

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

ARC Ratings has accorded a public, final 'A(sf)' 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 GBP50m 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 businesses as an alternative to banks 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)	Stable
Series 2016-8 Notes	A(sf)	Stable

RATING CRITERIA

Global Structured Finance Rating Criteria

RATING REVIEW DATE

28 November 2017

RATING HISTORY

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

RELATED METHODOLOGIES/RESEARCH

Escher Marwick PLC, Just Cash Flow PLC -
New Issuance report dated on 22 December
2016

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SECURED MEDIUM TERM NOTE PROGRAMME

Escher Marwick PLC (the 'Issuer', company number 10112860) have a GBP50m 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, perform and satisfy all other obligations and liabilities under the Deed of Charge and/or other Transaction Documentations.

Events of Defaults

Events of Defaults remain intact as set out on the indicative rating report for *Escher Marwick PLC, Just Cash Flow PLC*, dated 22 December 2016.

Business Loans / Business Facilities

JCF reported three years of 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 27.0% for the last 12 months given the aggregate Monthly Interest Accrual for the last 12 months. Interest is predominantly paid on a weekly basis.
2. Utilisation Rates: JCF reported high utilisation rates. At October 2017, the unencumbered assets used for the analysis of this transaction had GBP 26.3m in Secured Revolving Credit Facility ('RCF') with GBP 21.6m utilised. RCF amounts range from GBP10,000 to GBP 500,000.

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. In the past year, JCF have launched a new product called the Business Builder. It is a short-term loan that gives customers flexibility of capital redemption. The system utilises rules based lending which continues to monitor the borrowers and the

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directors of the companies to assess any change to their credit profile from the onset of each application. Each application must meet the underwriting criteria.

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 5:1 was reported at October 2017. 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 7.4% (at October 2017) delinquency balances, the delinquencies tend to increase during the first quarter of the year.

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 (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 and 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 who have extensive skills that complement the board's requirements. JLG is yet to report a capital loss. Only c. 8% of applications are granted, clearly indicative of a conservative lending approach.

On 9 November 2017, ARC conducted an onsite review in Glasgow with senior management of JCF covering staffing, technology, administration processes, management structure and internal systems and procedures. ARC

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is of the view that JCF is capable of managing the transaction and underlying assets sufficiently.

Data Received from JCF

ARC has received satisfactory copies of all executed transaction documents.

- Data for the period March 2014 to October 2017.
- List of legal documents received include: First Supplemental Trust Deed, Second Supplemental Trust Deed, Facility Agreement, Deed of Charge.

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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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This Review Report should be read together with initial Rating Report.

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