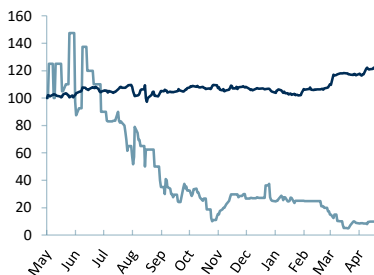


FLASH NOTE

VALUE RANGE

USD 6.24 – 6.90



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

Monday, 19 June 2017

Intrinsic Price	\$6.57
Value Range Low	\$6.24
Value Range High	\$6.90
Implied MCAP (m)	\$81.94
Implied EV (m)	\$78.35
OTCQB Index	IEGH
Financial YE	31-Dec
Currency	USD

Business Activity

Consumer retail near-prime lending

Key Metrics

Close Price	\$3.50
MCAP (m)	\$44,639
Net Debt (Cash) (m)	-\$3.597
EV (m)	\$41.04
52 Wk Hi	\$27.50
52 Wk Lo	\$1.00
NAV trailing	\$0.65

Key Ratios

S/P premium to NAV	439.18%
Charge off (Net Cash) /	11.91%
	-43.44%

Shareholder Equity %

Financials Sector Research

OTCQB Best Market Index

Analyst Team

ACF Financials Team
+44 20 7419 7928
financials@acfequityresearch.com

IEG Holdings Corp. Successful Offer

\$3.6m of OMF equity added to balance sheet

IEGH (OTCQB:IEGH) serves the retail near prime, but underbanked, US online lending market with USD 5,000 and 10,000 loans. IEGH successfully closed its all paper offer for OMF, adding \$3.6m of OMF (OneMain Financial) stock to its balance sheet. If IEGH were to sell its newly acquired shares for cash we would review our operation estimates as this could give IEGH up to \$3.15m potential additional lending capacity based on the close date share price for OMF equity. IEGH's CEO has written to OMF's board requesting a series of changes making recommendations that we suspect OMF will roundly reject. Our IEGH valuation shows the dilution effect p/s of the OMF offer. We view IEGH dilution as a temporary effect and expect to publish our IEGH estimates analysis next week.

- IEGH CEO asks OMF to appoint him to the OMF board;
- IEGH calls on OMF to implement up to USD 700m of costs savings;
- OMF asked to close its branches and cut most of its 10k staff by IEGH;
- IEGH wants OMF to invest in a new online strategy;
- IEGH states OMF should stop lending to those with a FICO score <600.

	Revenue	EBITDA	FCF	EPS	EPS (diluted)	CPS
2017E	5,024	484	723	-0.14	-0.14	0.06
2018E	7,459	4,785	4,401	0.16	0.16	0.35

Multiples	EV/ Revenue	EV/ EBITDA	EV/ FCF	P/ EPS	P/ EPS (diluted)	P/ CPS
2017E	8.17x	84.73x	56.73x	-25.92x	-25.92x	61.70x
2018E	5.50x	8.58x	9.33x	22.26x	22.26x	10.14x

16/06/2017	No. of Shares in issue	Fully diluted
Share Price History		
NoSh (m)	12.8	12.8
Implied Intrinsic Price	\$6.57	\$6.57
Value Range Low	\$6.24	\$6.24
Value Range High	\$6.90	\$6.90
OTCQB	IEGH	
Financial YE	31-Dec	
Reporting Currency	USD	
NoSh (m)	12.8	
NoSh (m) expected dilution (Exp D)	12.8	
NoSh (m) full dilution (FD)	12.8	
Key Metrics		
MCAP (m)	\$44.6	adj. \$44.6
Net Debt (Cash) (m)	-\$3.60	-\$3.60
EV (m)	\$41.0	\$41.0
52 Wk Hi	\$27.5	\$27.5
52 Wk Lo	\$1.00	\$1.00
Free Float	20%	20%
*Key Metrics FCF adj.		
	2017E	2018E
CPS (USD)	0.06	0.35
CPS (Exp D) (USD)	0.06	0.35
CPS (FD) (USD)	0.06	0.35
P/CPS	115.8x	19.0x
P/CPS (Exp D)	115.8x	19.0x
P/CPS (FD)	115.8x	19.0x

Above we show full dilution (FD) and expected dilution (Exp D). IEGH shares in issue at the date of this note are 12,754,066 which is 9,714,186 plus 3,039,880 shares issued by IEGH in exchange for 151,994 OMF shares. We assume there are not dilutive effects over our 5-yr valuation horizon.

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.

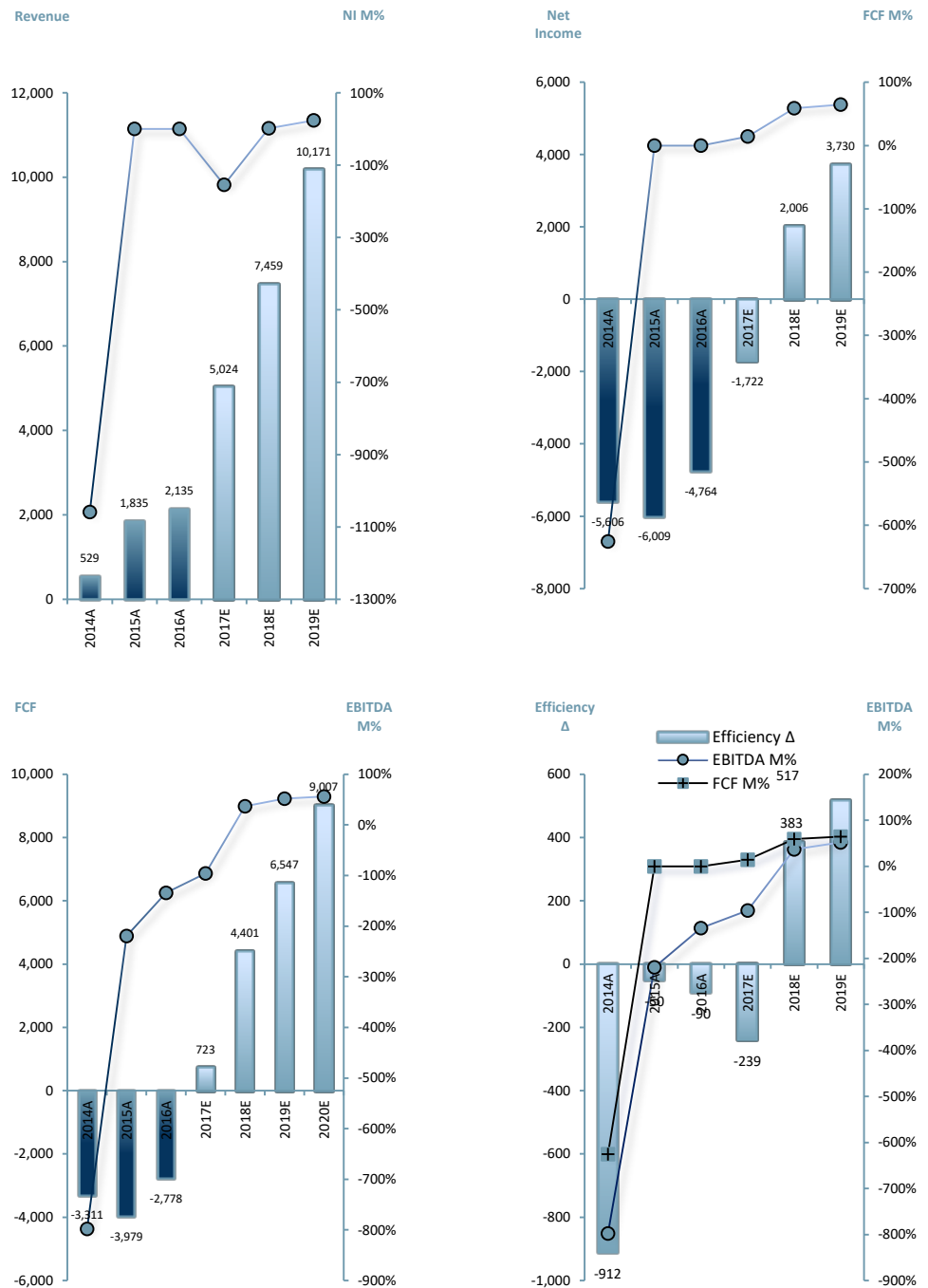
Growth market - The FDIC estimated in 2013 that 1 in 13 US households were underbanked (7.7% of pop. or 9.6m households). The Centre for Financial Services (CFS) estimated that IEGH's product category - short term credit - grew 37% from 2012-14 whilst single-payment credit, the primary competing product 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.

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	0.06	0.35	0.51	0.71

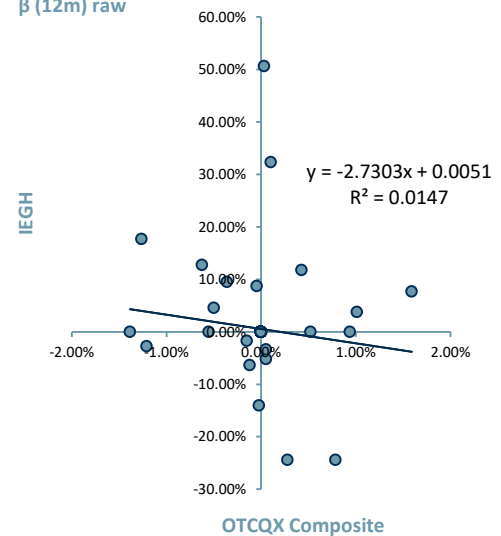
IEGH WACC Calc

Pre-tax cost of debt	5.4%
ETR	40.0%
After-tax cost of debt	3.2%
Current Leverage	
Debt	-8.1%
Equity	44,639
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.

β (12m) raw



IEGH is currently debt free. 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)	21,663
NPV TV EBITDA (k)	56,683
EVF (k)	78,346
TV Multiple	8.0x
% TV of total NPV	72.35%
Net Debt (k)	-3,597
Fair Value (k)	81,943
NoSh (m)	12,478.20
NoSh (diluted) (m)	12,478.20
Intrinsic Value Per Share USD	6.57
Close Price USD	3.50
VR (low - high)	6.24 6.90
VR Spread	10.00%
Implied VR Return (low - high)	78.2% 97.0%

Note: Close price on front page of this ACF research note is based on shares in issue (NoSh) on 16/06/2017 of 12,754,066.

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	3,150	0	0
Net Cash In/(Out)	52	-163	3,873	4,401	6,547
Cash previous YE	434	486	322	4,196	8,597
Cash & CE	486	322	4,196	8,597	15,144
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	4,196	8,597	15,144
Total Current Assets	598	420	4,426	8,939	15,610
Creditors	40	0	69	103	141
Accruals & Loans	96	1	0	7,254	15,362
Net Assets	7,650	6,821	19,401	23,880	30,514
Share Capital	2,007	2,233	2,236	2,236	2,236
Reserves					
Share Premium	20,327	24,000	38,299	40,773	43,677
Accum. Profit/(loss)	-14,683	-19,412	-21,135	-19,129	-15,399
Total Equity	7,650	6,821	19,401	23,880	30,514

Source: ACF Research Estimates; Company reports.

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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