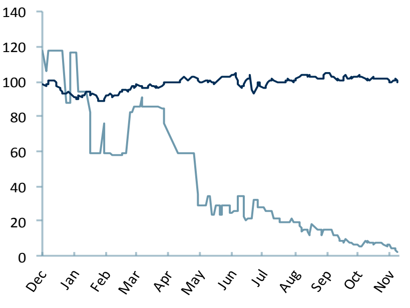
ESTIMATES

VALUE RANGE

USD 5.42 – 5.70



IEGHD 12m Price Rel. vs. OTCQX Composite (darker)

Monday, 14 November 2016

Intrinsic Price	$5.56
Value Range Low	$5.42
Value Range High	$5.70
Implied MCAP (m)	$53.75
Implied EV (m)	$53.26
OTCQX Index	IEGHD
Financial YE	31-Dec
Currency	USD

Business Activity

Consumer retail near-prime lending

Key Metrics

Close Price	$2.18
MCAP (m)	$21,087
Net Debt (Cash) (m)	-$0.486
EV (m)	$20.60
52 Wk Hi	$100.00
52 Wk Lo	$4.60
NAV trailing	$0.86

Key Ratios

S/P premium to NAV	154.69%
Charge off	11.91%
(Net Cash) / Shareholder Equity %	-5.86%

Financials Sector Research

OTCQX Best Market Index

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IEG Holdings Corp. Initiation

Step Up to Sustainable Growth

IEG Holdings is listed on OTCM's OTCQX (OTCQX:IEGHD) growth market and is an online consumer micro-lending provider with two products - a USD 5,000 and a USD 10,000 five-year term loan. IEGH serves the retail underbanked US market. The online brand is Mr. Amazing Loans, a brand that does what it says on the tin, distinguishing it from competitor brands. IEGH has embarked on a rapid growth path via its new distribution and customer acquisiton strategy – an online platform and 18 US state lending licences YTD. Interest rates on IEGH loans are socially acceptable (av. APR 28.9%). The market segment is growing handsomely both organically and via obsolescence of other loan segments. The core management team is highly experienced within the sector.

- Market 3 year CAGR (2012-2014 37% growth over 3 years);
- 18 state licences achieved, 25 targeted in total;
- Online only distribution launched 2013;
- Cumulative loan book 01 Nov 16A USD 13.9m up from 0.6m 1 Jan 14A;
- Breakeven, EBITDA, Net Income and FCF positive by FY17E.

	Revenue	EBITDA	FCF	EPS	EPS (diluted)	CPS
2016E	2,299	-2,204	-2,095	-0.37	-0.35	-0.22
2017E	4,599	1,699	1,469	0.01	0.01	0.15

Multiples	EV/ Revenue	EV/ EBITDA	EV/ FCF	P/ EPS	P/ EPS (diluted)	P/ CPS
2016E	8.96x	-9.35x	-9.83x	-5.94x	-6.31x	-10.07x
2017E	4.48x	12.13x	14.02x	253.66x	269.71x	14.35x

14/11/2016

Share Price History	No. of Shares in issue	Fully diluted
NoSh (m)	967.3	1,028
Implied Intrinsic Price	$5.56	$5.23
Value Range Low	$5.42	$5.10
Value Range High	$5.70	$5.36
OTCQX	IEGH	
Financial YE	31-Dec	
Reporting Currency	USD	

NoSh (m)	967.3
NoSh (m) expected dilution (Exp D)	967.3
NoSh (m) full dilution (FD)	1,028

Key Metrics		adj.
MCAP (m)	$21.1	$21.1
Net Debt (Cash) (m)	-$0.49	-$0.49
EV (m)	$20.6	$20.6
52 Wk Hi	$100.0	$94.0
52 Wk Lo	$4.60	$4.33
Free Float	20%	20%

*Key Metrics FCF adj.	2016E	2017E
CPS (USD)	-0.22	0.15
CPS (Exp D) (USD)	-0.22	0.15
CPS (FD) (USD)	-0.20	0.14
P/CPS	-25.7x	34.4x
P/CPS (Exp D)	-25.7x	34.4x
P/CPS (FD)	-27.3x	36.6x

Above we show full dilution (FD) and expected dilution (Exp D). IEGH shares in issue at the date of this note are 9,672,726. We assume there are not dilutive effects over our 5-yr valuation horizon. Note that the 52wk high price of USD 100 is before IEGH's 2016 forward and reverse splits.

Investment Case

Competitive background

IEGH is a disruptive concept that we expect to become a force in the consumer near prime loan market (no subprime lending). The Company has a highly focussed offering - USD 5,000 or 10,000 five-year mid-term consumer credit loan, distributed online with an average APR of 28.9% vs. pay-day competitor loan rates of 400% and above. We are of the view that the pay-day lenders will come under increasing regulation globally, forcing down their APRs and so RoEs.

Licence barrier - In order to distribute unsecured credit loans IEGH must obtain a licence from each individual US state. IEGH has 18 state licences to date and is aiming for 25. Of the additional 8 licences targeted, the first (Maryland), was secured 1st Nov. 16. Public data suggests 25 State licences will convey online marketing access to 240m inhabitants. The barrier to entry created by the State licensing process suggests that few single person operators can enter the market, limiting competition to larger players.

Low distribution costs online - The online strategy lowers costs of customer acquisition (CCA), makes the company highly scalable and suggests that once IEGH hits breakeven, incremental revenue will rapidly fall through to EBITDA and FCF. Our estimates reflect this view.

Growth market – The FDIC estimated in 2013 that 1 in 13 US households were underbanked (7.7% of pop. or 9.6m households). The Centre for Financial Services (CFS) estimated that IEGH's product category – short term credit – grew 37% from 2012-14 whilst single- payment credit, the primary competing product category grew 0.1%. Given statistical error, this suggests to us that the single lump-sum repayment market is probably contracting in favour of IEGH's instalment based market. A real contraction in the lump-sum consumer loan market is an opportunity for IEGH to cannibalise (win market share) from indirect competitors.

Subprime loan market value – this market can be broadly broken into two product categories – short term credit and single repayment loans (where the entire loan is paid down by the borrower in one payment). The market size of short term credit products was estimated in 2014 at USD 29bn in the US market and growing. The market for single payment credit was estimated at USD 38bn in 2014 and contracting in favour of short term credit products. According to IEGH management, the US short term credit market already generates twice the revenue of the US single payment credit market.

Management skill - CEO and founder Paul Mathieson and COO Carla Cholewinski have considerable experience in the industry.

Catalysts

Breakeven FY17E; removal of going concern note in accounts (achieved); move up to NYSE market; fund raising; accelerated organic growth; acquisition growth.

Operational Strategy

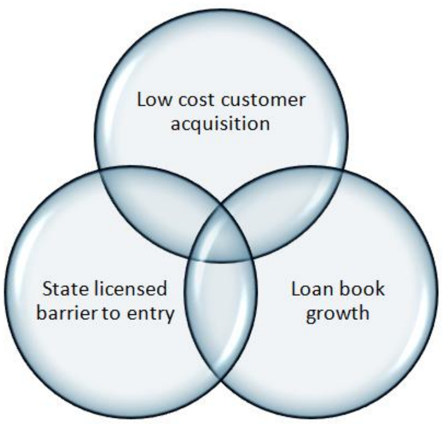
CEO and founder Paul Mathieson and COO Carla Cholewinski have considerable experience in the consumer loan and financial services and banking industries. Mr. Mathieson has already tested the Mr. Amazing Loans brand and concept successfully in the very small Australian market (5m households and no regulatory framework to permit online distribution) before migrating his business plan to the US. The US market opportunity is considerable and is capable of providing IEGH with growth opportunities for some time.

● **Online distribution** - The availability of a regulatory framework in the US for online distribution leads to lower customer cash cost of acquisition (CCA). Therefore, the US market provides a huge opportunity with higher growth, lower costs, more cost effective access to lending capital and so a consequently higher potential RoE compared to most other territories.

● **Licenses targeted** - IEGH currently has micro-lending licences for its unsecured USD 5,000 five-year term fixed rate loans in 18 US states. The first 17 licences cover over 56% of the US market by population. The additional 8 licences targeted by IEGH bring access to 75% of the US market by population or 240m people. Management is aiming to reach 25 US sate licences by mid-calendar 2017. These next two licences, in combination with the 1st Nov. 16 Maryland licence win, add around 18m people (4.5m households) to whom IEGH can potentially market its products online under the Mr. Amazing Loans brand (www.mramazingloans.com)

● **Thin staff structure** - The Company currently employs 7 people and distributes its loan products online in order to keep customer acquisition costs low via cost per click advertising leading to online lead generation. As such, and following discussions with management, we don't expect IEGH to hire more staff prior to break-even. Post break-even we expect revenues will (largely) fall through to EBITDA and FCF.

Exhibit 1: **Online platform at the centre of a virtuous IEGH circle**



Source: ACF Estimates, Company Reports;

Exhibit 2: **Customer CCA online advantage**

	CCA Online %			CCA Traditional media %		
	4%	5%	6%	8%	9%	10%
USD						
Loan Principal	5,000	5,000	5,000	5,000	5,000	5,000
Cash CCA	200	250	300	400	450	500
Loan Revenue	5,975	5,975	5,975	5,975	5,975	5,975
Cash CCA	239	299	359	478	538	598

Source: ACF Estimates, Company Reports;
*CCA – Cash Cost of Acquisition of loan customers

● **Position concentration risk off-set** - We conclude from our discussion with management that COO Carla Cholewinski (also Chief Credit Officer) is responsible for the day to day processing of the loan book and CEO Founder Paul Mathieson checks the end of day close position and VAR. Daily book keeping is outsourced. Carla Cholewinski carries out the end of month reconciliation. Each State also audits the loan book for loans taken out in that State.

Audits are completed within 25 days of the close of the month. In this way a 7-person company with one office reduces the risk problem of only a closed insider circuit of audit processes. CEO Founder Paul Mathieson is not involved in day to day operations over and above loan position and VAR checks at the close of business each day. In addition, each sate carries out its own audit at any time “without notice” and at least one time per year.

As a result, we conclude that in spite of a concentration of powers within the core management team, there is a comprehensive system and process to ensure effective outside oversight.

● **Market development** - The CFS suggests that upcoming regulatory changes will make the single lump-sum consumer loan payment market unattractive to operate. This suggests that investment in the lump-sum repayment market is probably on hold or diverted to IEGH’s market. As such though the opportunity grows, IEGH will face commensurate increasing competition.

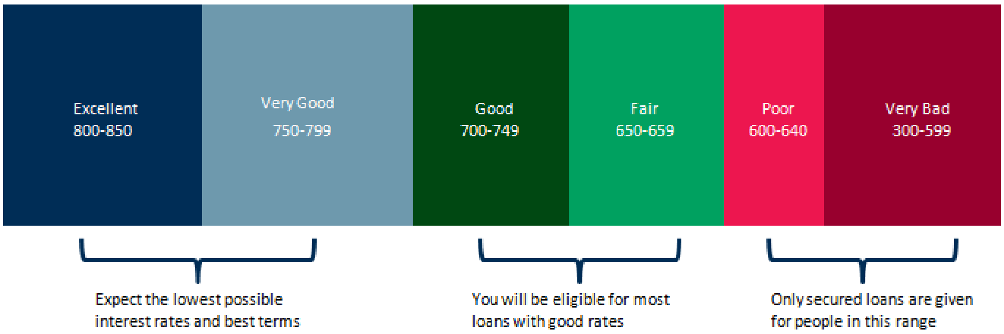
● **Client selection criteria** – IEGH only lends to customers above 600 on the credit scoring exhibit below. Historically some loan customers had lower credit scores.

● **Lead generation** – Online customer acquisition is the driving force and much of the marketing and loan approval process is fully automated. During 2014 the Company moved to using search engine optimisation, advertising, banner advertising and remarketing for lead generation. Criteria for qualifying leads and pre-approval for loans includes online capture of income, employment, banking identification, and a soft credit pull. If a lead passes the pre-approval process, the potential customer is then asked to authorise a full credit report from Experian and to verify employment.

Numerous other credibility checks are run including IP address verification of geographic location. At this point preliminary underwriting is completed, a process that is fully automated.

The second underwriting step includes the analysis of 60-90 day bank statements, which the company uses to identify other debts and liabilities including “undeclared/off balance sheet” personal debts hidden from standard credit reports. The quality of potential client’s money management is also assessed. If the potential client passes all steps the underwriter recommends final approval.

Exhibit 3: **ACF’s normalised credit score range**



Source: ACF Estimates, credit scoring agencies;

Exhibit 4: **Loan receivable balances vs. credit score change**

Credit Score	3Q16A USD	4Q15A USD	3Q16A mix	4Q15A mix	Delta pp 4Q15A 3Q16A
550-575	21,619		0.26%	0.00%	0.26%
576-600	195,543	149,056	2.37%	1.84%	0.53%
601-650	3,693,022	3,397,512	44.74%	41.89%	2.85%
651-700	3,166,855	3,230,308	38.37%	39.83%	-1.46%
701-750	938,472	1,097,225	11.37%	13.53%	-2.16%
751-800	168,883	185,840	2.05%	2.29%	-0.25%
801-850	52,813	31,888	0.64%	0.39%	0.25%
851-900	16,283	18,248	0.20%	0.23%	-0.03%
Total	8,253,490	8,110,077	100%	100%	
Growth %	1.77%				

Source: ACF Estimates, Company Reports;

Exhibit 5: **IEGH borrower demographic YE15A**

Demographic	Minimum	Maximum	Average
Credit score	575	899	651
Income USD	24,000	273,396	61,750
Age	21	84	43

Source: ACF Estimates, Company Reports;

Exhibit 6: **IEGH loan metrics**

State Licences 17	Origination Vol ($)	Current Principal ($)	APR (%)	Revenue run rate FY15A	No. of Loans
Alabama	35,000	34,664	29.9	10,365	7
Arizona	727,000	499,489	24.9	124,373	111
California	390,000	364,130	29.9	108,875	74
Florida	2,085,000	1,456,854	23.9	348,188	314
Georgia	1,128,023	821,007	29.9	245,481	166
Illinois	1,281,000	881,007	29.9	263,421	180
Kentucky	-	-	23.9	-	-
Louisiana	10,000	9,895	28.9	2,860	2
Missouri	293,000	238,474	29.9	71,304	48
Nevada	1,403,000	794,213	29.9	237,470	181
New Jersey	1,277,000	982,578	29.9	293,791	197
New Mexico	20,000	19,460	29.9	5,819	4
Oregon	190,000	179,190	29.9	53,578	35
Pennsylvania	540,000	489,623	29.9	146,397	94
Texas	735,000	669,710	27.9	186,849	122
Utah	45,000	38,624	29.9	11,549	7
Virginia	830,000	633,874	29.9	189,528	125
Total (USDk)	10,989	8,113	(%)	2,300	1,667
Average	646	477	28.7	135	98.1
Median	540	490	29.9	124	94

Source: ACF Estimates, Company Reports;

Management Team

- **Founder, Executive Chairman, CEO and CFO, Paul Mathieson.**

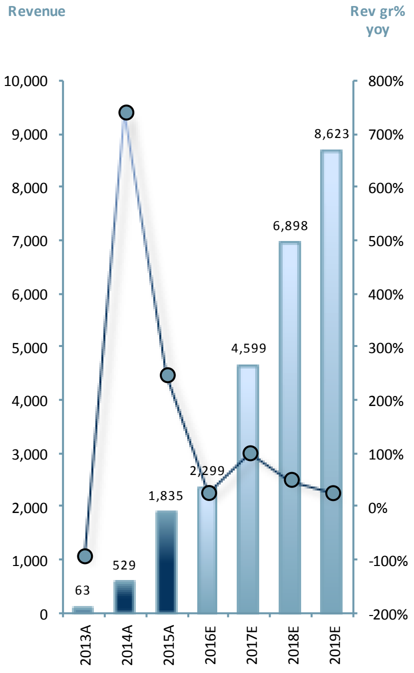
Paul Mathieson founded IEG Holdings Limited in Sydney, Australia which launched the Amazing Loans business in Australia in 2005 and the Mr. Amazing Loans business in the United States via IEGC in 2010. In recognition of IEG Holdings Limited's success, Mr. Mathieson was awarded Ernst & Young's 2007 Australian Young Entrepreneur of the Year (Eastern Region). Mr. Mathieson has over 21 years finance industry experience in lending, funds management, stock market research and investment banking. He has worked with Daiwa Securities, Hogan & Partners and ING Barings amongst others.

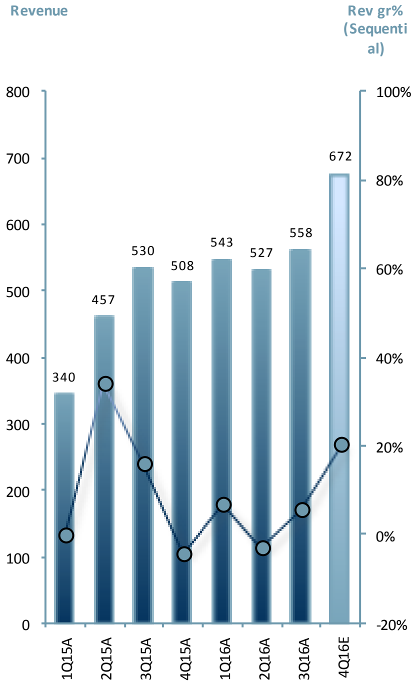
Paul also founded and was Managing Director of IE Portfolio Warrants, an Australian equities funds management business. Paul holds an undergraduate degree in Commerce from Bond and a Masters of Applied Finance from Macquarie Universities.

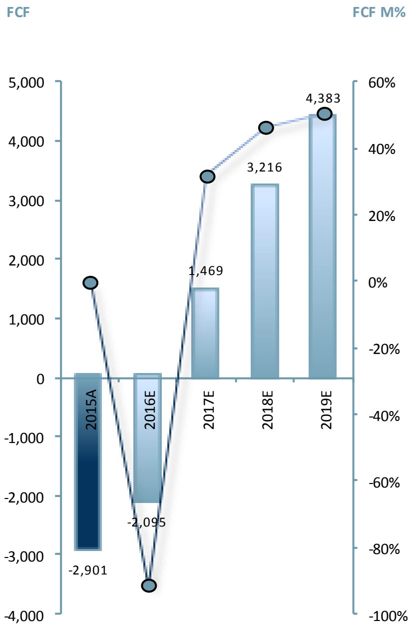
- **COO and Chief Credit Officer, Carla Cholewinski.**

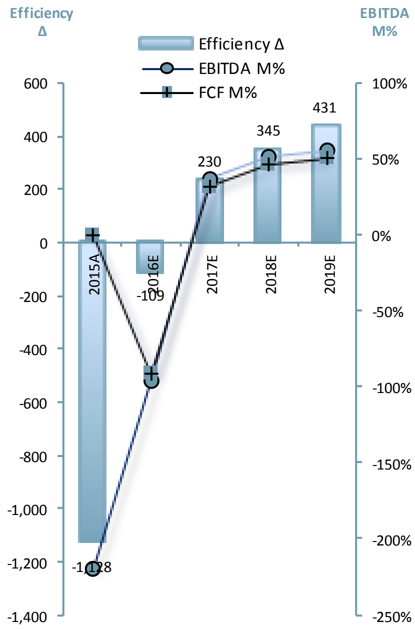
Carla Cholewinski has served as IEGH’s COO and Chief Credit Officer since 2008. Carla has over 37 years’ experience in the finance industry including banking, credit union management, regulatory oversight, debt securitization and underwriting. She has worked in senior roles with organisations including Glendale Federal Bank, California Federal, First Choice Financial Services, WesStar Credit Union and served as Chief Lending Officer for American Corp & Funding. Carla was also Chief Credit Officer for Security State Savings Bank and Fifth Street Bank. Carla’s extensive finance, banking and regulatory experience has been key to scaling IEGH in the US since launch.

Forecasts









Our forecasts are based upon management guidance and our own sensitivity analysis. We focus on cash proxies (EBITDA) and free cash flow (FCF). However, Net Income remains important for assessing elements of balance sheet strength, nevertheless we are strongly of the view that only cash matters.

Valuation

ACF est. USD (k)	2015A	2016E	2017E	2018E	2019E
Revenue	1,835	2,299	4,599	6,898	8,623
EBITDA	-4,029	-2,204	1,699	3,562	4,814
Net Income	-6,009	-3,553	83	1,622	2,490
FCF	-2,901	-2,095	1,469	3,216	4,383
CPS (diluted)	-0.30	-0.22	0.15	0.33	0.45

Note: FY19E revenues decline due to forecast asset sales that lead to a rise in EBITDA and FCF.

IEGHD WACC Calc	
Pre-tax cost of debt	5.4%
ETR	40.0%
After-tax cost of debt	3.2%
Current Leverage	
Debt	-2.3%
Equity	21,087
Target Leverage	
D / (D+E)	0.0%
ACF β adj levered	1.39
rf	0.80%
Rm	6.2%
ERP	5.4%
Cost of equity	8.31%
Risk adj.	0.00%
WACC	8.31%

*Bloomberg ticker indicates ACF market ERP

Note: We assume the conservative Debt / Equity target mix 0%. It is likely that IEGH will raise this target ratio in the future.

We have used an adjusted beta derived from the median beta of our consumer lending financials peer group derived from NYSE and OTCM. Our peer group median beta is 1.39. IEGH is currently debt free and whilst looking for debt funders for its loan book business it has no immediate plans to raise further debt as the loan book growth is currently funded by equity sales. It is likely in the current market that a Debt/Equity mix of greater than 0% would lower the WACC for IEGH, leading to a potential upwards revision of our valuation.

Valuation Range		
NPV FCF (k)	12,066	
NPV TV FCF (k)	41,198	
EVF (k)	53,265	
TV Mulitple	12.0x	
% TV of total NPV	77.35%	
Net Debt (k)	-486	
Fair Value (k)	53,750	
NoSh (m)	9,672.73	
NoSh (diluted) (m)	10,284.93	
Intrinsic Value Per Share USD	5.56	
Close Price USD	2.18	
VR (low - high)	**5.42**	**5.70**
VR Spread	5.00%	
Implied VR Return (low - high)	148.5%	161.3%

Note: Close price on front page of this ACF research note is based on shares in issue (NoSh) on 10/11/2016 of 9,672,726.

Sensitivity Analysis

Based on comprehensive discussions with management we have forecast a 100% jump in revenues during FY17E. Management have also made aggressive structural and short run cuts to SGA underpinned by a cut in money raising activities for FY17E leading to our forecast for breakeven during FY17E and FCF and Net income positive for the full year. We have reduced calculated a WACC of 8.31%, which we believe is reasonably aggressive and underpins a modest valuation range. In addition, our FCT TV multiple of 12x, is somewhat lower than many growth companies enjoy and we shall review this upon the trigger of any or some of our catalysts in our investment case above. Our sanity check organic perpetuity real growth rate forecast for EBITDA is 3%, we view this as modest but even so it suggests an implied VR of USD 5.79 – 6.35, which is between 6.8% and 11.4% above our TV multiple DCF VR of 5.42 – 5.70 published in this note.

Exhibit 7: **IEGH multiples based on close price**

	Revenue	EBITDA	FCF	EPS	EPS (diluted)	CPS	CPS (diluted)
2016E	2,299	-2,204	-2,095	-0.37	-0.35	-0.22	-0.20
2017E	4,599	1,699	1,469	0.01	0.01	0.15	0.14

Multiples	EV/ Revenue	EV/ EBITDA	EV/ FCF	P/ EPS	P/ EPS (diluted)	P/ CPS	P/ CPS (diluted)
2016E	8.96x	-9.35x	-9.83x	-5.94x	-6.31x	-10.07x	-10.70x
2017E	4.48x	12.13x	14.02x	253.66x	269.71x	14.35x	15.26x

Source: ACF Research Estimates.

Exhibit 8: **WACC/Multiple table shows longer-term valuation potential**

Our EBITDA perpetuity growth of 3% at a WACC between 8% and 9% valuation check suggests a Value Range (VR) USD 5.78 – 6.34 per share, higher than our published VR in this note of USD 5.41 – 5.69 p/s.

Share Price

Terminal EBITDA Growth \ WACC	5.00%	6.00%	7.00%	**8.00%**	9.00%	10.00%
0.00%	9.14	7.84	6.90	6.20	5.66	5.22
1.00%	9.22	7.90	6.96	6.25	5.70	5.26
2.00%	9.30	7.97	7.01	**6.30**	**5.74**	5.30
3.00%	9.38	8.03	7.07	**6.35**	**5.79**	5.34
4.00%	9.46	8.10	7.13	**6.40**	**5.83**	5.38
5.00%	9.54	8.16	7.18	6.45	5.88	5.42
6.00%	9.62	8.23	7.24	6.50	5.92	5.46

Source: ACF Research Estimates.

Exhibit 8 above shows the valuation range based on perpetuity EBITDA growth, whereas our actual DCF calculation uses a TV multiple derived from discounted FCF.

Peer Group Comparators

Exhibit 9: **Trailing IEGH peer group metrics**

Trailing 15A Metrics / Company Name	Market	MCAP (m)	Div %	EBITDA / M%	MCAP / REVS	MCAP / EBITDA	MCAP / NI
IEG Holdings Corp	**OTCQX**	**21.09**	**0.0%**	**-219.53**	**11.49x**	**-5.23x**	**-3.70x**
World Acceptance	NASDAQ	558.84	0.0%	26	1.00x	3.86x	6.39x
Enova International	NYSE	340.76	0.0%	21.88	0.52x	2.39x	7.75x
LendingClub Corp	NYSE	2.52	0.0%	1.98	0.00x	0.13x	-0.50x
Regional Management	NYSE	284.91	0.0%	26.75	1.31x	4.90x	12.20x
Average			**0.00%**	**19.15%**	**0.71x**	**2.82x**	**6.46x**
Median			**0.00%**	**23.94%**	**0.76x**	**3.12x**	**7.07x**

Source: ACF Research Estimates; Companies reports; Factset.

Exhibit 10: **Trailing IEGH peer group consumer lending metrics**

Trailing 15A Metrics / Company Name	Market	MCAP (m)	Gross Debt / Assets	Gross Debt / Equity	RoA %	RoE %	RoI %
IEG Holdings Corp	**OTCQX**	**21.09**	**-1.61**	**-2.71**	**-20.29**	**-31.75**	**-43.20**
World Acceptance	NASDAQ	558.84	46.47	95.61	10.45	24.71	11.04
Enova International	NYSE	340.76	64.47	263.10	5.50	24.44	6.01
LendingClub Corp	NYSE	2.52	78.91	438.79	-0.10	-0.50	-0.11
Regional Management	NYSE	284.91	N/A	N/A	4.04	12.18	4.12
Average			**63.28%**	**265.83%**	**4.97%**	**15.21%**	**5.27%**
Median			**64.47%**	**263.10%**	**4.77%**	**18.31%**	**5.07%**

Source: ACF Research Estimates; Companies reports; Factset.

Our IEGH peer group is made up of companies listed on NYSE and Nasdaq; these are arguably IEGH's closest most relevant peers.

IEGH does not make up a constituent of our average or median values in the peer group metrics at the bottom of exhibits 4 and 5. We have excluded IEGH from these values to make comparison with the rest of the peer group as clean and undistorted as possible. We have used trailing metrics here and we invite readers to compare the FY15A trailing metrics in Exhibits 9 and 10 above with the forward multiples FY16E and 17E in our sensitivity analysis and on the front page of this note.

Peer Group Selection

IEG Holdings Corp. (**OTCQX:IEGHD**, **OTC Markets**) is a US consumer finance company. The Company provides an **online** unsecured installment based consumer loan of USD 5,000 or 10,000 with a 60-month term and APRs between 19.9% and 29.9% (State regulation dependent) via an online only platform under the brand Mr. Amazing Loans on its website www.mramazingloans.com. The Company has online lending licenses in 18 US states and is planning to raise this to 25 states by mid-2017. The Company's personal loan products are fully amortizing, fixed rate and unsecured installment loans.

World Acceptance Corporation (**NASDAQ:WRLD**, **NASDAQ** listed) is a US consumer finance company. WRLD provides installment and payment deduct loans of a standardized amount and maturity between USD 300 and USD 4,000 as its principal products via its 1,339 **bricks and mortar** branches in the US and New Mexico. WRLD also sells automobile club memberships for which it receives a commission on each sale but is not responsible for the administration of the club. ParaData Financial Systems is a subsidiary of WRLD; it automates loan account processing and collection, provides management information and control capability. WRLD also sells ParaData software systems to other loan providers.

Enova International (**NYSE:ENVA**, **NYSE** listed) provides **online** financial services to non-prime consumers and SoHo/SMEs. ENVA offers short term multi-installment unsecured consumer loans in 20 US states, the UK Australia and Brazil. The Company has over USD 17bn in loans and financing out to 4m customers.

LendingClub Corporation (Lending Club; **NYSE:LC**, **NYSE** listed) offers **online** application installment loans with fixed monthly payments to consumers and loans and lines of credit to the SoHo/SME business market. The loans bare no prepayment penalty for early redemption. The potential loan book is then offered to qualified private investors to fill the book. The loan book attracts a wide range of investors from retail, HNW and family offices, through to banks and hedge funds.

Regional Management Corp. (**NYSE:RM:US**, **NYSE** listed) is a specialty consumer finance company providing a range of loan products via its 300 **bricks and mortar** own branch network and other distributors to subprime, unbanked and underbanked customers. Products include small loans (USD 500 to 2,500), large loans (USD 2,501 to 20,000) and automobile loans (over USD 27,000). Small loans are fixed rate, fully amortizing with equal installments over 36 months without early repayment penalties. Larger loans are secured on non-essential household goods including autos and boats.

Financial Analysis

● **Revenue model assumptions** – the table below shows the assumptions we have used to underpin our revenue forecasts for IEGH. By way of a sanity check we have assumed that no loans are sold in the Maryland licence geography (licence granted Nov. 1st, 2016). In reality it is likely that Maryland will perform as well as other IEGH territories on a per capita basis.

Exhibit 11: **Underlying revenue development**

State Licences 18	Rev/loan by State	No. of Loans FY16E	Rev. run rate FY16E	No. of Loans FY17E	Rev. run rate FY17E
Alabama	1,495	26	38,895	99	147,688
Arizona	1,245	130	161,871	203	252,471
California	1,495	93	139,060	166	247,853
Florida	1,195	333	397,955	406	484,917
Georgia	1,495	185	276,600	258	385,393
Illinois	1,495	199	297,530	272	406,323
Kentucky	1,195	19	22,725	92	109,687
Louisiana	1,445	21	30,369	94	135,524
Missouri	1,495	67	100,190	140	208,983
Nevada	1,495	200	299,025	273	407,818
New Jersey	1,495	216	322,945	289	431,738
New Mexico	1,495	23	34,410	96	143,203
Oregon	1,495	54	80,755	127	189,548
Pennsylvania	1,495	113	168,960	186	277,753
Texas	1,395	141	196,719	214	298,235
Utah	1,495	26	38,895	99	147,688
Virginia	1,495	144	215,305	217	324,098
Maryland*	0	0	0	0	0
Total	24	1,990	2,822	3,227	4,599
Growth %		19%	23%	62%	63%

Source: ACF Research Estimates; Company reports;

● **Credit losses and impaired loans** - IEGH maintains a provision for credit losses due to the fact that it is probable that a portion of the loans receivable will not be collected. The allowance is estimated by management, based on various factors, including specific circumstances of the individual loans, management's knowledge of the industry, and the experience and trends of other companies in the same industry. IEGH's portfolio of loans receivable consists of a large number of relatively small, homogenous accounts.

The allowance for credit losses is determined using a systematic methodology designed by the Company but based upon a combination of historical bad debts of comparable companies. Impaired loans are considered separately and 100% **charged off**. We estimate the net charge off rate at approximately 12%.

For full transparency we would want to compare net charge off to the gross charge off, however this data is not made public by IEGH, or the majority of its competitors. The provisions for credit losses are primarily based upon models that analyse portfolio statistics and reflect management's judgment. IEGH takes into account several factors, including the customer's transaction history – explicitly the punctuality of customer payments, the remaining contractual loan term, and the outstanding balance of the loan.

● **Impaired loans** - The Company assesses loans for impairment individually when a loan is 91 days "past due". Management defines impaired loans as "bankrupt accounts" and accounts that are 184 days or more past their due date. After IEGH's **charge-off** policy classifies a loan as uncollectible, 100% of the remaining balance is charged-off and the charge off outstanding principle is booked to provisions through the P&L. Loans can also be charged off when classified as uncollectable due to consumer specific circumstances. The Company does not accrue interest on impaired loans and any recoveries of impaired loans are booked to provisions for credit losses. Changes in the allowance for credit losses are booked under operating expenses in the P&L.

● **Defaulted loans** - As of December 31, 2015, the Company had approximately 80 loans in default representing around 4.8% of the number of loans in its active portfolio.

● **Operating leases** – IEGH's only office lease expires (unless renewed) by September 30, 2017. IEGH's subsidiary Investment Evolution Corporation (IEC), holds all state licenses, leases, employee contracts, and other operating and administrative expenses

● **Special purpose vehicle** – IEGH's subsidiary IEC SPV, LLC, is a bankruptcy remote special purpose vehicle that holds IEGH's US loan receivables.

● **Effective Tax Rate (ETR) on EBT** – We have applied a zero ETR over our 5-year forecast period. IEGH has amassed substantial net income loss carry-forward assets. The US Internal Revenue Service (IRS) allows Net Income losses on balance sheets to reduce present/future income taxes. The IRS permits net operating losses to be carried forward 20 years after which point losses expire.

● **Working capital** – WCAP has historically been highly variable for IEGH and this not untypical of a loss making venture of this type. However as breakeven approaches, and we expect this to occur FY17E along with FCF generation, working capital patterns should stabilise and manifest a clearer pattern. We have incorporated the assumption in our models that once breakeven is reached and FCF is positive, WCAP will expand and that the WCAP/Revenue ratio will average 5%.

● **Capex (Capital Expenditure)** – Maintenance capex is negligible and we have assumed it runs close to zero for the FCF modelling. **Growth** capex is in the case of IEGH the funding of loans to clients, this capital is either generated from equity placements or from other primary lenders to IEGH. For the purpose of plugging the balance sheet we have assumed that the loan portfolio is expanded by placing equity.

Financial Projections

Exhibit 12: **IEGH P&L and forecasts**

P&L USD (k)	2014A	2015A	2016E	2017E	2018E
Revs	**529**	**1,835**	**2,299**	**4,599**	**6,898**
gr%	741%	247%	25%	100%	50%
GP	529	1,835	2.299	4,599	6,898
% Revs	100%	100%	100%	100%	100%
SGA	5,382	7,013	5,852	4,516	5,275
% Revs	1017%	382%	254%	98%	76%
EBITDA	**-4,223**	**-4,029**	**-2,204**	**1,699**	**3,562**
% Revs	-798%	-220%	-96%	37%	52%
Provisions, D&A	630	1,149	1,348	1,616	1,938
% Revs	119%	63%	59%	35%	28%
EBIT	**-4,852**	**-5,177**	**-3,553**	**83**	**1,623**
EBT	-5,402	-5,698	-3,553	83	1,623
ETR	0%	0%	0%	0%	0%
Tax	0	0	0	0	0
NI	**-5,402**	**-5,698**	**-3,553**	**83**	**1,623**
% Revs	-1021%	-311%	-154%	2%	24%

Source: Company reports; ACF Estimates.

Exhibit 13: **IEGH Cash Flow and forecasts**

Cash Flow USD (k)	2014A	2015A	2016E	2017E	2018E
CFO					
Profit/(loss) for period	-5,402	-5,698	-3,553	83	1,623
Provisions, D&A	-683	-1,239	-1,348	-1,616	-1,938
Δ Working capital	1,416	500	109	-230	-345
Net CFO	**-3,302**	**-3,960**	**-2,095**	**1,469**	**3,216**
Cash Taxes	0	0	0	0	0
Capex	0	0	0	0	0
FCF	**-3,302**	**-3,960**	**-2,095**	**1,469**	**3,216**
CF from Financing	3,454	4,011	2,535	0	0
Net Cash In/(Out)	152	52	440	1,469	3,216
Cash previous YE	282	434	486	925	2,394
Cash & CE	**434**	**486**	**925**	**2,394**	**5,611**

Source: Company reports; ACF Estimates.

Exhibit 14: **IEGH Balance Sheet and forecasts**

Balance Sheet USD (k)	2014A	2015A	2016E	2017E	2018E
Tangible Assets	36	29	27	0	0
Investments	4,316	7,161	8,972	17,945	26,916
Total Fixed Assets	**4,352**	**7,189**	**8,999**	**17,945**	**26,917**
Current assets	143	112	140	281	421
Cash	434	486	925	2,394	5,611
Total Current Assets	**577**	**598**	**1,066**	**2,675**	**6,032**
Creditors	28	40	69	139	208
Accruals & Loans	2,509	96	0	8,946	17,918
Net Assets	**2,392**	**7,650**	**9,995**	**11,535**	**14,822**
Share Capital	2,161	2,007	2,236	2,236	2,236
Reserves	0				
Share Premium	14,915	26,025	31,693	33,149	34,814
Accum. Profit/(loss)	-14,683	-20,381	-23,934	-23,851	-22,228
Total Equity	**2,392**	**7,650**	**9,995**	**11,535**	**14,822**

Source: Company reports; ACF Estimates.

Glossary

CFS	Centre for Financial Services
FDIC	The Federal Deposit Insurance Corporation preserves and promotes public confidence in the US financial system by insuring bank deposits and thrift institutions for a minimum USD 250k. The FDIC is also responsible for identifying, monitoring and addressing risks to the deposit insurance funds. FDIC was set up on 1933 after the thousands of bank failures during 1920s and early 30s.
CoS	Cost of Sales is, in ACF's financial models, a variable cost linked directly to revenue development, e.g. sales team commissions, but for example, not sales team salaries.
CT	Corporation Tax is the tax owed by corporation on taxable profits less exemptions to IRS.
EAT	Earnings after tax. Also often expressed as PAT – profit after tax, and post-tax profit.
EBIT	Earnings before interest and tax (also often referred to or equates to operating profit).
EBITDA	Earnings before interest, depreciation and amortisation – the presentation of EBITDA by companies is not a requirement of UK GAAP or IFRS accounting standards. However in certain cases it can act as a close proxy to free cash flow.
EBT	Earnings before tax. Also often expressed as PBT – profit before tax.
FCF	Free Cash Flow generated in ACF's models after all obligatory cash costs have been satisfied such as Interest payable (Ip), cash taxes and maintenance capex (as opposed to investment capex). FCF represents the cash remaining for theoretical distribution or investment after all obligatory cash based costs including net interest payable have been deducted.
IRS	Internal Revenues Service. The IRS is the tax collecting government agency in the US (equivalent to HMRC in the UK), which is also responsible for administering the Internal Revenue Code – the US tax law. The IRS is a bureau of the Department of Treasury under the direction of the Commissioner of Internal

Revenue.

IFRS	International Financial Reporting Standards are a set of standards developed by the International Accounting Standards Board. IFRS is an internationally recognised standard and in principle means that investors from different legal geographies can compare financial performance between potential competing investments more easily (cheaply) openly and fairly, when compared to say comparing UK GAAP vs. US GAAP or other “regional” accounting standards.
JV	Joint Venture – generally a legal structure between two corporate entities involving participation in equity capital in the JV vehicle. JV can also refer to more informal arrangements.
Charge Off (Gross)	Gross charge off is the USD amount of debt that a creditor declares is unlikely to be collected. Gross charge off is triggered by a consumer becoming severely delinquent on a debt. A charge-off is a form of write-off.
Charge Off (Net)	Net charge off is the USD amount that is the difference between gross charge-offs and subsequent recoveries of delinquent debt. Net charge offs refer to the debt owed to a company that is unlikely ever to be recovered by that company i.e. bad debt
NoSh	Number of Shares in issue (NoSh).
RoA	Return on Assets is a ratio that provides insight into profitability. RoA is defined as Net Income divided by total assets. RoA is used to help investors understand how well a company management ream is using assets to generate earnings. Like most ratios a low value can also indicate an inflexion point or optimum time to buy rather than sell the related stock. Some analysts like to add back interest expense to net income as this gives a metric to compare operating returns before cost of borrowing. This is most helpful if borrowing costs are the same for the peer group under analysis.
RoE	Return on Equity is a ratio designed to provide insight into the profitability of a company by showing profit generated in comparison to cash invested by equity holders. RoE is defined as net income divided by shareholder’s equity (see definitions in this glossary).

RoI	Return on Investment is a ratio that provides insight into the efficiency of an investment. RoI attempts to measure the return on an investment vs. the cost of the investment. The ratio is defined as the gain from investment less cost of investment subsequently divided by cost of investment. Most RoI calculations do not account for the time value of money. This changes investment performance considerably and can easily lead to the wrong conclusions because no account is taken of the rate of return only of the total return.
SGA	Sales, General and Administrative expenses, often equates to or is equivalent to Cost of Sales (CoS) plus operating expenses. However ACF uses SGA to classify relatively invariable expenses as opposed to variable expenses linked more or less directly to revenue generation, as such sales commissions might typically end up in CoS, whereas salaries for sales people would be classed as relatively invariable and be booked under SGA in an ACF model.
Shareholders' Equity	Shareholders equity is a line on the balance sheet calculated from the deduction of total liabilities from total assets and represents the value (or lack of it) available for distribution to shareholders should the entity wind up operations. It differs from the equity value expressed in market capitalisation (MCap), which is number of shares in issue (NoSh) multiplied by share price. The ratio Debt/Equity commonly uses the Debt/MCap formula as opposed to the Debt/Shareholder equity formula.
uFCF	Unlevered Free Cash Flow is FCF from which cash based interest payments are not deducted. It represents the total maximum cash flow available to both bond and equity holders over a given period.
Uplift Potential	Uplift potential is the potential for a re-rating of the value of a stock. For example, a company is valued by market participants at the equivalent of 10x a particular metric such as EBITDA, the value then rises (due to an uplift) to the equivalent of 12x EBITDA, this is the rerating (by 2 turns in our example).

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Disclaimer

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