



## IEGH Holdings Corporation (OTCQX: IEGH, Target Price: \$8.05)

IEG Holdings Corporation (OTCQX: IEGH) provides online unsecured consumer loans under the brand name "Mr. Amazing Loans" via its website, [www.mramazingloans.com](http://www.mramazingloans.com), in 17 US states. The Company offers \$5,000 and \$10,000 personal loans over a five-year term at 19.9% to 29.9%. IEG Holdings plans future expansion to a total of 25 US states by mid-2017E, which would cover 240mn people and represent approximately 75% of the US population. Since 2013, IEGH has obtained additional state lending licenses, and they are now licensed and originating direct consumer loans in Alabama, Arizona, California, Florida, Georgia, Illinois, Kentucky, Louisiana, Missouri, Nevada, New Jersey, New Mexico, Oregon, Pennsylvania, Texas, Utah and Virginia. The Company was founded in 2010 and is headquartered in Las Vegas, Nevada.

### Investment Highlights

#### Strong volume drives continued growth in 2Q16

IEGH announced strong growth in its loan volume in 2Q16, which is a core driver of its revenue and potential profitability. The company noted that its daily loan volume reached a record high of \$150,000 and also stated that in May the monthly loan volume reached \$1,130,000. This marked a new record high for the company, and it is clear that IEGH is putting its freshly raised capital to work growing its loan book. Moreover, according to the company's 2Q16 results announcement, cumulative loan volume has increased by 140% since January 2015, from \$5,549,023 at that time to \$13,314,023 as of June 30, 2016. Management expects growth to continue throughout the year as it deploys newly raised capital.

#### 1H16 revenues rise by 34% YoY

IEGH reported rising 2Q16 revenues that showed high growth from a young base as the company continued to build its book of business. Specifically, 2Q16 revenues grew by 19% YoY to reach \$545,356, a continuation of the growth displayed in 1Q16, during which revenues grew by 54% YoY to reach \$524,972 in 1Q16, versus \$340,336 in 1Q15. For the first half of 2016 revenues were \$1.1mn, up 34% from \$0.8mn in 1H15.

IEGH ended 2Q16 with cash on hand \$0.1mn and no debt. IEGH used \$1.3mn in cash from operations during 1H16 and had current assets of \$8.0mn and current liabilities of \$0.2mn, as of June 30, 2016. IEGH is in the process of raising new capital through a rights offering, the terms of which are summarized later in this report. Management indicated proceeds from the offering will be used to fund growth in its loan portfolio and for general corporate purposes.

#### Adjusting price target to reflect new share count

We are adjusting our price target for IEGH to \$8.05. The target reflects 95.3mn shares, versus 28.9mn shares outstanding when the firm initiated coverage and conducted its initial valuation. We plan to update our forecast and valuation for IEGH following the completion of the proposed rights offering and 3Q16 results.

### Stock Details (8/30/16)

OTCQX:	IEGH
Sector / Industry	Financials / Specialty Finance
<b>Price target</b>	<b>\$8.05</b>
Recent share price	\$1.30
Shares o/s (mn)	95.3
Market cap (in \$mn)	123.9
52-week high/low	\$10.00 / 0.51

Source: Thomson Reuters, SeeThruEquity Research

### Key Financial (\$mn, unless specified)

	FY14	FY15	FY16E
Revenues	0.5	1.8	4.6
EBITDA	(4.8)	(5.1)	(2.7)
EBIT	(4.9)	(5.2)	(2.8)
Net Income	(5.4)	(5.7)	(2.8)
EPS (\$)	(0.25)	(0.20)	(0.05)

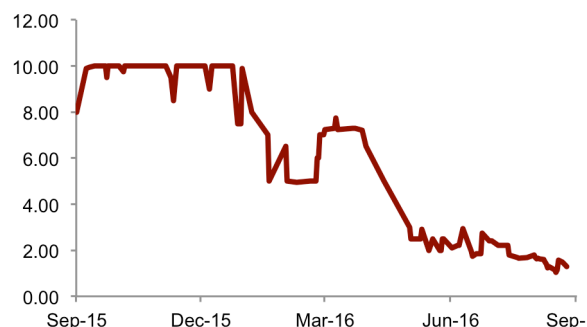
Source: SeeThruEquity Research

### Key Ratios

	FY14	FY15	FY16E
Gross margin (%)	100.0	100.0	100.0
Operating Margin (%)	(916.9)	(282.1)	(60.0)
EBITDA margin (%)	(903.9)	(277.1)	(57.8)
Net margin (%)	(1,020.7)	(310.5)	(60.5)
P/Revenue (x)	234.1	67.5	27.0
EV/Revenue (x)	234.1	67.5	27.0

Source: SeeThruEquity Research

### Stock Performance (LTM)



Source: Thomson Reuters



## RECENT FINANCIAL SUMMARY

Figure 1. Income Statement Summary

Figures in \$ unless specified	2Q16	2Q15	1Q16
<b>Interest Revenue</b>	<b>526,380</b>	<b>438,263</b>	<b>512,792</b>
YoY growth	20.1%		51.1%
<b>Other Revenue</b>	<b>18,976</b>	<b>18,463</b>	<b>12,180</b>
YoY growth	2.8%		1316.3%
<b>Total Revenue</b>	<b>545,356</b>	<b>456,726</b>	<b>524,972</b>
YoY growth	19.4%		54.3%
<b>Salaries &amp; Compensation</b>	<b>406,323</b>	<b>407,424</b>	<b>403,006</b>
<b>Other Operating Expenses</b>	<b>409,407</b>	<b>352,185</b>	<b>410,061</b>
<b>Consulting</b>	<b>307,693</b>	<b>445,849</b>	<b>145,587</b>
<b>Provision for Credit Losses</b>	<b>354,918</b>	<b>428,604</b>	<b>387,519</b>
<b>Advertising, Rent &amp; Other</b>	<b>318,220</b>	<b>334,058</b>	<b>140,555</b>
<b>Total Operating Expenses</b>	<b>1,796,561</b>	<b>1,968,120</b>	<b>1,486,728</b>
YoY growth	-8.7%		26.7%
<b>Operating Income</b>	<b>-1,251,205</b>	<b>-1,511,394</b>	<b>-961,756</b>
Operating Margin			-183.2%
<b>Interest &amp; Other</b>	<b>6,673</b>	<b>-333,103</b>	<b>5,077</b>
<b>Pre-Tax Income</b>	<b>-1,244,532</b>	<b>-1,844,497</b>	<b>-956,679</b>
<b>Income Taxes</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net Loss</b>	<b>-1,244,532</b>	<b>-1,844,497</b>	<b>-956,679</b>
<b>Pref Dividends</b>	<b>-1,421</b>	<b>-72,689</b>	<b>-29,939</b>
<b>Net Loss</b>	<b>-1,245,953</b>	<b>-1,917,186</b>	<b>-986,618</b>
<b>Diluted EPS</b>	<b>0.01</b>	<b>-0.09</b>	<b>-0.03</b>
<b>Avg Shares in Period</b>	<b>94,432,364</b>	<b>21,598,401</b>	<b>29,580,442</b>

Source: Company Earnings Release, SeeThruEquity Research

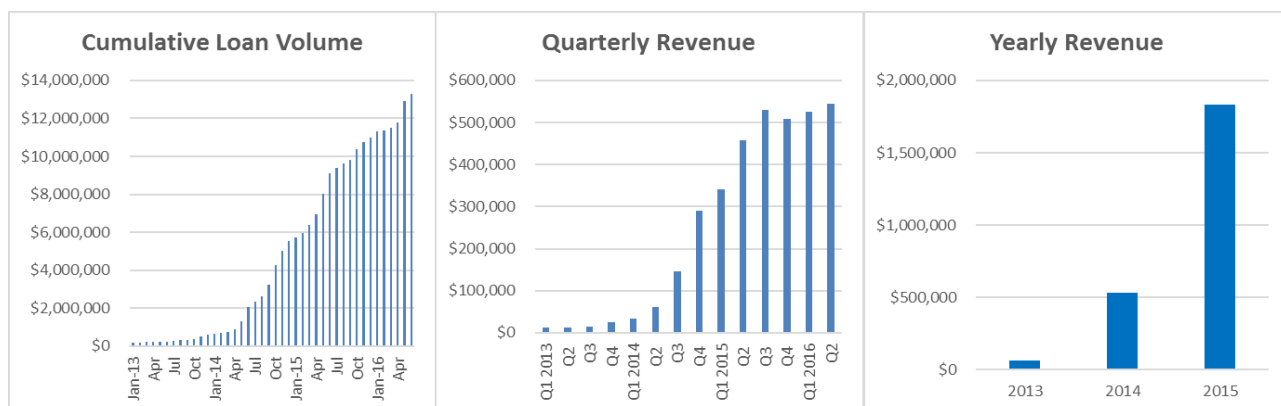
### ADDITIONAL NOTES

#### Nice growth in 1H16

- As indicated in the table above, IEGH generated nice annual revenue growth in 2Q16 of approximately 19%. Revenues grew by 19% in 2Q16 to reach \$545,356, versus \$456,726 in 2Q15, and were also up 3.8% sequentially from \$524,972 in 1Q16. The rise in revenue stemmed from continued loan volume growth. For 1H16, IEGH revenues grew by 34% to reach \$1.1mn versus \$0.8mn in 1H15.
- EPS of (\$0.01) in quarter.** IEGH reported a GAAP net loss of (\$1.2mn), which was an improvement from a loss of (\$1.9mn) in the year ago period. EPS came in at (\$0.01) with 94.4mn average shares outstanding during the quarter.
- IEGH ended the quarter with cash on hand of \$0.1mn and no financial debt. The company used \$0.7mn in cash from operations during the quarter and (\$1.3mn) in 1H16. IEGH had current assets of \$8.0mn and current liabilities of \$0.2mn, with shareholders' equity of \$7.9mn. IEGH is in the process of raising new capital, which it intends to use to fund growth; the company's share count had increased to 95.4mn at the time of its 10Q filing.
- We are updating the full year revenue forecast to \$4.6mn following results. If achieved, this would represent annual revenue growth of approximately 150%, as we have assumed that new funding from the rights offering and the collection of current receivables should allow for faster loan growth and geographic expansion, as outlined by management. The new net loss estimate is (\$2.8mn).

### Transaction volume continues sharp growth; new capital drives growth

- IEGH announced significant new growth in its loan volume. We see this as an important metric to track, as loan volume is a core driver of its revenue and potential profitability.
- In the announcement, IEGH noted new record highs in both its daily volume and monthly volume. Daily loan volume reached a new high of \$150,000, while May monthly loan volume came in at just over \$1.1mn. As illustrated in the following chart, the results are the latest in an impressive growth trend. Indeed, since January 2015, cumulative loan volume has increased by 133%, from \$5,549,023 at that time to \$13,314,023 as of June 30, 2016.



Source: Company investor materials

- IEGH expects this growth to continue in 2016, with management stating that it aims to be in 25 states covering 240mn people, or 75% of the population, by mid-2017E.

### Rights offering to enable continued expansion

- IEGH announced a rights offering to its shareholders in an S-1 filing with the SEC. IEGH is clearly in growth mode and will likely use the new funds from the rights offering to continue to expand its loan volume as well as for general corporate purposes.
- The terms of the offering include distributing non-transferable rights to purchase up to 95.32mn shares of IEGH common stock.
- For each share of common stock held on August 15, 2016 (record date), IEGH shareholders will receive the right to purchase one share of common stock at \$1.00 per share.
- If fully subscribed, the rights offering would increase shares outstanding by twofold. An advantage of a rights offering versus a traditional equity raise, however, is that investors will have the opportunity to insulate themselves from the dilution of the new equity issuance, if they choose to fully participate in the offering. IEGH stated in its press release that shareholders who participate in the offering will be entitled, if available, to subscribe for additional rights that are not purchased.



#### **Update on the regulatory front**

- Although IEGH management has stated that it is not a P2P lender, the company is affected by regulatory trends in the consumer loan segment. We note that IEGH is exposed to changes in the regulatory environment related to consumer lending, given its focus on \$5,000 and \$10,000 personal loans over a five-year term at 19.9% to 29.9%.
- In its last corporate update, management stated that it believes it will benefit from a shakeout in P2P lenders resulting increased regulatory scrutiny, with the rational that competition will decline and that sourcing / acquisition costs will decline.

#### **Adjusting price target to \$8.05 to reflect updated share count**

- We are adjusting our price target for IEGH to \$8.05. The target reflects the updated share count of 95.3mn shares, versus 28.9mn shares outstanding when the firm initiated coverage and conducted its initial valuation. We plan to update our forecast and valuation for IEGH following an announcement related to the ultimate results of the rights offering and 3Q16 results.



## Management Team

### Paul Mathieson – Founder, Executive Chairman & CEO

Mr. Mathieson has served as the Chief Executive Officer and member of IEGH's Board of Directors since 2012 and a member of the board of directors of our subsidiary since 2009. In 2005, Mr. Mathieson founded IEG Holdings Limited in Sydney, Australia which launched the Amazing Loans business in Australia in 2005 and the Mr. Amazing Loans business in the United States via IEGC in 2010. In recognition of IEG Holdings Limited's success, Mr. Mathieson was awarded Ernst & Young's 2007 Australian Young Entrepreneur of the Year (Eastern Region). Mr. Mathieson has over 19 years finance industry experience in lending, funds management, stock market research and investment banking. His career has included positions as Financial Analyst/Institutional Dealer with Daiwa Securities from 1995 to 1995, Head of Research for Hogan & Partners from 1995 to 2000, and Stockbroker and Investment Banking Associate with ING Barings from 2000 to 2001. In addition, from 2002 to 2010, Mr. Mathieson was the Founder and Managing Director of IE Portfolio Warrants, a funds management business that offered high return and leveraged structured Australian equities products. Mr. Mathieson received a Bachelor of Commerce from Bond University, Queensland, Australia in 1994 and a Master's Degree of Applied Finance from Macquarie University, New South Wales, Australia in 2000.

### Carla Cholewinski – Chief Operating Officer

Ms. Cholewinski has served as our Chief Operating Officer since 2008 and has over 37 years' experience in the finance industry including banking, credit union management, regulatory oversight, debt securitization and underwriting. Her career has included positions as Vice President and Branch Manager at Glendale Federal Bank from 1976 to 1986, Vice President and District Sales and Lending Manager with California Federal Bank from 1986 to 1992, Mortgage Banker with First Choice Financial Services from 1992 to 1995, Corporate Vice President of Lending and Collections with WesStar Credit Union from 1995 to 1999, Chief Lending Officer for American Corp & Funding from 1999 to 2000, Chief Credit Officer for Security State Savings Bank from 2000 to 2004, and Chief Credit Officer for Fifth Street Bank from 2004 to 2008. Since 2008, Ms. Cholewinski has served as our Chief Operating Officer and Chief Credit Officer and has utilized her extensive finance, banking and regulatory experience to grow the business from initial launch to our current level of operations.

## About IEG Holdings Corporation

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