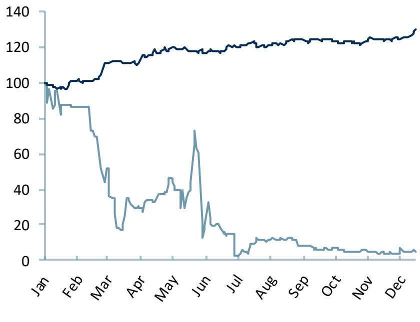
FLASH NOTE

VALUE RANGE

USD 2.70 – 2.99



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

Monday, 08 January 2018

Intrinsic Price	$2.85
Value Range Low	$2.70
Value Range High	$2.99
Implied MCAP (m)	$49.72
Implied EV (m)	$50.92
OTCQB Index	IEGH
Financial YE	31-Dec
Currency	USD

Business Activity

Consumer retail near-prime lending

Key Metrics

Close Price	$0.30
MCAP (m)	$5.239
Net Debt (Cash) (m)	-$1.195
EV (m)	$4.04
52 Wk Hi	$8.60
52 Wk Lo	$0.14
NAV trailing	$0.47

Key Ratios

S/P premium to NAV	-36.72%
Charge off	11.91%
(Net Cash) / Shareholder Equity %	-14.44%

Financials Sector Research

OTCQB Best Market Index

Analyst Team

ACF Financials Team

+44 20 7419 7928

financials@acfequityresearch.com

IEG Holdings' New Offer for LC

Move for stake in NYSE's LendingClub

IEGH (OTCQB:IEGH) lends to the retail near-prime, but underbanked, US online borrowing market offering USD 5,000 and 10,000 loans. We have shied away from valuing IEGH, as a fintech, though that is what it is. Late Friday, IEGH launched a new all paper offer for LendingClub (NYSE:LC) offering 13 IEGH shares for 1 LC share for up to 4.99% of LC common stock in issue as at 31st October 2017, equating to up to 20,701,999 shares. LC closed at $4.07 Friday and the all paper IEGH offer equates to $3.90 per LC share. IEGH raised $357.5k via HNWs using series H preferred stock prior to 4Q close for working capital and loans keeping it fully funded for 12-24m; New loans 4Q came in at $960k, beating our 4Q expectations. See our IEGH 3Q post results note. See our recent LC note.

- Tender offer equates to $3.90 per LC share – discount of 4.18%;
- Offer (all paper) for up to 4.99% of NYSE's Lending Club;
- IEGH raised $357.5K – for WCAP and loans - Fully funded next 12-24m;
- All Series H preferred stock converted to common stock 31 Dec 17;
- 4Q new loans $960k vs. 3Q $855k, beating our expectations.

	Revenue	EBITDA	FCF	EPS	EPS (diluted)	CPS
2017E	1,965	-2,065	-3,194	-0.27	-0.27	-0.18
2018E	2,911	-1,285	-1,431	130.06	-0.17	-0.08

Multiples	EV/ Revenue	EV/ EBITDA	EV/ FCF	P/ EPS	P/ EPS (diluted)	P/ CPS
2017E	2.06x	-1.96x	-1.27x	-1.11x	-1.11x	-1.64x
2018E	1.39x	-3.15x	-2.83x	-1.76x	-1.76x	-3.66x

05/01/2017 Share Price History	No. of Shares in issue	Fully diluted
NoSh (m)	17.46	17.46
Implied Intrinsic Price	$2.85	$2.85
Value Range Low	$2.70	$2.70
Value Range High	$2.99	$2.99
OTCQB	IEGH	
Financial YE	31-Dec	
Reporting Currency	USD	
NoSh (m)		17.5
NoSh (m) expected dilution (Exp D)		17.5
NoSh (m) full dilution (FD)		17.5

Key Metrics		adj.
MCAP (m)	$5.2	$5.2
Net Debt (Cash) (m)	-$1.20	-$1.20
EV (m)	$4.0	$4.0
52 Wk Hi	$8.6	$8.6
52 Wk Lo	$0.14	$0.14
Free Float	20%	20%

*Key Metrics FCF adj.	2017E	2018E
CPS (USD)	-0.18	-0.08
CPS (Exp D) (USD)	-0.18	-0.08
CPS (FD) (USD)	-0.18	-0.08
P/CPS	-15.6x	-34.7x
P/CPS (Exp D)	-15.6x	-34.7x
P/CPS (FD)	-15.6x	-34.7x

Above we show full dilution (FD) and expected dilution (Exp D). IEGH shares in issue at the date of this note are 17,463,449, which following the 31st December conversion to common stock of all Series H preferred stock also represents full dilution as of the date of this note. ACF Value Range of USD 3.04 to 3.46 per share has moved to USD 2.70 to 2.99 on the back of the full dilution.

Investment Case

Competitive background

Fintech IEGH is a disruptive online force attacking the traditional bricks and mortar consumer lending market, as witnessed by its **very successful** tender offer for OneMain stock, both for IEGH and for OMF shareholders. IEGH's cash cost acquisition (CCA) of loan customers is 4-6% (we estimate average USD 294 per loan) 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 **LendingClub** and **OneMain.** IEGH prides itself on repeat business (80% of its loan book is repeat business). Process and contracts are transparent without hidden costs. Interest rates are in line with credit card borrowing (IEGH average less than APR 28.9%) vs. 400% and above for pay-day-loans. The Company is close to a fully automated fintech.

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 and a lean cost model. **IEGH** has a strong growth profile, is delivering, has entered the break-even zone and could, if it chose, cut opex for 12m to become EBITDA and FCF positive FY18E and still hit our revenue targets. We think this makes IEGH relatively bullet proof financially from herein on.

Low distribution costs online - The online fintech strategy lowers costs of customer acquisition (CCA), makes the company highly scalable and suggests that past breakeven, incremental revenue will rapidly fall through to EBITDA and FCF. Our estimates reflect this view. Bricks and mortar OneMain, and LendingClub 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. As we have written in notes on OneMain and LendingClub, investors in these companies are ambling towards a long painful decline, the worst type in our view, due to the opportunity cost of capital. IEGH, though recently characterised by a particularly volatile stock price, has a strong growth profile.

Catalysts for further valuation upgrades

Strong 4Q revenues; lower beta (lower volatility and so lower WACC); positive FCF and EBITDA; share buy-back; FY18E $3.4-5.4m raise for loans receivable.

IEGH Offer Summary for LC

IEGH believes LC is running a flawed 'broker' business model - Weak underwriting standards, tiny gross margins and large ongoing losses, lead us to infer that IEGH is of the view that LC is headed towards continued and sustained shareholder value destruction.

LC has brokered over USD 26bn of loans but is still reporting a loss – 9M17A loss USD 61.8m vs. USD 146m loss for YE16A.

LC Gross margins are slim compared to IEGH the costs of customer acquisition (CCA) are high. IEGH claims that if LC stops issuing loans, much of its income more or less ceases. IEGH takes the view that LC may never make a profit, which is in some contrast to IEGH, which in our view, has entered the break-even zone.

IEGH points out that a balance sheet lending strategy (rather than broking strategy) would, all else being equal, significantly increase gross margins, without significantly increasing CCA.

Borrower income verification - One of our (ACF's) more significant single areas of doubt over LC's future and stability also comes from a Bloomberg report cited by IEGH:

The Bloomberg report, released mid-2017, established that during 2016 LC failed to verify income of around 66% of those borrowers taking LC's most popular loans via LC's platform

Even where LC did attempt to verify incomes, if it found errors in a loan application, it might still end up approving a loan to that applicant.

See our recent LendingClub note LC 3Q and Capital Markets released 21st November 2017 on FactSet, Capital IQ and Reuters platforms.

LC charge off continues to increase as per our recent LC note LC 3Q and Capital Markets 21 November 2017. IEGH makes the point that it runs much more robust verifiable processes for every applicant that wants to take a loan from IEGH.

Third party controlled licenses - IEGH controls all its US state licenses – LC does not. LC's individual state licenses are effectively those of a Utah-based institution, and if the relationship breaks down we think LC could be very exposed and, in extremis, be unable to originate loans for some possibly considerably extended period of time.

LC Funding Challenges

IEGH states in its letter to LC shareholders that the returns to investors in the underlying loans for peer-to-peer lenders are falling as losses are much higher than expected, likely as a result of weak underwriting standards.

If returns turn negative then peer-to-peer lenders face the risk of lawsuits and the risk that investors cease to buy the loans, effectively killing off the "broker" business model.

LendingClub is therefore only superficially immune to default risk. Investors in the LendingClub loans book bear the default risk and they will ultimately respond to the characteristics and performance of the loan portfolio.

Lack of LC leadership and high cost structures - Renaud Laplanche, LendingClub's founder and CEO, resigned in 2016 following an investigation by the board of directors into, among other things, a list of damning actions:

The investigation uncovered falsified loan documentation, knowing failure of corporate personnel to follow an investor's express instructions regarding loans, and the sale of loans in direct contravention of the investor's instructions.

LendingClub, with the loss of its driving force and innovator, Renaud Laplanche, seems somewhat directionless.

LC continues to maintain, according to IEGH, expensive offices in San Francisco and has hundreds of excess developers employed.

IEGH takes the view that…LendingClub's excessive cost structure is unsustainable, with high core operating costs as compared to gross revenue, resulting in high levels of losses.

LC Stock declines and nil dividends - LC's stock has tanked since IPO in December 2014 from USD 25.74 to 4.07 at yesterday's close (LC's shares hit a USD 3.29 low price during December 2017 and we take the view that current options trading is pointing to a sub USD 3.50 price).

LC pays no dividend, whereas IEGH has a yield in excess of 6.1% p.a..

IEGH's Rational for its LC Offer

IEGH states that it believes that changing LendingClub's broker business model to a balance sheet lender model would:

1. Enable LC to generate significantly higher gross margins;

2. Build increased customer goodwill with customers and enable increased customer refinancing;

3. Produce longer duration cash flows thereby providing more flexibility in reducing lending volumes during periods when underwriting risk levels are rising

IEGH argues that, as such, LC would be less dependent on brokering new loan deals every day to provide revenue.

Becoming a balance sheet lender rather than a broker of loans would also remove the inherent potential conflict of interest and hazard of providing loans as a broker with potential lax underwriting standards due to the company and employees not taking the full risk of loan repayment.

The addition of individual state licenses is also likely to reduce the regulatory risk of being operationally dependent on third parties for lending licenses.

LendingClub could initially utilize its existing cash at bank to conduct balance sheet lending and then utilize customer principal and interest repayments, seeking additional debt or equity funding for additional growth of its loan book.

IEGH states in its offer letter that it intends to encourage LendingClub to make substantial cost cuts by reducing excess headcount and to reduce advertising and marketing costs and hints that there are other costs that can be cut.

IEGH also wants LC to move rapidly away from LC's current broker business model, which has low gross margins and high volumes. Instead IEGH wants LC to focus on high gross margin unsecured loans to near prime clients with strong underwriting and to use company owned individual state licenses and.

IEGH also wants LC to retain loans on the LC balance sheet to secure longer duration cash flow from longer term loans;

Additionally, IEGH wants LC to investigate the economics of opportunities in the crypto/blockchain sector;

IEGH notes that the acquisition of LC shares would be net asset per share accretive for IEGH stockholders and substantially increase shareholder equity.

Valuation

ACF est. USD (k)	2016A	2017E	2018E	2019E	2020E
Revenue	2,135	1,965	2,911	5,328	8,227
EBITDA	-2,867	-2,065	-1,285	292	2,836
Net Income	-4,764	-4,726	-2,985	-2,947	-2,356
FCF	-2,778	-3,194	-1,431	24	2,422
CPS (diluted)	-0.35	-0.18	-0.08	0.00	0.14

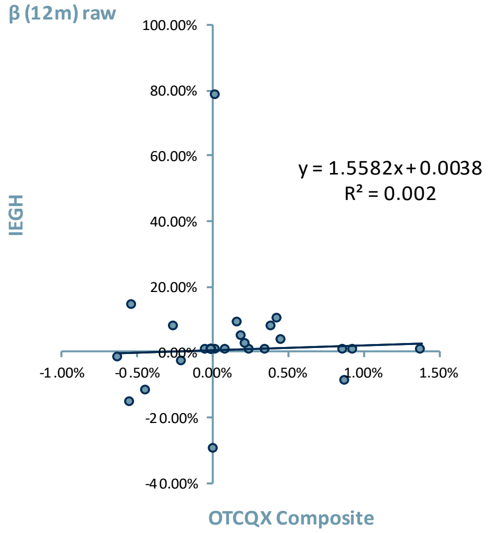
Beta up 3.4x due to much higher volatility during 3Q17, which will fade as IEGH continues to deliver.

IEGH WACC Calc	
Pre-tax cost of debt	5.4%
ETR	40.0%
After-tax cost of debt	3.2%
Current Leverage	
Debt/(Cash)	-22.8%
Equity	5,239
Target Leverage	
D / (D+E)	10.0%
ACF β adj levered	3.93
rf	0.80%
Rm	6.2%
ERP	5.4%
Cost of equity	22.00%
Risk adj.	0.00%
WACC	20.13%

*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 is raised to 20.13% from 11.58% via a higher beta, up 3.4x since 1Q, due to higher share price volatility. FCF positive inflection point is between FY18E and 19E.

Our forecasts period is 5 years (and not the typical and unreliable 10 years). Given IEGH's fintech status we have moved closer to typical EBITDA and FCF TV multiples for fintech.

We have reduced the valuation range spread to 10% post 3Q results from a 2Q VR spread of 20% as the volatility we anticipated has now been captured in the beta during 3Q.

Valuation Range		
NPV FCF (k)	-97	
NPV TV FCF (k)	51,014	
EVF (k)	50,917	
TV Mulitple	22.0x	
% TV of total NPV	100.19%	
Net Debt/(Cash) (k)	-1,195	
Fair Value (k)	49,722	
NoSh (m)	17,463.45	
NoSh (diluted) (m)	17,463.45	
Intrinsic Value Per Share USD	2.85	
Close Price USD	0.30	
VR (low - high)	**2.70**	**2.99**
VR Spread	10.00%	
Implied VR Return (low - high)	801.6%	896.5%

Note: Close price on front page of this ACF research note is based on shares in issue (NoSh) on 04/01/2018 of 17,463,449. Fully diluted 17,463,449 (includes 305k H shares issued 15th Dec 17) as expected 31st Dec 2017.

ACF EQUITY RESEARCH

P&L, Cash Flow and Balance Sheet forecasts

We assume a fall in FY17E revenues of 8% due to management's 3Q time-and-cash occupation with the Virginia legal challenge, now settled, paid out and written down.

We assume the Company runs at full tilt to originate loans over the next 24 months using more or less all its post FCF cash burn funding in the process.

We assume IEGH raises 5.4m FY18E rather than $10m plus

P&L USD (k)	2015A	2016A	2017E	2018E	2019E
Revs	**1,835**	**2,135**	**1,965**	**2,911**	**5,328**
gr%	247%	16%	-8%	48%	83%
GP	1,835	2,135	1.965	2,911	5,328
% Revs	100%	100%	100%	100%	100%
SGA	5,864	5,002	4,808	4,190	5,030
% Revs	320%	234%	245%	144%	94%
EBITDA	**-4,029**	**-2,867**	**-2,065**	**-1,285**	**292**
% Revs	-220%	-134%	-105%	-44%	5%
Provisions credit loss	1,135	1,865	1,100	1,700	3,239
% Revs	62%	87%	56%	58%	61%
EBIT	**-5,177**	**-4,741**	**-3,949**	**-2,985**	**-2,947**
EBT	-5,698	-4,729	-4,726	-2,985	-2,947
ETR	0%	0%	0%	0%	0%
Tax	0	0	0	0	0
NI	**-5,698**	**-4,729**	**-4,726**	**-2,985**	**-2,947**
% Revs	-311%	-221%	-240%	-103%	-55%

Cash Flow USD (k)	2015A	2016A	2017E	2018E	2019E
Profit/(loss) for period	-5,698	-4,729	-4,726	-2,985	-2,947
Provisions credit loss	1,135	1,865	1,100	1,700	3,239
D&A	14	9	6	6	6
Othe non-cash items	90	1	332	0	0
WCap Change	500	77	94	-146	-266
Net CFO	**-3,960**	**-2,778**	**-3,194**	**-1,425**	**32**
Cash Taxes	0	0	0	0	0
Capex	19	0	0	6	8
FCF	**-3,979**	**-2,778**	**-3,194**	**-1,431**	**24**
Net CF from Financing	7,973	3,730	3,876	5,407	10,171
Net loans originated	3,943	1,116	874	3,830	9,929
Net Cash In/(Out)	52	-163	-192	146	266
Cash previous YE	434	486	322	130	276
Cash & CE	**486**	**322**	**130**	**276**	**542**

Balance Sheet USD (k)	2015A	2016A	2017E	2018E	2019E
Tangible Assets	29	27	27	0	0
Loans recvble net	7,161	6,375	5,964	9,182	17,525
Total Fixed Assets	**7,189**	**6,402**	**5,991**	**9,182**	**17,525**
Current assets	112	98	90	133	244
Cash	486	322	130	276	542
Total Current Assets	**598**	**420**	**220**	**409**	**786**
Creditors	40	0	69	103	188
Accruals & Loans	96	1	-411	3,192	11,534
Net Assets	**7,650**	**6,821**	**6,552**	**6,297**	**6,589**
Share Capital	2,007	2,233	2,236	2,236	2,236
Reserves					
Share Premium	20,327	24,000	28,454	31,184	34,423
Accum. Profit/(loss)	-14,683	-19,412	-24,138	-27,123	-30,071
Total Equity	**7,650**	**6,821**	**6,552**	**6,297**	**6,589**

Source: ACF Research Estimates; Company reports.

Notes [Intentionally Blank]

Notes [Intentionally Blank]

Notes [Intentionally Blank]

INDEPENDENCE & DISTRIBUTION

ACF Equity Research Ltd is a provider of issuer-pays research with a clearly defined independent ethic. ACF produces accurate, clear, focused research aimed at a professional investment audience. ACF has excellent distribution capabilities and always aims to provide access without restriction to the widest professional audience. ACF offers a range of additional services to support its clients.

DISCLAIMER

This communication is for informational purposes only. It is not intended as an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. [The opinions expressed in this report herein do not take into account individual investor circumstances, objectives, or needs and are not intended as recommendations of particular securities, financial instruments or strategies to particular clients. The recipient of this report must make its own independent decisions regarding any securities or financial instruments mentioned herein.] ACF Equity Research Ltd has based this document on information obtained from sources it believes to be reliable, but which it has not independently verified. Neither ACF Equity Research Ltd. nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research report's preparation or publication, or any losses or damages which may arise from the use of this research report. All market prices, data and other information are not warranted as to completeness or accuracy and are subject to change without notice. [Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by ACF Equity Research Ltd. with respect to future performance. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.]

IMPORTANT DISCLOSURES FOR U.S. INVESTORS

This research report was prepared by ACF Equity Research Ltd., a company authorized to engage in securities activities in the United Kingdom. ACF Equity Research Ltd. is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended. Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through, a registered broker-dealer in the United States. The analyst who prepared this research report is not registered or qualified with the Financial Industry Regulatory Authority ("FINRA") and may not be associated with a U.S. broker dealer and as such, would not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

[Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States.]

LEGAL NOTICE

This report is for authorized use by the intended recipient(s) only. It may contain proprietary material, confidential information and/or be subject to legal privilege. No part of the content of this research report may be copied, forwarded or duplicated in any form or by any means without the prior consent of ACF Equity Research Ltd. and ACF Equity Research Ltd. accepts no liability whatsoever for the actions of third parties in this respect.

IMPORTANT ADDITIONAL DISCLOSURES FOR U.K. INVESTORS

The information in this report has been prepared by ACF Equity Research Ltd (ACF). The research is published for information purposes only. It is not intended as an offer or solicitation for the purchase or sale of any securities or any financial instruments.

ACF has based this document on information obtained from sources it believes to be reliable but which it has not independently verified. All market prices, data and other information are not warranted as to completeness or accuracy and are subject to change without notice. Any comments or statements made herein do not necessarily reflect those of ACF Equity Research Limited. The material should not be regarded by recipients as a substitute for the exercise of their own judgment. Past performance does not guarantee future performance.

The analyst(s) responsible for covering the securities in this report receive compensation based upon, among other factors, the overall profitability of ACF which may, from time to time, solicit business from any of the companies referred to in this report. The analyst(s) responsible for covering securities in this report may not hold a position in any or related securities in this report in ACF's sector universe on in any other sector in which ACF carries out research. The company does not hold any position in the securities mentioned in this report.

ACF is regulated as an Appointed Representative of City & Merchant Limited which is authorized and regulated by the Financial Conduct Authority. This research report and its contents are intended for professional investors and not for retail investors. A marketing communication under FCA Rules, this document 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 the investment research. ACF Equity Research Limited is authorised and regulated by the Financial Conduct Authority. However, the contents of this research report are produced as if ACF Equity Research Limited is unregulated and consequently this report does not contain investment recommendations or ratings. ACF has designed its own independence standards that we believe far exceed the legal framework requirements.

ACF, its directors, employees and agents accept no liability whatsoever for any loss or damage of any kind arising out of the use of all or part of these materials. The information in this report is provided with the understanding that ACF is not acting in a fiduciary capacity. Certain laws and regulations impose liabilities which cannot be disclaimed. This disclaimer shall in no way constitute a waiver or limitation of any rights a person may have under such laws and/or regulations. Additional information is available upon request.

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