THINCATS

ANNUAL REVIEW 2021

FACING NEW CHALLENGES

The headline for my introduction to last year's annual review was "Rising to the challenge" which summarised our response to the first 9 months of the Covid pandemic and how we focused on supporting mid-sized SMEs during the sharpest economic shock we have ever experienced.

12 months on, whilst the pandemic remains a health threat to people and an economic threat to many UK businesses, it is no longer the only story in town. The emergence of challenges such as rising energy prices, supply chain disruption and rising inflation are just some of the new headwinds that businesses need to address. Some of these are a direct result of a global economy trying to run before it can walk as Covid restrictions have lifted, whilst others, such as labour shortages, are due to a combination of the global impact of Covid and more local issues such as Brexit.

"Facing new challenges ... and opportunities" reflects our progress in 2021 and how we have sought to become a trusted source of support and flexible finance to our borrowers as their funding needs have switched very quickly from survival to recovery.

In terms of new funding for UK businesses during 2021, we provided a record £318 million across a wide variety of sectors and regions taking our overall lending through £1 billion during the summer.

An important strategic step in enabling us to provide even more funding in the future was the equity investment commitment of £160 million made by Wafra Capital Partners in June. This commitment is not only a vote of confidence in our strategy, but more importantly a shift in the scale and source of capital that we are now able to deploy.

...AND OPPORTUNITIES

This commitment will enable us to lend an additional £2 billion to mid-sized businesses over the next few years, the vast majority of which will be capital from our own balance sheet. This means that we have become even more closely aligned to the success of the businesses that we support. Our aim is to become a long-term funding partner to our borrowers, which is why we have invested significantly in expanding our Borrower Services team during the last 12 months. The team exists to ensure we are on hand at the local level and fully equipped to respond quickly to the opportunities and challenges faced by our borrowers.

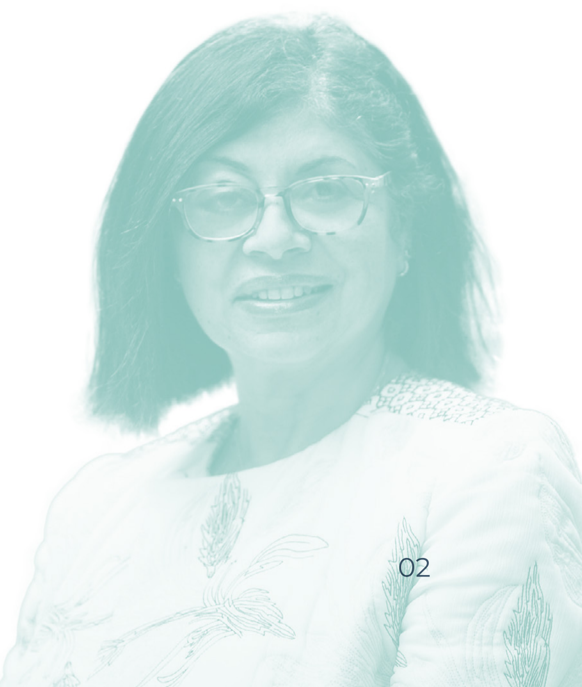
We continue to invest in other areas too, such as, transaction management, data analytics and state of the art IT platforms so that we can deliver a highly personal and efficient service informed by the best SME data available. You can find out more about our ongoing programme of investments elsewhere in this review.

We live in a dynamic world which means that change is continuous and inevitable; the Covid pandemic is an extreme example which has shown the capacity of people right across the world to react and adapt to a new set of circumstances.

What I am most pleased about this year has been ThinCats' ability to respond to the changing needs of our borrowers. Where 2020 was about supporting business survival, 2021 has been about maximising the opportunities for our clients presented by the recovery, whilst at the same time scaling up our capacity to support many more businesses in the future.

I am pleased to say that we have managed to achieve both, although none of this would have been possible without the continued support of our borrowers, our network of business finance intermediaries and our incredible team here at ThinCats, so huge thanks to all of you.

Amany Attia
CEO



ANNUAL REVIEW 2021

HELPING THE MID-SIZED THRIVE IN 2021

Record Funding

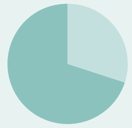
£318 MILLION

17 different sectors

61% outside Greater London region

£112m funding in support of acquisitions

£3.1m average borrower loan size



70% Cashflow loans

Specialist Lending Milestones

Private Equity backed funding over **£150m**

Leisure industry funding over **£110m**

Healthcare funding over **£100m**

ANNUAL REVIEW 2021

BUILDING FOUNDATIONS WHILE FIXING THE ROOF

Mike Hackett
Head of Business Development

We were delighted to provide a record amount of funding during 2021 while at the same time investing in our own infrastructure to allow us to fund many more mid-sized SMEs in the years ahead. It was also encouraging to see the average borrower loan size increase from £2.8 million in 2020 to £3.1 million in 2021. Fixing the metaphorical roof while still building the foundations is not possible without the backing of our fantastic community of advisers and borrowers, so I would like to thank you for your continued support.

I recently discovered that of the 646 days from the start of the first national lockdown on 26 March 2020 through to 31 December 2021 only 146 days (23%) have not been under some type of pandemic restriction. (Figures for England only. Scotland, Wales and Northern Ireland have had even fewer days without restrictions.) Yet, during this time, our role as a lender has swung from providing urgent cashflow support to financing ambitious expansion plans for businesses in some of the hardest hit sectors such as restaurants.

The agility needed to respond quickly to such differing client needs is a key reason why I believe alternative finance providers such as ThinCats will continue to take market share from traditional lenders. What's more, people who have worked for the big banks for many years are moving to alternative lenders confident that this new source of funding is here to stay.

Strong momentum into early 2021

In terms of business development activity, the strong momentum from Q4 2020 continued into the first half of 2021 as borrowers and advisers rushed to take advantage of the CBILS scheme which closed for new applications at the end of March. During this time we also saw a big uplift in M&A transactions especially from private equity sponsors, as the pent-up demand from deals delayed by Covid was released and new M&A opportunities emerged.

In July we became an accredited Recovery Loan Scheme lender, which has been important for clients in securing flexible funding at lower rates than would have been possible outside the scheme. While welcoming the extension of the scheme to June 2022, it is disappointing that many mid-sized businesses have been excluded from 1 January 2022 following the reduction in maximum loan size to £2 million.

As we moved into the autumn months it was fantastic to be able to meet up again in person at the numerous industry events that had been postponed. There was a genuine warmth in reconnecting with members of the business finance universe face-to-face.

Multiple regional awards

We were also thrilled to be nominated for multiple awards and to pick up alternative finance provider of the year at the South West and Central & Eastern Dealmakers and non-bank lender of the year at the Thames Valley Deal Awards and the Thames Valley Dealmakers. We were also involved as funder to the Deal of the Year (sub £20m) at the Thames Valley Dealmakers for our support of an MBO backed by NVM Private Equity.

Specialist teams gain traction

Having established specialist PE origination and credit teams in 2020 it was particularly satisfying to develop new relationships in this community, which contributed to ThinCats becoming a top 5 debt provider for M&A transactions during the first six months of the year*. To date we have funded more than £140 million in PE sponsored transactions.

Another area of specialism is our healthcare funding team which focuses on medium sized residential and domiciliary providers. Headed by Richard Henshaw, who joined ThinCats in February 2020, total funding provided to the sector passed through £100 million during October 2021.

Further regional investment

During the year we continued to invest in our regional origination network by hiring two highly experienced SME debt experts; Richard Bowles who covers the South West & Wales and Andy Cocker who covers South Yorkshire & East Midlands. We also plan to strengthen our teams in London, the West Midlands and the North West with more new hires in Q1 2022.

Substantial capital to deploy

Together with further additions to the Borrower Services team (see p 11) advisers can be confident that their clients will be well looked after by ThinCats from initial funding enquiry through drawdown and beyond should they go on to require additional facilities. Furthermore, the latest enhancements to our proprietary credit model PRISM (see p 15) mean we can make even quicker, better informed and more consistent decisions about our initial credit appetite for new proposals.

Advisers and borrowers should also be encouraged by the £160 million equity investment commitment in ThinCats from Wafra Capital Partners this past summer. This commitment will facilitate a further £2 billion of funding most of which will be balance sheet lending.

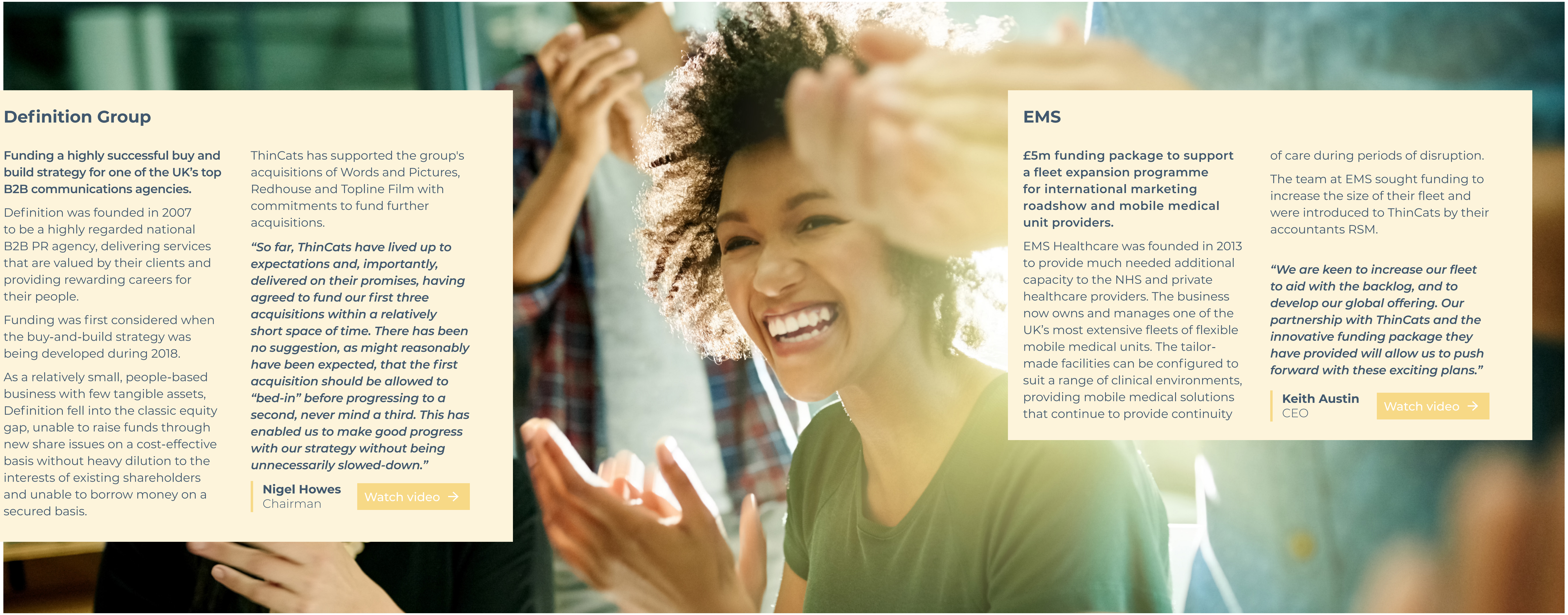
A particular highlight for the year was the number of advisers that had recommended us for the first time in 2020 on the back of our CBILS accreditation who returned to make further recommendations during 2021. Nothing excites a Head of Business Development more than repeat business!

Looking forward to 2022 we expect demand to provide capital for organic growth, refinancing and M&A transactions to remain strong. As members of the Employee Ownership Association we saw a significant uplift in the number of business owners looking to transfer ownership to their employees via an EOT. We would expect this trend and the use of external finance to fund these transactions to continue into 2022.

The rise of the Omicron variant and the re-introduction of some restrictions highlights the fragility of the recovery, particularly for sectors such as travel and hospitality. Whichever way the needs of mid-sized businesses may pivot again during 2022, we are on hand to support them. We have shown that we can react quickly to changing circumstances while the investments made in 2021 in building a more robust funding and service infrastructure should give additional confidence to advisers and borrowers.

**Source: Experian/Market IQ UK & ROI M&A Review H1 2021*

SUCCESS STORIES



Definition Group

Funding a highly successful buy and build strategy for one of the UK's top B2B communications agencies.

Definition was founded in 2007 to be a highly regarded national B2B PR agency, delivering services that are valued by their clients and providing rewarding careers for their people.

Funding was first considered when the buy-and-build strategy was being developed during 2018.

As a relatively small, people-based business with few tangible assets, Definition fell into the classic equity gap, unable to raise funds through new share issues on a cost-effective basis without heavy dilution to the interests of existing shareholders and unable to borrow money on a secured basis.

ThinCats has supported the group's acquisitions of Words and Pictures, Redhouse and Topline Film with commitments to fund further acquisitions.

"So far, ThinCats have lived up to expectations and, importantly, delivered on their promises, having agreed to fund our first three acquisitions within a relatively short space of time. There has been no suggestion, as might reasonably have been expected, that the first acquisition should be allowed to "bed-in" before progressing to a second, never mind a third. This has enabled us to make good progress with our strategy without being unnecessarily slowed-down."

Nigel Howes
Chairman

Watch video →

EMS

£5m funding package to support a fleet expansion programme for international marketing roadshow and mobile medical unit providers.

EMS Healthcare was founded in 2013 to provide much needed additional capacity to the NHS and private healthcare providers. The business now owns and manages one of the UK's most extensive fleets of flexible mobile medical units. The tailor-made facilities can be configured to suit a range of clinical environments, providing mobile medical solutions that continue to provide continuity of care during periods of disruption.

The team at EMS sought funding to increase the size of their fleet and were introduced to ThinCats by their accountants RSM.

"We are keen to increase our fleet to aid with the backlog, and to develop our global offering. Our partnership with ThinCats and the innovative funding package they have provided will allow us to push forward with these exciting plans."

Keith Austin
CEO

Watch video →

ANNUAL REVIEW 2021

Peter Talbot Head of Transaction Management

Peter Talbot, Head of the Transaction Management team joined ThinCats in August 2021 as part of our investment to scale up our capacity to fund more businesses. With years of experience at big banks, we thought it would be interesting to ask a recent arrival about his first impressions of ThinCats and making the switch to alternative lending.

Having pursued a long and successful career at traditional lenders what attracted you about making a move to a non-bank lender such as ThinCats?

I guess the answer is potential. I was aware of ThinCats' growing presence in the market and thought their proposition looked interesting, however, having now spent a few months actually inside the business I am even more convinced that the capacity of ThinCats – and the wider alternative lending sector – to deliver better funding solutions to UK businesses is huge. The banks continue to withdraw from certain parts of the market so it's crucial that new players fill the gap.

From a personal perspective, it's exciting to be involved in a business that has a clear focus, where I know my experience and skills can make a significant impact in building a top-class team and to work alongside colleagues who share the genuine buzz I get from helping businesses succeed.

What differences between a traditional lender and ThinCats have stood out most to you so far?

The first is probably product simplicity. Compared to a traditional lender, ThinCats has a very focused range of products which makes the process of running the business much simpler. Providing cash flow backed term loans for mid-sized businesses is basically at the core of what we do, which means we can channel our efforts on becoming the very best in the industry at doing it. Introducers can easily understand our offering and how we are relevant to their clients.

Secondly, the fact that we are relatively new means we can be much nimbler than traditional lenders in reacting to the changing needs of our clients. For example, traditional lenders have vast amounts of data held in legacy banking systems yet struggle to use it effectively. In contrast, by using modern data analytics to interpret huge volumes of data from multiple sources we quickly built a proprietary credit model that is specific to mid-sized SMEs. Similarly, we can take advantage of the latest in cloud based operating platforms with their potential to integrate with new applications, to create a bespoke operating platform that can grow as we grow. Our response to supporting borrowers through the Covid pandemic is a clear demonstration of our overall agility; in 2020 we focused on supporting our clients with their liquidity needs which by 2021 had switched to helping many expand.

Another difference would be around ThinCats' focus on regional business finance communities, which is where the banks used to be very active. As the banks have withdrawn, ThinCats and others have been building out their regional and local footprints. For the types of more complex deals that we support, having personal and local relationships remains critical.

"..traditional lenders have vast amounts of data held in legacy banking systems yet struggle to use it effectively.."

What does the Transactions Management team do?

The team handles all aspects of a transaction's progress from the point of issuing Indicative Terms through Investment Committee, Legals up until Drawdown after which relationship management responsibilities are taken up by the Borrower Services team. The Transaction Management team is made up of a mix of credit partners and legal experts. The credit partners are responsible for shaping the funding structure taking into account any new information that emerges during the manual underwriting stage, while the legal team works closely with a panel of specialist external lawyers to ensure the transaction is completed in time to meet the borrower's needs.

The credit partners are regionally based working hand-in-hand with our regional business development directors and regional heads of credit from very early in the process. It means team members get a better understanding of the transaction and develop personal relationships with the advisers and borrowers which helps smooth the progress of the transaction through the process. These relationships are then maintained for future transactions with a particular adviser or for future follow-on funding requirements for the borrower.

What is your main priority for 2022?

The economic backdrop remains uncertain given the ongoing threat from Covid and the challenges posed by increasing inflation, labour shortages and other supply chain issues. No-one can be sure how long these may persist.

Our main priority is to be as responsive as possible to the needs of advisers and borrowers. There are always areas where we can do better, so it's exciting to be part of a business that recognises this and is geared up to facilitate change. As we grow alongside our increasing number of clients, the challenge will be to maintain our can-do, entrepreneurial culture while building out processes that can handle higher transaction volumes without compromising on our flexibility and personal service.

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FURTHER INVESTMENT DOUBLES THE SIZE OF BORROWER SERVICES TEAM

Jill Sandford
Head of Borrower Services

To keep pace with the growth in client numbers, we have continued to invest in our Borrower Services team who look after all aspects of client service once a borrower's initial loan has drawn down. Over the last 18 months we have doubled the size of the overall team which is split into two areas: Relationship Management and Borrower Solutions.

The Relationship Management team is the primary point of contact for existing borrowers. Each borrower has a dedicated relationship manager who is on hand to support the borrower through the lifetime of their relationship with ThinCats. This covers areas such as helping the client with their reporting requirements, making regular client visits and reviewing opportunities to support further growth and acquisitions. Around 30% of existing borrowers have benefited from additional funding, through increasing their original ThinCats facility.

We view our role very much as long-term partners to the businesses that we support, bringing an expectation that the proportion of borrowers taking additional facilities from us will increase further as our client base matures.

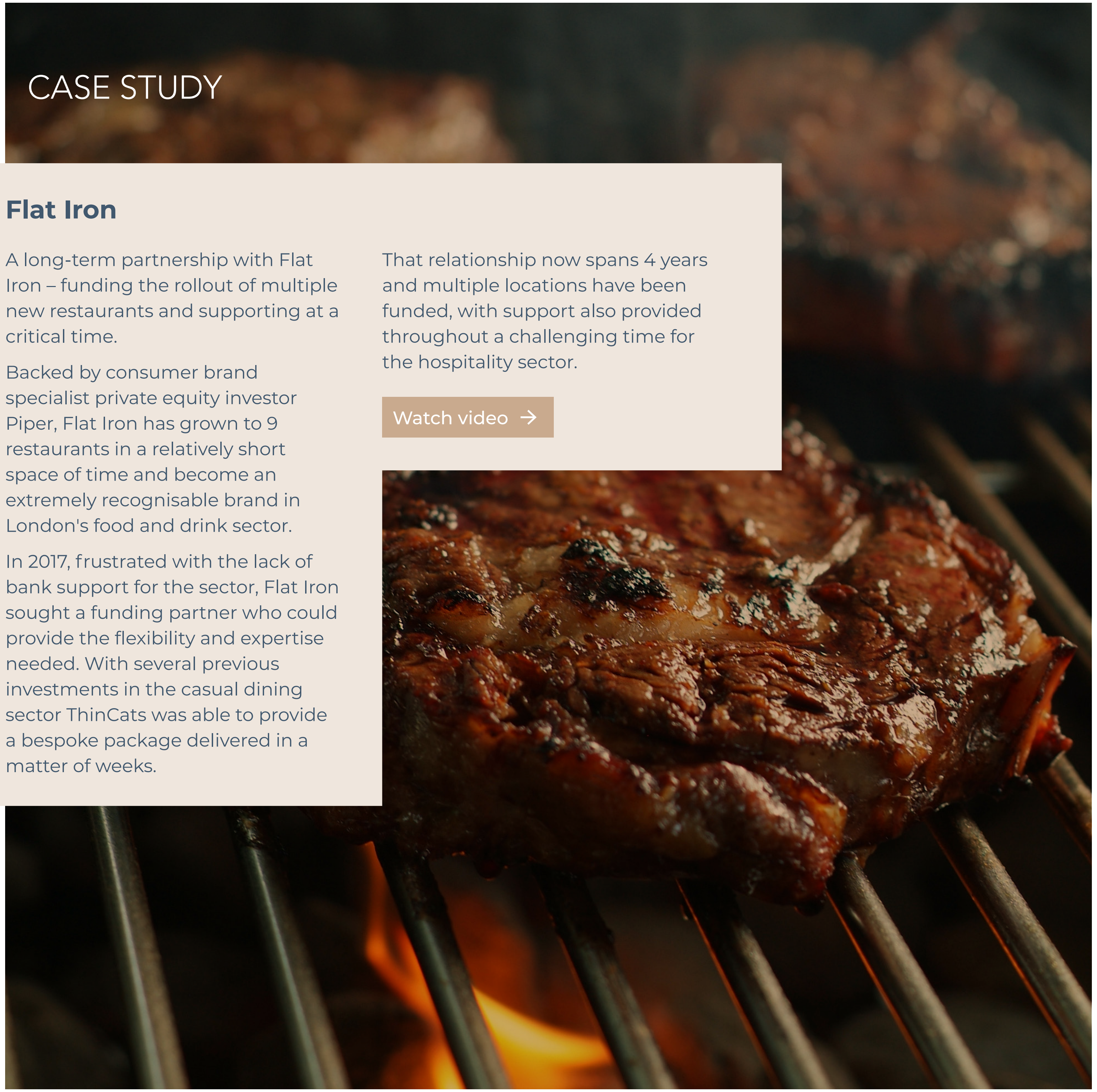
The Relationship Management team is headed by Steve Ford who joined us last summer after 23 years' corporate banking experience. In line with having specialist origination and credit teams for private equity backed and healthcare clients, this model is replicated in relationship management where Rob Kelly looks after a portfolio of clients who are backed by PE sponsors and Mark Stuart is responsible for our healthcare clients.

The Borrower Solutions team focuses on clients that may be experiencing a downturn in trading performance or facing other economic or financial challenges. This team looks to create solutions such as forbearance or restructuring of facilities to support the client to trade out of its difficulties.

The value of having a close relationship with our clients has been proven multiple times since the start of the Covid pandemic, where we were very quickly able to waive covenants and introduce other forbearance measures. As we became accredited for the government backed CBILS scheme, the depth of our relationships meant we could help our clients quickly assess their eligibility and fast-track the application process.

Looking forward, we have plans to invest further in our data and technology capabilities to complement our existing service offering. For example, our skills in data analytics – including our PRISM risk model – means we can compare the performance of our clients against other businesses either by sector, region, size or more than 200 other variables. We are keen to share this insight with our clients to help them better evaluate thier business. Similarly, further investment in technologies such as open banking and open accounting will simplify the MI reporting process for borrowers.

We recognise that for ThinCats to succeed, it's critical that our clients are successful too. Through increased investment in our Borrower Services team we aim to remain close to our clients, better understand their ambitions for the future and become their business partner. Not only are we better positioned to create highly bespoke additional facilities to accelerate their growth plans, but if they hit more challenging times, the quality of our relationship means we can take early steps to help them remedy the situation and provide additional support.



CASE STUDY

Flat Iron

A long-term partnership with Flat Iron – funding the rollout of multiple new restaurants and supporting at a critical time.

Backed by consumer brand specialist private equity investor Piper, Flat Iron has grown to 9 restaurants in a relatively short space of time and become an extremely recognisable brand in London's food and drink sector.

In 2017, frustrated with the lack of bank support for the sector, Flat Iron sought a funding partner who could provide the flexibility and expertise needed. With several previous investments in the casual dining sector ThinCats was able to provide a bespoke package delivered in a matter of weeks.

That relationship now spans 4 years and multiple locations have been funded, with support also provided throughout a challenging time for the hospitality sector.

Watch video →

£2 BILLION OF ADDITIONAL FUNDING CAPABILITY WITH CLOSER ALIGNMENT WITH OUR CLIENTS

Ravi Anand
Managing Director

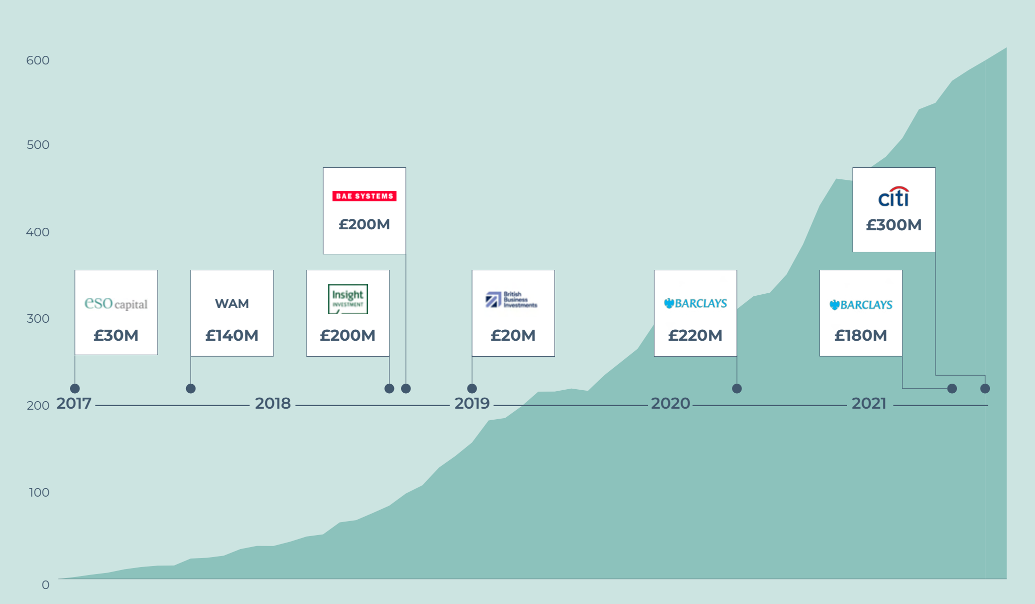
The sources of capital which we utilise to lend to SMEs has changed significantly in recent years. Between 2017 to early 2020 institutional investors such as Waterfall Asset Management, Insight Investments and BAE Systems Pension Scheme were our primary sources of capital. Having a blend of investors with slightly different risk/return profiles helped us support a wide range of mid-sized SMEs.

As we have grown and our loan book has become diversified across more borrowers, we have been able to take more of the risk on to our own balance sheet. This process was accelerated in June 2021 following a strategic investment commitment of £160 million from Wafra Capital Partners. This commitment supports our equity investment alongside senior lenders, such as Barclays and Citi, and provides a few benefits: on balance sheet lending is more direct funding, thereby providing a cheaper cost of funds; even better certainty and control of our lending appetite; and, because our own capital is at risk, we are completely aligned with the success of our borrowers.

These factors are good news for borrowers; greater certainty has been added to the funding process and we are fully incentivised to support our borrowers through the good times and when trading conditions are more challenging.

We have an immediate £600 million to deploy and thanks to the strategic investment, we will be able to provide an additional £2 billion in funding over the next few years.

Loanbook growth and sources of funding timeline £M



USING DATA TO OPEN A WINDOW INTO THE "M"S OF SMES

ANNUAL REVIEW 2021

Gareth Rumsey
Head of Data Analytics

Our expertise in SME lending is the product of a detailed manual underwriting process combined with market-leading data. Because of our sole focus on mid-sized SMEs (the "M"s) we have continually invested in making sure we have the best data available to inform our decision making.

Our credit risk model, called **PRISM**, uses multiple data sources including accounts filed at Companies House. **PRISM** models more than 2 billion data points covering every mid-sized SME that has traded since 2007 – around 200 metrics on over 750,000 businesses across 14 years.

In October 2021 we completed our third major upgrade to **PRISM**. The upgrade has improved the accuracy of the model to predict future insolvencies and includes a new filter called **SPECTRUM** which analyses additional real time data. This is particularly useful given how different sectors have been affected in different ways as a result of the Covid pandemic. These enhancements mean we can continue to give a quick and highly accurate indication of our credit appetite early in the funding process despite the additional uncertainty caused by the pandemic.

PRISM provides a comprehensive and instantaneous view on the financial strength of nearly 450,000 mid-sized businesses. Because the model is dynamic, it allows us to track how businesses perform over time. We can also compare an individual business's performance against other similar businesses across multiple risk, borrowing and growth metrics. We are supplementing this "big data" with micro trend analysis of each of our borrowers and, in time, adding predictors of business performance. We plan to share the insights gained from this data analysis with our borrowers to help them improve their performance.

If we choose to analyse the data as a whole, rather than at an individual business level, we can look at the overall financial health of mid-sized SMEs and explore how different sectors or regions are performing.

In early 2021 we analysed the insolvency rates of businesses during 2020 and found that despite the economic blow dealt by the pandemic, overall insolvency rates actually fell during the year, testament to the business support measures put in place by the Government and the disproportionate impact of the pandemic on sectors reliant on customer footfall such as leisure, entertainment, and consumer services.

We plan to repeat this analysis using 2021 insolvency data to see how the re-opening of the economy, the winding down of some Government support initiatives and the emergence of higher costs and other supply chain issues are impacting the financial health of mid-sized SMEs across the UK.

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