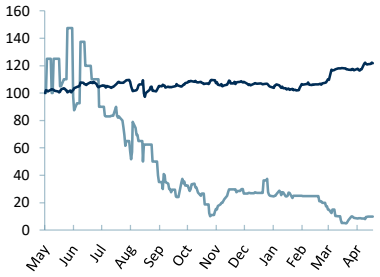
ESTIMATES

VALUE RANGE

USD 7.93 – 8.76



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

Thursday, 04 May 2017

Intrinsic Price	$8.34
Value Range Low	$7.93
Value Range High	$8.76
Implied MCAP (m)	$78.75
Implied EV (m)	$78.42
OTCQB Index	IEGH
Financial YE	31-Dec
Currency	USD

Business Activity

Consumer retail near-prime lending

Key Metrics

Close Price	$1.95
MCAP (m)	$18,943
Net Debt (Cash) (m)	-$0.322
EV (m)	$18.62
52 Wk Hi	$73.00
52 Wk Lo	$2.01
NAV trailing	$0.85

Key Ratios

S/P premium to NAV	128.80%
Charge off	11.91%
(Net Cash) / Shareholder Equity %	-3.89%

Financials Sector Research

OTCQB Best Market Index

Analyst Team

ACF Financials Team

+44 20 7419 7928

financials@acfequityresearch.com

IEG Holdings Corp. 1Q17 Results

Promises coming good

IEGH serves the retail near prime, but underbanked, US online lending market with USD 5,000 and 10,000 loans. Our IEGH (OTCQB:IEGH) valuation remains justified as IEGH hits underlying 1Q FCF positive of USD 152k, beating our 3Q maiden FCF +ve expectation. IEGH remains on target to hit our FY17E FCF target of USD 723k The Company also announced a maiden dividend this morning, again in line with previous guidance. IEGH is hitting and beating its inflection points vs. our forecasts, thanks to a cost base restructuring and additional focus on generating positive FCF. The market should now be less concerned about 2017 funding and as a result IEGH has, for now, cancelled its bond offering whilst it focusses on its all paper offer for 5% of competitor OneMain (OMF:NYSE).

- Cash and Cash Equivalents up organically $124k to $446k vs. 4Q16A;
- Maiden adj. (underlying) FCF USD 152k less OneMain (OMF) bid costs;
- Maiden cash dividend announced $0.005 going ex-div 5 June 17;
- Maiden adj. EBITDA positive 1Q17A $92k less OMF bid costs;
- IEGH raised its all paper offer for 5% of OMF to 20 IEGH:1 OMF shares.

	Revenue	EBITDA	FCF	EPS	EPS (diluted)	CPS
2017E	5,024	484	723	-0.18	-0.18	0.07
2018E	7,459	4,785	4,401	0.21	0.21	0.45

Multiples	EV/ Revenue	EV/ EBITDA	EV/ FCF	P/ EPS	P/ EPS (diluted)	P/ CPS
2017E	3.71x	38.44x	25.74x	-11.00x	-11.00x	26.18x
2018E	2.50x	3.89x	4.23x	9.45x	9.45x	4.30x

03/05/2017	No. of Shares in issue	Fully diluted
Share Price History		
NoSh (m)	971.4	971.4
Implied Intrinsic Price	$8.36	$8.36
Value Range Low	$7.94	$7.94
Value Range High	$8.77	$8.77
OTCQB	IEGH	
Financial YE	31-Dec	
Reporting Currency	USD	
NoSh (m)		971.4
NoSh (m) expected dilution (Exp D)		971.4
NoSh (m) full dilution (FD)		971.4

Key Metrics		adj.
MCAP (m)	$18.9	$18.9
Net Debt (Cash) (m)	-$0.45	-$0.45
EV (m)	$18.5	$18.5
52 Wk Hi	$73.0	$73.0
52 Wk Lo	$2.01	$2.01
Free Float	20%	20%

*Key Metrics FCF adj.	2017E	2018E
CPS (USD)	0.07	0.45
CPS (Exp D) (USD)	0.07	0.45
CPS (FD) (USD)	0.07	0.45
P/CPS	112.2x	18.4x
P/CPS (Exp D)	112.2x	18.4x
P/CPS (FD)	112.2x	18.4x

Above we show full dilution (FD) and expected dilution (Exp D). IEGH shares in issue at the date of this note are 9,714,186. 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. Note that our Valuation Range assumes that fully USD 2m is spent on buying back stock at the close price of this note USD 7.25 p/s.

Investment Case

Competitive background

IEGH is a disruptive online business attacking the traditional bricks and mortar consumer lending market. The Company's cash cost acquisition (CCA) of loan customers is 4-6% vs. traditional bricks and mortar CCA costs of 8-10%. IEGH targets the near prime loan market (no subprime lending) another differentiator from competitors, such as **OneMain**. IEGH prides itself on repeat business and positive customer feedback offering a same-day turnaround in which cash is delivered to customer accounts. Process and contracts are transparent without hidden costs, such as severe technical small-print penalties, for the client. Many companies rely on small print penalty payments for significant margin contributions. Interest rates are in line with credit card borrowing (IEGH average APR 28.9%) vs. 400% and above for pay-day-loans. The Company has a largely automated highly consistent loan approval process.

Compared to IEGH's competitors such as bricks and mortar OneMain, IEGH has created a pertinent, potentially dominant, brand in Mr. Amazingloans with a simple transparent offering (USD 5k and 10k loans); lends at socially acceptable rates; has an attractive, efficient, fast and convenient loan delivery mechanism; targets the lower risk near prime only market; robust consistent approval process; has a lean cost model. **IEGH** has a strong growth profile, is delivering, has a lot to "teach" its competitors and value to add to investors.

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. Bricks and mortar OneMain would struggle to credibly make the same claims, in our 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. It strikes us that bricks and mortar OneMain investors may well be ambling towards a long painful decline, the worst type in our view due to the opportunity cost of capital.

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

Catalysts for further valuation upgrades

Delivery of FCF and EBITDA breakeven 2Q17E (achieved 1Q17); dividend payment (achieved 1Q17); expansion of loan book capability; re-ignited organic growth.

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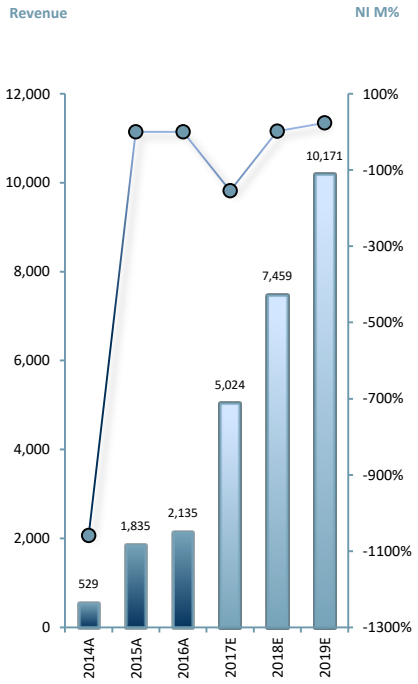
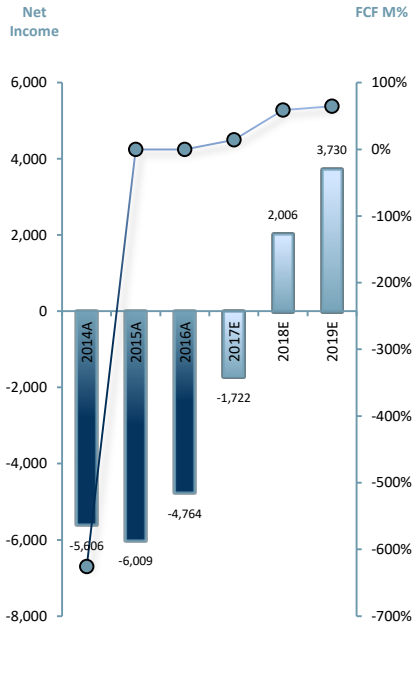
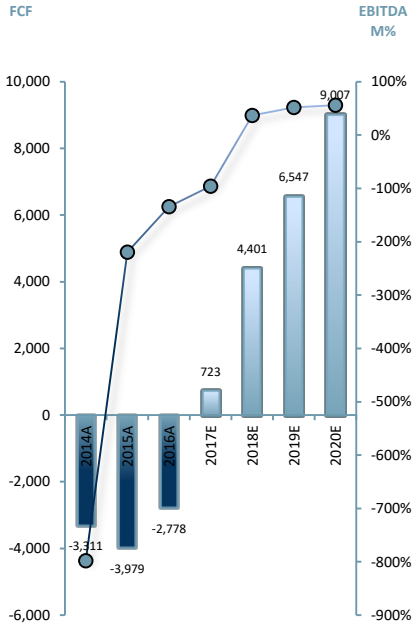
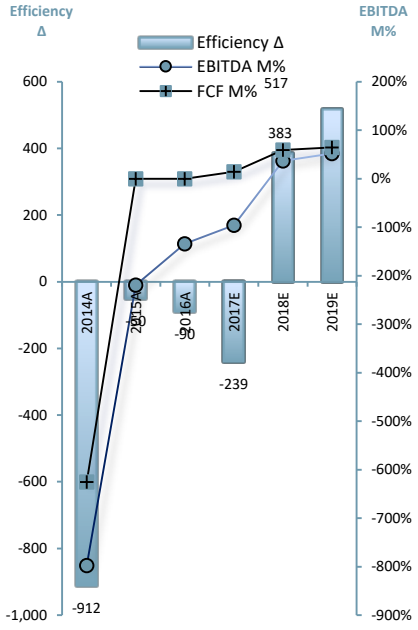
Forecasts









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.

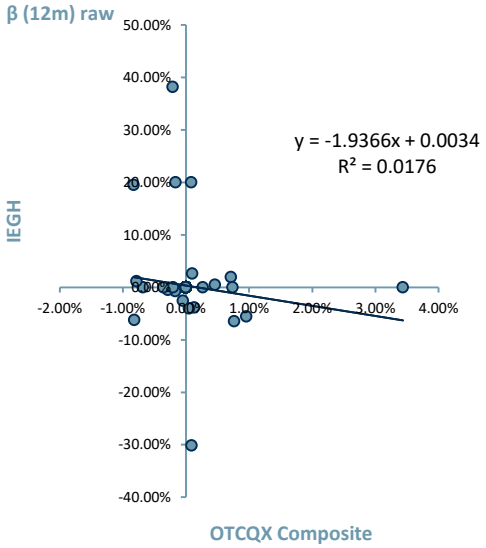
Valuation

ACF est. USD (k)	2016A	2017E	2018E	2019E	2020E
Revenue	2,135	5,024	7,459	10,171	13,250
EBITDA	-2,867	484	4,785	7,064	9,678
Net Income	-4,764	-1,722	2,006	3,730	5,677
FCF	-2,778	723	4,401	6,547	9,007
CPS (diluted)	-0.35	0.07	0.45	0.67	0.93

IEGH WACC Calc	
Pre-tax cost of debt	5.4%
ETR	40.0%
After-tax cost of debt	3.2%
Current Leverage	
Debt	-1.7%
Equity	18,943
Target Leverage	
D / (D+E)	10.0%
ACF β adj levered	1.14
rf	0.80%
Rm	6.2%
ERP	5.4%
Cost of equity	6.96%
Risk adj.	3.35%
WACC	9.93%

*Bloomberg ticker indicates ACF market ERP

Note: We assume the conservative Debt / Equity target mix 10%, up from 0% at initiation. It is likely that IEGH will raise this target ratio in the future.



IEGH is currently debt free but looking for USD 10m debt funding for its loan book. In our 2016 IEGH initiation note we assumed a Debt/Equity mix of 0% which produced a higher WACC. Our new higher WACC reflects IEGH's higher volatility and delayed FCF positive inflection point risk.

Valuation Range		
NPV FCF (k)	21,741	
NPV TV EBITDA (k)	56,683	
EVF (k)	78,424	
TV Mulitple	8.0x	
% TV of total NPV	72.28%	
Net Debt (k)	-322	
Fair Value (k)	78,746	
NoSh (m)	9,438.32	
NoSh (diluted) (m)	9,438.32	
Intrinsic Value Per Share USD	8.34	
Close Price USD	1.95	
VR (low - high)	7.93	8.76
VR Spread	10.00%	
Implied VR Return (low - high)	306.5%	349.3%

Note: Close price on front page of this ACF research note is based on shares in issue (NoSh) on 10/01/2017 of 9,714,186 less the full impact of the USD 2m share buyback assuming the close price is this note.

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Peer Group Comparators

Exhibit 1: Trailing IEGH consumer lending peer group metrics

Trailing 16A Metrics / Company Name	Market	MCAP (m)	Div %	EBITDA / M%	MCAP / REVS	MCAP / EBITDA	MCAP / NI
IEG Holdings Corp	OTCQB	18.94	0.0%	-134.29	8.87x	-6.61x	-4.01x
OneMain Holdings	NASDAQ	3128.64	0.0%	-0.73	1.43x	-195.54x	-25.64x
World Acceptance	NYSE	562.35	0.0%	26	1.01x	3.88x	6.43x
Enova Internation	NYSE	458.36	0.0%	21.88	0.70x	3.21x	10.42x
LendingClub	NYSE	2188.42	0.0%	1.98	2.23x	112.69x	-437.68x
Average			0.00%	12.28%	1.34x	-18.94x	-111.62x
Median			0.00%	11.93%	1.22x	3.55x	-9.61x

Source: ACF Research Estimates; Companies reports; Factset.

Exhibit 2: Trailing IEGH consumer lending peer group metrics

Trailing 16A Metrics / Company Name	Market	MCAP (m)	Gross Debt / Assets	Gross Debt / Equity	RoA %	RoE %	RoI %
IEG Holdings Corp	OTCQB	18.94	-1.07	-1.80	-16.83	-26.35	-49.33
OneMain Holdings	NASDAQ	3128.64	81.64	615.88	-0.76	-10.01	-0.76
World Acceptance	NYSE	562.35	46.47	95.61	10.45	24.71	11.04
Enova Internation	NYSE	458.36	64.47	263.10	5.50	24.44	6.01
LendingClub	NYSE	2188.42	78.91	438.79	-0.10	-0.50	-0.11
Average			67.87%	353.35%	3.77%	9.66%	4.05%
Median			71.69%	350.95%	2.70%	11.97%	2.95%

Source: ACF Research Estimates; Companies reports; Factset.

IEGH's balance sheet efficiency is improving year on year – suggesting an increasingly efficient use of capital for investors. IEGH is travelling in the right direction.

We have changed our IEGH peer group to include bricks and mortar lender OneMain (NYSE:OMF) and removed Regional Management (NYSE:RM) reflecting IEGH's unsolicited bid for OMF. OneMain was previously excluded because its march larger USD 3bn MCAP vs. IEGH and because its business strategy appeared particularly archaic and culturally encumbered compared to where we assess the industry is heading and so not as a good a comparator as RM for investors to consider.

IEGH does not make up a constituent of our average or median values in the peer group metrics. 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 and we invite readers to compare the FY16A trailing metrics in the exhibits above with the forward multiples FY17E and 18E in our sensitivity analysis and on the front page of this note.

Peer Group Selection

IEG Holdings Corp. (**OTCQB:IEGH**, **OTC Markets** listed) is a US consumer finance company. The Company provides an **online** unsecured installment based consumer loans 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 one office and 7 employees, but online lending licenses in 19 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.

OneMain Holdings, Inc., (**NYSE:OMF**, **NYSE** listed) is a **bricks and mortar** financial services company providing consumer finance and insurance (credit and non-credit insurance) in all 50 US states via its subsidiaries. OMF has >1,800 branches in 44 US sates and >10,000 employees. The Company historically has been acquisitive. OMF has three segments: Consumer and Insurance; Acquisitions and Servicing, and Real Estate. The Company's real estate loans for sale total greater than USD 179m and its real estate loans held for investment are valued at over USD 524m.

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.

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P&L, Cash Flow and Balance Sheet forecasts

P&L USD (k)	2015A	2016A	2017E	2018E	2019E
Revs	**1,835**	**2,135**	**5,024**	**7,459**	**10,171**
gr%	247%	16%	135%	48%	36%
GP	1,835	2,135	5.024	7,459	10,171
% Revs	100%	100%	100%	100%	100%
SGA	5,864	5,002	4,539	2,669	3,101
% Revs	320%	234%	90%	36%	30%
EBITDA	**-4,029**	**-2,867**	**484**	**4,785**	**7,064**
% Revs	-220%	-134%	10%	64%	69%
Provisions credit loss	1,135	1,865	2,201	2,779	3,334
% Revs	62%	87%	44%	37%	33%
EBIT	**-5,177**	**-4,741**	**-1,722**	**2,006**	**3,730**
EBT	-5,698	-4,729	-1,722	2,006	3,730
ETR	0%	0%	0%	0%	0%
Tax	0	0	0	0	0
NI	**-5,698**	**-4,729**	**-1,722**	**2,006**	**3,730**
% Revs	-311%	-221%	-34%	27%	37%

Cash Flow USD (k)	2015A	2016A	2017E	2018E	2019E
Profit/(loss) for period	-5,698	-4,729	-1,722	2,006	3,730
Provisions credit loss	1,135	1,865	2,201	2,779	3,334
D&A	14	9	6	6	6
Othe non-cash items	90	1	0	0	0
WCap Change	500	77	239	-373	-509
Net CFO	**-3,960**	**-2,778**	**723**	**4,417**	**6,562**
Cash Taxes	0	0	0	0	0
Capex	19	0	0	16	15
FCF	**-3,979**	**-2,778**	**723**	**4,401**	**6,547**
CF from Financing	4,031	2,615	0	0	0
Net Cash In/(Out)	52	-163	723	4,401	6,547
Cash previous YE	434	486	322	1,046	5,447
Cash & CE	**486**	**322**	**1,046**	**5,447**	**11,994**

Balance Sheet USD (k)	2015A	2016A	2017E	2018E	2019E
Tangible Assets	29	19	27	0	0
Investments	7,161	6,382	15,018	22,298	30,406
Total Fixed Assets	**7,189**	**6,402**	**15,044**	**22,298**	**30,406**
Current assets	112	98	230	342	466
Cash	486	322	1,046	5,447	11,994
Total Current Assets	**598**	**420**	**1,276**	**5,789**	**12,460**
Creditors	40	0	69	103	141
Accruals & Loans	96	1	0	7,254	15,362
Net Assets	**7,650**	**6,821**	**16,251**	**20,730**	**27,364**
Share Capital	2,007	2,233	2,236	2,236	2,236
Reserves					
Share Premium	20,327	24,000	35,149	37,623	40,527
Accum. Profit/(loss)	-14,683	-19,412	-21,135	-19,129	-15,399
Total Equity	**7,650**	**6,821**	**16,251**	**20,730**	**27,364**

Source: ACF Research Estimates; Company reports.

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.

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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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Notes [Intentionally Blank]

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ACF Equity Research Limited, 125 Old Broad Street, London, EC2N 1AR, U.K.
Tel: +44 (020) 7558 8974
Website: www.acfequityresearch.com