Orchard Funding Group PLC

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

Half Year Results

For the six months ended 31 January 2020

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 2020.

Highlights - in the six months to 31 January 2020, compared to the six months to 31 January 2019:

	% increase/ (decrease)
Lending volume was up from £36.38m to £37.85m	4.04%
Loan book was up from £31.58m to £34.00m	7.76%
Revenue was up from £2.77m to £2.86m	3.25%
Gross profit was up from £2.45m to £2.56m	4.49%
Profit before tax was down from £1.18m to £1.00m	(15.25%)
Profit after tax was down from £0.95m to £0.80m	(15.79%)
EPS was down from 4.47p to 3.75p	(16.11%)
Direct costs were down from £0.32m to £0.31m	(3.13%)
Other net costs were up from £1.27m to £1.55m	22.05%

Barclays Bank has agreed to maintain our facility at £17m and Conister Bank at £2m, confirming the confidence that they have in the group.

Our application for a banking licence is still progressing and it is intended to submit this before the end of April 2020.

The board is again recommending an interim dividend of 1 pence per share (31 January 2019: 1 pence).

More detail on the financial highlights is given in the CFO's summary.

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

"Our lending and revenue has increased and in line with expectations our costs have increased due to the bank licence application process.

To increase our lending we have entered new low risk credit markets and are looking forward to continuing our lending growth and progressing our bank licence application.

We are currently living through unprecedented times. The implications of restricting individual movements to consumers, businesses, borrowing, lending and liquidity are still unclear. We have the benefit of a short-term lending book, with a quick contractual pay-back and which in the main finances essential items. As we found in the Global Financial Crisis, in times of stress a shorter-term lending book provides some comfort over a longer-term book.

We also have the benefit of a small, experienced and dedicated team that is able to function effectively on a remote basis to the office. The office is currently continuing to provide full service to all our customers and liquidity providers on a remote working basis.

We continue to watch the market and new lending opportunities carefully and like everyone else, hope and trust that the restrictions on movement will contain and manage the threat to all of us.

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Chairman's statement

I am pleased to give my first report on the group's results for the half year ended 31 January 2020.

I joined the group because I believed strongly in the business model. Having had the opportunity to have discussions with both the executive directors, other non-executive directors, and key staff, I am convinced that the bank licence is the way forward to grow the business and secure liquidity.

The group has continued to grow its new lending and loan book in the first half of the current financial year. Lending has achieved approximately 4% growth and the loan book has increased by almost 8% compared to the six-month period to 31 January 2019. I understand that new business sales activity has moved into areas that previously we only touched on. We are always actively looking to expand further our sales capacity. We still have a strong capability to process short term loans efficiently, our processing platform is scalable and our executive are confident in our operational capability to handle further growth in lending volumes. We shall, of course, continue to look at adjacent sectors to complement our traditional lending but any movement into these sectors will this will only be where our model is preserved (good underwriting leading to relatively safe lending).

While we still continue to compete with some very large lenders, our customer service sets us apart and we intend to continue with this personal touch.

We are similar to other businesses operating in these traumatic times. There is a serious pandemic affecting us all at present. All our products are likely to suffer as a result of this. Our CFO discusses this further in his report later on. However, we have a strong capital position and adequate external funding lines through Barclays and Conister Bank to both see us through and finance any growth. We do 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. The 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. This process should reach a milestone by the end of April 2020, with the application being submitted.

Our senior banking personnel (those concerned with risk, financial reporting and governance) have been appointed but we shall continue to add people as required in order to provide the necessary 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 high quality loan book. I am encouraged by the potential for growing the new business lending, the loan book and interest income. In the short term, profits will not be as high as in previous periods as a result of the investment in the banking licence but should grow once this is granted.

Current trading and outlook

We made certain strategic acquisitions during the last financial year. We are beginning to see the shoots of opportunity from these investments.

I believe there remains considerable scope to pursue our strategic priorities by developing the business model organically and pursuing equally attractive acquisition opportunities, should such opportunities lead to something which would enhance the business build shareholder value.

Mark Sismey-Durrant
Chairman

Chief Financial Officer's summary

The figures for the six month period ended 31 January 2020 demonstrate growth over the equivalent half year in 2018/2019 in lending and turnover.

Lending volume was up 4.04% and gross revenue 3.25% compared to the six months to 31 January 2019.

Profit before and after tax, as was expected, has fallen. Net costs have risen from £1.27m to £1.52m – an increase of £250k.

The main driver behind this was an increase in several classes of non-direct costs. These are discussed later on.

As stated in the full year financial statements to 31 July 2019, the plan for the current year is to increase our sales in existing markets, expand into adjacent markets, re-apply for our banking licence, whilst continuing to keep costs in line with our plans.

Like many businesses, we are operating in the midst of a very serious pandemic. There is no question that all business entities will be affected. However, as a result of sound underwriting procedures, multiple layers of protection and guarantees by the government to aid businesses in surviving this, we have confidence that the group will see little negative impact. However, being prudent we have added an additional 0.1% impairment provision across all of our trade receivables at 31 January 2020. This is realistically a higher percentage as much of that loan book has already been repaid. The board consider this sufficient as a buffer against the coronavirus threat.

Key Performance Indicators (KPIs)

KPIs for the group are the means by which the board monitors the efficiency of the business. These are set so that fluctuations outside a certain tolerance would require further examination of the business operations. They revolve around lending and the cost of lending. Our model remains to apply a sound underwriting process and multiple layers of credit protection wherever possible. However, like all similar businesses, lending is not risk free.

The group's core business is still insurance premium funding and funding for professionals but we have expanded our short term lending market in recent years to include school fees, leisure lending and associated lending. We continue to look at complimentary markets but 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 parts are managed on a similar basis, carry similar risks and rewards and need to comply with similar regulations. They are therefore combined for reporting purposes.

The directors consider the following financial indicators as KPIs:

- Lending.
- Gross rate on loans made.
- Return on equity (ROE);
- Borrowing and other capital resources.
- Cost of borrowing.

The table below gives a breakdown of group KPIs. This also includes those items not considered KPIs but which give a better understanding of the figures.

Return on equity is based on PAT divided by simple equity (capital and reserves).
Return on capital employed is based on EBITDA divided by equity plus loans net of any cash reserves.
The former measure is more of use to investors while the latter is a measure of efficiency for management purposes.

Key performance indicators

Group	6 months to 31 January 2020	6 months to 31 January 2019	Year to 31 July 2019
Loans made in the period (£m)	37.85	36.38	72.99
Average gross rate on loans made	6.22%	6.22%	6.34%
Return on equity	5.21%	6.55%	10.92%
Level of borrowing (£m)	14.15	16.07	16.23
Equity (£m)	15.34	14.56	14.97
Cost of borrowing (£m)	0.28	0.29	0.56

Financial summary – other performance indicators

Loan book (£m)	34.00	31.58	32.14
Revenue (£m)	2.86	2.77	5.48
Gross profit (£m)	2.56	2.45	4.85
Profit before tax (£m)	1.00	1.18	2.02
Profit after tax (£m)	0.80	0.95	1.63
EPS – basic and fully diluted (pence)	3.75	4.47	7.66
Return on capital employed	4.18%	4.23%	7.24%

Lending volume is 4.04% up on the equivalent half year in the previous period. As was stated in the financial statements for the year ended 31 July 2019, our competitors are still forcefully defending their market share across the areas in which we operate, although our lending is beginning to increase into new product lines.

As a result of the activities of our competitors, gross income has not been as high as was hoped (although still 3.25% up on the half year to January 2019). Given the difficult trading conditions experienced during the last year, we believe that we have performed well.

The main driver behind the reduction in profit before and after tax, was an increase over the equivalent half year on 2018/19 in several classes of non-direct costs.

External consultancy and professional fees have increased by £45k, in large part for advice given in respect of the bank licence application.

Staffing has been bolstered for the same reason both at board level and with other significant personnel (risk management, IT etc). Overall, employment costs have risen by £115k (including recruitment fees).

Likewise, IT costs have increased by £26k as part of the continuing development of our systems to make them "bank ready".

As we have moved into adjacent markets, more needs to be spent on selling costs. These have risen by £46k.

We also have the continuing process of assessing financial assets for expected credit losses. Given the potential impact of coronavirus, we have made a provision of an additional 0.1% on all debts which we consider reasonable in the circumstances. This has led to an increase in the provision for impairment by £52k during the period.

Last year Barclays Bank plc agreed to increase our banking facility from £15.00m to £17.00m. At 31 January 2020 we were employing £12.13m of this facility (2019 £15.00m of a £17.00m facility). We had utilised all of the Conister Bank facility of £2.00m (£1.00m out of £2.00m in the period to 31 January 2019).

With this additional availability of bank funding, our own net assets of £15.37m at 31 January 2020 (£14.56m at 31 January 2019) and the prospect of getting the bank licence within the next 12 months, the group is well set for substantial growth.

The board is pleased to declare an interim dividend of 1 pence per share to be paid on 26 June 2020 to shareholders on the register at 12 June 2020, with an associated ex-dividend date of 11 June 2020.

Liam McShane
Chief Financial Officer

Consolidated income statement

	Notes	6 Months to 31 January 2020 £000	6 Months to 31 January 2019 £000	Year to 31 July 2019 £000
Continuing operations				
Interest revenue	2	2,382	2,279	4,671
Other revenue		481	489	810
Total revenue		2,863	2,768	5,481
Finance costs	2	(278)	(283)	(558)
Other operational costs	2	(30)	(38)	(72)
Gross profit		2,555	2,447	4,851
Administrative expenses		(1,504)	(1,270)	(2,726)
Net impairment losses on financial and contract assets		(52)	-	(111)
Net gain on financial assets at fair value through consolidated income	2	-	-	6
Operating profit		999	1,177	2,020
Interest receivable on bank balances		4	1	5
Interest payable		(1)	(2)	(4)
Profit before income tax		1,002	1,176	2,021
Income tax expense	3	(202)	(222)	(387)
Profit for the period from continuing operations attributable to the owners of the parent		800	954	1,634

Earnings per share attributable to the owners of the parent during the period (pence)				
Basic and diluted	4	3.75	4.48	7.66

Consolidated statement of other comprehensive income

	Notes	6 Months to 31 January 2020	6 Months to 31 January 2019	Year to 31 July 2019
		£000	£000	£000
Profit for the period from continuing operations attributable to the owners of the parent		800	954	1,634
Items that will not be reclassified to profit or loss: Changes in the fair value of equity investments at fair value through other comprehensive income:				
Changes in fair value of investments		-	-	(56)
Total comprehensive income for the period from continuing operations attributable to the owners of the parent		800	954	1,578

Consolidated statement of financial position

	At 31 January 2020	At 31 January 2019 (as restated)	At 31 July 2019
	£000	**£000**	**£000**
Assets			
Non-current assets			
Property, plant and	36	24	29
Right of use assets	29	73	58
Intangible assets	26	51	42
Deferred tax asset	1	-	10
Investment at fair value	6	-	6
Trade and other	10	15	12
	108	163	157
Current assets			
Trade and other	34,196	31,715	32,297
Cash and cash			
Bank balances and cash	4,444	1,696	2,139
	38,640	33,411	34,436
Total assets	38,748	33,574	34,593
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	5,546	4,763	5,173
Total equity	15,343	14,560	14,970
Liabilities			
Non-current liabilities			
Borrowings	-	32	14
Deferred tax	5	3	5
	5	35	19
Current liabilities			
Trade and other payables	8,684	2,378	3,015
Borrowings	14,152	16,034	16,219
Tax payable	564	567	370
	23,400	18,979	19,604
Total liabilities	23,405	19,014	19,623
Total equity and liabilities	38,748	33,574	34,593

The period to 31 January 2019 has been restated to take account of the adoption of IFRS 16 during the year to 31 July 2019.

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 2018	214	4,240	8,692	891	14,037
Change in accounting policy		(4)			(4)
Restated total equity at the beginning of the financial year	214	4,236	8,692	891	14,033
Changes in equity					
Profit and total comprehensive income	-	954	-	-	954
Transactions with owners:					
Dividends paid	-	(427)	-	-	(427)
Balance at 31 January 2019	214	4,763	8,692	891	14,560
Changes in equity					
Profit for the period	-	680	-	-	680
Movement in equity investments at fair value through other comprehensive income	-	(56)			(56)
		624	-	-	624
Transactions with owners:					
Dividends paid	-	(214)	-	-	(214)
Balance at 31 July 2019	214	5,173	8,692	891	14,970
Changes in equity					
Profit and total comprehensive income	-	800	-	-	800
Transactions with owners:					
Dividends paid	-	(427)	-	-	(427)
Balance at 31 January 2020	214	5,546	8,692	891	15,343

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 2020	6 Months to 31 January 2019 (as restated)	Year to 31 July 2019
	£000	£000	£000
Cash flows from operating activities:			
Operating profit	999	1,177	2,020
Adjustment for depreciation and amortisation	44	48	83
Interest received on bank balances	4	1	6
Net non-cash gain on financial assets at fair value through consolidated income	-	-	(6)
	1,047	1,226	2,103
Increase in trade and other receivables	(1,895)	(633)	(1,211)
Increase in trade and other payables	5,670	336	970
	4,822	929	1,862
Income tax received/(paid)	-	3	(364)
Net cash generated by operating activities	4,822	932	1,498
Cash flows from investing activities			
Purchases of property, plant and equipment	(17)	-	(16)
Sales of property, plant and equipment	9	-	-
Purchases of intangible fixed assets	-	(35)	(36)
Purchase of investment at fair value through other comprehensive income	-	-	(56)
Net cash absorbed by investing activities	(8)	(35)	(108)
Cash flows from financing activities			
Dividends paid	(427)	(427)	(641)
Net proceeds from borrowings	1,500	-	684
Borrowings repaid	(3,558)	(41)	(541)
Lease repayments	(24)	(19)	(39)
Net cash absorbed by financing activities	(2,509)	(487)	(537)
Net increase in cash and cash equivalents	2,305	410	853
Cash and cash equivalents at the beginning of the period	2,139	1,286	1,286
Cash and cash equivalents at the end of period	4,444	1,696	2,139

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 for insurance premiums, professional and equivalent fees and other services. 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 2020 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 2019 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 2020 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 2020. 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 2020. These have no impact on the group's financial statements.

Under the expected credit loss (ECL) model required in IFRS 9, provision has been made in the financial statements to 31 January 2020 amounting to 0.15% of trade receivables (31 January 2019 0.63%). 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. Part of this process has been to examine the impact of the coronavirus epidemic and part of the provision is in respect of this. As all trade receivables are payable within one year this would be the same if based on a 12 month expected credit loss model.

IFRS 16 was adopted early and first applied in the year to 31 July 2019. The adoption of this standard has resulted in the recognition of an additional asset and liability, together with an accumulated reduction in retained earnings up to 1 August 2018. The impact in this reporting period and the next two will be to have a higher charge for interest payable and a lower one for administrative expenses than would have been the case under IAS 17. Group overall retained earnings by the end of the lease will be unaffected by the treatment during the term of the lease. The financial statements for the six months to 31 January 2019 have been restated to take account of the impact of this adoption.

The group's 2019 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 2019 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.

Notes to the financial statements

The group still lends into insurance premium funding, funding for professionals, school fee 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 (underwriting process, management of the loans, distribution channels, risks and rewards) and all are similar. The customer base does differ (insurance brokers, professional firms, schools and leisure) but our lending is still subject to strict underwriting processes.

2. Segmental reporting

6 months ended 31 January 2020

	Total £000	**Central £000**	**Financing £000**
Revenue			
Other income - interest receivable using the effective interest rate method	2,382	-	2,382
Revenue from contracts with customers - other	481	-	481
	2,863	-	2,863
Timing of revenue recognition:			
At a point in time – direct debit charges	225	-	225
At a point in time – non utilisation fees	186	-	186
Over time – licence fees	70	-	70
Over time – interest revenue outside the scope of IFRS 15	2382	-	2,382
	2,863	-	2,863
Interest payable	(278)	-	(278)
Net operational costs and administrative expenses	(1,583)	(424)	(1,159)
Profit before tax	1,002	(424)	1,426
Current tax expense	(202)	-	(202)
Profit/(loss) for the period after tax	800	(424)	1,224

6 months ended 31 January 2019

	Total £000	**Central £000**	**Financing £000**
Revenue			
Other income - interest receivable using the effective interest rate method	2,279	-	2,279
Revenue from contracts with customers - other	489	-	489
	2,768	-	2,768
Timing of revenue recognition:			
At a point in time – direct debit charges	261	-	261
At a point in time – non utilisation fees	152	-	152
Over time – licence fees	76	-	76
Over time – interest revenue outside the scope of IFRS 15	2279	-	2,279
	2,768	-	2,768
Interest payable	(283)	-	(283)
Net operational costs and administrative expenses	(1,309)	(323)	(986)
Profit before tax	1,176	(323)	1,499
Current tax expense	(222)	-	(222)
Profit/(loss) for the period after tax	954	(323)	1,277

Notes to the financial statements

Year ended 31 July 2019

	Total £000	Central £000	Financing £000
Revenue			
Other income - interest receivable using the effective interest rate method	4,671	-	4,671
Revenue from contracts with customers - other	810	-	810
	5,481	-	5,481
Timing of revenue recognition:			
At a point in time – direct debit charges	360	-	360
At a point in time – non utilisation fees	306	-	306
Over time – licence fees	144	-	144
Over time – interest revenue outside the scope of IFRS 15	4671	-	4,671
	5,481	-	5,481
Interest payable	(558)	-	(558)
Net operational costs and administrative expenses	(2,902)	(723)	(2,179)
Profit before tax	2,021	(723)	2,744
Current tax expense	(387)	-	(387)
Profit/(loss) for the year after tax	1,634	(723)	2,357

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 2020 and 2019 and for the full year to 31 July 2019) 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.