ARC Ratings, S.A. affirms the public, final 'A(sf)' ratings to the Series 2016-7 Secured Notes and the Series 2016-8 Secured Notes issued by Escher Marwick PLC, both with stable outlook

ISSUER		**ISSUE RATINGS**	
Escher Marwick PLC		A(sf)	Series 2016-7 Notes (A(sf), with stable outlook)
		A(sf)	Series 2016-8 Notes (A(sf), with stable outlook)
RATING DATE		**NEXT REVIEW DATE**	
11 October 2019		12 October 2020	

ARC Ratings, S.A. (ARC) has affirmed the final, long-term public ratings of 'A(sf)' to the Series 2016-7 Secured Notes and the Series 2016-8 Secured Notes issued by Escher Marwick PLC, both with stable outlook. The transaction follows a SME financing loan backed structure where the loans are originated by Just Cash Flow PLC.

COMPANY PROFILE

Escher Marwick PLC is a public limited company incorporated in England (company number: 10112860), with its registered office at 1 Bedford Row, London, WC1R 4BZ. Escher Marwick PLC acts as the 'Issuer' in this transaction and provides loans to Just Cash Flow PLC pursuant to a Facility Agreement.

Just Cash Flow PLC ('JCF') is a public limited company incorporated and registered in England and Wales (company number: 08508165) since April 2013. JCF acts as the 'Seller' and the 'Borrower' in this transaction. JCF is a wholly owned subsidiary of JLG, 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 loans or overdraft facilities to businesses as an alternative to bank funding.

TRANSACTION OVERVIEW & CAPITAL STRUCTURE

- Escher Marwick PLC (the 'Issuer' and the 'Lender') has issued Series 2016-7 and Series 2016-8 Secured Notes, both with a maximum subscription amount of GBP 25,000,000.
- The issue date of the Series 2016-7 Notes was October 2016 and are due November 2019, and have a 7.25% fixed interest rate, paid semi-annually on 21 October and 21 April. The issue date of the Series 2016-8 Notes was October 2017 and are due November 2021, and have an 8.5% fixed interest rate, paid semi-annually on 21 October and 21 April.

- The Notes rank pari-passu amongst themselves and have been listed for trading on the Channel Islands Securities Exchange.
- JCF (the 'Borrower') will use the loan to provide Revolving Credit Facilities ('RCFs') to SMEs as an alternative to traditional bank funding.
- Escher Marwick will from time to time issue securities and shall, at least 2 business days prior to any such issue notify JCF of the notional amount of securities to be issued and any accrued interest payment to be received by the Lender in relation to the series subscription amount. Upon receipt of a series drawdown notice, the borrower shall be deemed to have given the Lender notice of a request to draw, on the series issue date, a facility loan in an amount equal to the aggregate of the series subscription amount and accrued interest amount specified in that series drawdown notice.
- If the Borrower fails to make any payment due under the agreement on the due date for payment, interest on the unpaid amount shall accrue daily at 2% above the rate specified.

RATING RATIONALE

Key rating drivers include:

- ARC applied conservative stresses (which took into consideration the note interest payments) to the Collateral Yield, Monthly Payment Rate and a proxy for Principal Charge Offs to find that the Credit Enhancement (CE) provision within this portfolio was sufficient to support an 'A(sf)' rating scenario according to ARC's bespoke Model. The CE indicates to ARC that JCF receive enough recoveries and interest payments from their underlying loans to cover for bad debt provisions and make timely note interest payments.
- The portfolio which is backed by the notes issued currently shows an average 5.6x asset coverage. Since JCF are not always the sole chargee over the collateral amounts, ARC made the most conservative assumption that JCF will have charge over at least 50% of the collateral. This gave a stressed average asset coverage of 2.9x which shows ARC that JCF are capable, on average, to fully recover on defaulted loans.
- The overall portfolio shows an increase in default rates by 9.27% in the past year with a cumulative default rate of 23.05%. However, the secured portfolio currently shows no defaults due to JCF's New-for-Old system where JCF swap out any facility which is showing signs of arrears or have defaulted with a facility which is performing from another portfolio. Due to JCF having no obligation to carry out their New-for-Old system, ARC took into consideration the chance of default occurring on the said portfolio using overall default rates from the entire JCF loan book as a proxy. ARC has noted that there has been an upward trend in defaults on the wider portfolio which will be monitored.
- JCF's Credit Policy considers the NAV to Loan ratio when underwriting any loan giving JCF a stringent indicator of the collateral a SME can provide if they were to go into default. JCF also seek at least 3 forms of security from customers who show poor credit quality based off their scorecard lending approach. Examples were provided to ARC where customers who had a large facility must provide enough security to cover the assets at least 3 times over. The RCFs are generally backed by a debenture over the assets of the SMEs (in favour of JCF), which guarantees unencumbered assets of at least 150% of the amount of the facility. Facilities excess of GBP 50,000 are secured by a charge over the fixed assets.

- At October 2019, the unencumbered assets used for the analysis of this transaction had GBP 100.7m in Secured RCFs with GBP 88.7m utilised, giving a utilisation rate of 88.13%.

SUMMARY OF RATING METHODOLOGIES

ARC has applied the ARC Ratings' Global Structured Finance Rating Criteria (updated September 2019). This methodology is freely available from www.arcratings.com.

THIS DISCLOSURE IS FOR INFORMATION PURPOSES ONLY AND SHOULD BE READ IN CONJUNCTION WITH THE RESPECTIVE RATING REPORT

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
Website: www.arcratings.com

Key Contacts:

Mark Vrdoljak
Lead Analyst
mark.vrdoljak@arcratings.com

Ayub Khan
Back-up Analyst
ayub.khan@arcratings.com

Emma-Jane Fulcher
CRO & Panel Chairperson
emma.fulcher@arcratings.com

Note that ARC Ratings 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 Ratings 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 Ratings for legal, tax or financial advice, and are encouraged to contact the relevant advisers.

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) Nº 1060/2009 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL, of 16 September, and recognised as External Credit Assessment Institution (ECAI).

This Review Report should be read together with initial Rating Report and with the subsequent Review reports.

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. 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, S.A. historical default rates are published in the European Securities and Markets Authority Central Repository (CEREP) which can be accessed on 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 on the website www.arcratings.com.

ARC Ratings' ratings are assigned based on information, which may include confidential information, collected from a wide group of sources, which may include the entity whose financial commitments are subject to rating. ARC Ratings uses and treats this information with due care and attention. Although all due care was taken in the collection, cross-checking 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.