THINCATS

HELPING THE MID-SIZED THRIVE

Annual Review 2022

In the face of global challenges, mid-sized businesses continue to drive the UK economy.

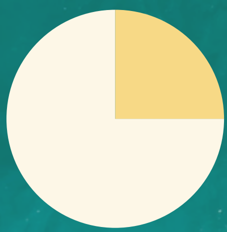
Our mission is to help them thrive.

About ThinCats

ThinCats is a leading alternative lender focused on the funding needs of mid-sized SMEs. We deliver speed and flexibility to borrowers with the certainty that comes from having substantial amounts of capital ready to deploy. Because much of our own capital is at risk, we are fully aligned with the success of our borrowers.

There are around **400,000** mid-sized SMEs accounting for more than **25%** of UK GDP.

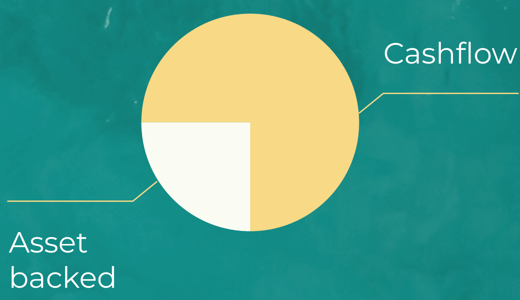
(ThinCats PRISM 2022)



However, they often struggle to access the debt capital they need. These businesses deserve better. ThinCats exists to fill this gap and we are proud to be providing long-term debt funding to help these businesses thrive.

By combining the latest in data analytics with traditional lending skills and a regional network of business finance specialists, we provide funding from **£1m up to £15m.**

Cashflow lending accounts for approximately **75%** of our new funding, supplemented by some modest assets loans.



2022 Highlights

Funding Provided
£302m

AUM
£675m

Average loan size
£4.6m

Funding outside London & SE
60%

M&A events funded
55

Funding across
15
different Industry groups

Keith Morgan, CBE
Chair

Welcome

As CEO of the British Business Bank from its formation in 2013 until 2020, I have been closely involved in helping UK SMEs access the finance they need to prosper. It's an area which is close to my heart and key to delivering the country's future economic growth.

I was therefore delighted to be appointed ThinCats Chair in January 2022 to help guide its funding support of medium-sized businesses – the often overlooked "Ms" of SMEs – in ThinCats' mission to helping the mid-sized thrive.

Over the past 12 months it has been a pleasure to meet so many of the ThinCats team, the businesses that it funds and members of the corporate finance community who advise those businesses.

In an economic and political environment best described as "challenging", I have been struck by the capacity of SMEs to respond to the threats and opportunities which they have faced.

After two years of covid restrictions, followed by a very testing 2022, the environment has been anything but stable, so businesses should be commended for their ongoing resilience.

If mainstream banks and other traditional lenders become less willing to lend to businesses, given the ongoing economic uncertainty, alternative lenders such as ThinCats need to be ready to fill the gap.

Having delivered more than £300m of funding to mid-sized SMEs in 2022, alongside continuing to invest heavily in its business, ThinCats is well placed to rise to this challenge.

> THE SIGNIFICANT ECONOMIC CONTRIBUTION MADE BY MID-SIZED SMES IS NOT FULLY APPRECIATED, WHICH IS WHY EXTERNAL FUNDING NEEDS TO BE MUCH MORE ACCESSIBLE

Amany Attia
CEO

OUR FOCUS REMAINS ON DELIVERING CONSISTENTLY HIGH LEVELS OF SERVICE TO BORROWERS AND THEIR ADVISERS

2022 Overview

Just as things were starting to return to some sort of post-pandemic normality, global inflationary pressures, which were already being stoked by supply chain bottlenecks, were given extra impetus as energy and food prices soared following Russia's invasion of Ukraine at the end of February.

The response from central banks across the world has been to hike interest rates, while trying to limit the impact of any resulting economic downturn. Whether central banks could or should have moved more quickly is open to debate, however, specific UK issues such as a disastrous mini-budget and a revolving door of prime ministers have compounded the challenges facing individuals and businesses.

From speaking to corporate finance advisers across the UK, they report that activity levels have been high for most of the year, other than immediately after Russia's invasion of Ukraine when many transactions were put on hold as businesses took time to digest the potential impact.

Businesses showed their resilience, capacity to adapt and ability to jump on opportunities during the pandemic and it seems they are doing the same with the current set of economic challenges.

Delivering a year of progress

Despite this testing backdrop, I am pleased to report that ThinCats provided £302 million of funding to mid-sized businesses in the UK during 2022.

Although this is just shy of our record £318 million achieved in 2021, it represents a significant achievement in an environment of increased uncertainty, where transactions took longer to complete as stakeholders spent more time assessing potential risks.

ThinCats specialises in funding acquisitions so it was satisfying to consolidate a top 3 position as one of the leading funders for M&A transactions. (Source: ThinCats & Experian MarketIQ).

Looking ahead, momentum remains positive with our pipeline being at record levels for the first quarter of 2023.

I am convinced that our focus on delivering consistently high levels of service to borrowers and their advisers supported by a highly flexible approach, quick and reliable decisions and access to substantial funding are the key ingredients for our future growth.

Anecdotal evidence suggests high street banks are becoming less keen to lend, which means that more businesses are turning to debt advisory firms for help in securing funding. As one of the alternative lenders most recommended by advisors, I believe, ThinCats is well positioned to benefit.

Building for the future

While delivering more than £300m of funding in one year is significant, we have ambitions to deliver much higher levels over the next few years. This requires investment in a number of areas to increase our capacity to scale: the most important of these is further investment in our people and technology.

WE HAVE BEEN ABLE TO ATTRACT VERY HIGH CALIBRE STAFF TO ALL AREAS OF THE BUSINESS

A combination of our growing market presence and strong brand profile means we have been able to attract very high calibre staff to all areas of the business. Our senior leadership team has been bolstered by a new CFO Rajeev Raichura, CTO Billy Ferguson and head of HR Carolann Walsh, while we have also invested in strengthening our Business Development, Transaction Management, Borrowers Services, Portfolio Management and Technology teams.

You can read more about other areas of activity and investment elsewhere in this review, however, I would like to thank all ThinCats staff for welcoming their new colleagues so warmly and for their ongoing commitment to providing an excellent service to our clients.

Technology Enabled Growth

During 2022 we started to execute core elements of our strategic technology plan which will support our growth over the next 3 years.

In June 2022 we announced our partnership with cloud-native business, Mambu, whose parameter-based banking platform will enhance our service to existing clients and accelerate the development of new products.

Our strategy is built on a best in class set of technology partnerships allowing us to leverage the capabilities of providers such as Mambu, Salesforce, nCino, Tableau, AWS and Microsoft.

By harnessing technology in this way, we will be able to create a scalable cloud based digital platform that provides borrowers with an excellent experience that integrates seamlessly with their technology ecosystem.

Ravi Anand
MD

DURING THE YEAR WE ADDED A NEW FUNDING PARTNER TO OUR ROSTER WITH A FURTHER £100M COMMITMENT

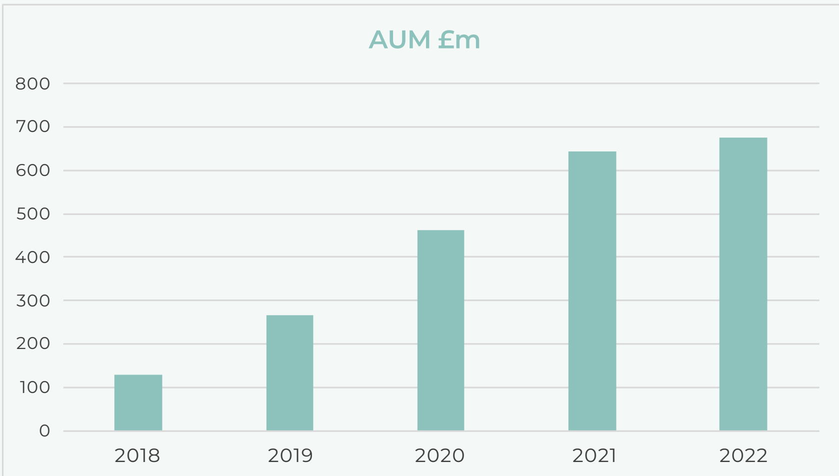
Funding and Portfolio

In 2021 Wafra Capital Partners (now known as InterVest Capital Partners) made a strategic investment commitment with ThinCats which enables an additional £2 billion of funding for UK SMEs over the next few years.

While the investment from InterVest supports our on balance sheet lending, we also continue to partner with forward flow funders. During the year we added a new partner to our roster with a further £100m commitment from a major UK credit fund.

The InterVest investment supports senior funding lines from Barclays, Citi and Insight, which together with our forward flow lines, fuelled high levels of funding in 2022 with substantial amounts of capital readily available for 2023.

Increased lending volumes are reflected in the growth of our loan book which had reached £675m by the end of 2022 and is targeted to grow to £2bn by the end of 2025.



On a forward look basis the loan book is expected to be allocated approximately 70% to on balance sheet lending and 30% to forward flow, which provides good portfolio diversification for all while allowing certainty of funding to businesses across a wide range of the credit spectrum and loan sizes.

Expanding our proposition

We plan to develop our offering further in areas where we have the relevant expertise.

The first of these is healthcare, where we have funded businesses with more than £175m since creating our specialist healthcare team in 2020. To satisfy strong demand for funding in this space, we are talking to funders seeking to add specific exposure to the sector.

TECHNOLOGY IS ANOTHER AREA OF HIGH DEMAND WHERE WE HAVE PROVIDED MORE THAN £100M IN FUNDING TO DATE

Technology is another area of high demand where we have provided more than £100m in funding to date. Due to the way in which technology businesses usually mature, companies that have attractive recurring revenue streams often don't have the positive EBITDA track record that we require under our current general lending policy. To improve our support for these businesses, we are developing a policy specifically for technology companies that require this type of 'ARR' funding.

A third area relates to the number of large deals (£10m+) that we can support. Whilst our core lending market is the £2m-£10m space, during 2022 we have written a number of larger loans. This allowed us to support follow-on facilities for existing borrowers – particularly for 'buy and build' strategies.

The ability to provide larger loans is naturally supported as our loan portfolio grows, however, we are also in the process of securing additional funding which will facilitate this further.

All three initiatives are in response to feedback from advisers and business owners and we look forward to announcing full details later in 2023.

Managing the portfolio

During 2022 we built out our portfolio management (PM) function, which is led by Dean Graham, who joined us from a CLO manager in February. PM is focused on managing the portfolio to meet our internal risk parameters and the expectations of our institutional funders. PM works very closely with both the business development team on the pipeline and the borrower services team post drawdown.

We will continue to enhance our PM function by using new tools being developed by our credit analytics team and through deeper borrower understanding from our team of relationship managers. At a time of potential market stress, this allows us to optimise our portfolio risk and return using macro and company specific data and identify specific sector risks and opportunities.

The PM team are also working closely with our capital markets team to develop relationships with leading credit rating agencies to ultimately provide third party rating tools for current and new funders.

The role of data

Having focused for most of 2021 on the upgrade of our PRISM Risk Grade toolkit for screening and pricing new deals at point of origination, in 2022 we turned our attention to our existing portfolio and began to develop analytical tools that will allow our relationship managers to enhance their understanding of the performance of our borrowers.

The tools require a blend of internally captured data and information sourced from third parties. The first phase was to construct an online portal through which we can deliver the Spectrum score (added to our PRISM risk model in 2021) for all borrowers on a monthly basis. Spectrum relies on bureau credit data, sourced from Experian, which flags when borrowers have defaulted or gone into arrears on another credit agreement, gone overdrawn without authorisation or had rejected payments from their current accounts, slowed down payments to trade creditors or taken out a new loan with another lender.

Our plans for 2023 are to augment the online portal with trends in some key metrics captured from our borrowers' management information such as recent trends in sales, profits, working capital in absolute terms and compared to management forecasts and previous years' performance.

Mike Hackett
Head of Business Development

Business Development

Despite the worsening economic backdrop, corporate finance advisers in the lower mid-market on which we focus remained active during the year, advising their existing clients and a growing number of new clients whose incumbent lenders have become more cautious. This has created opportunities for advisers and ThinCats alike.

In a market characterised by increasing uncertainty and lengthened transaction times, to provide almost record levels of funding is a significant achievement. Furthermore, we consolidated our position as a leader in funding M&A transactions and have a very strong pipeline of new business for Q1 2023.

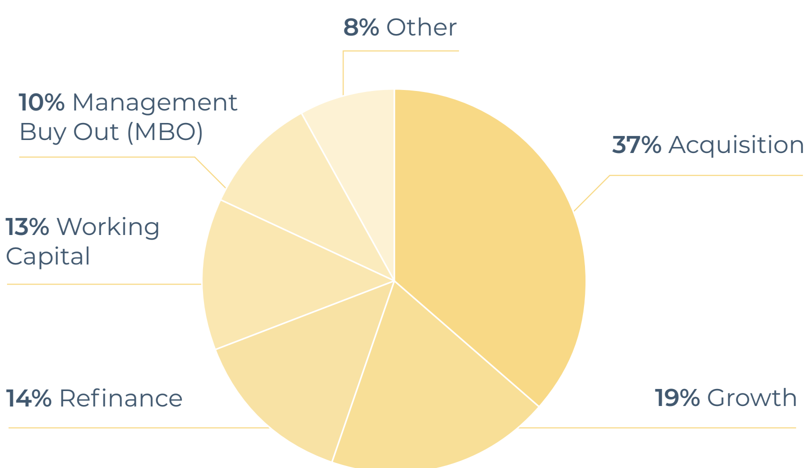
Meeting different borrower needs

In terms of how businesses used the funding that we provided during the year, almost 37% of the total funding was used to finance acquisitions, 19% for growth, 10% for MBOs and 27% for refinance and working capital.

Cashflow backed lending to fund M&A activity is an area of particular expertise for ThinCats which has been well-received by the market – especially by lower-mid market private equity investors who have remained active throughout the year.

Through our conversations with advisers we also learn about areas which may be growing in interest for mid-sized SMEs. One such area is employee ownership where the number of companies transitioning to employee-owned status continues to rise. In response to this demand and through our membership of the Employee Ownership Association, we have been active in creating programmes to explain the role of external funding when establishing EOTs. We find that our cashflow lending expertise is particularly relevant to many of the people based, professional services businesses attracted to the employee-owned model.

Funding purpose



INCLUSIVE EMPLOYERS ALSO FOUNDED AND ORGANISES NATIONAL INCLUSION WEEK, A WEEK-LONG PROGRAMME OF EVENTS DEDICATED TO CELEBRATING INCLUSION AND TAKING ACTION TO CREATE INCLUSIVE WORKPLACES

Inclusive Employers

Supporting Palatine's investment in the UK's first and leading membership organisation focused on creating inclusive workplaces

In October we supported Palatine Impact in making its first investment from its Impact Fund II, taking a significant stake in Inclusive Employers.

Inclusive Employers works with more than 500 major businesses, organisations and sporting associations, providing consultancy, training, advice and learning resources through a dynamic and scalable membership model to help create workplaces where all employees are valued and can contribute fully to their success. This is supported by the Inclusive Employers Standard which measures clients against best practice and informs their ongoing strategy.

Working with Palatine's Impact team the business will look to accelerate its strong recent membership growth, by scaling its teams, investing in its business development capability and building on its programme of market leading materials, training, consultancy and events.

"We are incredibly passionate about what we do and are thrilled to have found an investment partner with the same passion and that has a track record of both impact investing and a deep commitment to ESG over many years."

Claire Williams, Managing Director of Inclusive Employers

Specialist lending

Supporting lower mid-market PE houses

Since Dave Sherrington established our private equity team in 2020, we have provided more than £250m in funding to PE backed businesses. In response to this demand, we have expanded the PE business development team with the addition of Neil Patel as Senior Director to our London office and Michelle Heptinstall to our Manchester office as Business Development Director focusing on PE investors in the North and Midlands.

Transitional capital helping businesses thrive

At the start of the year, we established a new specialist transitional capital team for businesses seeking funding for acquisitions, MBOs or equity release without diluting existing shareholders. Led by Stuart Thompson (business development) with support from Steven Henderson (relationship management) and Greg Beamish (credit) the team has delivered more than £60m in funding across a number of sectors including a high growth marketing agency, a fast-growing veterinary practice and a technology managed services provider.

Private Equity Funding

£275m

(cumulative total)

Transitional Capital

£60m

(cumulative total)

Sector specialisms

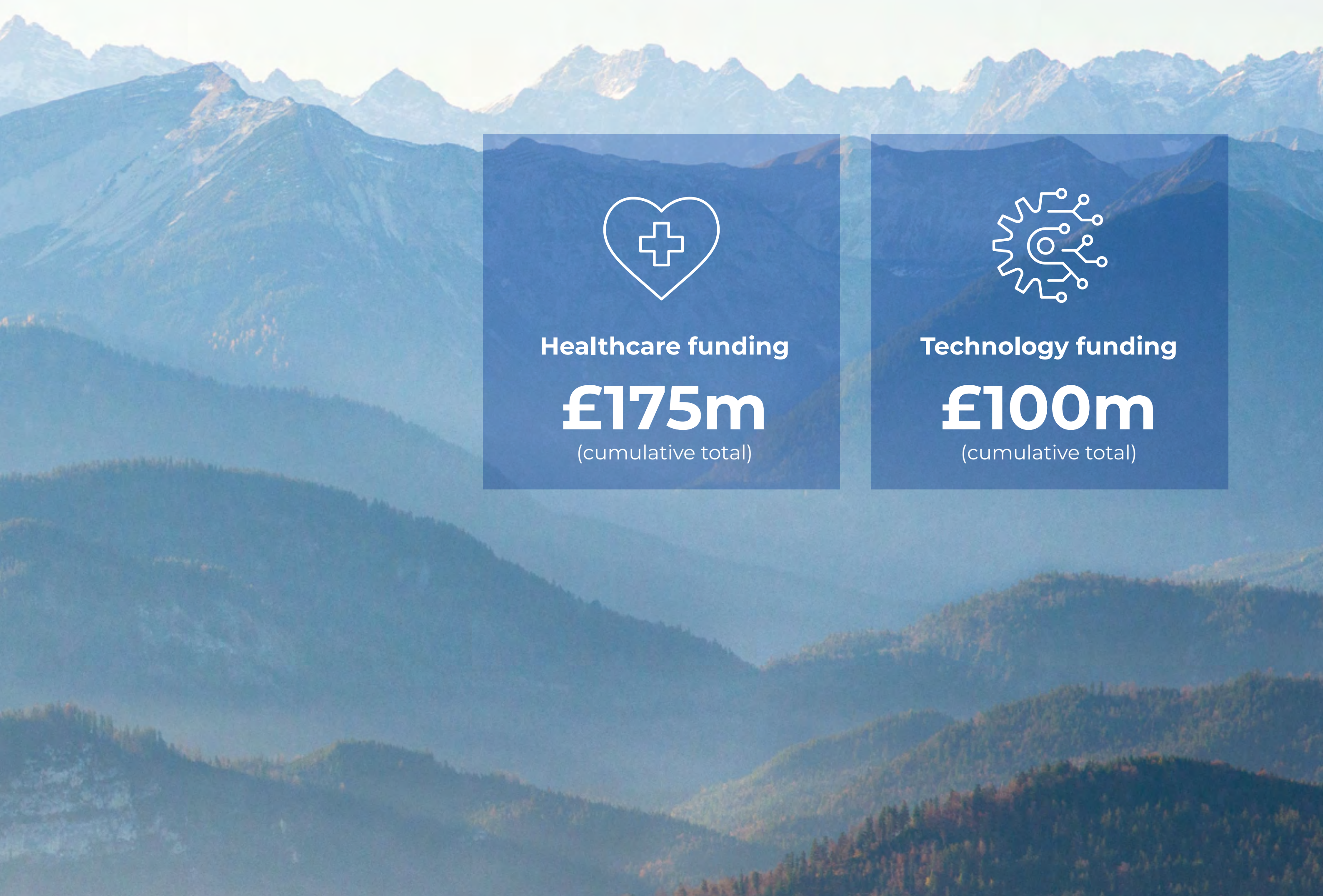
Healthcare

Healthcare funding, headed by Richard Henshaw on business development and David Jamieson on credit, was another strong area this year where we provided more than £50m in funding taking our total amount of lending to £175m since creating our healthcare team, in 2020.

Technology

Demand for funding to support M&A activity and organic growth in the technology sector has remained high as businesses continue to invest in digitalising how they operate. The two technology sub-sectors where we have provided most funding are Software and ICT services where high growth rates, quality of earnings and good margin profiles remain attractive. To date we have funded technology businesses with more than £100m.

To further our support for technology businesses, we plan to launch a new lending policy specifically for the technology sector in 2023.



I BELIEVE THINCATS HAS ONE OF THE STRONGEST TEAMS FOCUSED ON LOWER MID-MARKET DEBT SOLUTIONS IN THE UK

Further investment in transaction and relationship management

We recognise that just because we have substantial funding ready to deploy, doesn't mean that advisers will recommend us. It's our ability to create flexible debt structures within a transparent funding process, while offering competitive interest rates and speed of delivery which are also critical.

To complement our origination activity, we have continued to invest in our regional transaction and relationship management teams.

In Manchester, Tom Jessop and Steven Henderson joined our relationship management team and Stephen Gater joined our transaction management team. We also strengthened our transaction management team in the Midlands with the appointments of Neil Taylor and Richard Newman.

With the addition of these highly experienced new hires working alongside our existing capabilities, I believe ThinCats has one of the strongest teams focused on lower mid-market debt solutions in the UK.

Supporting a South Yorkshire veterinary practice complete a major acquisition

WITH ALMOST 100 EMPLOYEES, INCLUDING 24 FULL TIME VETS, THE PRACTICE HAS AN ANNUAL TURNOVER OF MORE THAN £6M

In June 2022 we supported The Pet Vet, which has surgeries in Rotherham, Barnsley and Doncaster, acquire The Vet, registered as Quality Pet Care Ltd.

The purchase of all eight of The Vet-branded surgeries made The Pet Vet not only one of the largest independent family-owned practices by number of sites – 12 – in the UK, but also the first to have a national presence.

Founded in Doncaster in 2011, the business already operates three large, purpose-built surgeries in South Yorkshire and in 2021 opened a 5,500 sq ft surgery on a retail park in Lincoln. With almost 100 employees, including 24 full time vets, the practice has an annual turnover of more than £6m.

We initially provided a £3.1m facility, followed by a rapid cash injection which allowed the family-owned independent to snap up The Vet when it came up for sale in April 2022.

"The funding secured from ThinCats has enabled us to deliver our ambitious plans and the acquisition of The Vet gives us scope to further expand our expertise and services, offer even greater career progression for our vets, enhance our buying power and increase our influence on the overall quality of first opinion veterinary care in the UK."

Dr Mel Fuller, Managing Director at the Pet Vet

Supporting our existing borrowers

Our aim is to be a long-term funding partner to our clients, which is why we have invested so heavily in building a substantial relationship management team run by Steven Ford, to service our borrowers.

2022 saw the appointments of Senior Relationship Manager Tom Jessop, Relationship Support Manager, Craig Davies, and Assistant Relationship Manager Agata Easterby. Each have brought with them extensive experience and added new expertise to the business.

The strengthened team helped deliver a record amount of follow-on funding through clients, £88m in new facilities supporting existing clients with funding for growth, additional working capital, refinancing and with new acquisitions. In fact, over 64% of funding to existing borrowers was to support additional acquisitions and we provided a further £62m in committed facilities to back continued buy and build strategies.

We were proud to see the incredible successes of many of our clients, including the sale of Hickory's to Greene King and the successful exits at EMS, Motive Offshore and MAP Group UK.

£88m
in follow on facilities to support existing clients.

£62m+
in Committed Facilities to support further expansion plans.

64%
of funding provided to existing borrowers was to support further acquisitions.

WORKING CLOSELY WITH THE RELATIONSHIP TEAM AT THINCATS, THE BUSINESS HAS SECURED A NUMBER OF MULTI-MILLION POUND FACILITIES

CROFT COMMUNICATIONS

Funding an ambitious buy and build strategy for IT managed services company

We have funded a string of strategic acquisitions for Croft Communications who most recently announced the purchases of Active Voice and Data and Cloud9 to add to the other 9 acquisitions completed over the past 2 years.

The Hertfordshire based business, led by an award-winning team and accredited on the UK Government's Crown Commercial Service Framework, delivers next generation technology & managed services, streamlining infrastructure and communications for organisations across a wide range of commercial sectors.

Following their successful MBO in 2019, shareholders Ben Page (Founder), Mark Bramley (CEO) and Phil Waters (CFO), have looked to take advantage of a highly fragmented market, implementing an ambitious growth plan primarily centred around strategic acquisition. Since then, they have successfully integrated 11 smaller businesses, the majority of which have been funded by ThinCats.

Phil Waters, COO/CFO, Croft Communications commented; "With each acquisition, we are enhancing and diversifying our offering. Customer support is at the centre of everything we do and maintaining this is the focus of each merger and integration".

Working closely with the relationship team at ThinCats, the business has secured a number of multi-million pound facilities, to support future acquisitions with an increased focus on IT and Cyber security targets, which will bolster that arm of the company.

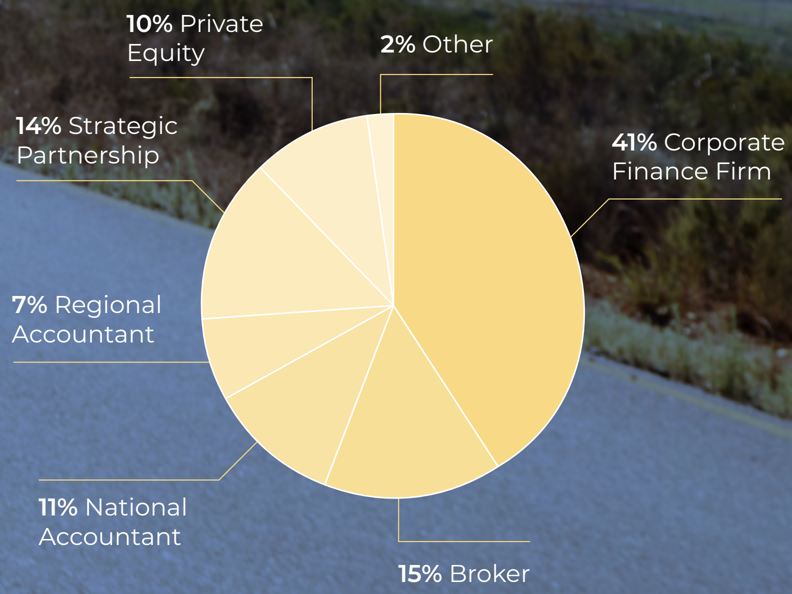
Working in partnership with advisers

A welcome trend from this year has been the repeat business received from relationships formed with advisers and borrowers during the early months of the covid pandemic. From supporting businesses that had short-term working capital needs back in 2020 it's been great to see how they have thrived and gone on to take further funding as their growth plans have moved forward.

We have continued to deepen our relationship with many new individuals and firms who we look forward to working with in 2023 and beyond.

Advisers we worked with in 2022:

Adviser breakdown



2022 saw ThinCats receive a record number of nominations at award ceremonies up and down the country. Our regional teams were shortlisted for “Funder of the Year” an impressive 11 times and achieved further recognition with multiple transactions winning “Deal of the Year”.

Due to celebrate his 5th anniversary at ThinCats in summer 2023, regional business development director, Ben Kimball, picked up Debt Funder of the Year at the Yorkshire Dealmakers 2022, testament to him and the wider ThinCats team in the region.

It was also a successful year for many of our borrowers, with businesses like Definition Group (named a Top 5 PR firm), Croft Communications (named Business of the Year at the Inspiring Hertfordshire Awards 2022) and Cornish Premier Pasties (named Business of the Year at the Western Morning News Business Awards 2022) all recognized for excelling in their respective fields.

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