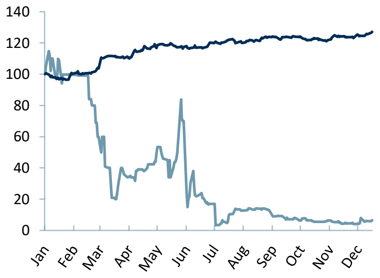
UPDATE

VALUE RANGE

USD 2.70 – 2.99



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

Thursday, 04 January 2018

Intrinsic Price	$2.85
Value Range Low	$2.70
Value Range High	$2.99
Implied MCAP (m)	$49.71
Implied EV (m)	$50.90
OTCQB Index	IEGH
Financial YE	31-Dec
Currency	USD

Business Activity

Consumer retail near-prime lending

Key Metrics

Close Price	$0.34
MCAP (m)	$5.850
Net Debt (Cash) (m)	-$1.195
EV (m)	$4.65
52 Wk Hi	$8.60
52 Wk Lo	$0.14
NAV trailing	$0.47

Key Ratios

S/P premium to NAV	-29.34%
Charge off	11.91%
(Net Cash) / Shareholder Equity %	-14.44%

Financials Sector Research

OTCQB Best Market Index

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IEG Holdings December Action

Busy and beating our expectations?

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. IEGH raised $305k via HNWs using series H preferred stock prior to 4Q close for working capital and loans keeping it fully funded for 12-24m; IEGH has also announced it is researching the economic viability of Crypto currency loans and making an IEGH ICO. To this end the company announced the incorporation of a 100% owned subsidiary called Investment Evolution Crypto, LLC. Cumulative loan volumes end Dec 17 reached 16.2m up 192% since Jan 15. New loans 4Q came in at $960k, beating our 4Q expectations.

- 4Q new loans $960k vs. 3Q $855k, beating our expectations;
- Raised $305K – for WCAP and loans - Fully funded next 12-24m;
- All Series H preferred stock converted to common stock 31 Dec 17;
- Exploring economics of Crypto loans and an ICO;
- One of the few loan companies that could have an ICO legally.

	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	2.37x	-2.25x	-1.46x	-1.24x	-1.24x	-1.83x
2018E	1.60x	-3.62x	-3.25x	-1.96x	-1.96x	-4.09x

03/01/2017

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)	$5.9	$5.9
Net Debt (Cash) (m)	-$1.20	-$1.20
EV (m)	$4.7	$4.7
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 tender offer for OneMain stock. The Company'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 has an automated online 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 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. We have rebased our estimates and valuation to reflect the new higher beta and our less demanding forecast targets.

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.

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

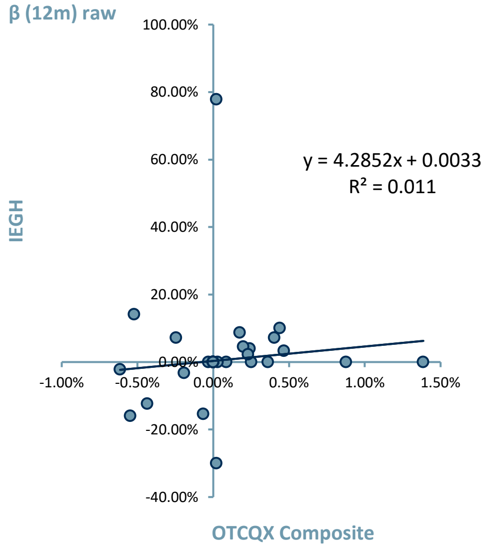
Beta up 3.4x due to much higher volatility during 3Q17, which will fade as IEGH continues to deliver.

IEGH WACC Calc	
Pre-tax cost of debt	5.4%
ETR	40.0%
After-tax cost of debt	3.2%
Current Leverage	
Debt/(Cash)	-20.4%
Equity	5,850
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)	-112	
NPV TV FCF (k)	51,014	
EVF (k)	50,903	
TV Mulitple	22.0x	
% TV of total NPV	100.22%	
Net Debt/(Cash) (k)	-1,195	
Fair Value (k)	49,707	
NoSh (m)	17,463.45	
NoSh (diluted) (m)	17,463.45	
Intrinsic Value Per Share USD	2.85	
Close Price USD	0.34	
VR (low - high)	**2.70**	**2.99**
VR Spread	10.00%	
Implied VR Return (low - high)	707.2%	792.1%

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.

Sensitivity Analysis

We expect IEGH's share price to continue to rebuild and volatility to fall over the coming quarters.

Our valuation range reflects a greatly increased beta, in turn driving WACC to 20.13%.

VR USD 2.70 – 2.99.

Our undiluted VR was USD 3.96 – 4.37 vs. the close price at the date of this note of USD 0.34. However, the full dilution has occurred – 31st Dec 17 H series preferred conversion - as advertised. Therefore, our new VR is USD 2.70 - 2.99

Fintech IEGH is now In the break-even zone.

IEGH is now capable of stopping its cash burn for at least 12 months, by cutting back the CEO's salary and capital raising activities. This gives IEGH timing flexibility to raise further funds for lending. We have re-based our expectations assuming the Company is able to raise USD 3.4-5.4m and forecast FY18E net loans receivable USD 9.182m and revenues USD 2.846m. If IEGH were to raise USD 11.8m FY18 it becomes FCF positive and arguably self-sustaining assuming continued access to capital to lend therein on. Our valuation assumes no opex savings. We have refined our opex cost expectations based on improved efficiency and assumed revenue growth continues. The recent high share price volatility, thanks in part to the withdrawn LendingClub bid, has had a substantive effect on our IEGH beta, which has risen to 3.93 up from 1.14 – The share buy-back remains in place. Our IEGH WACC has risen again in the short term to 20.13% up from 11.58% 2Q17 reflecting volatility risk. We have cut the spread of our IEGH value range to 10% from 20%, as the volatility is now reflected in the beta and so the WACC. As IEGH is visibly **in the break-even zone** we expect the share price to begin to recover over time. It has already more than doubled to 0.33 cents from its low of 0.14 cents. Our TV multiples begin to reflect IEGH's fintech status.

Exhibit 1: **IEGH multiples based on close price**

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

Multiples	EV/ Revenue	EV/ EBITDA	EV/ FCF	P/ EPS	P/ EPS (diluted)	P/ CPS	P/ CPS (diluted)
2017E	2.37x	-2.25x	-1.46x	-1.24x	-1.24x	-1.83x	-1.83x
2018E	1.60x	-3.62x	-3.25x	-1.96x	-1.96x	-4.09x	-4.09x

Source: ACF Research Estimates.

Exhibit 2: **WACC/Multiple shows more conservative value potential**

Our EBITDA TV multiple is very significantly discounted reflecting the rise of the beta to 3.93 up from 1.14, a 3.4x increase.

Our EBITDA TV multiple suggests a Value Range (VR) USD 1.69 -1.98 per share.

Share Price

Terminal EBITDA Multiple / WACC	17.00%	18.00%	19.00%	**20.00%**	21.00%	22.00%
9.0x	1.41	1.40	1.40	1.39	1.39	1.38
10.0x	1.56	1.55	1.55	1.54	1.53	1.53
11.0x	1.71	1.70	1.69	**1.69**	**1.68**	1.68
12.0x	1.85	1.85	1.84	**1.84**	**1.83**	1.82
13.0x	2.00	1.99	1.99	**1.98**	**1.98**	1.97
14.0x	2.15	2.14	2.14	2.13	2.13	2.12
15.0x	2.30	2.29	2.28	2.28	2.27	2.27

Source: ACF Research Estimates.

Exhibit 7 above shows the valuation range based on EBITDA terminal value of 12x, very modestly reflecting IEGH's fintech characteristics. Our actual DCF calculation uses a TV multiple derived from discounted FCF of 22x on a 5-year rather than 10-yr DCF horizon.

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.

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%

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

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.

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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