the period, again in line with expectations and our increased income.

Interest payable is considerably higher than in the equivalent half year as a result of the growth in lending. We have seen an increase in base rate (0.25%) during the half year but, mainly because our loans are short term, this has made little difference to the business.

Administrative expenses have increased by 25% compared to the six months to 31 January 2017.

Most of the increase in administrative expenses arises from the additional provision for impairment of debts.

With the advent of International Financial Reporting Standard Number 9 (IFRS9), entities need to assess a variety of factors, including macroeconomic ones, 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 credit risk. As a result of this assessment, and although our default rates have not altered, the board have decided that provision needs to be made and have therefore estimated that a provision of approximately 0.7% of debtors would be reasonable in the circumstances.

The main driver of this is the uncertainty surrounding business generally at present. Our business is no different.

86.1% of the group's income comes from insurance (2017 - 78.1%). It is still the largest part of the business so, as might be expected, insurance accounts for the largest proportion of income and profits.

We currently have a facility with Barclays Bank plc of £15 million of which approximately 92% was in use at 31 January 2018 (£15 million and 79% respectively at 31 January 2017). There is also a facility with Conister Bank Limited of £4 million of which £1 million (25%) was utilised during the period (£Nil in 2017).

With this additional availability of bank funding, together with our own net assets of £13.54 million at 31 January 2018 (£12.68 million - 31 January 2017), 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 29 June 2018 to shareholders on the register at 15 June 2018, with an associated ex-dividend date of 14 June 2018.

Liam McShane

Chief Financial Officer

Consolidated income statement

	Note	6 months ended 31 January 2018	6 months ended 31 January 2017	Year ended 31 July 2017
		£	£	£
Continuing operations				
Revenue	2	2,670,528	2,119,449	4,559,966
Finance costs	2	(240,362)	(146,990)	(329,478)
Other operational costs	2	(38,363)	(38,775)	(77,550)
Gross profit		2,391,803	1,933,684	4,152,938
Administrative expenses	2	(1,396,535)	(1,121,100)	(2,511,931)
Operating profit before income tax		995,268	812,584	1,641,007
Income tax expense	3	(191,403)	(172,450)	(303,214)
Profit for the period		803,865	640,134	1,337,793
Other comprehensive income		-	-	-
Total comprehensive income for the period attributable to the owners of the parent		803,865	640,134	1,337,793

Earnings per share attributable to the owners of the parent during the period (pence)				
Basic and diluted	4	3.76	3.00	6.26

Consolidated statement of financial position

	At 31 January 2018	At 31 January 2017	At 31 July 2017
	£	£	£
Assets			
Non-current assets			
Property, plant and equipment	67,975	85,055	76,567
Intangible assets	58,908	39,226	74,914
Trade and other receivables	20,843	-	22,720
	147,726	124,281	174,201
Current assets			
Trade and other receivables	28,898,990	26,192,653	28,523,011
Cash and cash equivalents:			
Bank balances and cash in hand	2,481,328	1,439,981	1,728,484
	31,380,318	27,632,634	30,251,495
Total assets	31,528,044	27,756,915	30,425,696
Equity and liabilities			
Equity attributable to the owners of the			
Called up share capital	213,542	213,542	213,542
Share premium	8,691,910	8,691,910	8,691,910
Merger reserve	890,725	890,725	890,725
Retained earnings	3,746,446	2,885,557	3,369,664
Total equity	13,542,623	12,681,734	13,165,841
Liabilities			
Non-current liabilities			
Borrowings	52,806	60,951	57,458
Deferred tax	7,482	8,925	7,482
	60,288	69,876	64,940
Current liabilities			
Trade and other payables	2,628,354	2,503,625	3,181,938
Borrowings	14,821,072	12,103,712	13,733,504
Tax payable	475,707	397,968	279,473
	17,925,133	15,005,305	17,194,915
Total liabilities	17,985,421	15,075,181	17,259,855
Total equity and liabilities	31,528,044	27,756,915	30,425,696

Consolidated statement of changes in equity

	Called up Share capital £	Retained earnings £	Share premium £	Merger reserve £	Total Equity £
Balance at 1 August 2016	213,542	2,545,449	8,691,910	890,725	12,341,626
Changes in equity					
Total comprehensive income	-	640,134	-	-	640,134
Transactions with owners:					
Dividends paid	-	(300,026)	-	-	(300,026)
Balance at 31 January 2017	213,542	2,885,557	8,691,910	890,725	12,681,734
Changes in equity					
Total comprehensive income	-	697,649	-	-	697,649
Transactions with owners:					
Dividends paid	-	(213,542)	-	-	(213,542)
Balance at 31 July 2017	213,542	3,369,664	8,691,910	890,725	13,165,841
Changes in equity					
Total comprehensive income	-	803,865	-	-	803,865
Transactions with owners:					
Dividends paid	-	(427,083)	-	-	(427,083)
Balance at 31 January 2018	213,542	3,746,446	8,691,910	890,725	13,542,623

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 ended 31 January 2018	6 months ended 31 January 2017	Year ended 31 July 2017
	£	£	£
Cash flows from operating activities:			
Profit before income tax	995,268	812,584	1,640,997
Adjustment for depreciation and amortisation	30,549	19,236	47,913
Hire purchase interest	858	1,342	2,376
	1,026,675	833,162	1,691,286
Increase in trade and other receivables	(374,102)	(4,188,785)	(6,541,863)
(Decrease)/increase in trade and other payables	(553,584)	846,595	1,524,908
	98,989	(2,509,028)	(3,325,669)
Income tax received/(paid)	4,831	(64,553)	(315,256)
Net cash generated/(absorbed) by operating activities	103,820	(2,573,581)	(3,640,925)
Cash flows from investing activities			
Purchases of property, plant and equipment	(1,069)	(510)	(1,706)
Expenditure on software development	(4,882)	(4,077)	(58,757)
Net cash absorbed by investing activities	(5,951)	(4,587)	(60,463)
Cash flows from financing activities			
Dividends paid	(427,083)	(300,026)	(513,568)
Net proceeds from borrowings	1,087,575	2,934,134	4,564,919
Borrowings repaid	(5,517)	(6,057)	(11,577)
Net cash generated by financing activities	654,975	2,628,051	4,039,774
Net increase in cash and cash equivalents	752,844	49,883	338,386
Cash and cash equivalents at the beginning of the period	1,728,484	1,390,098	1,390,098
Cash and cash equivalents at the end of period	2,481,328	1,439,981	1,728,484

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 2018 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 2017 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 2018 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 2018. 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 2018 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, provision has been made in these financial statements for debts amounting to approximately 0.7% of trade receivables. In assessing this, 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 group’s 2017 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 2017 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 board has decided there is very little to be gained in separating these for reporting purposes. They meet the criteria for aggregation - the underwriting process, management of the loans, customer base, distribution channels, risks and rewards are similar for both areas.

Notes to the financial statements

2. Segmental reporting

6 months ended 31 January 2018

	Total	Central	Funding
	£	£	£
Revenue	2,670,528	-	2,670,528
Interest payable	(241,220)	-	(241,220)
Other operational costs	(38,363)		(38,363)
Administrative expenses	(1,395,677)	(304,451)	(1,091,226)
Operating profit/(loss) before tax	995,268	(304,451)	1,299,719

6 months ended 31 January 2017

	Total	Central	Funding
	£	£	£
Revenue	2,119,449	-	2,119,449
Interest payable	(146,990)	-	(146,990)
Other operational costs	(38,775)		(38,775)
Administrative expenses	(1,121,100)	(262,712)	(858,388)
Operating profit/(loss) before tax	812,584	(262,712)	1,075,296

Year ended 31 July 2017

	Total	Central	Funding
	£	£	£
Revenue	4,559,966	-	4,559,966
Interest payable	(329,478)	-	(329,478)
Other operational costs	(77,550)		(77,550)
Administrative expenses	(2,511,931)	(598,172)	(1,913,759)
Operating profit/(loss) before tax	1,641,007	(598,172)	2,239,179

Notes to the financial statements

3. Taxation

The tax assessed for the period differs from the main corporation tax rates in the UK (19% for the half year to 31 January 2018, 20% for the half year to 31 January 2017 and 19.67% for the full year to 31 July 2017) 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.