Allenby CAPITAL

Company Note

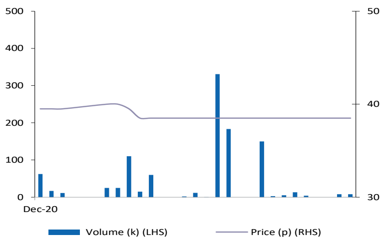
Initiation

27 January 2021

Corporate

Current price	**38.50p**
Sector	**Finance and Credit Services**
Code	**VCAP.L**
AIM	**AIM**

Share Performance



	1m	3m	12m
VCAP.L	-2.5%	N/A	N/A

Source: Thomson Reuters, Allenby Capital

Share Data

Market Cap (£m)		**16.2**
Shares in issue (m)		**42.05**
52 weeks	High	Low
	40.00	**38.50**
Financial year end		**December**

Source: Company Data, Allenby Capital

Key Shareholders

Vector Holdings Ltd	80.8%
Killik & Co LLP	4.1%

Source: Company Data, Allenby Capital

Allenby Research

0203 328 5666

research@allenbycapital.com

www.allenbycapital.com

Equity Research

Vector Capital (VCAP.L)

Well-established, profitable secured lender

Vector Capital provides fully secured, business-to-business loans to SMEs based in England and Wales. It operates a well-tested, mature lending model, is profitable and pays dividends. Despite recent strong growth, the group has a minimal share of an enormous potential market. It raised £3.06m in a December IPO, which will build its equity base and help it to capitalise upon the opportunity to scale its loan book and profitability, and a pipeline of attractive new proposals well above its current lending capacity. The group has been built organically over the last 20 years by current management, which remains fully committed to the business.

- Vector focuses on a discrete loan category, facilities to smaller UK residential developers, and has considerable expertise in this niche. Substantially all loans are fully secured by first charges against UK property (average 60% LTV). All proposals are pre-qualified by brokers, submitted online and processed by Vector's bespoke systems, prior to consideration by a credit committee consisting of two directors.

- The financial model is operationally geared and highly scalable. This should be reflected in rapid growth in returns on equity as the loan book scales and revenues grow. The installed IT infrastructure and staffing levels has capacity to support the next few years of projected loan book growth. Overheads, including salaries, are modest and all business processes are cloud-based and virtually paperless.

- Vector's track record, prior to the 2019 formation of Vector Capital plc as the holding company, illustrates the lending operation's robust performance across economic cycles. Advances are typically agreed for an initial 12-month term and although extensions may be agreed, the group seeks to turn over its loan book promptly. That results in an agile lending model, which ensures that borrower's projects and Vector's security are both continually realigned to the market cycle. The existing loan book is performing in line with expectations.

- **We expect a final 1.4p/share dividend to be confirmed with Vector's preliminary results in April 2021, equivalent to a 2.4p aggregate FY20 distribution, a 6.2% prospective yield. That will around twice be covered by earnings (EPS adjusted for shares issued at IPO which are entitled to the final dividend), based on what we regard as conservative projections. At the current market cap, the group is valued at 8.2x FY20e EPS, falling to 7.8x for FY21e.**

Year End: December					
(£'000)	**2017**	**2018**	**2019**	**2020E**	**2021E**
REVENUE	0.30	1.84	3.59	4.32	5.00
OPERATING PROFIT	0.25	1.42	2.76	3.44	3.74
PBT	0.23	1.24	1.97	2.43	2.57
PAT	0.19	1.01	1.59	1.97	2.08
EPS	0.6	3.0	4.7	4.7*	5.0
Dividend (p)				2.4	2.6
Yield (%)				6.2	6.8

Allenby Capital acts as Nomad & Broker to Vector Capital (VCAP). *Pro forma

Please refer to the last page of this communication for all required disclosures and risk warnings.

TABLE OF CONTENTS

Introduction - Secured Lender to UK Businesses

Vector Capital plc provides secured, business-to-business commercial loans to SMEs in England and Wales. All loans are secured on property held by the borrower, which in the event of default can be sold if necessary, to repay outstanding debt.

Substantially all advances are secured by a first legal charge registered at the UK Land Registry. Vector does not generally lend on a junior, subordinated, or unsecured basis, or accept any collateral located outside the UK as security.

Customers typically borrow for general working capital purposes, bridging ahead of refinancing, land development and property acquisition. Vector's customers include sole traders, partnerships, and limited companies. The table below sets out the loan book profile. All advances must support a clearly defined business purpose (e.g. property purchase for refurbishment) or conversion (e.g. of existing offices into residential flats).

Exhibit 1: Advance Profile

Typical borrower	**Small property developer**
Facility duration	Generally, for an initial 12-month initial period
Interest rate charged	11-12% typically
Loan purpose	Finance land purchase for planned development/refurbishment for resale
	Bridging ahead of refinancing existing mortgages
	To raise funds required to get a new project underway
Security	Substantially all loans secured by first charge over residential/commercial assets
	More rarely via land with planning permission
	Under normal circumstances no advances are offered against second charges
Loan-to-value	Average is typically 60% - actual was 44.2% at end December 2020

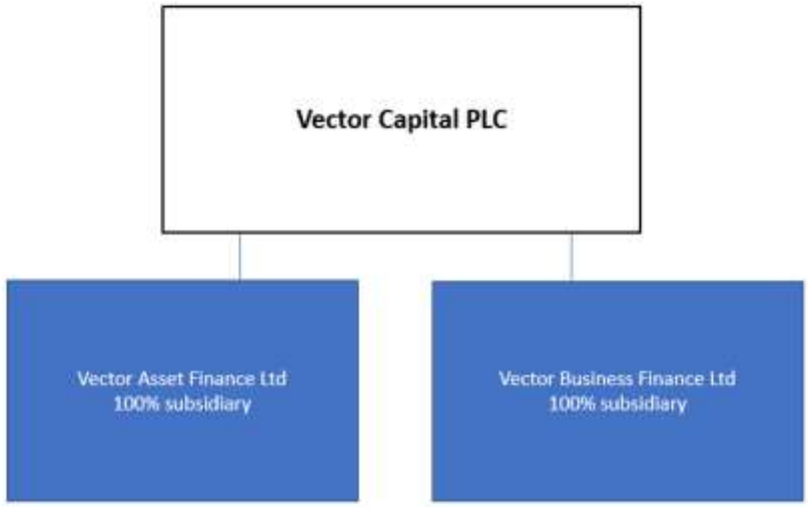
Source: Company

Experienced management team

Background

The parent entity has traded since 1978 and the current team has led the lending operation since 1999. That gives Vector's operational management decades of relevant sector expertise. The first loan was issued in 1999 and the operation grew organically until 2016. Vector has grown the loan book significantly since, via the introduction of external block discounting facilities provided by two banks.

Exhibit 2: Vector Capital corporate structure



Source: Company

The creation of Vector Capital plc (VCAP) and the current group structure dates from August 2019. VCAP is a holding company that consolidates two trading subsidiaries, Vector Asset Finance Limited (VAF) and Vector Business Finance Limited (VBF).

VBF and VAF were founded, respectively, in December 2015 and January 2018. They are identical operationally but hold distinct loan/security portfolios related to the group's two bank debt providers.

This restructuring was part of the preparation for a planned stock exchange listing of Vector Holdings Limited's (VHL) finance business, to enable it to access growth funds from the capital markets. The consolidated accounts represent the full year trading of the two subsidiaries.

VCAP's business was historically undertaken by Vector Holdings Ltd, incorporated in 1978, which prior to the IPO owned the entire shareholding in VCAP directly. Prior to 2017, loans were issued by VHL. Post that, loans were migrated to VAF or VBF in anticipation of a listing.

Agam Jain has been a director of VHL since 1988 and controls the equity with members of his family. The directors and shareholdings prior to Admission are:

Exhibit 3: Directors and shareholders of Vector Holdings Ltd

Name	Role	No. shares	% holding
Agam Jain	Director & Shareholder	583,831	64.9%
Arti Jain	Shareholder	179,439	19.9%
Pooja Jain	Director & Shareholder	136,730	15.2%
Total		**900,000**	**100.0%**

Source: Company

Executive Management

The executive and operational management teams at IPO are as follows:

Exhibit 4: Board of Directors

Robin Stevens FCA Chairman	A Chartered Accountant and former Head of Capital Markets at Crowe UK LLP. Has had an extensive career in corporate finance and specialises in working with emerging companies.
Agam Jain Chief Executive	Leader of the executive team and responsible for the strategic management of the business. Has progressively built the group's secured finance operations for more than 20 years. He was also the founder and an ex-director of a software company listed on the ASX
Jon Pugsley FCCA Finance Director	A Chartered Certified Accountant who has worked for Vector for more than ten years. His key role is the financial oversight of the business.
Ross Andrews Non-Executive Director	An experienced non-executive director with 30 years' corporate finance experience, including as Head of PLC Advisory at Zeus Capital. He is CEO of Guild Financial Advisory.
Management (non-Board)	
Neil Dhanani Operations Director	Responsible for the group's administration and all compliance matters. As a member of the Credit Committee, he ensures consistent application of policy for new loan facilities.
Ajay Mehta Business Development	Involvement with Vector dates from the inception of its lending operations 20 years ago. He has significant experience in this sector and focuses on building the group's knowledge of, and relationships with its borrowers and brokers. Responsible for the assessment of proposals before they are submitted to the Credit Committee.
William Wain Head of IT	He has contributed to the development of the Vector software platform since 2015. He now manages the system to ensure efficient running of all Vector business processes and data.

Source: Company

Investment Summary

Vector's lending operation is based upon a mature business model, built organically since 1999 by current management. Despite its recent growth, it still has a minimal share of its target market and plans to capitalise upon demand driven by its established relationships with loan introducers (brokers) and borrowers. It also has the support of its own lenders, both of which have consistently endorsed Vector's agile lending model, via agreements to increase its borrowing facilities.

We expect the group to continue to build steady underlying cashflows to support progressive, growing distributions. Vector is profitable, has paid a dividend for the last 18 months and plans to continue to announce regular distributions post admission. It paid a £0.7m dividend to the holding company in 2019 and £0.4m interim dividend in H1 2020. We forecast a £0.6m (1.4p/share) final dividend.

Management plans to maintain its business focus on providing unregulated, secured loans to businesses. The IPO proceeds will be used to build the equity base to support increases in the loan book. Net earnings will be divided between reinvestment to support further loan book growth and shareholder distributions.

Exhibit 5: Loan Book Profile

Total lending – at end December 2020	£36.40m
No of facilities	63
Average advance	£0.57m
New deal pipeline – at advanced stages and undergoing legal due diligence	£3.44m
End 2021 forecasts	
Year-end loan book	£40.0m
PBT	£2.6m

Source: Company/Allenby forecasts

Growth drivers in place, constrained by access to capital

Core profitability appears solid, and broadly resistant to the interruption in new lending. The operational administrative/IT infrastructure is in place to manage Vector's medium-term loan book target of £100m, subject to securing new capital.

We see potential for return on equity to build as the loan book scales up as fixed costs are low; the main component is a bespoke cloud-based IT system designed for scalability. This enables the virtual processing of proposals and allows management to monitor all stages of due diligence and track borrower performance after an advance is made.

Variable overheads are also well controlled. We project salary levels to remain modest, while other staff/premises costs will not increase materially as the loan book scales. No further investment in support systems is required, so we do not expect Vector to incur any material increase in underlying overheads. In addition to one-off IPO costs, additional expenses will relate to interest on the bank facilities used to part fund advances, commissions paid and ongoing listing costs. There is however potential for Vector to access improved debt funding terms as its business grows.

Over the last few years, the group has attracted progressively larger flows of criteria compliant proposals from its broker network, including requests for additional facilities from existing borrowers. These have consistently been above its lending capacity, principally due to a lack of access to new equity beyond retained profits.

New lending was suspended between April and June 2020 as group management sought a meaningful assessment of the pandemic's impact. Our forecasts reflect that and resumption of lending by the group in June 2020.

Loan Approval Process

Deals are introduced to Vector by a panel of brokers, members of which have worked with it since 2002. These are experienced intermediaries where it has trusted relationships. Vector's brokers understand the need to provide detailed information on all new borrowers introduced, which includes independent verification of ID from objective sources (passports, driving licences, utility bills). All proposals are 'pre-qualified' and often informally discussed with Vector before submission via the group's portal. That typically includes site visits and production of initial supporting documentation. This completes part one of a four-stage credit vetting process.

Exhibit 6: Credit vetting process
Pre-qualification by the broker prior to submission of all proposals to Vector
Anti-money Laundering and credit checks
Internal review by group credit committee consisting of two Vector Capital directors
Legal due diligence by the group's solicitors prior to completion

Source: Company; Allenby Capital

Due Diligence

Vector's formal due diligence is set out below:

Exhibit 7: Due diligence processes
Each loan application must include a detailed description of how the borrower will repay all the capital sum and interest charged
Company searches, and reviews of accounts filed at Companies House. Anti-money laundering processes are validated via documentation and incorporates undertaking KYC checks, avoidance of cash transactions and fund transfer via borrower's solicitors only
If approved, Vector will issue a facility letter which details the terms of the proposed loan. It is unambiguously worded so that a borrower can understand the terms without reference to an external advisor. It sets out all costs, risks and obligations associated with each loan
All borrowers must have professional legal representation; Vector's solicitors will only deal with their solicitors. An Independent Legal Advice certificate is required if a guarantee is given by a director
Further checks will be carried out by Vector's solicitors e.g., bankruptcy and Land Registry searches. In certain cases, Search Indemnity insurance will be accepted
When Vector receives clearance from its solicitors, it will transfer funds to its solicitor's client account. Its solicitors will then transfer funds to the borrower's solicitors after satisfactory receipt of documents

Source: Company; Allenby Capital

Loan Terms

Vector's core loan terms enable it to price transactions to generate profitable returns. The directors assess the risk profile of each borrower based on its assets, credit score, loan requested and ratio of the prospective loan to the value of the asset(s) provided as security. The loan released will typically average 60% of book value; interest rates will vary from 10% to 16% depending on the borrower's risk profile.

Exhibit 8: Loan terms
Partial or early repayments can be made without penalty
Interest will be levied at a fixed rate quoted for the entire loan term. Interest accrued is typically payable monthly, with the first payment due one month from the date of the advance
In some cases, Vector will agree to deduct interest from the sum advanced or on rare occasions, for it to be rolled up. Where interest is rolled up it will be charged at a premium rate
Interest rates will depend on the risk profile
The borrower will be responsible for costs related to legal due diligence, valuations, and broker fees

Source: Company; Allenby Capital

Loans are offered on an initial term of 12 months. An extension may be offered subject to account performance. Vector will agree to a maximum of three extensions, each of which may be accompanied by an increase in the interest rate charged.

Business & Credit Policy

Although potential borrower issues, including defaults, are an inevitable part of a lending operation, Vector's strategy is designed to minimise the risk of loss from bad debts. It builds risk assumptions into its due diligence, actively monitors each advance, and takes remedial action at an early stage.

Risk management procedures consider the implications of a material fall in UK residential property values or transaction volumes, on loan and client project viability, and security value. Vector's credit policy recognises the benefits of financing client businesses on a balanced, win-win basis and the need to establish that use of proposed loans can generate a commercial benefit for the borrower, profit for the group and are satisfactorily secured.

The group incurred minimal bad debt write-offs (total £42,643) during the four years to 31 December 2020. It successfully collected all fees, interest receivable and loans recoverable that became due for collection during the period from 1 January 2017 to 31 December 2019. As of 31 July 2020, 32 loans totalling £18.30m had been fully redeemed by the group since 1 January 2017. The average loan size is £0.58m and average LTV 44.2%.

As at 31 December 2020 there were 63 active live loans. Two cases are in serious default and an LPA (Law of Property Act) receiver has been appointed, and the two properties are in the process of being sold. These loans are in outline as follows:

Exhibit 9: Workouts: loans in default 31 December 2020

Loan outstanding	Details
£0.23m debt excluding accrued interest	Appraised value of security is £0.38m and a shortfall is regarded as unlikely.
£0.38m debt excluding accrued interest	Security has been valued at £0.72m; LPA receiver advises that it has identified a prospective buyer at £0.75m

Source: Company

Security structures and action available in event of default

Substantially all advances made by the group are secured by a first charge over residential or commercial property; more rarely over land with planning potential. Under normal circumstances, Vector will not offer loans against second legal charges. Vector aims to maintain a maximum 70% loan-to-value (LTV). Aggregate loan book LTV at end 2020 was 44.2% and it has typically averaged c 60%.

This LTV rate provides suitable cover in the event of a default, and a cushion against the impact of a market downturn on the gross value of its security. Any shortfall in the net sum recovered vs the capital sum outstanding would be shown as a bad debt in the accounts and unrecoverable accrued interest is offset against sales revenue.

Where the security is a part-complete development or refurbishment, the loan agreement seeks to offset any risk that a developer might seek to walk away from a poorly performing scheme. This has not happened to date, but advances are structured to ensure that the financial consequences of such an action for the borrower would be material, including potentially, the disposal of other assets taken to support personal guarantees.

If the borrower is a limited company or SPV, Vector takes directors' guarantees supported by a net asset statement prepared by each guarantor's accountant. In certain cases, it will also require a debenture over the borrowing company. Vector cannot take a charge over the primary residence of the borrower or that of any family member.

If there is a default event as defined in the facility document, the group has a range of actions available, which it can escalate if necessary.

Exhibit 10: Actions taken in event of default (set out in facility document)

A reminder is issued if a single payment is missed; Vector may also increase the interest rate by 2% p.a.
If a second due payment is missed, it may serve another reminder letter or issue a Default Notice. The latter may demand repayment of the entire debt, all overdue interest and capital sum outstanding
The in-house team would typically discuss alternatives with the borrower prior to issuing a Default Notice and request assistance from the broker which submitted the original application, to see if it could positively influence the process. The group confirms that most arrears get resolved during this period
If arrears are not cleared and it is apparent that the borrower has cash flow problems, Vector will assess free equity in the security held. If sufficient it may agree to roll up interest and a new payment schedule. If equity is insufficient, it will deem the account in serious default and move to enforce its security.
In the event of a serious default, Vector would usually appoint an LPA receiver to sell the property either via an estate agent listing or more often, at auction. It would normally expect to cover receiver's, auction and conveyancing solicitors' fees and its debt, including accrued interest, from the sale proceeds.

Source: Company

Appointment of LPA Receiver

An LPA receiver (AKA a Fixed Charge Receiver) acts under the Law of Property Act 1925. It is normally appointed by a lender holding a charge or other security over a tangible asset such as property. It has the power to sell property, collect rent and has financial control over the day to day running of the property. The receiver has a direct understanding of the options and the implications of any strategy chosen for the disposal of a property. The appointment of an LPA receiver ensures that all enforcements are dealt with by a 3rd party objectively, dispassionately, and at arm's length.

Administration and Monitoring

The group's bespoke IT infrastructure was built to facilitate significant increases in the scale of the loan book without any requirement for further investment. Its specialist Loan Agreement Management Software (LAMS) manages the entire lender-borrower relationship for the life of the loan. LAMS is fully integrated, and cloud-based, so it allows updated data to be accessed on individual login. It includes CRM capability and links into SAGE. Other functionality includes standard letters for issue to surveyors, borrowers, lawyers, welcome packs, and information documents.

Exhibit 11: Software and IT systems

Loan Agreement Management System (LAMS) designed for asset backed lending
Cloud back up of all data
Borrower database, including contact and loan details
Record of all transactional details with an audit trail
Generation of live reports for loan monitoring and missed payments tracking
Online portal for Brokers and Customers

Source: Allenby Capital

New client information, documents, ID checks, letters and statements can be stored on LAMS. A traffic light system allows the user to identify if there are any missing documents in a client folder. Each user has an individual login which is password protected, and the system maintains an audit trail which tracks the individual responsible for the transaction.

LAMS calculates the rate of interest most suitable for a lending option based on data entered by the broker. This can only be amended by a Vector director. LAMS also calculates the interest due from the lending start date to the end of the loan term, allowing a review of the profitability. It will track each borrower for receipt of monthly receipts and chase any missed payments immediately. The broker will also maintain the relationship throughout the term unless the account goes into default. Vector issues monthly statements and internal reports are monitored by group management. It will pursue all potential bad debts via its solicitors and/or receivers.

Risk Management

Set out below are the main sources of risk identified and Vector's approach to managing each of these:

Exhibit 12: Risk Management

Loan demand	A decline in demand for loans or increase in unsuitable applications outside of group lending criteria could materially impact operational performance. In those circumstances Vector-would lower its growth targets rather than build a riskier portfolio. **Across past economic cycles the group received suitable new applications above its lending capacity. The structure of its business gives it significant flexibility to expand and contract its loan book and operations and remain profitable.** We have included forecasts based upon different scenarios, which illustrate how Vector might continue to lend securely. These adjust for other implications, including lower use of debt facilities for certain categories of lending. **In all illustrations, including a reduction in its loan book, Vector would remain profitable.**
Property values	Any decrease in asset values may adversely affect loan book security and increase aggregate loan book LTV. Property values will generally reflect underlying economic conditions and rents receivable may similarly come under pressure. This could negatively impact any borrowers which rely on rental income to repay their loans, while market weakness may affect recovery in any repossession situation. **Vector is inherently cautious and will seek to maintain LTV ratios at c. 60%-70% (currently 57%). It will also take prompt action to achieve full recovery of capital and accrued interest**.
Coronavirus Pandemic	The pandemic has adversely affected property market dynamics, albeit with commercial so far exhibiting more distress than residential. There is nonetheless risk that recession will result in a prolonged downturn in the UK property market, and reduced activity impact Vector's ability to realise its security if necessary. **The group monitors this situation carefully, with focus on asset valuations and customer defaults. To reduce potential exposure, it put new lending on hold in April 2020 (and resumed in June 2020). It will continue to review the situation but will not lend unless it believes the risks are controllable.**
Brexit	Ongoing market disruption post the UK's EU exit and any related economic uncertainty may negatively impact results of operations and prospects.
Regulation	Changes in the regulatory environment could increase compliance costs. As a pure business to business lender, Vector's activities fall outside of the scope of the Financial Conduct Authority (FCA) and the definition of the specific types of activities and investments which require regulation under the Financial Services and Markets Act (FSMA) 2000. FCA regulation is focused on protection for retail borrowers, which includes loans secured upon and guarantees ultimately backed by borrower's main residences. As Vector does not engage in these activities it is not required to register. **If, however, this situation changed the group already seeks to operate its software systems and business processes in a similar way to a regulated entity. It thus regards any prospective switch over as readily manageable**
Fraud	The group is alert to the risk that a borrower may seek to defraud the group, acting alone or in collusion with brokers, valuers, and solicitors. **Vector has deliberately structured its processes to include multiple and extensive layers of checks and validations to pick up these activities and allow ongoing review and monitoring.**

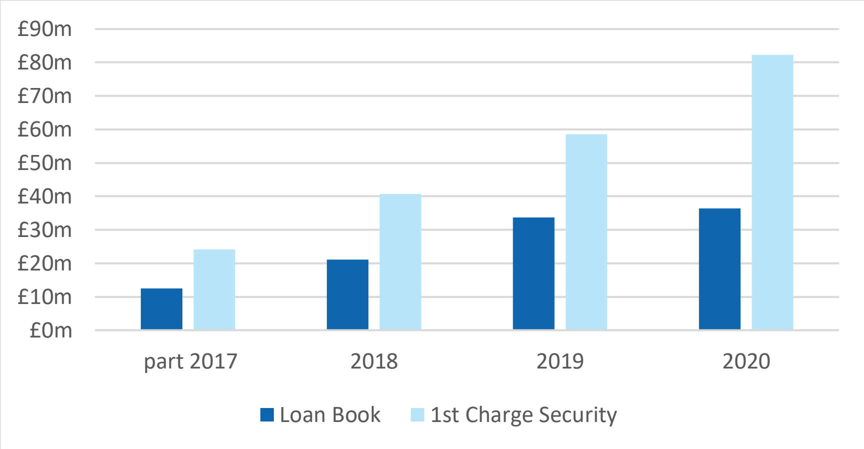
Source: Allenby Capital

Recent performance and outlook

Vector's growth record reflects its proven ability to source, complete and manage new transactions. Despite the impact of Covid-19, it is currently receiving criteria compliant proposals that would absorb a multiple of its underlying lending capacity. The momentum behind proposals submitted via its portal should enable it to continue to agree new advances. At end September 2020 it had a £3.4m pipeline of deals at the end stages of due diligence.

The chart below sets out loan book growth for the last four financial years.

Exhibit 13: Loan Book Growth



Source: Company

Vector has secured progressive increases in its two bank facilities - a pivotal component of growth in its own loan book - over the last few years. A symbiotic relationship with its lenders adds another layer of discipline to its own, relatively cautious approach. The key terms with Aldermore and Shawbrook are shown in the table below:

Exhibit 14: Bank facilities

Name	Aldermore	Shawbrook
Facility limit	£10m	£15m
Maximum loan size	£600k	£800k
Minimum loan size	£100k	£50k
Arrangement fee	£50k/annum	£50k/annum
Interest rate	6.5%	6.5%

Source: Company

The group renewed both facilities for a further 12 months in 2020. Its trading history with both banks gives management confidence that it will be able to continue to renew in future periods. At end December 2020 its usage of the two facilities was £14.8m. That left a total of £10.2m of undrawn facilities available at that date, and £2.57m of cash. Other than a £3.0m loan (at admission) from Vector Holdings Ltd, the group has no other external sources of finance.

Including the recent increase in the facility approved by Shawbrook, we estimate that Vector has capacity within its existing resources to finance further lending up to a c. £40m aggregate loan book, subject to the purpose of the facilities agreed. Both Shawbrook and Aldermore limit the percentage of each loan which can be funded from their facilities i.e., 80% of residential refurbishments/conversions, 65% of commercial projects. Bridging loans for land purchase are not acceptable. For both banks, the loan cannot exceed a maximum of 80% of the purchase price.

Financials

Revenues consist of interest receivable on loans, plus arrangement fees for new advances, extensions, or amendments to the terms of existing facilities. This is measured as fair value of consideration received or receivable after adjustments for any discounts given by the group. The table below sets out revenue for the last three financial years and H1 2020.

Exhibit 15: Revenue (£)

Period	H1 20	H1 19	FY19	FY18	FY17
Interest receivable	1,976,098	1,332,850	3,119,951	1,530,479	257,343
Arrangement fees	154,100	259,969	472,643	304,318	46,250
Total income for the period	**2,130,198**	**1,592,819**	**3,592,594**	**1,834,797**	**303,593**

Source: Company

Interest is charged at a rate based upon the borrower's risk profile, and ranges between 10% and 16% p.a. Vector reported profit before tax of £1.97m for FY19 and £1.24m for FY18. The figure for the first six months of 2020 was £1.02m.

Gross margins

Vector's gross margin is the above receipts, net of interest on bank facilities used to finance lending and commissions paid to brokers.

Exhibit 16: Gross Margins - revenues and costs

Receipts	
Interest	11.65% (average rate charged on loan book at 30 June 2020)
Arrangement fee	1%-2% of agreed facility
Other fees	Charged for agreed extensions, amendments to terms of original advances
Outgoings	
Bank interest	6.5-6.7% rate fixed for 12 months. Applies to percentage of advances funded by bank facilities
Broker commissions	Up to 1%-2% of agreed facility

Source: Company; Allenby Capital

Use of bank facilities

Vector has funded its loan book from £17m of shareholder capital, a £3m shareholder loan and £20m of bank facilities provided by two wholesale lenders, Shawbrook Bank (£10m) and Aldermore Bank (£10m). As previously noted, Shawbrook approved an increase in its facility to £15m in September 2020.

These are both block discount facilities, effectively overdrafts which Vector can draw down to finance new advances to its clients. It can access a proportion of each new advance if the terms satisfy the use of funds and LTV ratio criteria set out by the banks (see below). Vector, however, always retains full ownership and risk on all its loans.

Exhibit 17: Criteria for use of bank facilities

Type of security	% of Vector advance
Residential asset	80%
Commercial property (certain categories)	65%
Internal refurbishment and conversion	80%

Source: Company. Note: Max loan per customer of Aldermore (£0.6m) and Shawbrook (£0.8m)

Both facilities are agreed on an initial one-year term, with options (held by Vector) to extend for a further 12-months at maturity. Vector pays each bank a £50,000 pa arrangement fee for the agreed facilities above. Interest is based on its usage of each facility, which varies depending on the loan maturity, its pipeline of potential borrowers, use of its own funds, headroom available and covenants relating to overall group gearing.

Vector's loan book breaks down into four broad categories. The funding method, interest charged, and how interest is serviced is as follows:

Exhibit 18: Lending Categories

Category	Secured via 1st legal charge and max 70% LTV, 12 months term	Funding Source	Interest Servicing	Rate p.a.
1	Land with planning permission Development phase	Own equity	Rolled up	12-14%
2	Semi complete residential property with roof and window completed	Own equity & bank debt @ 6.5%	Part rolled up or monthly	12-13%
3	Office internal conversion to flats or residential refurbishments	Own equity & bank debt @ 6.5%	Part rolled up or monthly	11-12%
4	Residential or commercial purchase or finance	Own equity & bank debt @ 6.5%	Part rolled up or monthly	11-12%

Source: Company

Commission payable

Setup and renewal fees are between 0.5% and 2.0% of the loan value and are recognised when the loan has been issued or renewed. The fees cover the cost of brokers' commissions and loan administration.

Brokers' commission is different from loan to loan and is based on the broker's input, which can vary significantly. The broker collates the basic information Vector requires to process the application and enters it into the broker portal on the group's website. The variation also reflects the different fees charged by brokers. Vector generally seeks to retain a small margin on the fee to cover its own administration costs.

Illustrative facilities

The table below sets out examples or recent facilities and breaks down receipts and expenses across the lifespan of a typical advance.

Exhibit 19: Examples of returns from typical Vector loans

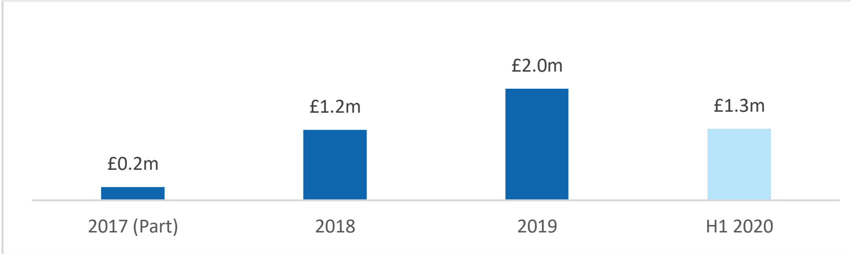
Initial loan	**£1,400,000**	**£250,000**	**£1,700,000**	**£120,000**
Fees				
Arr. Fee 2%	£28,000	£2,500	£34,000	£1,200
Set up	£250	£250	£250	£250
Broker fee 2%	(£28,000)	(£2,500)	(£34,000)	(£1,200)
Interest				
Loan term (days)	*331*	*529*	*582*	*344*
Interest rate	12.0%	11.0%	11.0%	10.0%
Interest received	£149,655	£39,843	£311,888	£11,277
Bank debt	(£600,000)	(£200,000)	(£500,000)	(£96,000)
Debt term (days)	*289*	*281*	*220*	*160*
Interest rate	6.7%	6.5%	6.5%	average 6.6%
Interest paid	(£31,972)	(£10,394)	(£19,671)	(£2,761)
Redemption fee	£250	£250	£250	£250
Final Margin	**£118,183**	**£29,949**	**£292,717**	**£9,016**
Gross return	8.4%	12.0%	17.2%	7.5%

Source: Company (all actual loans completed within the last two years)

Pre-tax profit and margins

The group has achieved a steady increase in pre-tax profit over the last three years.

Exhibit 20: Pre-tax Profit



Source: Company

The pre-tax margin can vary between periods based upon:

- Use of the group's owns funds vs draw down of facilities provided by Aldermore Bank and Shawbrook Bank, and interest rates charged. During the first half of 2019, interest cost increased as Vector made additional use of its Shawbrook facility to fund its loan book. An agreed increase in that facility also resulted in an additional £25,000 arrangement fee.
- Overheads, including employee costs. In September 2019, Vector put its directors on the VCP payroll and added to its employee complement. Additional employment costs in FY19 were £0.086m.
- Other fees. The group incurred £0.14m of professional fees in the period, including for VCP's incorporation.

The FY17 pre-tax margin was 77%. The decline to 68% (FY18) and 55% (FY19) reflects the use of bank funding to facilitate faster loan book growth.

Exhibit 21: Pre-tax margins

Year to 31 December	H120	FY19	FY18	FY17
Margins achieved	59.90%	54.73%	67.65%	76.76%

Source: Company

Shawbrook charged interest of 6.7% p.a. on advances made in FY18 and both Aldermore and Shawbrook 6.5% p.a. for all advances made in FY18. Aldermore has charged 6.5% p.a. for all advances made in FY19 and HY20. Shawbrook revised its interest rate to 6.5% p.a. for advances since January 2019.

Exhibit 22: Interest paid on bank facilities (£)

Year to 31 December	HY20	HY19	FY19	FY18	FY17
Finance costs	(526,088)	(331,024)	(792,467)	(174,947)	0

Source: Company

A small pick-up in H1 20 reflected new loans with higher interest rates issued towards the end of FY19 up to April 2020. There were no arrangement fees and a higher rate on loans advanced towards end FY19. In addition, the interest rate charged by Shawbrook fell from 6.7% pa (HY19) to 6.5% pa in the last five months of FY19 and into HY20.

In H1 20, due to the COVID-19 pandemic, some borrowers were unable to pay interest due. Interest payment holidays were provided in limited instances, but all of these borrowers had recommenced payments by July.

Operationally geared, expenses controlled

The group identifies no requirement for any significant increase in variable costs as the loan book scales up over the next two to three years. Debt interest payable reflects use of facilities, and the ratio of debt/equity used to finance new loans. The facilities provided by Shawbrook and Aldermore are at fixed rates, and there is no non-utilisation fee.

The cost ratio should consequently decline, and revenue growth translate into higher operating margins, benefiting from economies of scale:

- The bespoke IT platform and online portal is readily scalable, designed to facilitate growth in the loan book to £100m without a parallel increase in operating expenses, staff, or further IT infrastructure upgrade.

- Management's discussions have confirmed that other wholesale lenders would be interested to provide much larger facilities at reduced interest rates, once the business has attained a requisite scale.

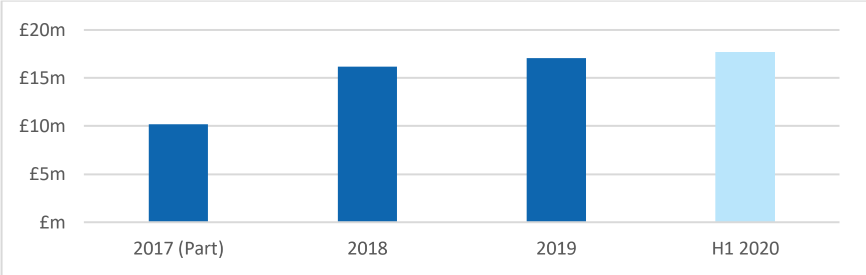
Cash flow

Cash generation should broadly match reported profit over an average 12-month period, with rolled up interest received when loans are repaid. Cash flow for FY18 and FY19 was primarily trading PBT of £1.24m and £1.97m respectively and support received from the ultimate parent company of £1.7m and £2.2m. These were offset by cash consumed by operations of £1.21m and £1.03m and £0.70m of dividends paid in FY19.

Balance sheet

Net assets were £17.7m (FY19) and £18.1m at end of June 2020. Cash balances were £0.34m (FY19) and £1.61m (HY20). The group's primary assets were loans outstanding and accrued interest receivable, totalling £34.2m at end FY19, £33.3m at end HY20. Liabilities include £16.5m (FY19) and £14.4m (HY20) owed to Aldermore and Shawbrook.

Exhibit 23: Net Assets at Period End



Source: Company

Appropriate balance sheet gearing is maintained via strict attention to advance LTVs and by securing all loans, substantially via first legal charges over residential or commercial property, held by the business applying for the loan. Vector does not generally issue loans against 2nd charges. In the case of residential property, an LTV up to 70% is acceptable as security. That figure is reduced to 65% maximum for commercial properties, 50% for land.

Loan book profile

Vector's loan book has evolved over the last 20 years. Its initial focus on loans secured on completed properties now includes advances for development and purchase. It reduced development lending during HY20 reflecting a more cautious attitude.

Exhibit 24: Total loans issued during the year

Year to 31 December		FY17		FY18		FY19		H1 20
	£m	%	£m	%	£m	%	£m	%
Business finance	5.82	46.5	5.83	27.6	9.19	27.3	6.72	20.5
Property acquisition	0.66	5.2	2.95	14.0	6.42	19.1	7.99	24.4
Change of use development	2.05	16.4	4.14	19.6	4.16	12.4	3.53	10.8
Land acquisition	2.30	18.4	1.20	5.7	2.12	6.3	2.70	8.2
Property new build	0.00	0.0	2.50	11.8	3.16	9.4	3.22	9.9
Re-financings	1.70	13.6	4.49	21.3	8.58	25.5	8.58	26.2
	12.53	**100.0**	**21.12**	**100.0**	**33.63**	**100.0**	**32.74**	**100.0**

Source: Company

New loans are approved selectively. Vector's lending criteria, underpinned by the terms set out by its own lenders, keeps LTV at 60-65% and it aims to limit its maximum loan size to £1m with any single customer. It will increase that to £2m, subject to liquidity available and customer's financial strength. The loan book at end FY18 and FY19 was as follows:

Exhibit 25: Loan Book

As at end December	2018	2019
Live loans	31	55
Aggregate loan book	£21.12m	£33.63m
Average loan	£0.68m	£0.61m
Largest facility	£1.70m	£2.08m
Average loan to value	51.8%	57.5%

Source: Company

The group's risk/return criteria is also reflected in interest rates typically between 10% and 16% p.a. In cases where a first charge is not available, interest rates could be higher, but in such cases, Vector would usually decline the proposal.

Although most available market data predates the pandemic and lockdown, the credit approval process considers the impact of a cyclical decline in values or transaction volumes on proposal viability, and the value and saleability of its security.

Vector typically offers facilities for an initial 12-month term. It may agree extensions if performance has been satisfactory and reserves the right to adjust the interest rate and improve its margin. The average loan term including extensions is typically around 14 months. Longer term facilities are more profitable than short-term bridging loans.

The purpose of facilities agreed will directly affect loan book growth and indirectly, aggregate margins. Vector can make most efficient use of its capital base and grow its loan book more rapidly if it focuses on the first category i.e., finances lending on an 80:20 debt to equity ratio and maximises its use of its two facilities. The AIM listing is intended to enable the group to access equity capital required to satisfy its own risk ratios and its lenders' LTV criteria.

Monthly cashflow reflects agreed interest payments. Vector's loan agreements specify how interest will be payable, its regularity, whether it is to be paid in cash or rolled up over the term. This is typically structured in line with underlying project cashflows. Vector's preference is to receive interest in cash every month, but developers may be able to roll up interest to retain cash available to fund construction. In such cases the interest rate charged may be higher.

Exhibit 26: Loan service structures

Loan Type	Interest payable
Purchase of property	Payable monthly by standing order, initial payment due one month after advance
Internal refurbishment	Monthly interest deferred for an initial six-month period. Amount equivalent to first six months interest will be deducted from initial advance. Cash interest payments will commence in month seven.
Development	Interest rolled up for duration of loan

Source: Company

The group did not experience any defaults up to end of FY19. In FY20 however, due to the impact of COVID-19, Vector allowed some of its clients to take a payment break with arrears to be made up later. There have been three defaults on principal payments in H120 and in two cases, interest was collected for majority of the period. Vector has enforced its security for these loans. It will provision c. £42,643 shortfall for one borrower and pursue any deficit via personal guarantees taken.

Competitive Positioning & Market Outlook

Vector's core competitive strengths pivot on its relationships with introducers, which value its flexibility and speed compared with larger lenders. Vector's track record is a key component of a brand trusted by brokers. This hinges upon:

Exhibit 27: Competitive Positioning
Functionality of IT bespoke infrastructure designed to be simple to use, robust and reliable.
Ability to provide quick 'decisions in principle', complete due diligence and finance loans from existing resources in a predictable timeframe.
Competitive commissions paid to introducers, arrangement fees and interest charges on its facilities

Source: Company/Allenby Capital

Vector's market does not appear to be primarily price driven. Commissions paid to brokers are at industry standard rates, so do not represent a source of differentiation for introducers. All other fees are transparent.

Interest rates are more important, but developers tend to be sufficiently experienced in their chosen sector to structure projects such that the development gain will more than absorb relatively high short-term interest rates on that part of the financing. This is reflected in steady rates of repeat business with existing borrowers, and it has not seen any material downward pressure on chargeable rates or arrangement fees over the last two to three years.

UK residential: key sensitivity

The performance of the UK residential market is a source of sensitivity for our forecasts and could potentially affect loan demand, project viability and the value of security. We have thus incorporated an adverse impact from the pandemic in our forecasts, despite the market's relatively robust performance over the last 12 months.

We see arguments for medium term caution despite the reported (Nationwide) 7.3% growth in house prices for 2020, which was the highest figure for six years. The outlook is tempered by the end of the stamp duty holiday at the end of March 2021 and the impact of rising unemployment. However, forecasters anticipate another strong performance during Q1, with growth in transaction numbers underpinned by the highest level of mortgage approvals for almost 14 years. There has been some reported tightening in criteria for first time buyers .

Although the recent surge in activity, particularly for homes valued between £0.4m and £0.5m may prove temporary, demand dynamics remain helpful i.e.:

- The medium-term outlook is underpinned by the underlying UK supply and demand imbalance.

- The residential market may be transformed over the longer term by government initiatives designed to streamline the UK planning regime and generate significant growth in the supply of new housing stock.

Non-regulated lending market remains conducive to loan-book growth

Vector's lending operation is modest relative to a competitive but massive, £45bn market. (Source: Association of Short Term Lenders). Total market loan origination fell by 12% (attributed to Brexit uncertainty) to £43.8bn in 2019, but Vector experienced steady demand and concluded £12.5m of net new lending. The group's loan book and its two to five-year growth targets represent miniscule proportions of both total UK residential lending and its specific niche. **It is thus confident that it can grow its loan book even in a less buoyant environment.**

The non-regulated lending market in the UK is currently being driven by the need for bridging loans and alternative financing solutions for SMEs. The demand for business loans has been confirmed by other alternative UK-based lenders such as Funding Circle. Although Funding Circle's P2P lending business model is quite distinct from Vector's, it is the leader in that market and has reported a significant increase in searches for business loans since the start of the coronavirus pandemic.

Commentary on non-bank lenders has noted some concern over access to funds to support new and existing lending, during a period of (a) greater uncertainty for residential valuations and (b) security of income on rented assets. Reduced liquidity for borrowers across various categories may in turn result in higher margins and stricter attention to acceptable LTV ranges. Residential buyer appetites may change due to lockdown experiences and affect the appeal of some new developments.

There is no direct peer group, but we would define Vector's competitive positioning in terms of the total UK market and distinctions between its loan categories and other lenders' portfolios:

- Not all loan providers operate in its space or offer matching products. Smaller lenders typically have their own lending criteria, focused on sub-categories and types of activity. There may be some overlap i.e. categories may include property purchase, refurbishment, development, conversion, re-finance, buy to let etc.

- Vector generally restricts its lending to a maximum of £1m to single borrowers. Its facilities require more 'hands on' credit assessment than ideal for a larger lender. Indeed, its ability to manage a 'messier' loan book profitably is a key source of differentiation and competitive advantage.

- Transactions which absorb Vector's core facilities are thus unlikely to be of interest to larger UK lenders and may indeed fall outside their lending criteria

How does recession affect UK residential?

The recession sparked by Covid-19 is the most severe experienced by the UK economy since World War II and opinions vary on the speed of any subsequent recovery.

Savills ('How UK residential behaves in downturns' 16 April 2020 - Savills Research) gives some perspective on the impact that severe recessions have had on UK residential property. Its data reveals that mainstream house prices fell in real terms during each of the past four economic recessions. In each case, residential values fell in inflation-adjusted terms and in the latter two, also in nominal terms. It focuses on four periods over the last seventy years when UK GDP has fallen significantly. These are:

Exhibit 28: Periods of severe GDP decline

Period	Event
1970s	Oil Crisis
1980s	Recession in early 1980s
1990s	Recession in early 1990s
2000s	Global Financial Crisis

Source: Savills data

Common factors that applied in each are (a) house prices continued to fall even after GDP returned to growth, possibly reflecting a time lag before consumer confidence recovers and (b) peak to trough house price falls were significantly above GDP declines.

The coronavirus pandemic will have a substantial negative impact on the UK economy but as its causes are unique, it is conceivable that recovery will also be different from prior experience. Subject to the course of the pandemic, the period from peak to trough is expected to be much shorter than the previous four recessions. Those took between five and eight quarters. On this occasion consumer confidence could take longer to recover.

Market transactions

Market liquidity is another potential issue, as Vector may need to sell assets held as security in the event of any borrower default.

During the Global Financial Crisis residential transactions fell from 1.5m (2007) to 0.65m (2009) a 57% decline in volumes. Thus far there has been no notable impact from the second national lockdown and according to Savills' data, demand from new buyers has remained ahead of supply.

At the inception of the pandemic, Savills' most negative illustrative scenario was a decline to 20% of the five-year average, or an implicit 58% fall in transaction volumes, a repeat of the financial crisis. It noted that the net supply of new residential stock has fallen either during or immediately post the last four recessions. After the Global Financial Crisis net housing delivery fell by 44%, with private housebuilders taking the brunt of that adjustment.

Valuation: well covered yield is key attraction

Yield is key differentiator

We see yield as the mainstay of the valuation, and potential dividend growth as a key differentiator between Vector and a selected peer group. The group is a relatively mature, self-sustaining business, with a proven and focused concept and financial model. That model can generate the consistent underlying cashflows necessary to support progressive distributions and organic growth.

A £1m distribution for FY20 including a final £0.6m, 1.4p/share dividend is equivalent to a 6.2% yield on the current £16.2m market cap. Based upon our projections, that is 8.2x FY20e EPS, falling to 7.8x for FY21e.

We have assumed that Vector will seek to maintain a twice covered dividend, which provides scope for a c. 10% increase in FY21. The balance of PAT will be retained to enhance the equity base and support loan book growth. There is modest other requirement for increased working capital as the business scales up.

Exhibit 29: Forecast P&L

Consolidated P&L					
Year to 31 December	**2017**	**2018**	**2019**	**2020e**	**2021e**
Continuing Operations					
Revenues	304	1,835	3,593	4,324	5,001
Cost of sales	(35)	(296)	(484)	(333)	(405)
Gross Profit	269	1,539	3,109	3,991	4,596
Administrative expenses	(24)	(123)	(350)	(547)	(856)
Operating Profit	245	1,416	2,759	3,444	3,740
Finance costs	(11)	(175)	(792)	(1,018)	(1,170)
Pre-tax Profit	234	1,241	1,967	2,426	2,570
Income tax	(45)	(236)	(374)	(460)	(488)
Profit After Tax	189	1,005	1,593	1,966	2,082
Earnings Per Share (p)					
Basic	**0.56**	**2.96**	**4.69**	**4.67***	**4.95**
Diluted	**0.56**	**2.96**	**4.69**	**4.67***	**4.95**

Source: Company, Allenby Capital *Proforma

Our analysis below also establishes that the group will be able to cover forecast dividend distributions if, because of the pandemic, loan book growth was more modest than anticipated. The track record underpins our confidence that the business will be a relatively robust performer across economic cycles. It has recorded continued demand for its products during and since the end of the UK lockdown.

Peer Group Comparables

Without particularly meaningful matches we would caveat any direct ‘peer’ comparison but have set out below a notional sector peer group with some, admittedly quite superficial business overlap with Vector Capital. There is also no broad consensus within this group to provide a guide to appropriate valuation multiples, yields or net asset backing i.e.:

- Some of the entities listed have exposure to UK residential markets, but via distinct business models which often have little directly in common with Vector. Operational and property related portfolios are broad, blending residential property and other assets.

- Ratings reflect the fact that some entities (OneSavings, Pollen Street, Secure Trust) are significantly larger than Vector. In other cases, comparative ratings reflect less developed businesses, recent underperformance, operations in wind-down or subject to potential bids.

We have used historic figures, to provide a more representative guide to normalised performance. We believe Vector is a focused business, underpinned by strong risk management credentials and a steady track record. Its underlying profitability, margins, and revenue quality should convert into free cashflow to both reinvest in loan book growth, and finance distributions.

The track records of the entities that were consolidated to create Vector Capital plc demonstrated an ability to compete for and win new business which fits its criteria. Their results combine steady organic growth from a proven business model, low default rates and fully secured exposure. Performance has been steady across economic and residential market cycles.

Exhibit 30: Peer group – comparable valuation data

Company	Code	Share Price (p)	Market Cap	Div/ share (Hist)	Dividend Yield (Historic)	Dividend Cover (Historic)	NAV (Diluted) (p)	Notes
Funding Circle	FCH	98.2	£343m	0.0	0.0%	-	91.6	Global SME loans platform
GCP Asset	GABI	90.8	£401m	6.2	6.8%	1.1x	101.0	Investor in asset backed loans
GLI Finance	GLIF	3.7	£12m	0.0	0.0%	-	13.3	Asset backed lender
Honeycomb	HONY	957.0	£350m	80.0	8.4%	1.0x	1022.5	Spec. lending fund in discussion re possible merger.
Metro Bank	MTRO	119.0	£205m	0.0	0.0%	-	664.0	Challenger bank
OneSavings Bank	OSB	419.0	£668m	0.0	0.0%	-	347.0	Challenger bank
Alternative Credit Investments	ACI	869.0	£641m	48.0	5.5%	1.0x	952.0	Investor in credit assets originated by non-bank lending platforms. Possible cash offer pending.
RM Secured Direct Lending	RMDL	88.5	£107m	6.5	7.3%	1.3x	91.0	Closed-ended investment trust, invests in secured debt instruments
Secure Trust	STB	910.0	£169m	0.0	0.0%	-	1350.0	Retail bank, business & consumer finance
TOC Property Backed Lending Trust	PBLT	86.0	£23m	0.0	0.0%	-	81.7	Secured lender
VPC Spec. Lend. Invs.	VSL	85.60	£245m	8.0	9.35%	1.0x	91.0	Asset backed lender

Source: Company annual reports, FT

Sensitivities and earnings resilience

Loan application levels remain steady

Vector reduced its internal lending target in 2020, in line with a more cautious approach from April to July. It however reports receipt of steady levels of suitable proposals, well secured by quality assets in line with LTV requirements.

The key issue we identify is sustainability of market demand for the kind of facilities the group offers, which enable it to continue to lend securely and profitably. A weak residential market, for example, might (a) undermine the profitability of development and refurbishment, (b) negatively impact demand for loans and (c) undermine external appraisals of assets offered as security. Those scenarios combined with stricter lending criteria to offset higher risk may constrain the supply of suitable proposals. We considered other sensitivities for our forecasts.

Exhibit 31: Assumptions – Variables

Churn rates	Although loans are not typically repaid earlier than anticipated, in a competitive market a borrower may be able to refinance facilities elsewhere on improved terms, and development completed, or units sold ahead of schedule.
Term to repayment	Vector may agree extensions to facility maturity dates if the loan continues to meet its underlying criteria. This may be accompanied by additional fees or an increase in interest rate for the remaining term. An agreement to roll up interest for repayment at the end of the facility term can also increase the profit on that transaction.
Competitive environment	The group already operates in a relatively crowded market, but the introduction of new lenders or products in the group's core markets could impact growth
Write downs and losses post default	Exposure is limited by the security held, but any significant increase in underlying project losses may reflect a tougher environment for borrowers and affect demand.
Capital efficiency	The purpose for which new advances are made may affect access to capital, loan book growth rate and profit margins. Subject to its own risk ratios Vector aims to maximise its use of its debt facilities. However, both lenders set strict criteria regarding use of that debt and where transactions approved by the group are not suitable, new lending must be funded from its own capital.

Source: Allenby Capital

To illustrate underlying earnings resilience, we modelled alternative financial projections on a range of scenarios and assumptions. These assess the prospective upside and confirmed Vector's capacity to **continue to generate positive returns and cover dividends** in slower markets, without sacrificing underlying longer-term potential. In outline, these scenarios were as follows.

Exhibit 32: Alternative scenarios for forecasts

1. Conservative projection	Base prediction for growth in loan book, in line with internal forecasts and current demand, adjusted for softer market and suspension of lending during lockdown
2. Increased weighting towards land and development	In this scenario, the group sees lower demand from its typical customer base for small refurbishments, but continued submission of fully criteria compliant proposals for land purchase and development loans. This category of lending is less attractive to Vector, as it is not acceptable to the two lenders who provide its facilities, so would be funded from equity. Although that would generate an attractive margin, the nature of these facilities means that interest will be rolled up and paid when the debt is redeemed. That reduces underlying cashflow.
3. Faster lending	Assumes £3m higher property loans, all acceptable to Vector's lenders, so higher bank facility utilisation and more efficient use of group balance sheet.
4. Depressed market	Illustration of the impact of a decrease in the aggregate loan book if market conditions deteriorate.

Source: Allenby Capital

These illustrated how different ratios of debt vs equity to fund growth and changes to the loan book composition impact margins and growth. We believe that these four forecast scenarios help to illustrate the consistency of the financial model and specifically, Vector's ability to generate a positive net result sufficient to cover our yield forecast.

- The bottom line is quite consistent; PAT is between c £2.1m on revised projections and £1.6m if demand for new loans proves softer than anticipated.
- Overheads remain consistent, apart from the cost of loan interest and commissions paid on new advances.
- The only significant addition to costs vs FY19 relates to ongoing expenses associated with Vector's status as a listed entity.

.

Summary forecasts

Exhibit 33: Consolidated P&L

Year to 31 December	**2017**	**2018**	**2019**	**2020e**	**2021e**
Continuing Operations					
Revenues	304	1,835	3,593	4,324	5,001
Cost of sales	(35)	(296)	(484)	(333)	(405)
Gross Profit	269	1,539	3,109	3,991	4,596
Administrative expenses	(24)	(123)	(350)	(547)	(856)
Operating Profit	245	1,416	2,759	3,444	3,740
Finance costs	(11)	(175)	(792)	(1,018)	(1,170)
Pre-tax Profit	234	1,241	1,967	2,426	2,570
Income tax	(45)	(236)	(374)	(460)	(488)
Profit After Tax	189	1,005	1,593	1,966	2,082
Earnings Per Share (p)					
Basic	0.6	3.0	4.7	4.7*	5.0
Diluted	0.6	3.0	4.7	4.7*	5.0

Source: Company, Allenby Capital. * Pro forma

Exhibit 34: Consolidated Statement of Financial Position

Year to 31 December	**2017**	**2018**	**2019**	**2020e**	**2021e**
Assets					
Non-Current Assets					
Fixed Assets				4	4
Investments					
Trade and other receivables	0	2,968	1,400	0	0
	0	**2,968**	**1,400**	**0**	**0**
Current Assets					
Trade and other receivables	12,639	19,980	32,851	36,914	40,000
Cash and cash equivalents	68	97	337	2,757	1,448
	12,707	**20,077**	**33,188**	**39,671**	**41,448**
Liabilities					
Current Liabilities					
Amount owed to parent company	1,623	0	527	3,000	1,000
Social security and other taxes	0	0		9	10
Other creditors [use of bank facilities]	559	5,695	16,391	14,812	16,500
Accruals and deferred income	46	39	209	160	100
Directors' current accounts	246	1		0	0
Trade and other payables		1		18	700
Tax payable	45	236	374	220	600
	2,519	**5,972**	**17,501**	**18,219**	**18,910**
Net Current Assets	**10,188**	**14,105**	**15,687**	**21,456**	**22,538**
Non-Current Liabilities					
Other creditors [use of bank facilities]	0	880	0	0	0
Net Assets	**10,188**	**16,193**	**17,087**	**21,456**	**22,538**
Shareholders' Equity					
Called up share capital	170	170	170	210	210
Share premium				19,405	19,405
Group reorganisation reserve	9,830	14,830	16,830	188	188
Retained earnings	188	1,193	87	1,653	2,7335
Total Equity	**10,188**	**16,193**	**17,087**	**21,456**	**22,538**

Source: Company, Allenby Capital

Exhibit 35: Consolidated Cash flow

Year to 31 December	2017	2018	2019	2020e	2021e
Cashflow from operating activities					
Cash generated from operations	(11,791)	(1,208)	(235)	(836)	3,231
Interest paid	(11)	(175)	(792)	(1,018)	(1,170)
Tax paid		(45)	(236)	(374)	(460)
Net cash from operating activities	**(11,802)**	**(1,428)**	**(1,263)**	**(2,228)**	**1,691**
Cashflow from financing activities					
Net IPO proceeds				2,575	
Advances from/(payments to) parent company	1,624	(3,297)	2,200	2,473	(2,000)
Advances from/(payments to) directors	246	(246)	2	0	0
Equity dividends paid		0	(699)	(400)	(1,000)
Issue of shares	10,000	5,000			
Net cash from financing activities	**11,870**	**1,457**	**1,503**	**4,648**	**(3,000)**
Increase in cash and cash equivalents	**68**	**29**	**240**	**2,420**	**(1,309)**
Cash/cash equivalents at beginning of year	0	68	97	337	2,757
Cash/cash equivalents at year end	68	97	337	2,757	1,448

Source: Company, Allenby Capital

PAGE LEFT INTENTIONALLY BLANK

PAGE LEFT INTENTIONALLY BLANK

Disclaimer

Research Recommendation Disclosure

David Johnson is the author of this research recommendation and is employed by Allenby Capital Limited as an Equity Analyst. Unless otherwise stated the share prices used in this publication are taken at the close of business for the day prior to the date of publication. Information on research methodologies, definitions of research recommendations, and disclosure in relation to interests or conflicts of interests can be found at www.allenbycapital.com. Allenby Capital acts as Joint broker to Vector Capital plc.

Allenby Capital, 5 St Helen’s Place London EC3A 6AB, +44 (0)20 3328 5656, www.allenbycapital.com