Together Financial Services Limited *(formerly Jerrold Holding Ltd)*

ISIN	Issue Out	Rating S&P / Fitch	Coupon	Min Piece	Maturity	Offer	YTM	Govt Spread
XS1497754710	£375mn	BB- / BB	6.25%	£100k	Sept 2021	102.75	5.02%	+402bps
XS1568913559	£350mn	BB- / BB	6.125%	£100k	Jan 2024	100	6.12%	+494bps

Background

Together (previously Jerrold) is a specialist mortgage lender based in the North-West of the England with over 650 employees. It was founded by Henry Moser in the mid-1970s. Since its creation the group has expanded into many bespoke areas of the UK lending market including commercial, bridge and auction finance.

In 2006 two private equity houses, Equistone and Standard Life Capital Partners, acquired a 30% stake for £113.5m.

As a non-bank lender, the group's operations are primarily funded through securitisations (see details overleaf), the two outstanding GBP denominated bonds, as well as retained earnings.

In October 2016 the founders bought back the 30% minority stake from Equistone and SL Capital Partners; as a result, the voting shares of the company are once again wholly owned by the Moser family.

In mid-January Fitch upgraded the group's long-term issuer default rating to BB, commenting that the upgrades reflect the group's "sound performance since its buyout of minority shareholders in 2016, reflected in further broadening of the group's funding sources, deepening of the senior management team and the group's continuing solid profitability".

Overview

The most recent full year financials run to 30th June 2017. During the year the group generated incomes of £250.8m (FY 16: £215.8m), and EBITDA of £185.2m. Impairments during the year totalled £7.4m, some 46.4% lower than in the previous year, which "reflected the long-term trend of improving quality in our loan book". Underlying profit before tax totalled £117.1m versus £90.3m in the previous year.

Together attributes its growth to its non-bank lending model. With the mainstream high street banks continuing to focus on automated credit decisions, non-standard customers and non-standard transactions are increasingly financed away from the high street – which gives rise to higher margins. In 2017 the group's NIM was 8.5% (2016: 8.9%). This translated into an EBITDA margin of 73.8%.

At 30th June, the group's loan book totalled £2.3bn. Although Q2 figures released in late February now stands at £2.5bn (net of £58.6m of impairment provisions).

Underwriting

Together explained to us that underwriting is conducted on a case by case basis. The group seeks to do the vast majority of its lending in the 40-60% range. The underwriting assessment will primarily focus on the affordability of the loan, and will stress test the first and second lien independently. Where a customer's expenditure is below average by reference to ONS expenditure data, the group applies the higher number. An additional "risk" buffer of between £50 and £250 per month is also applied as part of the assessment process. There is also an independent valuation of the property.

Together characterises its typical lender as non-standard. The customer will likely be seeking a loan against a property which high street would not provide. It may be a thatched cottage, a high rise, or a house entirely constructed of wood or a composite material. The customer may have multiple income streams or he may have had a poor credit history…

To ensure strict compliance with lending guidelines, the group has mandate and authorisation controls, a staff training and competency programme and quality assurance sampling procedures.

Funding

Together's non-bank lending status means it must rely on a combination of wholesale funding and retained profits, and/or shareholder loans. Pro-forma group indebtedness is as follows (including recent bond tap in January of this year):-

Charles Street securitisation	£1bn	Matures 2021	£780m o/s
Lakeside securitisation	£255m	Matures 2018	£190m o/s
Delta securitisation	£90m	Matures 2021	£70m o/s
RCF (super senior)	£57.5m	Matures 2021	Undrawn
RMBS	£236.9m		
Senior secured* notes	£725m	2021 (£375m), 2024 (£350m)	

* the two bonds have various group guarantors, although the bulk of the loan book sits inside the three securitisations (which would have prior claims over all the encumbered assets).

About the Loan book

Together's loan book is comprised of retail (33.6%), commercial (62.1%) and development finance (4.3%). The collateral does not determine the classification – it is defined by whether the product is regulated. To make the point, 60.4% of commercial purpose loans are secured on residential property.

Retail purpose – any mortgage product regulated by the FCA. The loan could be a new home purchase, improvements to existing home or consumer buy to let.

Commercial purpose – unregulated, i.e. not retail purpose. It could be commercial buy to let for instance, or raising capital against a residential property for business purposes.

Development loans – primarily to finance residential units.

Together's loan book at December 2017 totalled £2.6bn (weighted average Loan to value of 53.6%), of which first charge amounts to 64.9%. Lending is weighted to the South East (17.9%) and Greater London (28.3%). Exposure to the North West represents 18.1% of the portfolio, with the balance of the book spread across the UK (minimal exposure to Ireland of just 0.2%).

Circa £1.7bn of group assets is held in the securitisations outlined above. The residual assets - £860m at Q2 2018 – are held in companies that act as guarantors for the two GBP denominated bonds as well as the RCF.

At Q2 2018, Borrower Group arrears versus the overall group is as follows:-

	Group Loan Portfolio Arrears Analysis		Borrower Group Loan Portfolio Arrears Analysis	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Nil Arrears & Arrears ≤ 1 month	**86.3%**	**85.1%**	**65.5%**	**60.8%**
Performing Arrears				
1-3 months	3.5%	4.1%	5.1%	6.5%
3-6 months	0.5%	0.8%	1.3%	2.5%
>6 months	0.4%	0.7%	1.2%	2.3%
Total Performing Arrears	**4.4%**	**5.6%**	**7.6%**	**11.3%**
Non-Performing Arrears				
3-6 months	1.5%	0.9%	3.7%	2.0%
>6 months	1.3%	1.3%	3.7%	4.2%
Past due (term loans)	0.5%	0.7%	1.8%	2.0%
LPA Rent	0.1%	-	0.1%	-
Total Non-Performing Arrears	**3.4%**	**2.9%**	**9.3%**	**8.2%**
Development Loans	**4.5%**	**4.7%**	**13.4%**	**14.1%**
Repossessions	**1.4%**	**1.7%**	**4.2%**	**5.6%**
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

You will note from the table above that the group breaks its arrears into those that are "performing" and those that are "non-performing". Performing arrears are those loans in which there are less than three months' contractual instalments due, or in the prior three months, 90% or more of contractual instalments due had been received.

Nonetheless, the arrears held within the Borrower Group are currently somewhat higher than in the overall group suggesting that asset quality within the securitisations is higher (see Appendix 2 for breakdown of exposures).

Together manages this additional risk by holding a significant amount of equity within the Borrower Group - £321m of the group £695m of shareholder funds at Dec 2017 – as well as an indexed LTV of 57.5%.

Borrower Group Loan Portfolio Indexed LTV Analysis (£m)	Performing Loans	Non - Performing Loans	Development Loans	Repossessions	Total Loan Portfolio
<=60%	390.1	37.6	31.7	10.1	469.5
>60% <=85%	227.6	37.6	51.0	12.3	328.5
>85% <=100%	6.3	4.7	31.9	13.9	56.8
>100%	4.2	0.2	0.2	0.2	4.8
Total	**628.2**	**80.1**	**114.8**	**36.5**	**859.6**

Note that these figures pre-date a Jan 2018 tap of the 2024 bond totalling £150m, proceeds of which have been used to purchase assets from the group's Charles Street Securitisation vehicle. As such, loans

contained in the Borrower Group, providing security for the two bonds as well as the super senior RCF totalling £57.5m, will have increased.

Comment

Together has built a highly profitable franchise, underpinned by its non-standard lending proposition. And unquestionably it has benefited from withdrawal of high street lenders from the space, low interest rates, and the myriad of different government backed policies which have supported UK real estate. While conditions may not always remain so favourable, the founders (who retain 100% of the business) have been in the business since the mid-1970s, which provides some degree of comfort.

The group's net equity position at the full year is sizeable – circa £671m excluding a shareholder loan (which is classified as equity), versus a total loan book of £2.6bn. Risk weightings (if Together held a banking licence) would vary by asset class, as well as LTV. But even if we assume 40% risk weighting across the entire £2.6bn loan book, and a base case CET1 of 15%, the group's capital requirement would be circa £150m (versus £671m at 2017 year-end).

There has been some press speculation that an IPO may follow, which wouldn't surprise me considering the group's growth rate / robust profits - as well as the repurchase of the 30% minority stake in late 2016. Henry Moser is also 68 years old which raises the question of whether he is contemplating an exit strategy for a business he has overseen for more than forty years.

Strengths: -

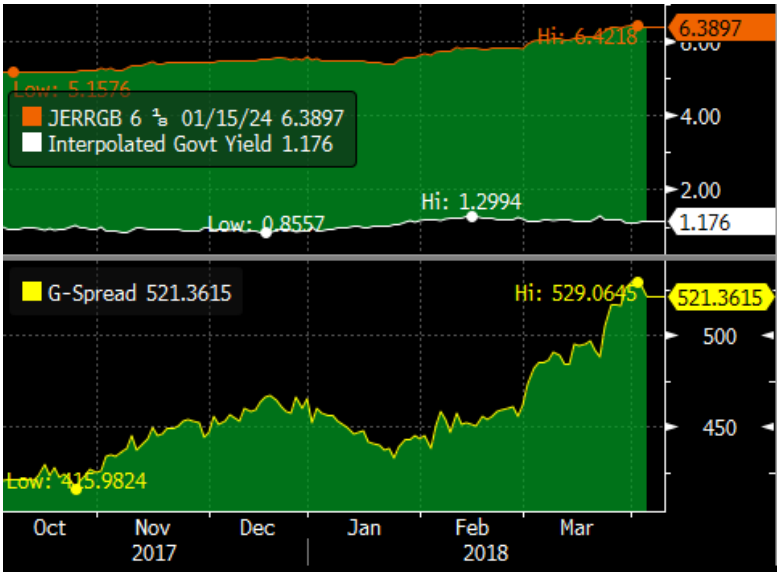
1. Highly profitable / Cash Generative
2. Interest cover of 2.5x at Dec year-end
3. Established track record in UK lending since mid-1970s
4. Stable and varied funding profile, with minimal short-term maturities
5. Recent upgrades from S&P in late 2017 and Fitch in early 2018

Weaknesses: -

1. Privately owned which limits transparency versus listed comps such as Paragon
2. Non-standard product exposure, which is harder to model for troubled economic conditions
3. Rapid growth in loan book in recent years (£1.4bn LTM originations at 31.12.18)
4. Our figures exclude a £220m PIK note held outside guarantor group (see diagram in Appendix 1). The bonds have a prior claim but this additional indebtedness could limit parent company financial flexibility if group solvency deteriorates.

Please call the desk if you have any enquiries.

Rupert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521.3615
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Oct
Nov
2017
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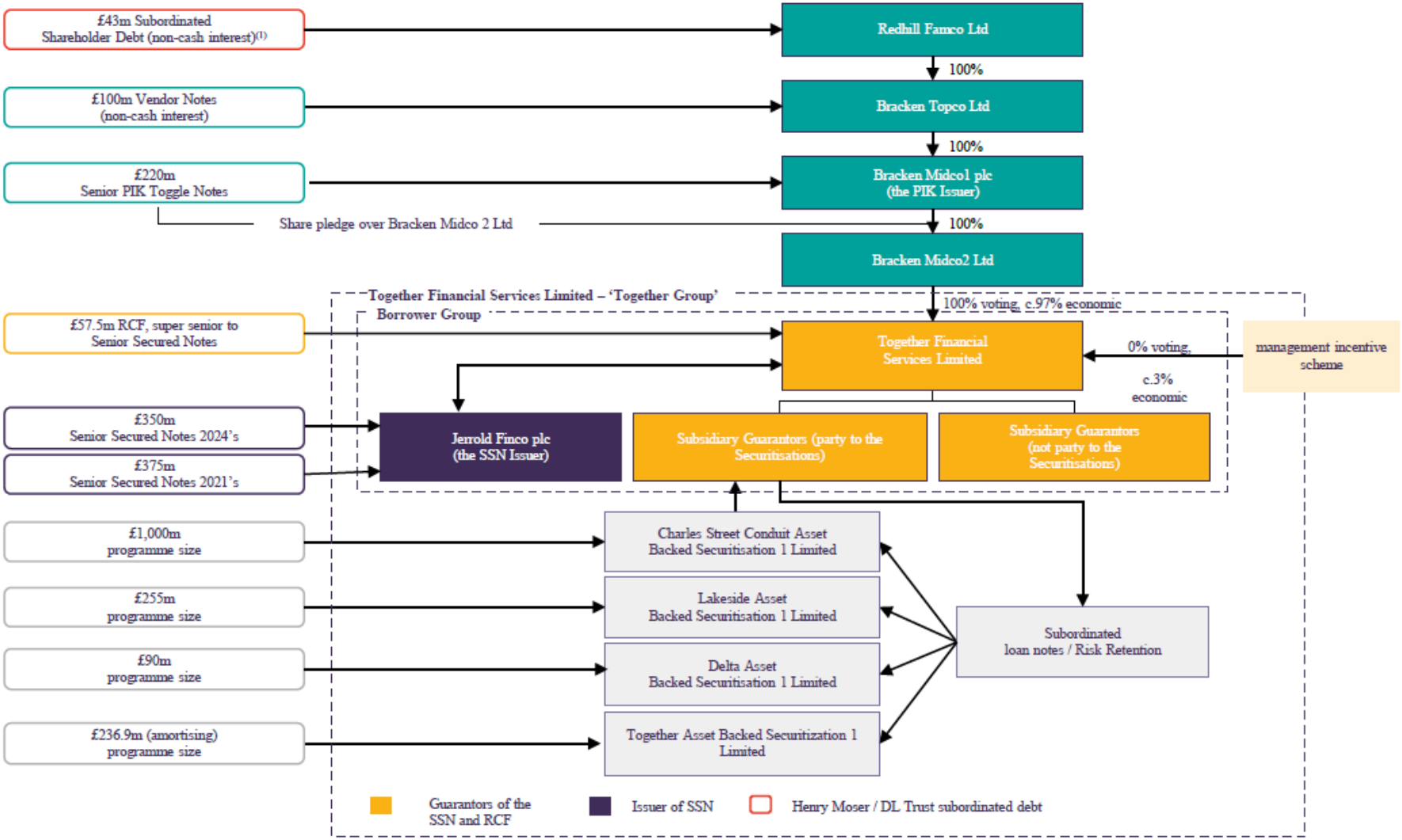
Appendix 1

Group legal & finance structure as January 31, 2018

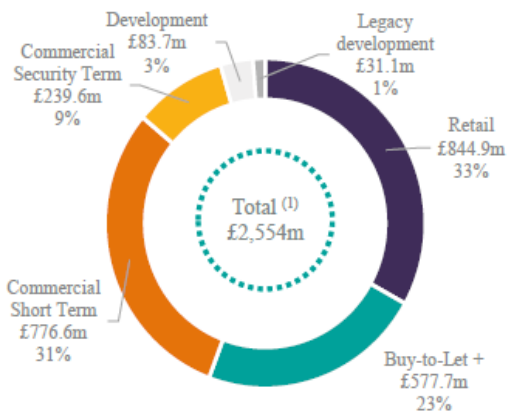
together.
Common sense lending



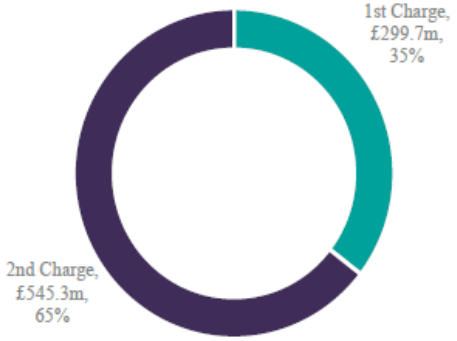
Appendix 2

(Overall Group)

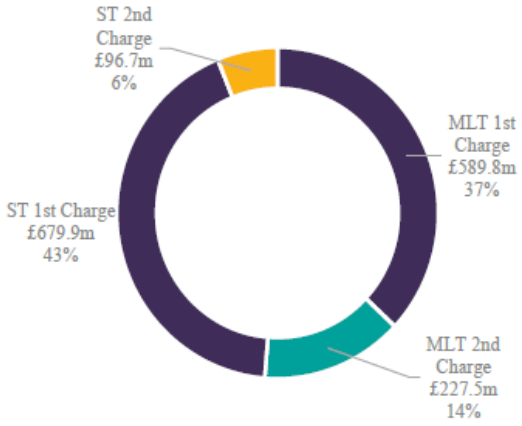
Loan Portfolio Breakdown by Loan Purpose



Retail Loan Book Breakdown

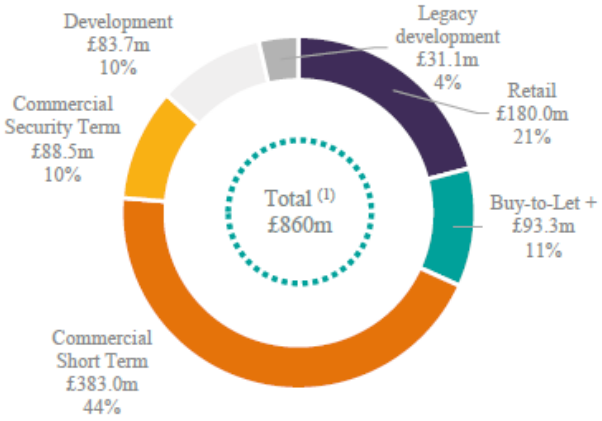


Commercial Loan Book Breakdown

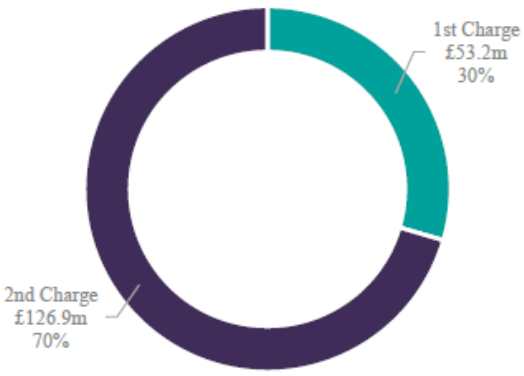


(Borrower Group)

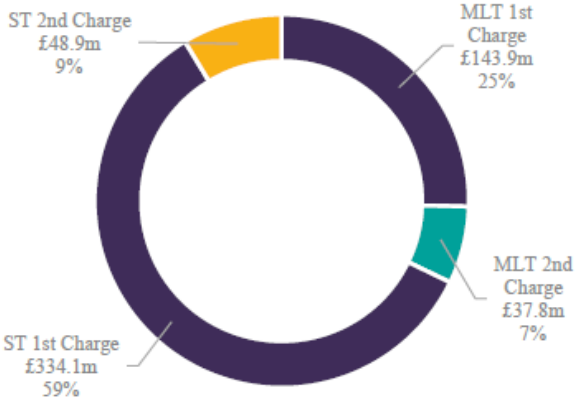
Loan Portfolio Breakdown by Loan Purpose



Retail Loan Book Breakdown



Commercial Loan Book Breakdown



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