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Fundamental Research Corp.
Investment Analysis for Intelligent Investors

January 10, 2017

IEG Holdings Corporation (OTCQB: IEGH) – Hostile Bid for OneMain Holdings

Sector/Industry: Consumer Finance **www.investmentevolution.com**

Market Data (as of January 10, 2017)

Current Price	**US$7.25**
Fair Value	**US$9.04**
Rating*	**BUY**
Risk*	**4**
52 Week Range	N/A
Shares O/S	9.71 M
Market Cap	US$70.40 M
Current Yield	N/A
P/E (forward)	N/A
P/B	N/A
YoY Return	N/A
YoY OTCQX	4.1%

*see back of report for rating and risk definitions
*All the figures are in US$ unless otherwise specified.

Highlights

- On January 6, 2017, IEG Holdings Corporation ("company", "IEG") launched an unsolicited offer to acquire the shares of OneMain Holdings Inc. (NYSE: OMF). With a market capitalization of $3.17 billion and $12.64 billion in loans receivables, OneMain is one of the largest consumer finance companies in the U.S.
- IEG's primary rationale for the offer is that they believe a combined entity could attain significant synergies and cost savings by converting OneMain's traditional bricks-and-mortar business model to an online model. We compare this transaction to how a merger between Netflix (Nasdaq: NFLX) and Blockbuster could have saved Blockbuster.
- We are not aware of any other company of IEG's size that has pulled off such a major transaction. However, we do not see any significant downside for IEG considering the free publicity they have been receiving since the announcement.
- IEG is offering two shares of IEG for a common share of OMF. On January 9, 2017, through a press release, OMF dismissed IEG's offer and called it a low ball offer. IEG shares were trading at $5.45 per share and OMF shares were at $23.36 per share prior to the announcement.
- IEG is also pursuing an offering for up to US$10 million through the issuance of 12% p.a. senior unsecured notes due December 31, 2026.
- In order to quickly move to profitability in Q1-2017, management has taken the decision to drastically cut costs. Independent directors resigned and the CEO's salary for 2017 has been reduced from $1 million to just $1.

Key Financial Data (in US$); YE - Dec 31	2012	2013	2014	2015	2016E	2017E
Revenues	37,779	62,949	529,225	1,835,165	2,217,854	6,288,382
Net Income	(2,507,521)	(4,480,465)	(5,401,754)	(5,698,198)	(4,005,143)	(1,076,572)
EPS (basic)	(0.01)	(0.01)	(0.40)	(0.24)	(0.41)	(0.07)
Cash	178,601	281,879	433,712	485,559	-	-
Loans Receivable	130,486	426,113	4,316,316	7,124,702	7,250,691	35,000,000
Total Debt / Capital	-30.6%	-33.3%	48.2%	0.0%	12.4%	60.8%
Total Assets	791,196	922,140	4,929,120	7,758,149	7,526,631	35,675,524

Tender Offer

On January 6, 2017, the company announced the commencement of a tender offer to purchase up to all of the outstanding shares of OneMain Holdings Inc. The offer is scheduled to expire on February 6, 2017(unless subsequently extended). On December 16, 2016, IEG delivered a letter to OMF's CEO, and the Board of Directors, advising them of IEG's intent to commence the tender offer.

OneMain is a traditional private lender (100+ years of track record) providing consumer finance and insurance products and services through over 1,800 branches in 44 states. With a market capitalization of $3.17 billion, OneMain is one of the largest consumer finance companies in the U.S. **At the end of Q3-2016 (September 30 ,2016), OMF had total assets of $18.35 billion which primarily included $658 million in cash, $1.79 billion in long-term investments, and $12.64 billion in loans receivables**. The assets were primarily funded by $13.82 billion in debt and $3.05 billion in equity. The following table shows a summary of OMF's operating performance. In the first nine months of 2016, OMF generated interest revenues of $2.34 billion and net income of $188 million.

$, M	2013	2014	2015	2016 (9M)
Interest Income	2,154	1,982	1,931	2,342
Net Interest Income	1,234	1,248	1,216	1,687
Net Income	(19)	505	(242)	188

Data Source: S&P Capital IQ

The key valuation metrics of OMF are presented below. OMF's shares look undervalued based on P / B r(1.0x versus the Consumer Finance industry average of 1.4x) and fairly valued based on EV / Revenues (4.7x versus 4.3x).

Valuation Metrics	OMF	Industry Average
Market Capitalization ($, M)	$3,173.50	
Enterprise Value ($, M)	$14,721.50	
Market Cap / Total Revenue	1.02	
Price / BV	1.0	1.4
EV / Revenue	4.7	4.3

Data Source: S&P Capital IQ

As per the offer, IEG expects to issue two IEG shares in return for one common share of OMF. In such a scenario, IEG will issue approximately 270 million shares if they were to acquire 100% of the outstanding shares of OMF. Subsequent to the transaction, OMF's shareholders will own 96.5% of the combined entity. IEG shares were trading at $5.45 per share, and OMF shares were at $23.36 per share prior to the announcement. On January 9, 2017, OMF announced through a press release, that the unsolicited offer from IEG is a lowball offer and went on to state that it was *"grossly inadequate and reckless, does not even remotely reflect the value of the Company, and is not in the best interests of the Company and its stockholders".* IEG responded to this by urging OneMain to enter into negotiations with IEG rather than simply dismissing the potential synergies and cost savings.

A key factor that prompted IEG to make this move is the significant fall in OMF's share price in 2016, as shown below. OMF had completed a major acqusition in late 2015.

Source: S&P Capital IQ

IEG management's primary rationale for the offer is that they believe a combined entity could attain significant synergies and cost savings by converting OneMain's traditional bricks-and-mortar business model to an online model. IEG's management believes they have a significant first mover advantage as they are one of the very few online lenders who have a license to operate in multiple states in the U.S., covering more than half the U.S. population.

We had mentioned in our initiating report on IEG that the rapid emergence of e-businesses is driving many traditional businesses to utilize cloud-based infrastructure instead of having physical office locations. This reduces the burden of physical office locations and redundant staffing costs, and increases convenience for consumers, as they can obtain loans without having to visit an office location. IEG estimates potential cost savings of at least $1 billion a year from transforming the OneMain business online, with the closure of over 1,800 OneMain offices, termination of over 10,000 employees, a substantial reduction in advertising / marketing costs, and annual executive compensation by at least $40 million.

Share repurchase

Expands operations to 19 states

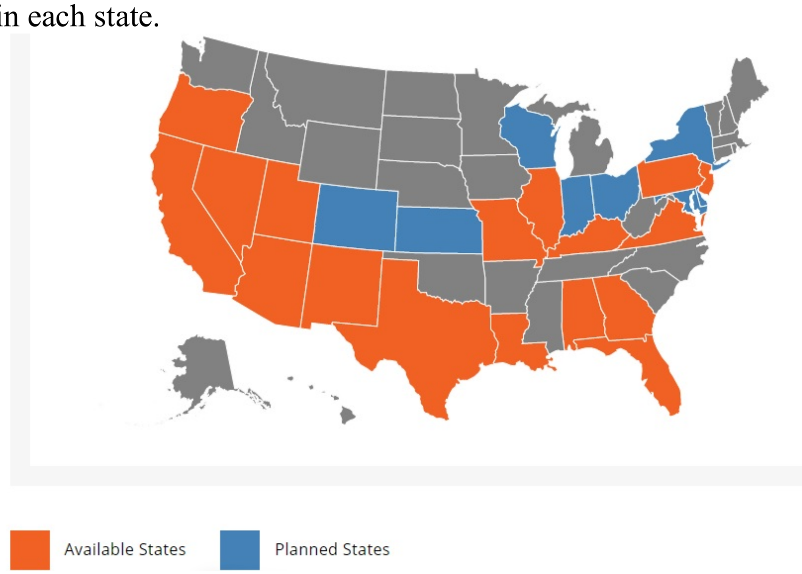
We compare this transaction to be similar to what if Blockbuster was taken over by NetFlix a few years prior to the demise of Blockbuster. Netflix could have grown at a much faster rate by closing all of Blockbuster's stores, and converting their existing customers to Netflix's online model. Blockbuster went bankrupt in 2010, and Netflix now has a market capitalization of $56 billion.

We are not aware of any other company of IEG's size that has pulled off such a major transaction. Two other things that make this process further challenging, we believe, are that OMF has over 13,000 shareholders, and 58% of OMF's shares are held by an affiliate of the global investment company, Fortress Investment Group (NYSE: FIG). At this point, we estimate the probability of Fortress approving this transaction is very low.

On a positive note, we do not see any significant downside for IEG from this announcement. Even if none of OneMain shareholders accept the offer, we believe this move from IEG will give them free publicity. IEG's share price was up by 33% on the day of announcement. The only downside is the cost associated with initiating the tender offer, which is the SEC filing fee of approximately $170,000, plus undisclosed other costs such as legal and accounting.

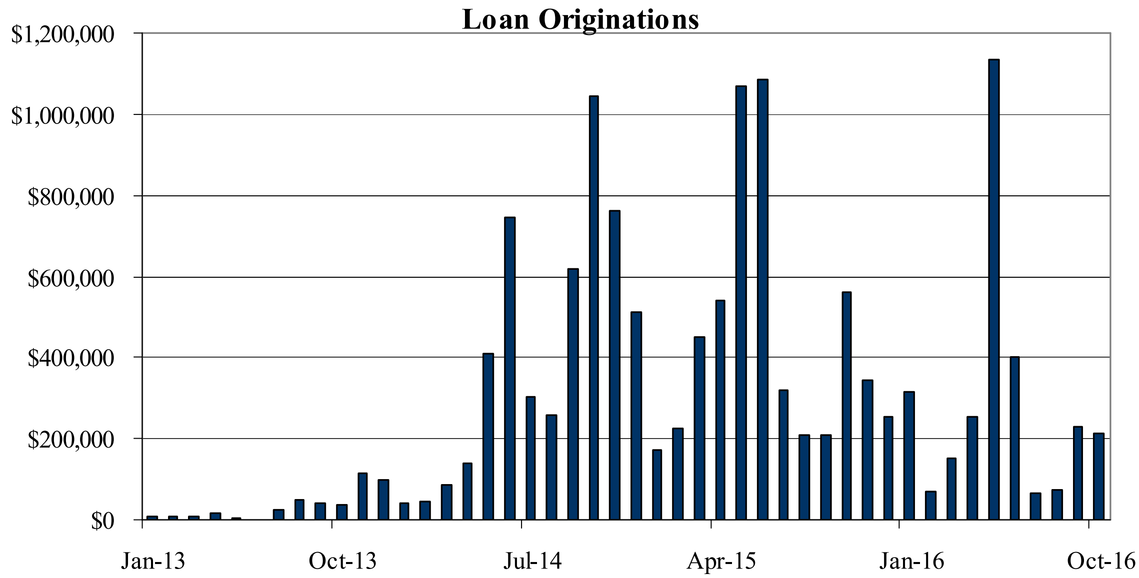
On January 9, 2017, IEG announced its intent to pursue a stock repurchase program of up to $2 million. Management has yet to determine the actual timing, number and value of the shares repurchased under the program.

In December 2016, the company received approval to operate in Ohio, making it the 19th state of operations. The total population of the 19 states is approximately 200 million, or 62% of the total U.S. population. Management's target is to expand to 25 states by mid 2017. The remaining 25 states in the U.S. still require lenders to have at least one physical office location in each state.



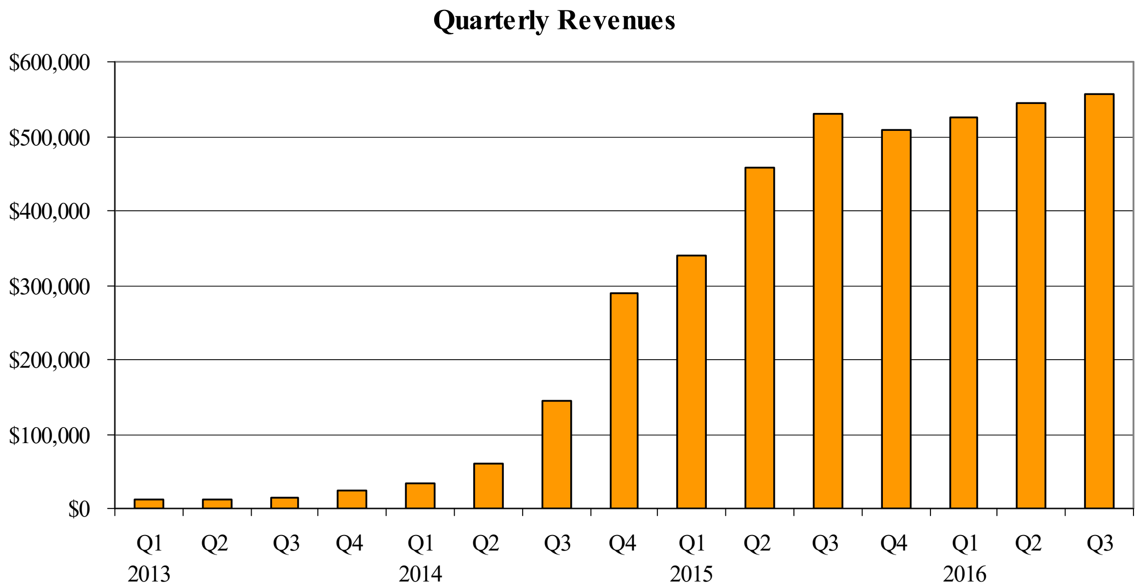
Source: Company

IEG originated US $0.37 million loans in Q3-2016. The following chart shows the originations since inception of the online lending platform through October 2016. Originations dropped in 2016 primarily because of a lack of capital to deploy.



The total cumulative loan volume was US $14.10 million as of December 21, 2016.

IEG reported US $0.56 million in revenues in Q3-2016, up 5.1% YOY, and the highest since inception. The previous high was US $0.55 million in Q2-2016.



Cost cutting to achieve profitability in Q1-2017

In November 2016, the company announced the following key changes to their operations to bring the company to profitability in Q1-2017.

- Management announced that they will not be pursuing a listing on the NYSE MKT or NASDAQ in the near-term. However, IEG has left open the possibility of future attempts for up listing upon the company achieving a cash flow positive position.

- Undergo significant cost cuts, which prompted the resignation of the two independent directors, Harold Hansen and Matthew Banks. Directors' costs totaled $18k in the past quarter, implying an annual cost saving of $72k. As a result, IEG's board is now comprised of only the CEO, Paul Mathieson. Although this is of concern, note that Mr. Mathieson is the largest shareholder and holds 71.04% of the shares. He has also agreed to lower his 2017 annual base salary from $1 million to $1, and forgo any 2016 bonus due in December 2016.

- As the company has only one director now, the company's shares were moved from the OTCQX to the OTCQB in January 2017.

Although IEG's risk profile has increased (due to the change in stock listing and resignation of directors), we believe the company has made a prudent decision to cut costs and focus on achieving profitability. Profitable operations should allow the company to attract capital (equity and debt) for growth.

The company recently announced that they expect to record profits and positive cash flows for the first time in Q1-2017. The company also announced that they expect to start paying dividends in April 2017.

$10 million financing

In November 2016, IEG announced that it has launched an offering for up to US$10 million through the issuance of 12% p.a. senior unsecured notes due December 31, 2026. The company has yet to provide an update on the financing.

Financials

As discussed in our previous update report, IEG incurred a net loss of $0.98 million (EPS: -$0.10) in Q3-2016, versus $1.42 million (EPS: -$0.58) in the comparable period in the previous year. In the nine month period of 2016, the company incurred a net loss of $3.19 million (EPS: -$0.43) versus $4.24 million (EPS: -$1.88) in the comparable period in the previous year.

We have not changed any of our 2016 and 2017 forecasts. Our 2016 year-end portfolio estimate is $7.25 million, and our 2017 estimate is $35 million. Note that these assumptions do not account for the recent offer on OneMain.

Our 2016 revenue forecast is $2.22 million and our 2017 forecast is $6.29 million. Our EPS forecast for 2016 is a net loss of $4.00 million (EPS:-$0.41), and for 2017 is a net loss of $1.08 million (EPS: -$0.10).

Valuation

We continue to base our fair value estimate on IEG's shares on the assumption that the company's portfolio grows to $300 million by 2021, and funds will be raised using a debt to capital of 80%. In our previous report, we had estimated that future equity financings will be completed at $2.50 per share, which was the share price at that time. Considering the significant rise in share price since then, our models now assume that future financings will be completed at $7.50 per share, which resulted in a significant drop in our estimate of the total number of outstanding shares by 2021. As a result, the average of our Discounted Cash Flow ("DCF") and comparables valuation increased from $3.79 per share to $9.04 per share. The following tables show a summary of our valuation models.

DCF Valuation (US$)	2016E	2017E	2018E	2019E	2020E	2021E	Terminal (net of debt)
Funds Flow from Operations	-$3,995,165	-$1,071,938	$4,079,979	$14,029,463	$27,435,647	$30,308,725	
-increase in w/c	$378,446	-$288,878	-$510,511	-$986,439	-$1,329,097	-$1,286,386	
Free Cash Flows	-$3,616,719	-$1,360,817	$3,569,467	$13,043,024	$26,106,550	$29,022,339	$111,473,128
Present Value	**-$3,616,719**	**-$1,237,106**	**$2,949,973**	**$9,799,417**	**$17,831,125**	**$18,020,589**	**$69,216,042**

Discount Rate	10.0%
Present Value	$112,963,321
Cash - Debt	$924,552
Fair Value	$113,887,873
Shares O/S (incld. future equity financings)	15,640,580
Value per share (US$)	**$7.28**

2021 Estimates	
Revenues	$80,842,125
Net Income	$30,307,259
Book Value	$125,288,420

	Industry Average	Fair Value (2021E)	Current FV	Current FV / Share
P/S	2.80	$226,357,950	$140,550,478	$8.99
P/E	12.00	$363,687,104	$225,821,078	$14.44
P/B	1.80	$225,519,157	$140,029,653	$8.95
Average		$271,854,737	$168,800,403	$10.79

We maintain our BUY rating and risk rating of 4.

Risk

We believe the company is exposed to the following key risks:

- Consumer finance lending is a highly competitive market. Although we believe the U.S. consumer credit market is healthy, unfavorable macroeconomic changes may impact consumer finance lenders and their ability to grow.
- The company's ability to consistently originate good quality loans at attractive yields is critical.
- Loan loss rates have to be maintained at reasonable levels.
- The company's ability to grow depends heavily on management's ability to raise capital (equity and debt).
- IEG has been operating at a loss and has yet to generate profits.
- As with most investments, there is no guarantee that the company will be able to return principal and meet interest payments on the notes.
- The average trading volume of IEG's s shares has been low as the shares are tightly held; the CEO holds 71% of the outstanding shares.
- Due to lack of liquidity, the company's shares may have been mispriced in the past. For example, IEG's share price was $27.50 per share as of August 24, 2015, implying a market capitalization of $637 million, based on 23.16 million shares outstanding at that time. The company had only $6.68 million in loan receivables (net of the provision for losses) as of June 30, 2015.

APPENDIX

STATEMENTS OF OPERATIONS (in US$) - YE Dec 31st	2012	2013	2014	2015	2016E	2017E
Interest revenue	28,950	56,585	521,018	1,789,701	2,161,652	6,105,225
Other revenue	8,829	6,364	8,207	45,464	56,203	183,157
Total revenue	**37,779**	**62,949**	**529,225**	**1,835,165**	**2,217,854**	**6,288,382**
EXPENSES						
Salaries and wages	1,680,264	1,345,243	1,889,136	2,126,243	1,586,919	1,983,649
Professional fees	21,687	100,924			630,736	
Consulting fees	64,923	462,771	871,228	1,013,690	1,282,166	1,602,708
Advertising			459,804	950,905	406,495	1,387,465
G&A	625,442	836,224	1,531,765	1,773,129	1,294,933	1,618,666
Provision for credit losses	20,340	63,492	614,684	1,134,518	1,000,344	725,069
Depreciation and amortization	81,664	36,885	15,054	14,124	9,979	4,633
Start up costs		1,500,000				
Interest expense	51,109	198,385	558,257	527,921	0	42,763
Total Operating Expenses	2,545,429	4,543,924	5,939,928	7,540,530	6,211,572	7,364,953
Loss from Operations	**(2,507,650)**	**(4,480,975)**	**(5,410,703)**	**(5,705,365)**	**(3,993,717)**	**(1,076,572)**
Misc income / Tax	129	510	8,949	7,167	-11,426	-
Net Income	**(2,507,521)**	**(4,480,465)**	**(5,401,754)**	**(5,698,198)**	**(4,005,143)**	**(1,076,572)**
EPS	-0.01	-0.01	-0.40	-0.24	-0.41	-0.10

BALANCE SHEETS (in US$) - YE Dec 31st	2012	2013	2014	2015	2016E	2017E
ASSETS						
CURRENT						
Cash and cash equiv.	178,601	281,879	433,712	485,559	0	0
Loans receivable - current, net	18,482	64,719	4,316,316	7,124,702	7,250,691	35,000,000
Advances to officer	203,119					
Other receivables			25,882	76,262	216,165	610,522
Prepaid expenses				7,276	5,404	15,263
Total Current Assets	**400,202**	**346,598**	**4,775,910**	**7,693,799**	**7,472,260**	**35,625,786**
PP&E	80,235	43,349	36,100	28,511	18,532	13,899
Loans Receivable - long term	112,004	361,394				
Security deposits	34,454	39,329	39,329	35,839	35,839	35,839
Loan costs, net	164,301	131,470	77,781			
Total Assets	**791,196**	**922,140**	**4,929,120**	**7,758,149**	**7,526,631**	**35,675,524**
LIABILITIES						
CURRENT						
A/P & accrued expenses	157,504	323,978	172,139	96,441	621,157	736,495
Deferred salary	1,401,763					
Deferred rent	48,844	48,844	28,429	11,522	3,283	3,283
Working capital loans		140,000				
Current portion of senior debt		114,562				
Preferred dividends payable						
CEO accrued consulting fees			106,588			
Total Current Liabilities	**1,608,111**	**627,384**	**307,156**	**107,963**	**624,440**	**739,778**
Senior debt	250,000	385,438	2,230,000		855,261	24,143,361
Deposit on common stock to be issued						
Deposits on preferred stock to be issued		1,910,774				
SHAREHOLDERS EQUITY						
Equity	3,736,608	7,280,042	17,075,216	28,031,636	30,433,524	36,255,549
Accumulated deficit	-4,803,523	-9,281,498	-14,683,252	-20,381,450	-24,386,593	-25,463,165
Total shareholders' equity (deficiency)	**(1,066,915)**	**(2,001,456)**	**2,391,964**	**7,650,186**	**6,046,931**	**10,792,384**
Total Liabilities and Shareholders Equity	**791,196**	**922,140**	**4,929,120**	**7,758,149**	**7,526,631**	**35,675,524**

STATEMENTS OF CASH FLOWS (in US$) - YE Dec 31st	2012	2013	2014	2015	2016E	2017E
OPERATING ACTIVITIES						
Net loss	-2,507,521	-4,480,465	-5,401,754	-5,698,198	-4,005,143	-1,076,572
Adjusted for items not involving cash:						
Provision for credit losses	20,340	63,462	614,684	1,134,518		
Depreciation & amortization	81,664	36,885	15,054	14,124	9,979	4,633
Amortization of loan costs	25,734	48,281	53,689	77,781		
Loss on disposition of P&E				12,582		
Change in assets:						
Deposits	1,473	-4,875		3,490		
Loan costs	-20,000	-15,450				
Other receivables			-25,882	-50,380	-139,903	-394,357
Prepaid expenses				-7,276	1,872	-9,859
Change in liabilities						
AP & accrued expenses	-12,833	373,964	554,867	452,285	524,716	115,338
Deferred salary	803,847	952,903	907,598	118,412		
Deferred rent	15,984	0	-20,415	-16,906	-8,239	0
Charge for rights sales agreement		1,500,000				
NET CASH USED IN OPERATING ACTIVITIES	**-1,591,312**	**-1,525,295**	**-3,302,159**	**-3,959,568**	**-3,616,719**	**-1,360,817**
INVESTING ACTIVITIES						
Loans recivable originated	-126,000	-403,000	-4,781,022	-5,381,851		
Loans receivable repaid	25,384	43,911	276,077	1,438,946		
Net Loans	-100,616	-359,089	-4,504,945	-3,942,905	-125,989	-27,749,309
Purchases of PP&E	-12,982	0				
Advances to CEO			0	-95,003		
Advance to officer	-203,119	-267,832	-9,009	-19,117		
Advances to IEG Holdings Limited	0	-966,620				
NET CASH USED IN INVESTING ACTIVITIES	**-417,333**	**-1,593,541**	**-4,513,954**	**-4,057,025**	**-125,989**	**-27,749,309**
FINANCING ACTIVITIES						
Payments for buyback of common stock						
Proceeds from long term debt	199,965	250,000	1,730,000		855,261	23,288,100
Proceeds from short term loans		500,000	669,980	400,000		
payments on short term loans		-360,000	-419,980	-400,000		
Repayment of senior debt				-2,230,000		
Prepaid preferred share redemption				-160,000		
Deposit on common shares to be issued		936,763	1,834,112			
Deposit on preferred shares to be issued						
Preferred dividends paid			-114,115	-220,974	-59,834	
Proceeds from issuance of preferred stock				6,100,000	90,550	
Proceeds from issuance of common stock		1,892,861	4,267,949	4,579,414	2,371,172	5,822,025
Capital contributions	1,743,415					
NET CASH FROM FINANCING ACTIVITIES	**1,943,380**	**3,219,624**	**7,967,946**	**8,068,440**	**3,257,149**	**29,110,126**
INCREASE IN CASH FOR THE YEAR	35,350	103,278	151,833	51,847	-485,559	0
CASH, BEGINNING OF THE YEAR	143,251	178,601	281,879	433,712	485,559	0
CASH, END OF THE YEAR	**178,601**	**281,879**	**433,712**	**485,559**	**0**	**0**

Fundamental Research Corp. Equity Rating Scale:
Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk
Hold – Annual expected rate of return is between 5% and 12%
Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk
Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:
1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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