

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

ARC Ratings has affirmed the 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 following the annual review of the transaction. 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

ARC has analysed the updated pool as part of its annual review process.

The rating is based on the following key factors:

- 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 Just Cash Flow PLC ('JCF') - an SME lender.
- JCF is a Public Limited Company incorporated and registered in England and Wales with a registration number of 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 bank funding. The lender is a FinTech company that operates through its subsidiaries across a number of European jurisdictions.
- The Issuer has drawn 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 a 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 Series 2016-7 note total subscription amount was £22,795,808. The Series 2016-8 notes had reached a subscription amount of £10,654,191 as of 14th September 2018.
- 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 (MPR) 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 DATE

11 October 2018

RATING VALIDITY

11 October 2019

NEXT REVIEW DATE

11 October 2019

RATING HISTORY

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

Review Rating: 28 November 2017- A(sf)

RELATED METHODOLOGIES/RESEARCH

Global Structured Finance Rating Criteria

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

ARC CONTACT DETAILS

Paulina Mileryte

Lead Analyst

paulina.mileryte@arcratings.com

Mark Makari

Back-up Analyst

mark.makari@arcratings.com

Emma-Jane Fulcher

Chief Ratings Officer & Panel Chairperson

emma.fulcher@arcratings.com

11 Hollingworth Court

Turkey Mill, Ashford Road

Maidstone, Kent ME14 5PP

UNITED KINGDOM

Tel: +44 (0)1622 397350

Website: www.arcratings.com

SECURED MEDIUM TERM NOTE PROGRAMME

Escher Marwick PLC (the 'Issuer', company number 10112860) has 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 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 (MPR) 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. Furthermore, to 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 Loan Facilities

JCF reported four years of data which was used by ARC to draw its assumptions and 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 21.84% 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 August 2018, the unencumbered assets used for the analysis of this transaction had GBP 50.4m in Secured Revolving Credit Facility ('RCF') with GBP 41.8m utilised. RCF amounts range from GBP10,000 to GBP500,000.

Although the business facilities are not necessarily cheaper than traditional banking facilities, it appears 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, which declines 85% of applications within 6 minutes. Applications are then forwarded to experienced human underwriters; JCF believes

human interaction is key to ensuring a minimum number of defaults, analysing the applicants actual equity ownership in underlying assets is essential. Overall, c.8-10% of applications are granted, which indicates a conservative lending approach.

JCF has also 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 directors of the companies to assess any change to their credit profile from the onset of each application.

JCF has experienced high loan growth, ARC calculated an average of 5.8% month on month growth for the 12 months ending August 2018. JCF has suffered 0.2% capital losses and reported 0.19% defaults at August 2018; defaults tend to increase during the first quarter of the year.

Portfolio Performance

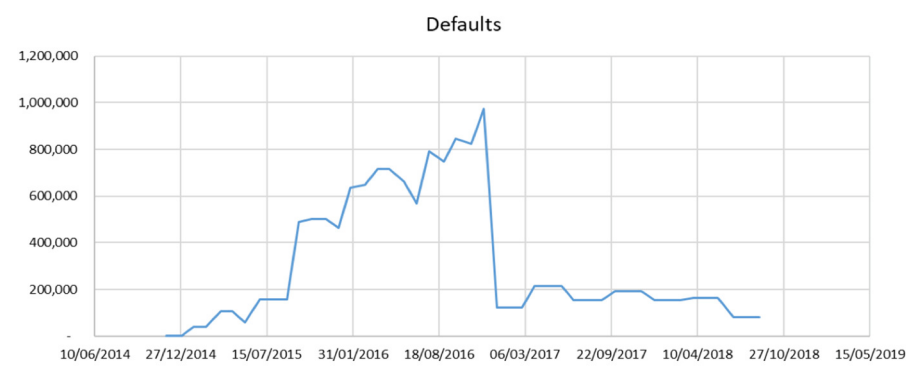


Figure 1: Default Figures based on data received from JCF

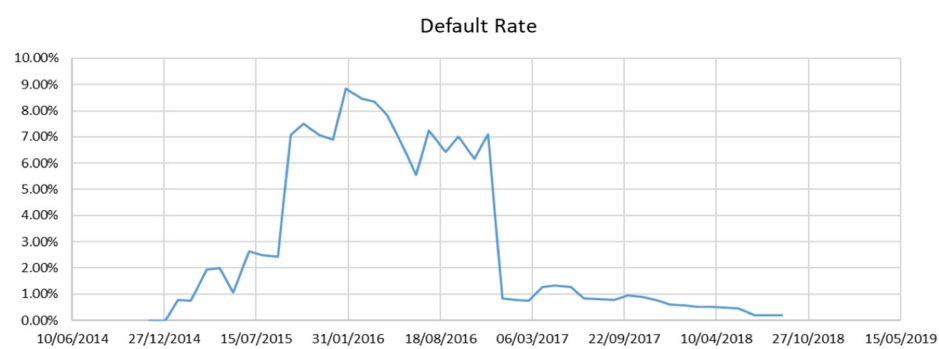


Figure 2: Default Rate calculated by ARC

Gross defaults have been low as expected, with an increase between Q2 2015 to Q1 2017, however the rate then stabilises to a low average default rate of approximately 1%.

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

Escher Marwick PLC, Just Cash Flow PLC

Structured Finance - Review Report



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 (MPR) 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 (SPV), 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.

The senior management of JLG includes Group CEO, CFO and JCF CEO with a diverse skill set that operated in various business roles before joining JCF and the group. JCF has recently appointed a new Deputy CEO who will assist with liquidity event management.

On 13 September 2018 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 is of the view that JCF is capable of managing the transaction and underlying assets sufficiently.

Data Received from JCF

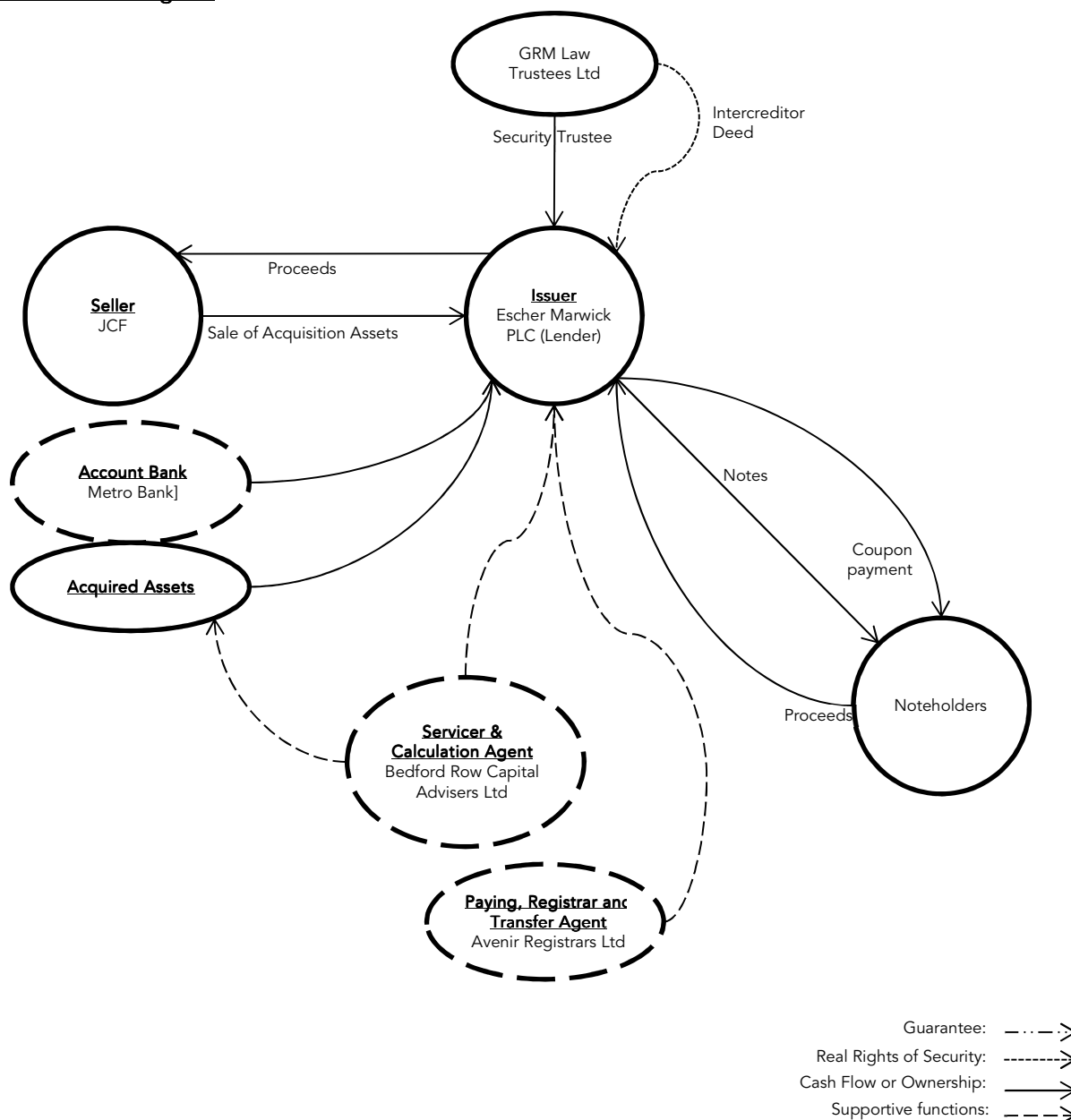
ARC has received satisfactory copies of all executed transaction documents.

- Data for the period November 2014 to August 2018.
- List of legal documents received include: First Supplemental Trust Deed, Second Supplemental Trust Deed, Facility Agreement, Deed of Charge.

Application of Funds

Funds received by the Trustee, or recovered following the enforcement of Security (Secured 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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ARC Ratings, S.A.

11 Hollingworth Court

Turkey Mill, Ashford Road

Maidstone, Kent ME14 5PP

UNITED KINGDOM

Phone: +44 (0) 1622 397350

E-mail: arcratings@arcratings.com

Site: www.arcratings.com



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

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