Escher Marwick PLC – Series 2016-4 Secured Notes

ARC Ratings has affirmed the BBB+ long-term rating with a stable outlook, to the Notes issued and drawn by Escher Marwick PLC under its Series 2016-4 Transactions. The rating will be reviewed annually or if further capital is drawn under the Series 2016-4. ARC expects to be notified sufficiently in advance to assess the recovery prospects.

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 on the Global Exchange Market of the Irish Stock Exchange (and a secondary listing on the Frankfurt Stock Exchange) which acquires assets from The Resort Group PLC ('TRG').
- The Issuer has drawn EUR 2,109,342 of the Euro Notes, GBP 7,657,377 of the Sterling Notes and USD 249,252 of the Dollar Notes. All three Notes have a 3.5% coupon payable.
- The proceeds of the Notes have been used to acquire interest in hotel rooms, hotel suites and hotel apartments (jointly referred to as the 'Acquisition Assets') within the Meliá Llana Beach Resort located in Sal, Cape Verde. The resort opened in December 2016.
- There are 77 properties acquired at a market value of EUR 13,797,250 to secure the Notes in Issuance.
- The rating of the Series 2016-4 Secured Notes is derived by applying a notching approach, starting from the senior unsecured long-term credit rating of the Seller, The Resort Group PLC. Based on the expected "Superior Recovery Prospects" on the Series 2016-4 Secured Notes in an enforcement scenario, a rating uplift of two notches has been deemed appropriate for this transaction.

RATINGS

Security Class	Rating	Outlook
Secured Notes	BBB+	Stable

RATING CRITERIA

Global Structured Finance Rating Criteria

Global Structurally Enhanced Corporate Bonds

RATING REVIEW DATE

15 November 2017

RATING HISTORY

Initial Rating: 24 November 2016 – BBB+

RELATED METHODOLOGIES / RESEARCH

The Resort Group PLC – Rating report dated 9 November 2017

Escher Marwick PLC *under its Series 2016-4 Transactions* – New issuance report dated 24 November 2016

ARC CONTACT DETAILS

Nancy Nkinsi
Lead Analyst
nancy.nkinsi@arcratings.com

Emma-Jane Fulcher
Chief Ratings Officer & Panel Chairperson
emma.fulcher@arcratings.com

Maidstone Studios
New Cut Road, Vinters Park
Maidstone, Kent ME14 5NZ
UNITED KINGDOM
Tel: +44 (0) 1622 684548
Website: www.arcratings.com

SECURED MEDIUM TERM NOTE PROGRAMME

Escher Marwick PLC (the 'Issuer', company number 10112860) have a GBP500m Secured Medium Note Programme listed on the Global Exchange Market of the Irish Stock Exchange (and a secondary listing on the Frankfurt Stock Exchange), which acquires assets from TRG. The Issuer has, among others, the following listed Series of Notes: 2016-4 GBP 30m Secured Notes due 2031, 2016-4 EUR 10m Secured Notes due 2031 and USD 20m Secured Notes due 2031. The Borrower has drawn EUR 2,109,342 of the Euro Notes, GBP 7,657,377 of the Sterling Notes and USD 249,252 of the Dollar Notes.

ARC Ratings affirmed an Issuer corporate rating of 'BBB-' with a stable outlook to TRG on 9 November 2017. Based on the estimated recovery prospects, ARC affirms the 'BBB+' rating with a Stable outlook to the EUR 2,109,342 Euro Notes, GBP 5,023,463 Sterling Notes and USD 249,252 Dollar Notes drawn under the Series 2016-4 Notes. ARC assumed an event of default for the security to be enforced by the Issuer Security Trustee. ARC assumed stressed cash flows and recoveries on cash flows. ARC also assumed the properties will still be occupied in line with the guaranteed occupancy rates contracted with TUI Group. Following which a twelve-month period of disposal of assets and some rental income are assumed. ARC used the average spot rate at 17 July 2017 to exchange the GBP liabilities to Euros and the USD liabilities to Euros.

Recovery rate calculations*	**EUR**
Principal amount outstanding upon default	11,067,440
Assumed missed interest upon default	193,680
Assumed missed interest to give time to realise recoveries	387,360
Aggregate exposure Senior Noteholders	**11,648,480**
Assumed recoveries on sale of properties	(9,671,986.63)
Cash held in Bank	(669,281)
Assumed recoveries on rentals	(845,072)
Assumed sales and legal costs	184,114
Unsecured claim on Issuer	**1,315,535**
Assumed recovery on unsecured claim	N/A
Remaining claim	**1,315,535**
Overall estimated recovery rate	**88.7%**

EM Acquisition I Limited (the 'HoldCo' or the 'Borrower') is a special purpose company that was established to use the HoldCo Loan to acquire property in accordance with the Asset Acquisition Criteria. The underlying assets are therefore asset backed investments in managed commercial property, generating revenues from tourism.

Collateral of the Notes

The Secured Creditors (Trustee, Noteholders et al.) will benefit, in relation to each Series, from a Grant of Security. The Security is granted under the Trust Deed and Issuer Deed of Charge in favour of the aforementioned. The Series Security will comprise of:

1. An assignment by way of first fixed security of all right, title, benefit and interest, present and future, in and to the Transaction Documents;

2. Such an assignment of security relates to the right, title, benefit and interest, present and future in and to each of the Borrower Loan Agreement, each Borrower Deed of Charge and each Financial Collateral Asset;
3. A first fixed charge of all credit funds standing in the segregated account bank;
4. A first fixed charge of all its rights in respect of each Transaction Document, each Borrower Loan Agreement, each Borrower Deed of Charge and each Financial Collateral Asset;
5. A floating charge of all credit funds standing in the segregated account bank, of all rights in respect of each Transaction Document, each Borrower Loan Agreement, each Borrower Deed of Charge and each Financial Collateral Asset.

Units	Number of Units	Market Price (€)
Delux Garden Suite	1	166,500
Deluxe Orchid	30	4,874,250
Deluxe Orchid Garden	18	2,960,500
Deluxe Pearl	2	381,750
Deluxe Pearl Garden	3	534,000
Deluxe Suite	2	368,250
Deluxe Swim Up Orchid	1	202,500
Duplex Orchid	1	238,500
Duplex Suite	1	221,500
Premium Garden Suite	2	357,000
Premium Orchid	5	1,086,500
Premium Orchid Garden	2	449,500
Premium Pearl	2	445,000
Premium Pearl Garden	1	210,500
Premium Plus Suite	2	353,000
Premium Swim Up Orchid	2	465,000
Premium Swim Up Suite	2	483,000
Grand Total	**77**	**13,797,250**

HoldCo has used the proceeds to acquire interest in hotel units within the Meliá Llana Beach Resort located in Sal, Cape Verde. The resort opened in December 2016. The Eligibility Criteria refers to property (off-plan and completed) with expected rental yields in excess of 5.0% pa. situated in Cape Verde, Spain and other jurisdictions developed and maintained by experienced and contracted hotel operators.

The Acquisition Assets are managed by Meliá Hotels International, S.A. under the Resort Management Agreement and having a 3-year guaranteed occupancy contract with potential extension for a two-year period with TUI Group. Both the Meliá Hotels International and TUI Group are international resort operators that are publicly listed. The TUI Group is the largest multinational travel and tourism company that boasts 1,800 travel agencies, six European airlines with 130 aircraft, over 300 hotels and 14 cruise ships. TUI Germany, 1-2-FLY, Airtours and Wolters Reisen, UK Thomson and First Choice are some of its tour operators. Both Meliá Hotels International and TUI Group contracted guaranteed occupancy rates and revenues with each of the resorts. The TUI Group has a 3-year guaranteed occupancy contract with potential extension for a two-year period.

The Resort Management Agreement typically has a tenure of 15 years with an option for that to be extended in two further tranches of five years. The Acquisition Assets, together with the resort, has been valued in December 2016 by Gerald Eve LLP and again with each subsequent quarter thereafter for a fee. The physical valuations will be conducted annually with quarterly desktop valuations and monthly indexation methodology based on currency fluctuations. The Valuation policy will use the earnings multiple approach to be applied to the perceived maintained income stream. The greater of the aforementioned or capital value per square foot will be utilised. In conclusion, the Total Net Asset is divided by the Nominal Issued, measured monthly.

HoldCo will receive minimum net revenue of 5.0% of the purchase price from the commercial operations of the Acquisition Assets, paid per quarter.

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 31 May 2016.

The Resort Group PLC (the 'Seller')

TRG is a developer and operator of high end resorts and hotels in Cape Verde boasting 250 years combined experience among its twelve senior managers in real estate, hospitality, finance, consulting and property management sectors. In summary, the three main business operations are:

1. Development:
    a. Sourcing, design, planning, development and construction of resorts and hotels.
    b. Sales, marketing and administrative functions to source new customers.
    c. Establishment of property rental schemes for participating customers.
2. Hospitality: Resorts and hotels day-to-day operations and maintenance of brand standards.
3. Commercial: Food and beverage, on-site boutiques and other non-lodging activities.

TRG has three operational resorts namely, Meliá Tortuga Beach Resort (372 units), Meliá Dunas Beach Resort (1,249 units) and Meliá Llana/Sensimar Beach Resort (605 units). Meliá Tortuga Beach Resort was completed in May 2011 whist Meliá Dunas Beach Resort was completed in November 2014. Meliá Llana/Sensimar Beach Resort (consisting of Meliá Llana 303 units and Sensimar 302 units) was completed in December 2016, parts of Meliá Llana and Sensimar being the collateral for the Notes. White Sands Hotel (835 units) is under construction and will provide further collateral for the Notes. Further to this the Boa-Vista Resorts 3 (490 units), 4 (403 units), 5 (650 units) and 6 (700 units) are currently at various design stages.

Furthermore, the Hilton Boa-Vista Hotel (403 units) is in the early design phase and Hilton Praia (201 units) in the early stages of construction. In the long term, the Group maintains the objective of geographic diversification in Europe, particularly in the Balearics and the Canaries. TRG seem to have a strong operation profile, however, TRG have to manage its working capital carefully due to the remainder of secured pipeline of over 3,600 accommodation units in a concentrated region.

As at 2016 c. 91% of the overnight stays are in either Sal or Boa Vista islands. TRG secured guaranteed occupancy rates at 75.0% during the UK summer months and 85.0% during the UK winter months.

Cape Verde is seen as an up and coming tourism destination given its year-round good weather, proximity to Europe and time zone.

On 11th October 2017, ARC Ratings carried out an onsite review in Derby with senior management of the TRG Group covering staffing, technology, administration processes, management structure and internal systems and procedures. ARC is of the opinion that TRG is capable of managing the transaction and underlying assets sufficiently.

Account Banks and Transaction Mechanics

HoldCo will maintain three segregated bank accounts in pound Sterling, Euros and US Dollars with Metro Bank. The proceeds from each of the Notes, in turn the HoldCo Loan, will be paid into the respective account. HoldCo shall ensure that 5.0% of the proceeds of each HoldCo loan (GBP, Euro and USD) are maintained, as liquidity, until the second anniversary of the Drawdown Listing, which will increase to 10.0% after the second anniversary date. Metro Bank currently is unrated.

Events of Default

The following events of default are applicable to the Series 2016-4 Notes:

1. Non-payment of interest and principal (continues for 7 days for principal and continues for 14 days for interest);
2. Issuer fails to observe the other obligations under the conditions of the Trust Deed (continues for 30 days), next following the service by the Trustee on the Issuer of notice requiring the same to be remedied; or
3. If a third-party creditor request for payment greater than or equal to GBP 20m:
   a. Any indebtedness of the Issuer becomes due and payable prematurely by reason of an 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.

Financial Performance

TRG Group's revenues have two main sources: real estate sales, resorts and hotels operations. Besides these, the Group also has some ancillary activities (food and beverage, on-site boutiques, transport and security, etc.). Pre-sales of real estate are registered as liabilities in the balance sheet during the construction phase (the Group pays interest for the cash advanced), only being recognized as revenue as the construction of apartments and villas is completed.

Since opening in May 2011, the first TRG Group's touristic resort, the Meliá Tortuga, has registered high occupancy rates, with annual averages higher than 70% in the first years (and with significant repeat customers), while the second resort, Meliá Dunas, being much bigger, started operation in November 2014 with much lower occupancy rates and it affected occupancy at the Meliá Tortuga in 2015. Also, occupancy of both resorts in 2015 and 2016 was negatively affected by the construction works in the third Group's resort Llana Beach, located between them, that entered into operation in late 2016. Highlighted, even with this negative impact, the recovery of the 2016 average occupancy rate in the Meliá Tortuga to the 86% level and in the Meliá Dunas to 62% (in the second full year of activity). On the other hand, in the first half of 2017, the Llana Beach has registered high rates, between 60% and 84%, while the average occupancy rate in the Meliá Dunas recovered to 58% and in the Meliá Tortuga almost remained at over 80%.

TRG Group's assets increased by 31% in 2016, to EUR 154.6 million and nearly 13% in the first eight months of 2017, to EUR 174.6 million as at August 2017. The amount of investment performed by the Group in properties was more significant in 2016, nearly to EUR 30 million, compared to EUR 11.2 million in 2015 and EUR 17.2 million in 2014. Net Financial debt/EBIDTA ratio increased to 1.7 times at the end of 2016 from 0.8 times at the end of 2015, due to the debt increase for investing while EBITDA almost stabilised in 2016. In the first eight months of 2017, the EBITDA was negative.

Due to investing and developing phase, TRG Group still has a relatively weak financial structure. Equity/assets ratio was -14.8% as at August 2017, after being almost nil at the end of 2016 (having improved compared to -15.6% at the end of 2015).

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

DISCLAIMER

Note that ARC is not a legal, tax or financial adviser, and only provides a credit opinion of the rated securities. For example, a rating does not cover a potential change in laws nor can it be regarded as an audit. Moreover, ARC is not a party to the transaction documents. Users of our credit ratings should familiarise themselves with the Transaction documents / mechanics, and should form their own views in this respect. They should not rely on ARC for legal, tax or financial advice, and are encouraged to contact the relevant advisers.

ARC Ratings, S.A.

Maidstone Studios

New Cut Road, Vinters Park

Maidstone, Kent ME14 5NZ

UNITED KINGDOM

Phone: +44 (0) 1622 684548

E-mail: arcratings@arcratings.com

Site: www.arcratings.com

ARC Ratings, S.A. is registered as a Credit Rating Agency (CRA) by the European Securities and Markets Authority (ESMA), within the scope of the REGULATION (EC) N° 1060/2009 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL, of 16 September, and recognised as External Credit Assessment Institution (ECAI).

Ratings assigned by ARC Ratings represent opinions on the capacity and willingness of an entity to make all required payments on a given obligation in a timely manner.

The rating(s) assigned by ARC Ratings in this report was / were sought by the entity whose financial commitments are being rated.

Prior to the assignment or revision of a rating ARC Ratings provides to the entity whose financial commitments are being rated the documents that substantiate the rating to be attributed (the Preliminary Rating Report). This entity is thus given the opportunity to clarify or correct factual details, thus allowing the rating assigned to be as accurate as possible. The comments made by the entity whose financial commitments are being rated are taken into account by ARC Ratings in the assignment of the rating.

ARC Ratings historical default rates are published in the European Securities and Markets Authority Central Repository (CEREP) which can be accessed in the website cerep.esma.europa.eu/cerep-web/. ARC Ratings default rate is the probability of lack of full and timely payment of capital or interest or of the occurrence of any event that explicitly indicates that the future full and timely payment of those commitments will not occur (e.g., in case of insolvency).

Ratings do not constitute a recommendation to buy or sell, but only one of the factors to be weighted by investors.

Throughout the entire period during which ratings are valid, ARC Ratings monitors the issuer's performance on a constant basis, and may even bring forward the date of the review unless stated as point in time. Hence, prior to an investor using a rating, ARC Ratings recommends that it be confirmed, namely by consulting the list of public ratings available at the web site www.arcratings.com.

Ratings are assigned based on information, including confidential information, collected from a wide group of sources, and in particular from the entity whose financial commitments are being rated. ARC Ratings uses and treats this information with due care and attention. Although all due care was taken in the collection, verification and processing of the information for the purposes of the rating analysis, ARC Ratings cannot be held liable for its accuracy. ARC Ratings must make sure that the information has a minimum level of quality prior to assigning a rating based on such information.

In the rating process, ARC Ratings adopts procedures and methodologies aimed at ensuring transparency, credibility and independence, and also that rating classifications are not influenced by situations of conflict of interests. Any exceptions to these principles are disclosed by ARC Ratings together with the rating of the financial commitment in question.