

Corporate

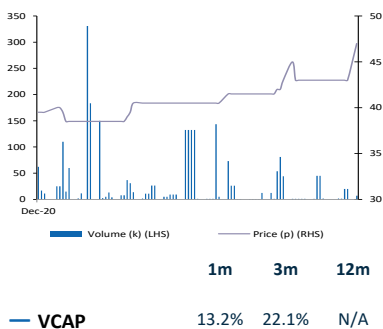
 Current price **43.50p**

 Sector **Financials/Financial Services**

 Code **VCAP.L**

 AIM **AIM**

Share Performance



Source: Thomson Reuters, Allenby Capital

Share Data

 Market Cap (£m) **18.1**

 Shares in issue (m) **42.05**

52 weeks High Low

47.0 **38.50**

 Financial year end **December**

Source: Company Data, Allenby Capital

Key Shareholders

 Vector Holdings **80.85%**

 Killik & Co LLP **4.07%**

 Helium **3.22%**

Source: Company Data, Allenby Capital

Allenby Research

0203 328 5666

research@allenbycapital.com

www.allenbycapital.com

Vector Capital plc (VCAP.L)

Recent IPO to build upon positive FY20 performance

VCAP listed at the end of December 2020, so these results don't reflect the benefit of an enlarged capital base post its £3.06m (gross) fundraise. It reported an 8.3% y-o-y increase in its loan book, to £36.4m, ahead of our forecast despite a pandemic inspired three-month suspension in new lending. It also reported 20% higher PBT despite certain expensed IPO costs and grew its gross margin, which we attribute to the intrinsic operational gearing in a readily scalable business. The current infrastructure has been built to manage up to a £100m loan book.

- Growth forecasts underpinned by IPO proceeds.** The group deployed its new capital in Q1 2021 and is on track to build its loan book, revenues, and EPS this year. Our growth forecast growth incorporates (a) normal full years i.e., no repeat of the pandemic-led disruption or temporary halt in new lending between April and June 2020; (b) higher lending which incorporate the funds raised at IPO; and (c) progressive optimisation of the loan book, specifically increased residential weighting which enables VCAP to make higher use of credit lines provided by its two banks.
- Finance in place, strong new business pipeline.** The current capital base and available debt facilities will finance forecast growth beyond the £36.4m year-end loan book, and there is a £5.7m pipeline and confirmed demand for residential finance. That is in line with our £40m end FY21e loan book target, and £43.5m for FY22. Steady lending margins, commissions and costs should translate into EPS growth to cover progressive increases in distributions.
- The pace of loan book growth will depend upon new facilities' continuing compliance with strict lending criteria. That includes prudent loan-to-value ratios, both for individual facilities and VCAP's aggregate exposure. The portfolio is diversified, with limited exposure to single facilities or borrowers. That is reflected in minimal bad debts despite challenges presented in 2020. Management confirms that it is seeing consistent demand for its facilities despite the competition, with no pressure on its criteria or margins.
- The 2.4p/share FY20 dividend is equivalent to a 5.6% yield, covered 2.3x times by earnings.** VCAP intends to pay progressive distributions; we forecast 2.6p/share for the current year. This represents a 6% prospective yield, again, very comfortably covered by forecast 4.9p of earnings.

Year End: 31 December

(£m)	2018	2019	2020	2021E	2022E
REVENUE	1.84	3.59	4.33	5.00	5.44
OPERATING PROFIT	1.42	2.76	3.37	3.73	4.14
OPERATING MARGIN	77%	77%	83%	82%	82%
PBT	1.24	1.97	2.35	2.57	2.68
YEAR END LOAN BOOK	21.1	33.6	36.4	40.0	43.5
EPS			5.58	4.92	5.16
DIVIDEND			2.4p	2.6p	2.8p
YIELD			5.6%	6.0%	6.4%

Allenby Capital acts as Nomad & Broker to Vector Capital plc (VCAP.L).

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

Steady growth in loan book, EPS, and key margin

We set out VCAP's business model, growth strategy and prospects in a detailed initiation (published 27 January 2021). To recap briefly, the group provides fully secured, business-to-business loans to SMEs based in England and Wales. The business has been built organically over the last 20 years by current management, which remains fully committed to the business. It raised £3.06m in a December IPO, which has built its equity base and enabled it to capitalise upon a pipeline of attractive new proposals, scale up its loan book and prospective earnings.

Agile lending model

VCAP's lending model is mature and well-tested but despite recent strong growth, it still has a minimal share of an enormous potential market. Advances are typically agreed for an initial 12-month term and although extensions may be permitted, the group seeks to turn over its loan book promptly. This results in an agile lending model, which continually realigns borrower's projects and VCAP's security to the market cycle. The existing loan book is performing in line with expectations.

Highly scalable business

An overview of FY20 results and KPIs set out below. This confirms growth in the loan book despite a challenging year, during which management took the decision to pause new lending between April and June 2020, while it assessed the impact of the pandemic. An improved gross margin reflects inherent operational gearing in a highly scalable business, post significant investment in IT infrastructure and staff. Higher admin expenses incorporates related salaries and certain IPO related costs. We have built ongoing salaries and additional PLC costs into our forecasts.

Exhibit 1: Summary results		
(£000s)	2020	2019
Revenue	4,325	3,593
Cost of sales	(321)	(484)
Gross profit	4,004	3,109
Other income	29	0
Administrative expenses	(668)	(350)
Operating profit	3,365	2,759
Finance costs	(1,018)	(792)
Profit before tax	2,347	1,967
Income tax	(445)	(374)
Profit after tax	1,902	1,593
Earnings per share - basic & diluted (p)	5.58	4.69

Source: Company

Loan book growth was reflected in an 8.3% y-o-y increase from £33.6m to £36.4m during FY20. We have assumed 10% growth this year, capitalising upon a strong pipeline and financed from existing resources i.e., cash and undrawn debt facilities. It sees sufficient demand from existing introducers to support further growth beyond that without relaxing its strict criteria, but that would require additional equity.

Exhibit 2: Financial KPIs		
	2020	2019
Loan Book growth	£2.7m	£12.5m
Live loans	63	55
Average loan size	£0.6m	£0.6m
Largest loan	£2.7m	£2.1m
Average Loan to Value	44.17%	57.46%
Average rate charged	11.50%	11.77%
Bad debts incurred in period	£0.04m	£0.00m

Source: Company

Exhibit 3: Consolidated P&L					
Year to 31 December (£000s)	2018	2019	2020	2021e	2022e
Continuing Operations					
Revenue	1,835	3,593	4,325	5,001	5,439
Cost of sales	(296)	(484)	(321)	(369)	(401)
Gross Profit	1,539	3,109	4,004	4,632	5,038
Other income			29	0	0
Administrative expenses	(123)	(350)	(668)	(904)	(900)
Operating Profit	1,416	2,759	3,365	3,728	4,138
Finance costs	(175)	(792)	(1,018)	(1,170)	(1,463)
Pre-tax Profit	1,241	1,967	2,347	2,558	2,675
Income tax	(236)	(374)	(445)	(487)	(507)
Profit After Tax	1,005	1,593	1,902	2,071	2,168
Earnings Per Share (p)					
Basic	5.91	4.69	5.58	4.92	5.16
Diluted	5.91	4.69	5.58	4.92	5.16

Source: Company; Allenby forecasts

Exhibit 4: Consolidated Statement of Financial Position					
Year to 31 December (£000s)	2018	2019	2020	2021e	2022e
Assets					
Non-Current Assets					
Property, plant, and equipment			4	4	4
Trade and other receivables	2,968	1,400	0	0	0
	2,968	1,400	4	4	4
Current Assets					
Trade and other receivables	19,980	32,850	36,963	40,000	43,500
Cash and cash equivalents	97	337	2,569	4,465	5,453
	20,077	33,187	39,532	44,465	48,953
Liabilities					
Current Liabilities					
Trade creditors			18	50	50
Amount owed to parent company	0	526	3,000	3,000	3,000
Social security and other taxes	0	9	9	10	10
Other creditors [use of bank facilities]	5,694	16,507	14,814	18,500	22,000
Accruals and deferred income	41	81	189	150	150
Directors' current accounts	1	3	0	0	0
Trade and other payables	5,736	17,126	18,030	21,710	25,210
Tax payable	236	374	205	487	507
	5,972	17,500	18,235	22,197	25,717
Net Current Assets	14,105	15,687	21,297	22,268	23,236
Non-Current Liabilities					
Other	880	0	0	0	0
Net Assets	16,193	17,087	21,301	22,272	23,240
Shareholders' Equity					
Called up share capital	170	170	210	210	210
Share premium		16,830	19,502	19,502	19,502
Group reorganisation reserve	14,830	188	188	188	188
Retained earnings	1,193	(101)	1,401	2,372	3,340
Total Equity	16,193	17,087	21,301	22,272	23,240

Source: Company; Allenby forecasts

Exhibit 5: Consolidated Cash flow					
Year to 31 December (£000s)	2018	2019	2020	2021e	2021e
Cashflow from operating activities					
Cash generated from operations	3,775	(236)	(913)	4,816	4,351
Interest paid	(158)	(792)	(1,018)	(1,170)	(1,463)
Tax paid	(45)	(236)	(614)	(650)	(700)
Net cash from operating activities	3,572	(1,264)	(2,545)	2,996	2,118
Cashflow from investing activities					
Purchase of tangible fixed assets			(5)		
Net cash from investing activities			(5)		
Cashflow from financial activities					
Advances from/(payments to) parent co.	(3,297)	2,200	2,473	0	0
Advances from/(payments to) directors	(246)	3	(3)	0	0
Issue of new shares			2,712	0	0
Equity dividends paid	0	(699)	(400)	(1,100)	(1,200)
Net cash from financing activities	(3,543)	1,503	4,782	(1,100)	(1,200)
Increase in cash and cash equivalents	29	240	2,232	1,896	17
Cash/cash equivalents at beginning of year	68	97	337	2,569	4,465
Cash/cash equivalents at year end	97	337	2,569	4,465	5,453

Source: Company; Allenby forecasts

Disclaimer

Allenby Capital Limited (“Allenby”) is incorporated in England no. 6706681; is authorised and regulated by the Financial Conduct Authority (“FCA”) (FRN: 489795) and is a member of the London Stock Exchange. This communication is for information only it should not be regarded as an offer or solicitation to buy the securities or other instruments mentioned in it. It is a marketing communication and non-independent research, and has not been prepared in accordance with the legal requirements designed to promote the independence of investment research, and is not subject to any prohibition on dealing ahead of the dissemination of investment research. The cost of Allenby research product on independent companies is paid for by research clients.

This communication is for the use of intended recipients only and only for distribution to investment professionals as that term is defined in article 19(5) of The Financial Services and Markets Act 2000 (Financial Promotion) Order 2005. Its contents are not directed at, may not be suitable for and should not be relied upon by anyone who is not an investment professional including retail clients. Any such persons should seek professional advice before investing. For the purposes of this communication Allenby is not acting for you, will not treat you as a client, will not be responsible for providing you with the protections afforded to clients, and is not advising you on the relevant transaction or stock. This communication or any part of it do not form the basis of and should not be relied upon in connection with any contract.

Allenby uses reasonable efforts to obtain information from sources which it believes to be reliable. The communication has been prepared without any substantive analysis undertaken into the companies concerned or their securities, and it has not been independently verified. No representation or warranty, express or implied is made, or responsibility of any kind accepted by Allenby its directors or employees as to the accuracy or completeness of any information in this communication. Opinions expressed are our current opinions as of the date appearing on this material only and are subject to change without notice. There is no regular update series for research issued by Allenby.

No recommendation is being made to you; the securities referred to may not be suitable for you and this communication should not be relied upon in substitution for the exercise of independent judgement. Neither past performance or forecasts are a reliable indication of future performance and investors may realise losses on any investment. Allenby shall not be liable for any direct or indirect damages including lost profits arising from the information contained in this communication.

Allenby and any company or persons connected with it, including its officers, directors and employees may have a position or holding in any investment mentioned in this document or a related investment and may from time to time dispose of any such security or instrument. Allenby may have been a manager in the underwriting or placement of securities in this communication within the last 12 months, or have received compensation for investment services from such companies within the last 12 months, or expect to receive or may intend to seek compensation for investment services from such companies within the next 3 months. Accordingly, recipients should not rely on this communication as being impartial and information may be known to Allenby or persons connected with it which is not reflected in this communication. Allenby has a policy in relation to management of conflicts of interest which is available upon request.

This communication is supplied to you solely for your information and may not be reproduced or redistributed to any other person or published in whole or part for any purpose. It is not intended for distribution or use outside the European Economic Area except in circumstances mentioned below in relation to the United States. This communication is not directed to you if Allenby is prohibited or restricted by any legislation or registration in any jurisdiction from making it available to you and persons into whose possession this communication comes should inform themselves and observe any such restrictions.

Allenby may distribute research in reliance on Rule 15a-6(a)(2) of the Securities and Exchange Act 1934 to persons that are major US institutional investors, however, transactions in any securities must be effected through a US registered broker-dealer. Any failure to comply with this restriction may constitute a violation of the relevant country’s laws for which Allenby does not accept liability.

By accepting this communication, you agree that you have read the above disclaimer and to be bound by the foregoing limitations and restrictions.

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 Nomad and broker to Vector Capital plc.

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