THINCATS

Annual Review 2020

HELPING THE MID-SIZED THRIVE

Presteigne Broadcast Hire

In July, we supported Presteigne Broadcast Hire, supplier to the TV studio and worldwide live broadcast market, with a £3m working capital and refinance package. This ensured that they have exactly the right backing in place to grow as they look forward to a busy 2021.

RISING TO THE CHALLENGE

2020 is a year that will be forever etched in all our minds long after we have finished talking about PPE, lockdowns, R values, zoom meetings, protein spikes and social distancing. Every single person in the UK has been impacted in some way by the covid pandemic and its effects may be felt for many years to come.

Like many businesses, we have had to be flexible, decisive and nimble to make sure we delivered the best outcomes for our clients, staff and other stakeholders in very challenging circumstances.

Looking back on the year and recognising that we are not yet through the pandemic, although the rollout of a national vaccination programme is encouraging, I am incredibly proud of what we have achieved; from supporting mid-sized businesses with record levels of funding (£289m versus last year's previous record of £201m) switching rapidly to a completely remote way of working and accelerating enhancements to our service model have all been major accomplishments.

You can read more about these elsewhere within this review, however, I would particularly like to thank our borrowers and their advisers for their continued support and of course our amazing staff for their incredible and ongoing commitment.

Looking ahead into 2021 there will be further funding requirements for many businesses as they address deferred debts such as tax or rental payments and invest to make the most of the post-pandemic environment. We have substantial amounts of lending capital to deploy and look forward to supporting many more mid-sized businesses with their specific needs over the next 12 months.

Amany Attia
CEO

A GAME OF THREE HALVES*

As some of you may know, I'm no stranger to the occasional football analogy and would describe 2020 as a perfect game of three halves. In the first two months of the year ThinCats continued the strong momentum established in 2019 providing more than £30m of funding in January alone.

The Prime Minister's national lockdown announcement of 23 March effectively blew the whistle on the end of the first half as the country entered a period of severe uncertainty around its physical, mental and economic health. A series of emergency measures were announced by newly appointed Chancellor Rishi Sunak to support the economy which have been revised and extended in various ways ever since.

Our overriding priority at that time was to contact our existing borrowers to see how they were being impacted by the lockdown. From these discussions we were able to agree revised terms such as capital and interest repayment holidays and covenant waivers. We also set about seeing how we could become involved with the government backed loan schemes to provide extra support to our borrowers.

A huge amount of work over a short period of time bore fruit when we were accredited by the British Business Bank as one of the first alternative lenders for CBILS at the end of April and for its big brother CLBILS in June, marking the end of the second "half".

** In a football match between Sunderland and Derby County in 1894 the game consisted of three "halves" because the official referee didn't arrive until the end of the first "half" which had been refereed by a replacement. When the official referee asked Derby, who were losing 3-0 at the time, if they would like to restart the match, they naturally agreed. Playing two further halves, however, didn't improve Derby's fortunes as they conceded 8 further goals to lose 8-0 in the "official" match which became known as the game of three halves.*

Equipped with CBILS and CLBILS accreditation we were delighted to offer the benefits of these schemes to our existing borrowers. In fact, because we had been liaising closely with existing borrowers since March, we were able to extend CBILS to new borrowers from mid-July. This is particularly satisfying as we had capacity to support many businesses that had previously been turned down by their existing lender for CBILS.

In the final "half" from July onwards we focused almost exclusively on CBILS (see chart) to make sure we could support borrowers in meeting the original 30 September deadline for applications which has subsequently been extended to 31 March 2021.

As businesses re-opened following the original lockdown and became better informed of the immediate and medium-term impact of the pandemic on their business models, we started to see more proposals to support growth funding, for example as businesses invested in new distribution channels or acquired other businesses.

ANNUAL REVIEW 2020

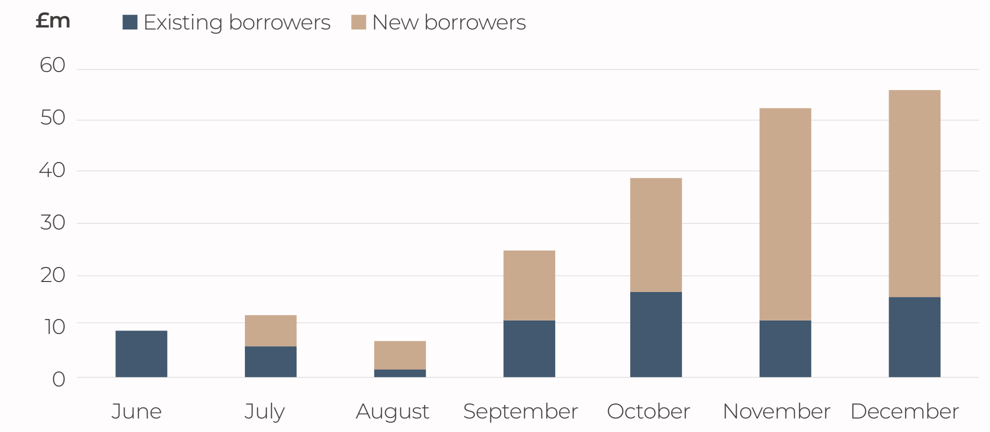
By the end of the year we had provided record total funding of £289 million which represents a 44% uplift on 2019.

Having focused so strongly on CBILS since the summer, the deadline of 31 March 2021 for final CBILS applications brings a return to funding more transactions such as MBOs, or other transactions that may not qualify for CBILS.

Looking ahead into 2021 we will continue to invest in providing a personal, local and flexible service to advisers through our business development team who work hand-in-hand with our regional credit teams.

Encouraged by the vaccine rollout programmes, we expect many mid-sized businesses to require additional funding as social distancing restrictions may start to be lifted in the Spring and economic activity picks up. We look forward to supporting many more businesses in the year ahead and would encourage advisers to contact your regional Business Development Director.

CBILS funding in 2020



Responding to the market

During the year we created specialist teams of origination and credit experts in two areas where we have been receiving increasing interest from advisers and borrowers.

The first is healthcare where Richard Henshaw joined us as Director, National Healthcare Development responsible for originating healthcare transactions. Richard is highly regarded in the healthcare funding sector with more than 20 years' experience as a lender and healthcare finance broker and 6 years direct experience running a care home.

In response to provide funding for more private equity backed businesses we also established a team dedicated to working with lower-mid market PE investors. The team includes Dave Sherrington, Gary Nutley, Kenny Hughes and Stuart Thompson from business development and David Jamieson and Greg Beamish from credit. For more details on our services to lower mid-market private equity backed busines click here.

Mike Hackett
Head of Business Development

HOW WE HAVE HELPED THE MID-SIZED THRIVE (THE NUMBERS)

Total funding 2020

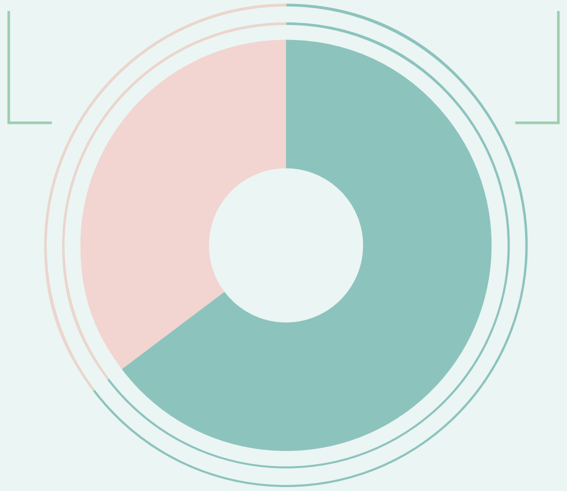
£289

MILLION

Supported 40% of existing clients
with CBILS and CLBILS funding

Existing clients

New clients



Industries funded

21

Working with over

500

financial advisers on funding

Average funding size

£2.5m

Healthcare funding

£48.3m

Strong regional presence

Around **65%** of funding proposals were received from businesses and advisers outside Greater London and the South East

OUTLOOK FROM CREDIT

The economic impact of the pandemic has affected mid-sized businesses in many different ways. **Greg Beamish**, Head of Credit at ThinCats explains how his team responded to the pandemic and continued to provide funding support in such a fast changing and uncertain trading environment.

What was your initial response to the first lockdown in March?

After quickly moving to remote working, our main priority was to proactively contact all existing borrowers to understand the immediate impact of the lockdown on their business and assess their resilience to further lockdowns or restrictions on trading. In line with ThinCats' personal and local client servicing model, our regional credit and business development teams worked together to engage with existing borrowers. Developing a realistic cash flow model was a key part of the process and needed to take into account our borrowers' eligibility for government support schemes including the Job Retention Scheme, cash grants, business rates holidays, tax payment deferrals etc.

Following the first wave of contacting and understanding the circumstances and financial position of all borrowers, we introduced interest and capital repayment holidays, revised or suspended covenants and ensured, where required, that new capital requests were in progress. Our initial findings were that some businesses in the hospitality, travel and leisure sectors had obvious challenges to their immediate revenue flows but, overall, the vast majority of our borrowers were well capitalised with decent liquidity cushions in place to enable them to weather the imposed lockdowns.

Borrowers were typically proactive in their approaches to us and were seeking to understand what was permissible under the various government schemes. Therefore, our teams acted not only as financiers but also quasi corporate finance advisers.

A point that persistently worked in favour of both borrowers and ThinCats was the minimum liquidity covenant which is a standard requirement for our lends. The existence of this test ensured appropriate focus from management teams on liquidity runway and acted as a diagnostic tool to allow a proactive response by Thincats to address any potential cash flow needs

How important was being able to provide CBILS funding?

As soon as the government announced details of the Coronavirus Business Interruption Loan Scheme (CBILS) we recognised the genuine benefits to businesses of being able to access funding on attractive terms including no interest payments for the first 12 months.

Following amends to the original CBILS rules in early April, which widened the scheme to many more businesses, we worked closely with the British Business Bank (BBB) to become one of the first alternative lenders to be accredited for CBILS. Our accreditation was announced by the BBB at the end of April meaning we were able to fund our first CBILS loan in June.

Due to our earlier work engaging with existing borrowers, we were delighted to be able to open up CBILS funding to new borrowers from mid-July.

A key aspect for us was seeking clarification from the BBB on exactly which type of deals were eligible so that we could support as many businesses as possible. For example, there was initially some confusion around the eligibility of funding for growth purposes such as acquisitions, or the rules around funding private equity backed businesses, which we were able to clarify.

Did you change your credit process as a result of the covid pandemic?

In broad terms no.

For example, we continued to use the framework of the regional business development and credit teams engaging with the adviser and borrower very early in the funding process complemented by data from our proprietary credit model, PRISM. This resulted in a Deal Forum led by the regional head of credit, after which initial terms would be issued. If accepted, more detailed underwriting and approval by the Investment Committee followed prior to final terms being issued.

We believe this early and easy access to credit decision makers is a key difference between us and the banks.

In respect to CBILS it proved critical in enabling us to thoroughly understand the impact of the covid pandemic on a particular business, and to create a funding structure to best suit its immediate as well as longer-term needs.

As part of our underwriting process we also had to assess if there had been any fundamental structural changes resulting from Covid that could impact a business's future prospects. For example, it's likely that working from home for at least a few days a week will become much more common post pandemic, so businesses heavily reliant on trade from commuters or city centre office workers may be facing long-term impacts.

On the other hand, we would expect cinemas to be more resilient as it is not yet possible for the vast majority of the population to create the full "cinema experience" at home.

Our aim throughout has been to structure CBILS deals in a sensible way to provide sufficient liquidity to take account of any further potential restrictions whilst not overburdening businesses when they have to start making payments once the initial 12 month non-payment period is over.

Were there any surprises in the types of proposals that you have been assessing?

Initial conversations with existing borrowers were much as expected focusing on their need for additional working capital to maintain liquidity levels. However, when we opened CBILS to new borrowers we saw a significant increase in proposals for growth funding including for acquisitions.

Calling on our expertise in this area and following conversations with the local business development and credit teams we were able to quickly inform advisers and borrowers whether we would be able to support the proposal or not, which provided valuable certainty to all parties.

There's no doubt that CBILS accreditation has played an important role in bringing alternative lenders such as ThinCats into the mainstream. We look forward to seeing whether the successor to CBILS will help deliver the ongoing funding required by UK businesses as the positive momentum from the rollout of covid vaccination programmes and the gradual lifting of restrictions create an environment for strong economic growth.

USING DATA TO IMPROVE SERVICE

Our assessment of new funding proposals combines the expertise of our business development and credit teams in understanding the business models of our borrowers with our big data-driven machine learning tools to determine the overall credit risk. Our sophisticated data models are collectively known as PRISM and we have made some significant enhancements during 2020.

In June we launched a new version of our proprietary credit model PRISM Risk Grade which we have proven to be a very accurate predictor of defaults amongst mid-sized businesses. The predictive accuracy of the new model was tested over the last 12 years and was shown to retain its accuracy throughout all stages of the economic cycle, across all industry sectors and sizes of businesses within the mid-sized SME universe which we define as companies with £0.5m-£40m in total assets.

Furthermore, the model is predictive not just of defaults over a 12-month window from point of calculation, but also over longer time frames (up to four years), so is highly suitable for assessing credit risk over the typical term of loan that we offer our borrowers.

During the year we enhanced our Pricing Portal which is the tool that calculates the price of a loan for a specific borrower based on a combination of PRISM Risk Grade and Security Grade data. New functionality has been added to enable more recent or more complete financial information to be captured than is available through filed financial accounts. Further information relating to the purpose of the loan is also captured enabling us to estimate the impact of the proposed loan on the borrower's balance sheet.

We have also created a new credit dashboard within the Pricing Portal to enhance the underwriting team's understanding of how each risk grade has been calculated and allow them to run what-if analyses to test alternative scenarios. The dashboard also provides benchmark data comparing the borrower to other firms in its sector in terms of key financial KPIs.

In the autumn we trialled and rolled out Open Banking as a condition precedent for all new loans. For a lender such as ThinCats, which funds a large number of cashflow backed loans, having access to the movements of a borrower's current account provides valuable data to support more informed credit decisions and to set covenants that are better aligned with the borrower's business cycle. The platform also reduces the ongoing administrative burden for borrowers in providing regular MI post drawdown.

Although much of our data analytics activity happens "underneath the bonnet", the common thread across all these enhancements is pulling together and interpreting multiple data sources so that we can make quicker and better-informed lending decisions specifically for mid-sized businesses and their advisers as well as structure transactions that better align with the company's needs. As we implement further developments through 2021 we plan to share our data insights more widely with the business finance community.

Gareth Rumsey
Head of Data Analytics

PARTNERING WITH THE FINTECH COMMUNITY

Although ThinCats is recognised as a leader in the alternative finance sector, particularly for lending to mid-sized businesses, we are often classified by commentators in the financial media as a fintech company. We believe the fintech tag is more applicable for lending to smaller SMEs where borrowing requirements are relatively simple enabling more automated decision making.

The truth is that whilst we are always keen to use technology to improve our service and efficiency levels we would describe ourselves more as "righttech" rather than "fintech".

This is because the way we create the bespoke lending solutions for our borrowers relies so heavily on personal interaction between our business development and credit teams with advisers and borrowers. The years of experience built up within these teams allows us to get a quick and deep understanding of a business and how best to structure funding to suit its specific needs.

We also like our business development teams to help clients all the way through the funding process and be available to provide support post-drawdown too.

Our aim is to become a long-term partner for the businesses that we support and we simply don't believe it's possible, or even desirable, to do this through a technology-only experience which is implied by the "fintech" badge.

"Righttech" describes how we use the most appropriate technology to maximise the effectiveness of a particular process and if we have to develop the technology ourselves, we do. For example, we chose to build our own credit model, PRISM, because the existing credit tools on the market did not differentiate sufficiently between mid-sized businesses and the wider universe of SMEs. Our analysis has repeatedly shown that mid-sized businesses are more creditworthy than smaller businesses, so we built a credit model to reflect this.

In most cases, however, we prefer to plug into the fintech community to source the right technology solutions that will complement our personal service. For example, this year we have partnered with nCino a leading provider of cloud-based bank lending systems to improve the efficiency of the funding process particularly around data gathering and document management.

Likewise, we chose Salt Edge as our third party Account Information Service Provider for Open Banking. Subject to the borrower's consent, the Salt Edge solution provides a real time view of a borrower's current account data to help us deliver a quicker and more accurate credit assessment. The platform also reduces the ongoing administrative burden for borrowers in providing regular MI post drawdown.

Through developing our own solutions or by partnering with specialist fintech providers, our aim is to use technology to deliver efficiencies in our processes and for the benefit of our customers. This is where we believe technology can add the greatest value; by complementing and freeing up time for more personal contact rather than replacing it.

CASE STUDIES

Fairway International Travel

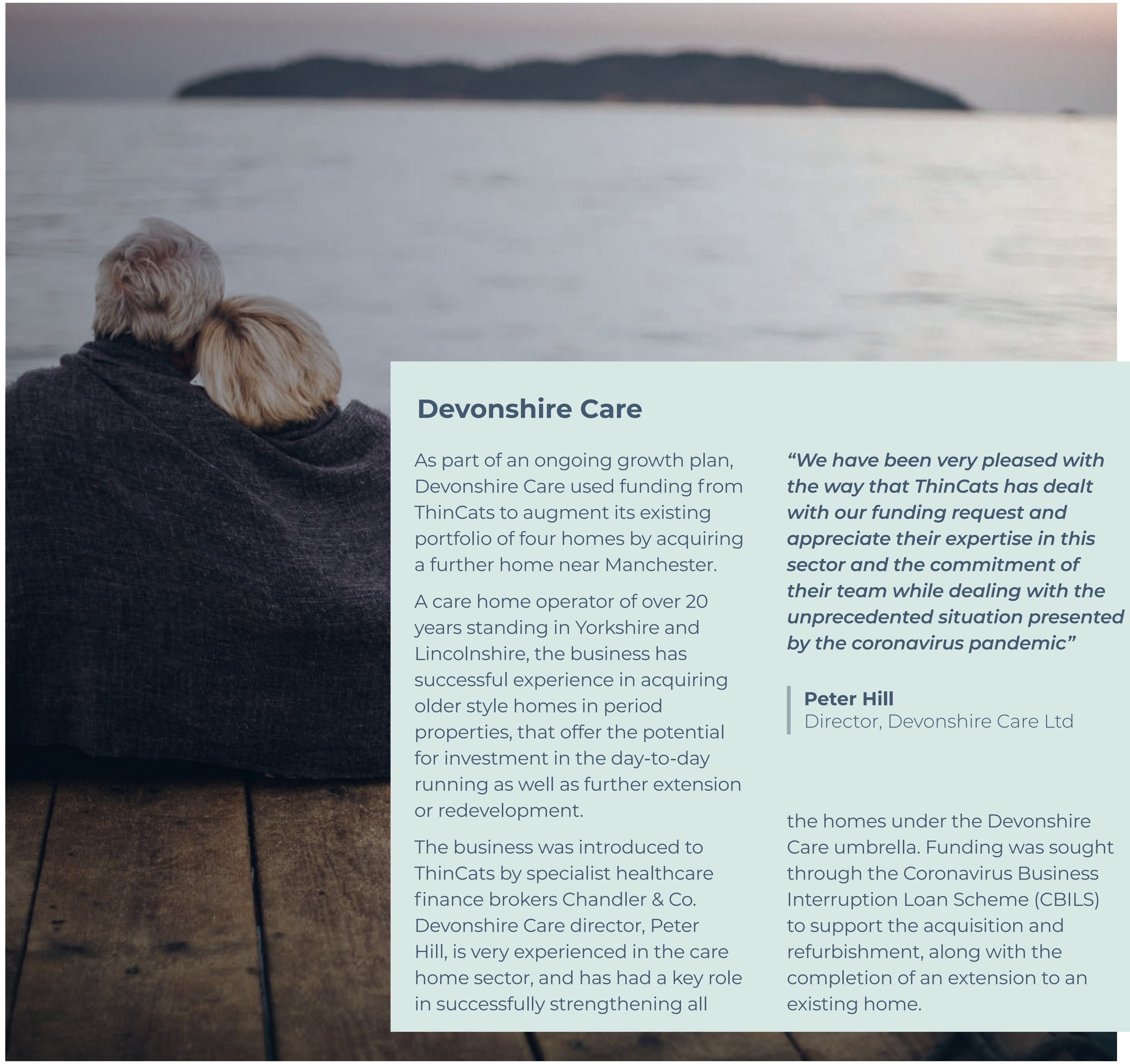
We were delighted to support Fairway International Travel (FIT), an independent travel agency based in Halifax, West Yorkshire, with £1.5m in working capital.

Founded in 1991, FIT specialises in providing travel for the professional golfers on the PGA European Tour, European Senior Tour and European Challenge Tour. The team at FIT provide a one-stop travel management solution for top tier golfers and other sports professionals and are the largest professional golf travel specialist in the UK.

The management team were keen to pursue a number of development opportunities to maximise their offering for the golf community for the 2021 season. ThinCats was introduced by Phil Tarimo at Dow Schofield Watts Debt Advisory, whose team helped structure the bespoke funding package needed.

“We are really keen to get back to normal with providing our specialist sport travel services – 2021 will be all the more exciting and offers us the opportunity to support our clients even more closely, as we work together with our partners to move on from the challenges of 2020. ThinCats took the time to properly understand our offering and plans for the future, and we are looking forward to putting the funding to good use.”

Bill Tannahill
CEO, FIT



Devonshire Care

As part of an ongoing growth plan, Devonshire Care used funding from ThinCats to augment its existing portfolio of four homes by acquiring a further home near Manchester.

A care home operator of over 20 years standing in Yorkshire and Lincolnshire, the business has successful experience in acquiring older style homes in period properties, that offer the potential for investment in the day-to-day running as well as further extension or redevelopment.

The business was introduced to ThinCats by specialist healthcare finance brokers Chandler & Co. Devonshire Care director, Peter Hill, is very experienced in the care home sector, and has had a key role in successfully strengthening all the homes under the Devonshire Care umbrella. Funding was sought through the Coronavirus Business Interruption Loan Scheme (CBILS) to support the acquisition and refurbishment, along with the completion of an extension to an existing home.

“We have been very pleased with the way that ThinCats has dealt with our funding request and appreciate their expertise in this sector and the commitment of their team while dealing with the unprecedented situation presented by the coronavirus pandemic”

Peter Hill
Director, Devonshire Care Ltd

A ROBUST FUNDING MODEL

The £289m of capital that we have deployed during 2020 was sourced from a mix of institutional funders and our own balance sheet lending.

Since we introduced institutional capital into our funding mix in Q3 2017, our ability to support midsized businesses has increased massively; in the three years from 2018-20 we have provided £602m of funding compared to £179m for the years 2015-2017.

As mentioned elsewhere, we were one of the first alternative lenders to be accredited for both CBILS and CLBILS. CBILS funding for existing borrowers was sourced from our panel of existing institutional investors. For CBILS funding to new borrowers, which we made available from mid-July, we further developed our balance sheet lending capability through a senior funding line from Barclays.

Our current funding sources provides certainty of funding and flexibility in being able to support mid-sized businesses across the full credit spectrum.

As ThinCats' business has matured, we have proven there is significant demand for alternative funding solutions for mid-sized businesses and have shown how funders can access attractive risk adjusted returns through well-structured lending programmes. We have developed a unique presence in the market which is attractive to a range of funders.

We are actively engaged with a range of parties to further expand our institutional and balance sheet capital and expect to make some exciting announcements in 2021.

Ravi Anand
Managing Director

Maritime Developments

We provided a £5.25m funding facility for Maritime Developments Limited, the Peterhead based provider of offshore mission critical 'back of boat' systems and services to the global energy sector. The funding is used to refinance existing loans and create additional working capital to support MDL in its long-term development plans.

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