

Escher Marwick PLC, Just Cash Flow PLC – Secured Fixed Rate Notes

ARC Ratings has accorded a public, indicative 'A(sf)(ind)' long-term rating with a stable outlook, to the Notes issued and drawn by Escher Marwick PLC under its Series 2016-7 and 2016-8 Transactions, with the Just Cash Flow PLC pool of assets. The rating will be reviewed if further capital is drawn under the Series 2016-7 and 2016-8. ARC expects to be notified sufficiently in advance to assess the transaction on its merits.

SUMMARY RATING RATIONALE

The rating is based on the following key factors:

- Escher Marwick PLC (the 'Issuer', company number 10112860) have a GBP500m Secured Medium Note Programme listed with the Channel Islands Securities Exchange Authority which acquires assets from Just Cash Flow PLC ('JCF') - an SME lender.
- JCF is a public limited company incorporated and registered in England and Wales with registration number 08508165. JCF is a wholly-owned subsidiary of The Just Loans Group PLC ('JLG').
- JLG is breaking new ground in terms of its originating policies and offers business loans or overdraft facilities ('business facilities') to business as an alternative to bank funding. The lender is a FinTech company that operates, through its subsidiaries, across a number of European jurisdictions.
- The Issuer will draw from the Series 2016-7 and 2016-8 Secured Fixed Rate Notes. The Series 2016-7 Secured Fixed Rate Notes are due 2019 with a 7.25% fixed rate coupon (ISIN: GB00BDHDRL27), whilst the Series 2016-8 Secured Fixed Rate Notes are due 2021 with an 8.50% fixed rate coupon (ISIN: GB00BDH37892), both paid bi-annually (together the "Secured Notes"). ARC referenced an unencumbered pool of assets as the security for the above mentioned Notes.
- The rating of the Series 2016-7 and 2016-8 Secured Fixed Rate Notes are derived by applying the Global Structured Finance Rating Criteria. ARC used a future flow combined with a credit card approach to rate the transaction given the estimated APR, Monthly Payment Rate and Utilisation Rates of the Secured Notes.

RATINGS

Security Class	Rating	Outlook
Series 2016-7 Notes	A(sf)(ind)	Stable
Series 2016-8 Notes	A(sf)(ind)	Stable

RATING CRITERIA

Global Structured Finance Rating Criteria

RATING REVIEW DATE

22 December 2017

RATING HISTORY

Initial Rating: 22 December 2016 – A(sf)(ind)

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SECURED MEDIUM TERM NOTE PROGRAMME

Escher Marwick PLC (the 'Issuer', company number 10112860) has a GBP500m Secured Medium Note Programme listed with the Channel Islands Securities Exchange Authority which acquires assets from JCF. The Issuer Deed of Charge is the security of the Notes in accordance with a fixed first priority charge and a segregated bank account. The Borrower Loans, Financial Collateral Assets and each Borrower Deed of Charge are the Secured Assets. The below mentioned Series of Notes and Coupons constitute secured obligations of the Issuer which rank pari passu and without preference among themselves. ARC expects to be notified sufficiently in advance should the assets, or further debt issued be changed and will assess the Transaction and such changes on its own merits.

The rating of the Series 2016-7 and 2016-8 Secured Fixed Rate Notes are derived by applying the Global Structured Finance Rating Criteria. ARC used a future flow approach to rate the transaction given the estimated APR, Monthly Payment Rate and Utilisation Rates of the Secured Notes.

COVENANTS

According to the Deed of Charge, the Issuer has a covenant to pay which entails the Issuer undertaking to the Trustee, to pay punctually and discharge its obligations as they fall due, and furthermore observe and perform and satisfy all other obligations and liabilities under the Deed of Charge and/or other Transaction Documentations.

BUSINESS LOANS / BUSINESS FACILITIES

JCF reported two years of reliable data that was used by ARC to draw its assumptions and used this as the basis for its analysis. A key analytical starting point for this transaction is the APR with the Monthly Payment Rate and Utilisation Rates of the Secured Notes.

1. APR: JCF has a *targeted* APR of 27.4%, however being unregulated, JCF does not state an APR with each business facility application. ARC calculated an APR of 33.4% for the last 12 months, given the aggregate Monthly Interest Accrual for the last 12 months. The business is obliged to pay interest on a weekly basis.
2. Utilisation Rates: JCF reported high utilisation rates. At November 2016, the unencumbered assets used for the analysis of this transaction, had GBP 17.3m in Secured Revolving Credit Facility ('RCF') with GBP 13.7m utilised. RCF amounts range from GBP10,000 to GBP 500,000 with the average facility being approximately GBP31,500.

The business facilities are granted typically for 12 months and c. 80% of the facilities are utilised. Although the business facilities are not necessarily cheaper than traditional banking facilities, it would seem to be more accessible with a quicker turnaround time. JCF's niche is SMEs that do not have the credit lines available from some of its more established counterparts. The primary purpose of the banking facilities is to finance working capital. JCF developed an in-house credit vetting and scoring system called PropensityPlus. The system utilises rules based lending which continues to monitor the borrowers and the directors of the companies to assess any changes to their credit profile from the onset of each application. Each application has to meet the underwriting criteria. JCF has experienced very high loan growth, ARC calculated an average of 6% month on month growth for the 12 months ending November 2016.

Each business facility has several forms of collateral attached to it. Firstly, the SME's assets serve as the first line of security followed by a personal guarantee or second registered legal charge of the directors of the SME. Asset Cover of 3:1 was reported at November 2016. Although the Lender is still to suffer any capital losses the recovery and enforcement of collateral is still to be proved and, therefore no recovery statistics were reported. The lender did however report 7.1% (at November 2016) delinquency balances, the delinquencies tend to increase during the first quarter.

COLLATERAL OF THE NOTES

The rating of the Series 2016-7 and 2016-8 Secured Fixed Rate Notes are derived by applying the Global Structured Finance Rating Criteria. ARC used a future flow combined with a credit card approach to rate the transaction given the estimated APR, Monthly Payment Rate and Utilisation Rates of the Secured Notes. The unencumbered pool of assets provided by JCF has been used for the analysis.

KEY TRANSACTION PARTIES

Escher Marwick PLC (the 'Issuer')

The Issuer was incorporated in England on 8 April 2016 as a public limited company under the Companies Act of 2006. The issuer is a special purpose company, established to raise money for purposes set out in the Listing Particulars and to fulfil the transaction purposes set out under the asset backed securities. The Issuer has two directors. The Issuer will adopt corporate governance policies, which comply with the combined code and the Model Code of Director's dealings. The Programme was authorised by a resolution of the Issuer's board of directors on 10 November 2016.

Just Cash Flow PLC (the 'Seller') and Just Loans Group PLC

The Seller, Just Cash Flow PLC is a public limited company incorporated and registered in England and Wales with registration number 08508165. JCF is a wholly-owned subsidiary of The Just Loans Group PLC ('JLG'). The Just Loans Group is a FinTech company that operates, through its subsidiaries, across a number of European jurisdictions.

JLG is breaking new ground in terms of its originating policies and offers business loans or overdraft facilities ('business facilities') to businesses as an alternative to bank funding. JCF's senior management consist of the Group Chief Executive, Group FD and the JCF CEO. The Senior Management has a diverse skill set that operated in various business roles before joining JCF and the group.

JLG has six directors that have an extensive skill set that complements the board requirements. JLG reported FY16 EBTDA of GBP1.6m and is yet to report a capital loss. Only c. 8% of applications are granted, clearly indicative of a conservative lending approach.

EVENTS OF DEFAULT

The following events of default are applicable to the Series 2016-7 and Series 2016-8 Secured Notes:

1. Non-payment of interest and principal (continues for 7 days for principal and continues for 14 days for interest);

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Secured Medium Term Listed Notes Programme

Debt Rating Analysis



2. Issuer fails to observe the other obligations under the conditions of the Trust Deed (continues for 30 days), following the service by the Trustee on the Issuer of notice requiring the same to be remedied; or
3. If a third party creditors request for payment greater than or equal to GBP 20m:
 - a. Any indebtedness of the Issuer becomes due and payable prematurely by reason of and event of default; or
 - b. The Issuer fails to make payment in respect of any indebtedness on the due date for payment as extended by any applicable grace period; or
 - c. The Issuer makes a payment due under any guarantee and/or indemnity given the relation to any indebtedness of any other person on the due date for payment as extended by any grace period.
4. A court order or resolution passed for the winding up or dissolution of the Issuer, save for purposes of amalgamation, reorganisation or restructuring whilst solvent;
5. If the Issuer ceases to carry on all or substantial part of its business, save for purposes of amalgamation, reorganisation or restructuring whilst solvent or on terms previously approved, or the Issuer is unable to pay its debts as they fall due, or is deemed unpayable, or is adjudicated or found bankrupt or insolvent; or
6. If proceedings are initiated against the Issuer under any applicable liquidation, insolvency, composition, or other similar laws, or an application is made for the appointments of an administrative or other receiver or party of a similar nature, in relation to the Issuer to whole or part of its assets, or encumbrancer takes possession of its assets in relation to the aforementioned is not contested or settled in 45 days; or
7. The Issuer initiates or consents to judicial proceedings to place itself under liquidation, insolvency proceedings or a compromise with creditors, or any similar proceedings.

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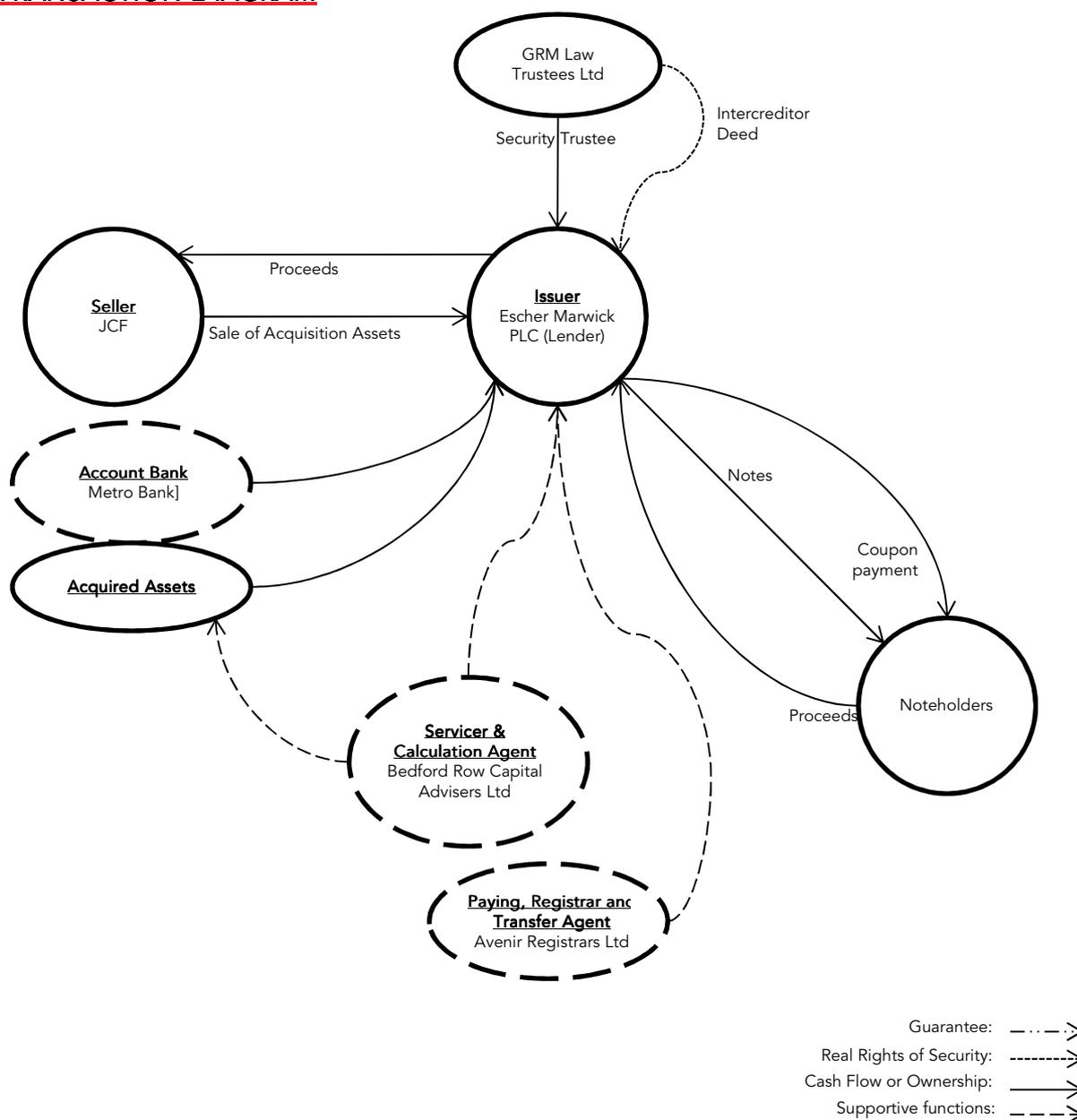
Debt Rating Analysis



APPLICATION OF FUNDS

Funds received by the Trustee, or recovered following the enforcement of Security (Series Notes) pursuant to the Trust Deed	Costs, expenses, fees, remuneration et al.	Costs, expenses, fees, remuneration et al.	Arrears Interest & Coupon	Principal	Residual funds
Priority of Payments:	1	2	3	3	4
Payee:					
Trustee/Issuer Security Trustee/Receiver	X				
Agents		X			
Noteholders			X	X	
Issuer					X

TRANSACTION DIAGRAM



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Secured Medium Term Listed Notes Programme

Debt Rating Analysis



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