

THINCATS INVESTOR CONFERENCE

11th October 2018



AGENDA

- Housekeeping
- Welcome & Business Overview
- Business Development
- Importance of Institutional Investors
- Credit Process
- Security, Monitoring & Recoveries
- IT
- New Products
- FCA



THINCATS

MEET THE PRESENTERS (PART OF THE TEAM)



John Mould
Chief Executive Officer



Ravi Anand
Managing Director



Damon Walford
Chief Development
Officer



Jill Sandford
Chief Risk Officer



Matt Jones
Finance Director



Greg Beamish
Head of Credit



WELCOME & BUSINESS OVERVIEW

JOHN MOULD – CHIEF EXECUTIVE OFFICER

THINCATS HAS BEEN BUILT THOUGHTFULLY OVER TIME

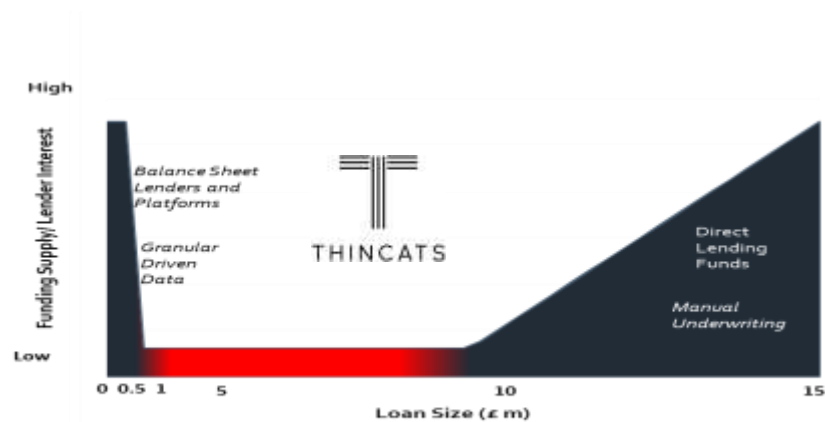
	PRE-ESF 2011-2015	POST-ESF 2016-PRESENT	FUTURE
Business Model	Pure P2P	Professionalisation	Direct lending
Origination	Outsourced	Big data plus.11 person team focused on professional intermediaries	Repeat business
Credit	Outsourced	Proprietary data + strong underwriting team	Further build out of team including sector specialisms
Funders	Retail Crowd	Retail Crowd +£600m institutional	Retail & Institutional
Operations	In house servicing based on proprietary tech	Fully built out	Automation
Regulation	Interim	Full P2P	+AIFM
No. of People	8	70	c.140

LIMITED CONSISTENT COMPETITION

BANK CAPITAL AND PROCESS RESULTS IN A FOCUS ON ASSET BACKED LENDING

Lender	Asset Backed			Cashflow		Legend
	< 65% LTV	> 65% LTV	Specialist	Growth	ACQ'N	
Traditional Banks	✓	◐	●	◐	×	✓ Key Focus ● Some Focus ◐ Limited Focus × Not Present
Challenger Banks	●	●	●	●	×	
Altfi Providers	◐	✓	●	●	◐	
ThinCats	◐	✓	✓	✓	✓	

OTHER NON BANK FUNDERS FOCUS ON SMALLER OR LARGER LOANS



"ThinCats is a real wake up call to the High Street lenders. Their streamlined process makes the traditional banks look very outdated and not fit for purpose."
Mark Lilley, Founder and CEO of Abokado

LARGE MARKET OF UNDERSERVED UK SMEs

THINCATS MARKET SEGMENT ACCOUNTS FOR MORE THAN 25% OF THE UK ECONOMY

UK SME MARKET SEGMENTATION					
Category					
		Micro	SMEs	Large	Total
Employees ¹	No.	<9	9-249	250+	
	%	33%	27%	40%	
Share of Aggregate Turnover ¹		22%	28%	49%	£3.7bn
No. of Companies ²		5.5m	300,000	6,000	5.9m
- of which borrowers		127,000	85,000	2,500	215,000
Gross Assets		<£0.5m	£0.5-£20m	£20m+	
Annual borrowing					
Reported ²		£27bn	£25bn	£200bn	£250bn
Funding Gap ³		unknown	£5-10bn	£15bn	£20-25bn
Total Borrowing Demand			£30-35bn		

1. Business Statistics, House of Commons December 2017
 2. BOE/Experian
 3. PH analytics for BIS, with extrapolation of SME cohort

ThinCats targets a market of 200,000 SMEs driven by:

- A manageable and identifiable number which can be targeted
- Existing borrowers who need more capital
- Considerable funding gap

ThinCats is targeting £900m of origination within 5 years or less than 3% of current annual demand

"ThinCats fills an important gap in the market for ambitious SMEs that are looking for a competitive source of funding to drive acquisitions and growth."

Tommy Cook, CEO of Calnex Solutions

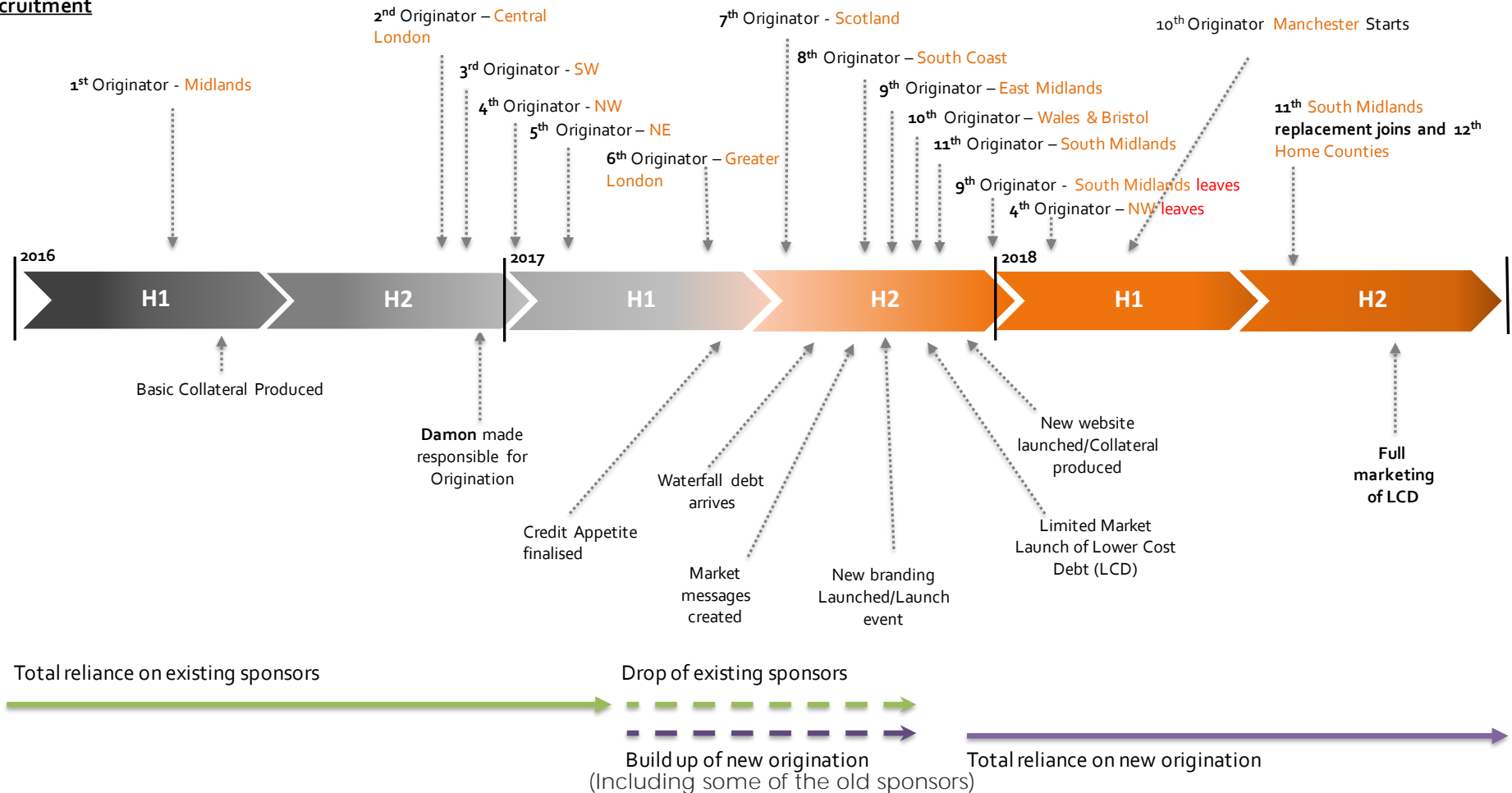


BUSINESS DEVELOPMENT

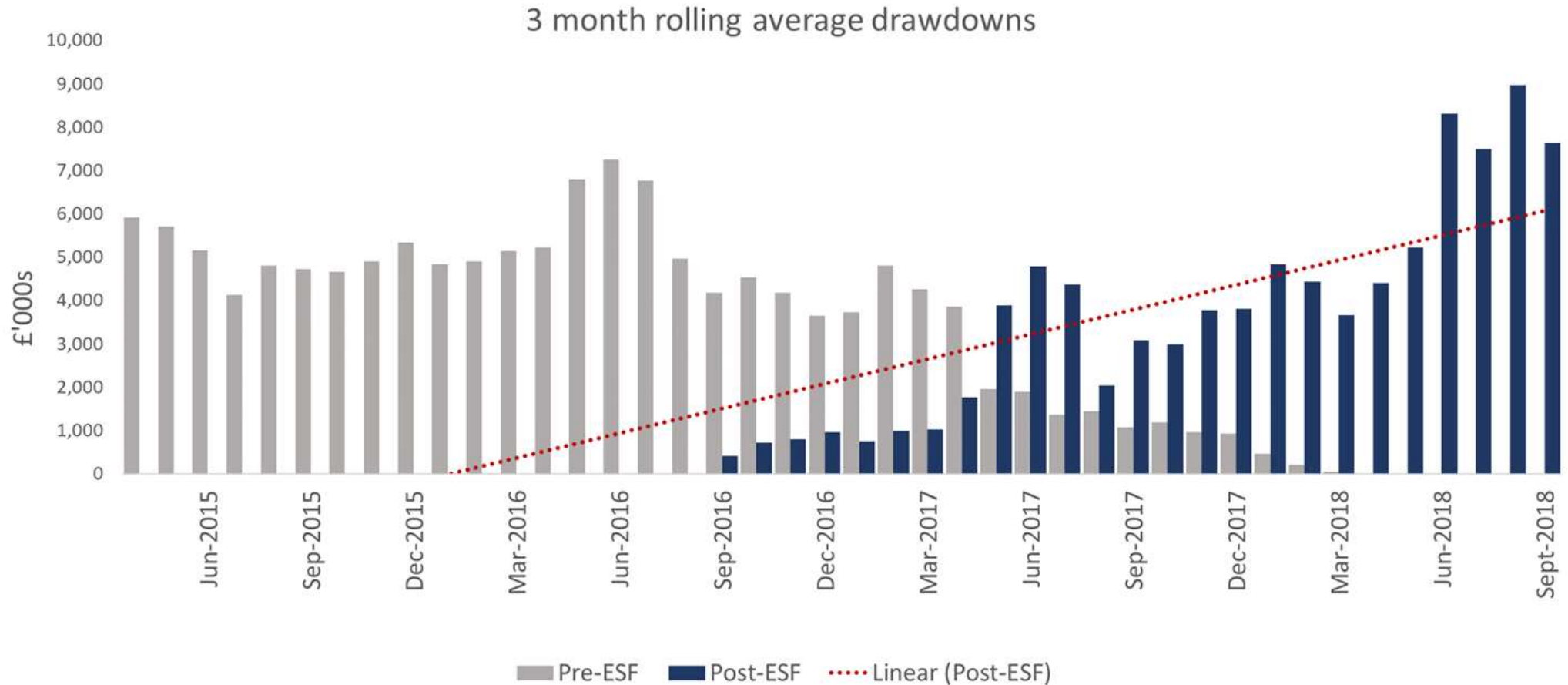
DAMON WALFORD – CHIEF DEVELOPMENT
OFFICER

ORIGINATION: TIMELINE

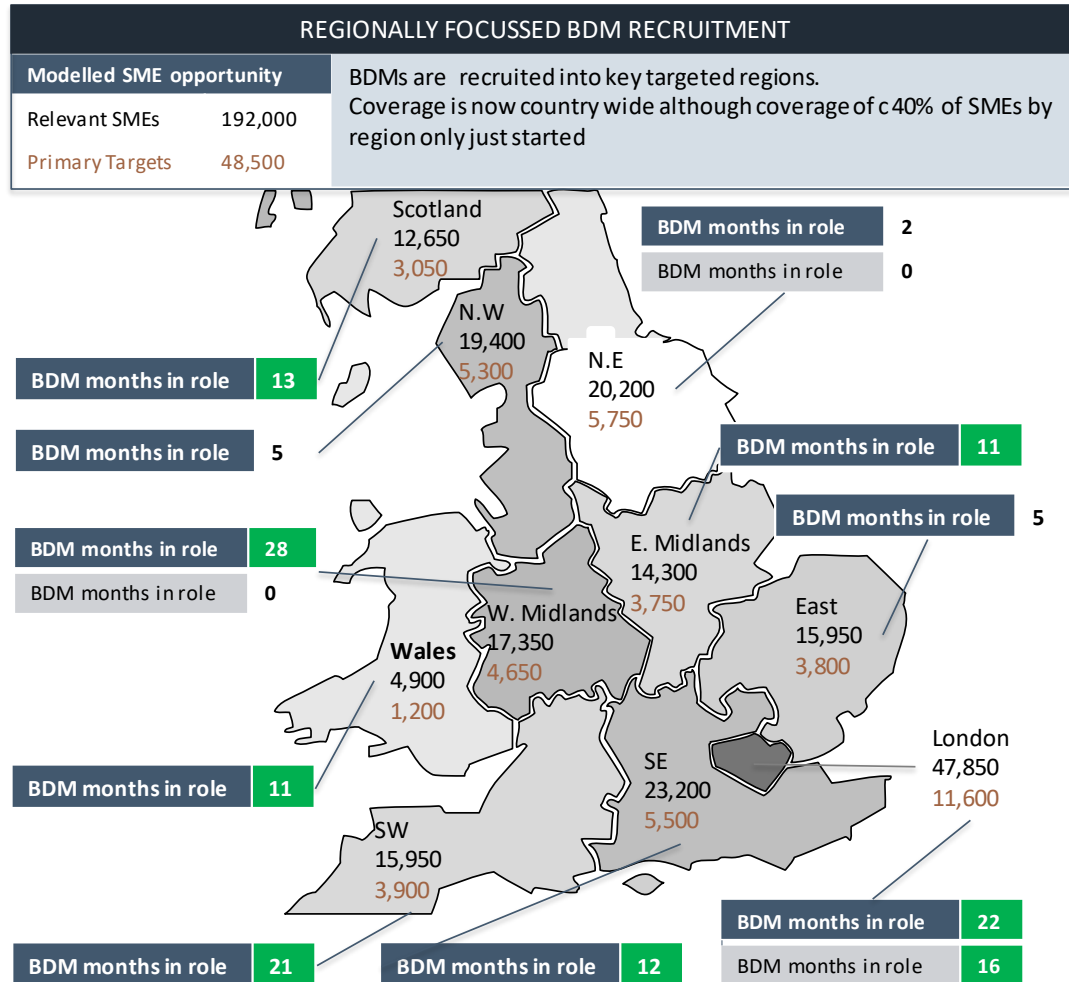
Recruitment



EVOLUTION OF ORIGINATION MODEL NOW BEARING FRUIT



REGIONALLY FOCUSED AND RIGOROUS BDM RECRUITMENT





IMPORTANCE OF INSTITUTIONAL INVESTORS

RAVI ANAND – MANAGING DIRECTOR

THINCATS & INSTITUTIONAL FUNDERS

- Borrowers and introducing professionals require certainty to consider using ThinCats as a funder
- We need to show significant capital to ensure we can satisfy market requirements
- Some borrowers concerned about exposure to pure retail investors
- Certain borrowers require lower rates reflecting their credit risk
- We engaged with the whole institutional market and have now raised c£500m
- All funders undertook extensive due diligence on the business and engaged third parties to review our systems and controls

Key areas of focus were :

- Credit policy and process- detailed review of a number of loans
- PRISM risk tool and its predictive power around potential loss
- Cash processing and controls
- Legal documentation (including independent opinions on legal enforcement)
- Monitoring and Recoveries processes

WHERE DO INSTITUTIONS INVEST

INSTITUTIONS SYNDICATED BY RISK

Risk based loan pricing					
Security	Strong			Weak	
Credit	★★★★★	★★★★	★★★	★★	★
★★★★★	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue
★★★★	Dark Blue	Medium Blue	Medium Blue	Medium Blue	White
★★★	Dark Blue	Medium Blue	Medium Blue	Medium Blue	White
★★	Dark Blue	Medium Blue	Medium Blue	Medium Blue	White
★	Medium Blue	White	White	White	White
					Not funded

Lender rates of 4-7%
Whole loans to institutions only

Lender rates of 7-14%
Generally offered to institutions and crowd

Institutions provide a number of benefits for the retail investors

- Provide certainty that loans will be filled
- Ensure a wider pool of opportunities are available to the market through providing borrowers and intermediaries certainty and comfort
- Test our system and controls on a regular basis
- Ensure the platform can scale and maintain high standards through reinvestment into systems and marketing

But here are some disadvantages:

- Lowest risk loans are not available to the crowd but rates are typically sub 5%
- Institutions take a minimum 51% investment in any loan.

THINCATS & INSTITUTIONAL FUNDERS

£500m + LEADING GLOBAL INSTITUTIONS SYNDICATED BY RISK AND LOAN SIZE



A £6bn credit fund investing into a number of platforms and have committed £410m to ThinCats.



A £500m specialist credit manager who have committed £30m to ThinCats and are also an equity owner
Waterfall and ESO share SME loans pro rata to their commitment- with Waterfall leading, retail lenders participate alongside Waterfall and ESO in the same auction



£700bn manager of pension and insurance funds.
Have committed up to £300m to fund SME whole loans only, no crowd participation

UK Asset Manager

£200m UK specialist manager
Are committing an initial £10m to fund property loans alongside the crowd



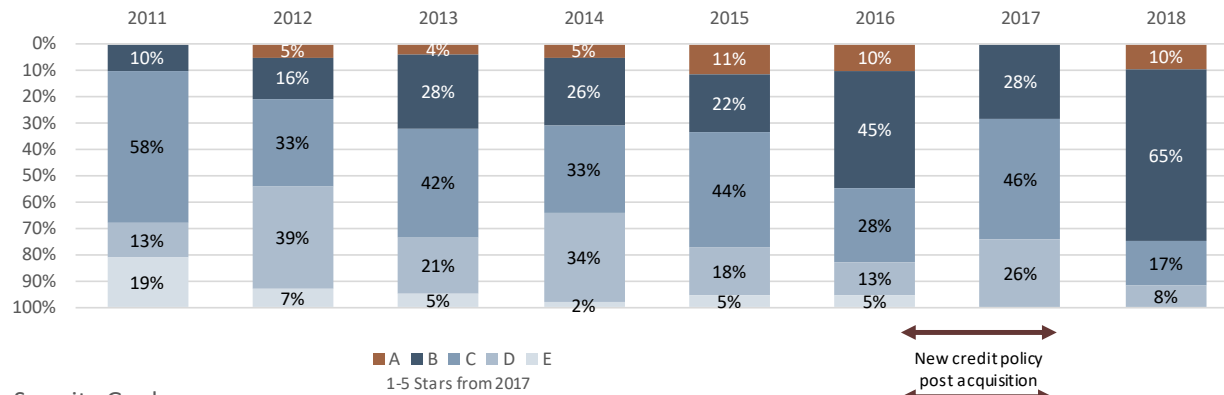
THE CREDIT PROCESS

GREG BEAMISH – HEAD OF CREDIT

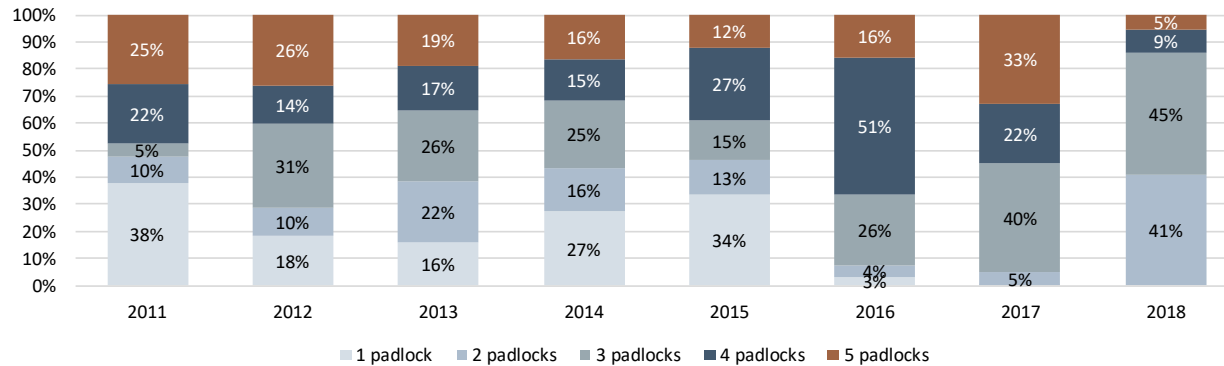
EVOLUTION OF RISK APPETITE

CREDIT PROCESS HAS DEMONSTRABLY LOWERED RISK

Credit Grade



Security Grade

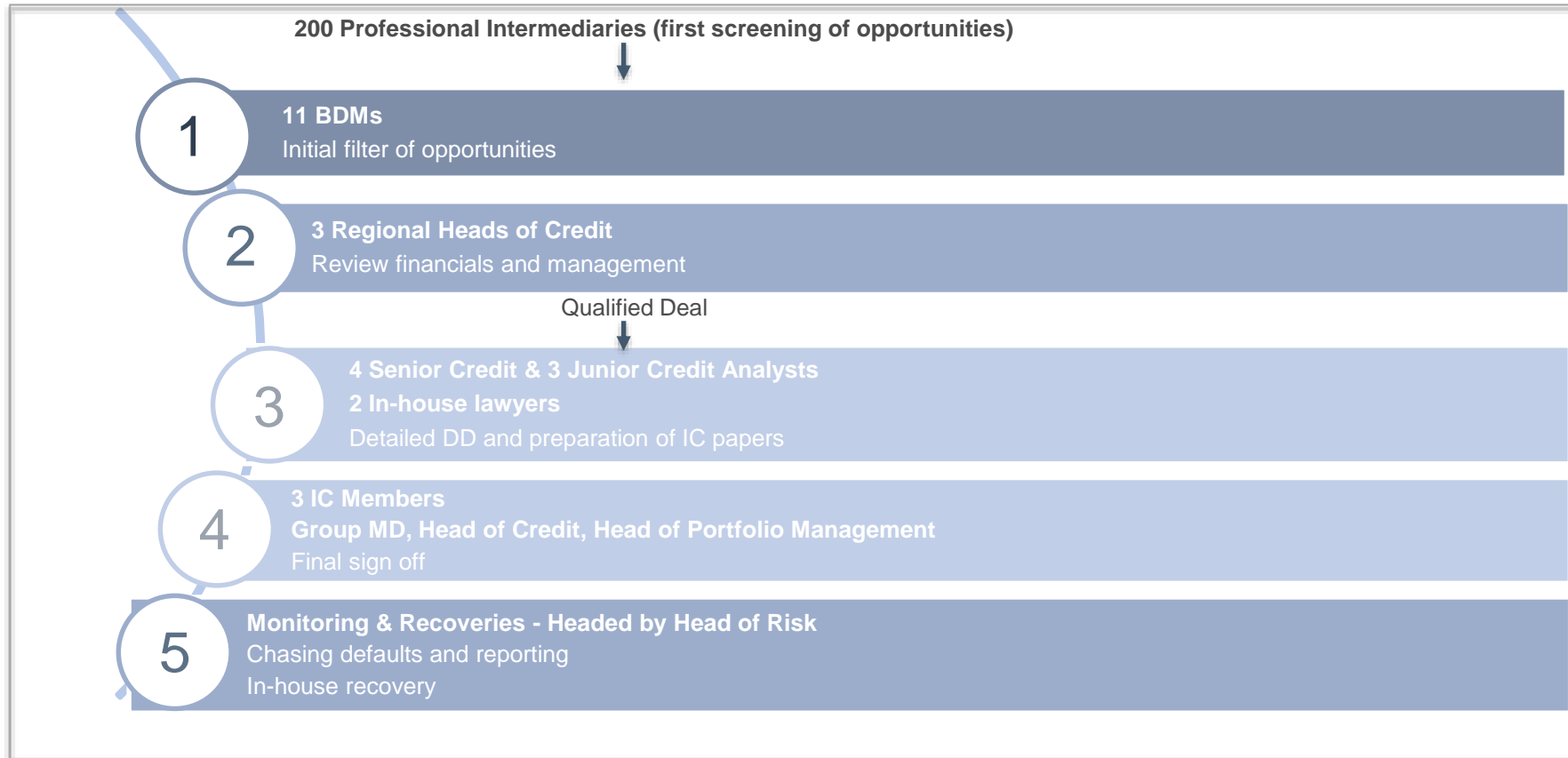


- Introduction of new credit process has pushed lending towards higher graded credit - Of loans ~ 3* or better

- Greater focus on:
 - Downside protection – 3rd party asset valuations and exit route assessment; and
 - Serviceability – Look forward CF analysis and liquidity pinch points

FIVE LINES OF CREDIT DEFENCE

TEAM OF 15; 5 WITH MORE THAN 20 YEARS' EXPERIENCE EACH. CENTERED IN LONDON WITH REGIONAL PRESENCE AND MIDLANDS BASED TRANSACTION SUPPORT



EXPERIENCED CREDIT TEAM

CREDIT TEAM HAS SIGNIFICANT DEPTH OF EXPERIENCE FROM A VARIETY OF BACKGROUNDS

									
RAVI ANAND MANAGING DIRECTOR, IC MEMBER AND CHAIR	GREG BEAMISH HEAD OF CREDIT, IC MEMBER	ZOE SHAW PORTFOLIO MGT, IC MEMBER	SIMON BROOK RHOC - SOUTH	DAVID JAMIESON RHOC - MIDLANDS	ROB THOMPSON RHOC - NORTH	LAUREN BURNS SENIOR ANALYST	MAHESH CHORDIA SENIOR ANALYST	SIMON LUKE SENIOR ANALYST	HELENA MERCER SENIOR ANALYST
29 years' experience in financial services	12 years' Credit Investing, Special Situations and Private Equity	36 years' Credit Investing , Mid - Market Lending, Securitisation & Portfolio Management	35 Years' Credit & Risk	22 years' Lending, Credit And Investing	35 years' Credit and Risk	8 years' Credit Analysis And Debt Structuring	11 years' credit investing	7 years' SME / Mid-market Lending	30+ years' experience in financial services
Head of Corporate Finance at Dexion Capital Head of Corporate Finance and co-head of Alternatives at New Star ECM Director at HSBC	Managing Director at ESO Capital. Sun Capital Senior Associate. Barings Asset Management and KPMG	Head of fixed Income at Hermes Founder New Bond Street Senior roles at BGB UK and WestLB UK	Finance Director at Syscap VP at Manufacturers Hanover, Daiwa Securities and Grindlays Bank	Williams & Glyn, RBS Group and KPMG	Senior roles at Barclays, AIB and Santander	Senior Associate at Westpac Institutional Bank	Private Debt (UK) at AIMCo, senior roles at SMBC and DZ BANK	Commercial Manager at ANZ Bank, New Zealand	International Banks and ratings agency

- Establishment of an experienced team with Regional Heads Of Credit enabling opportunities to be considered across the UK
 - Scale of team allows for vast majority of borrowers to be met by credit prior to drawdown
- Mid Cap and Large SME experience enables team to analyse larger deals – more efficient given tend to provide better information and more robust advisers

TYPES OF DEAL

TEAM EXPERIENCE ENABLES ABILITY TO UNDERWRITE BOTH ASSET BACKED AND CASH FLOW LENDS

Deal Type	Asset backed deal	Cash flow backed deal
Key metric and typical limit	LTV – 75% on distressed asset value	Leverage – 3.5x last twelve months EBITDA
Downside Protection	Underlying assets – Property, P&M, Stock, Debtors	Implied (or cash) equity cushion
Key considerations	Asset values, liquidity of assets, debt serviceability	Recurrability of cash flows, customer diversification, debt serviceability
Stars and Padlocks	Typically more locks	Typically more stars

CASH FLOW DEALS – KEY CONSIDERATIONS

RECURRING CASH FLOWS CAN PROVIDE ROBUST PROTECTION

KEY CRITERIA:

- Underlying market dynamics
 - Favourable trends (e.g. digitisation, healthy eating/low-carb etc.)
- Recurring Cash flows
 - Contracted or repeatable revenues
- Customer diversification
 - Limited dependence on any one customer
- Gross leverage level vs. EV multiple
 - Derives implied equity cushion

CASH FLOW DEALS – EXAMPLE



£3M, 4YR LOAN, £1.25M I/O FOR 12 MONTHS THEN AMORTIZING, £1.25 M BULLET (+ £0.5M*)

7.0% COUPON

Borrower	A fast casual dining business providing healthy 'grab and go' food that has grown from one store in 2004 to a current portfolio of 24 stores located across Central London. Initially launched by a husband and wife team who developed a strong, recognisable and ethical brand. Now supported by an experienced team including an FD, Ops Director, Marketing Manager.
Loan purpose	Initial loan of £2.5M provided to refinance the RBS facility (£2M) and provide a working capital cushion (£500k). *Additional £500k loan committed to within the first 12 months for new store openings subject to covenant compliance. (New stores tend to be cash generative in the month of opening, as food and packaging debtors are paid a month later).
Security	First ranking debenture over the company and all assets, Shareholder loans (£3.19M at end-March 2018) to be non-cash pay and fully subordinated to the ThinCats facility.
Deal Rationale	Acceptable initial leverage of 2.4x & high level of cash generation to service debt, as well as the valuation for the business, thought to be 6 - 7x recurring EBITDA, which would thus be expected to cover the ThinCats loan by > 2.0x. Abokado has survived market cycles and also expanded, capitalising on healthy eating trends, which show no apparent sign of diminishing.
Credit and Security Grading	3 star & 3 lock (driven by leverage level and customer concentration)



SECURITY, MONITORING & RECOVERIES

JILL SANDFORD – CHIEF RISK OFFICER



THE TEAMS



Recoveries



Legal



**Transaction
Support**



Monitoring



Securities

TRANSACTION SUPPORT

IP writing

- Supporting the BD and credit teams in drafting the IP.
- Consistent format.
- Clear and not misleading.

Securities

- Initial security review.
- Advise Credit on alternative structures.
- Registration of security **OR** confirm registration if completed by external solicitors.
- Review requests to release security.

Legal

- Instruct external solicitors, acting on behalf of Lenders.
- Liaise with solicitors regarding any proposed modifications to the loan documents.
- Execution of all loan and security documents in preparation for drawdown.

MONITORING

Monitoring

- Engage with the borrower at drawdown and establish relationship.
- Review of borrowers MI.
- Covenant testing as specified in the loan agreement.
- Site visits to discuss specific issues with borrowers.
- Receive initial notification of DD failure and ascertain from the borrower the reasons why.
- Liaise with Credit and Recoveries as appropriate.
- Issue breach and default notices

What are they looking for ?

- Is the MI in line with projections?
- Are annual accounts in line with MI?
- Trends both positive and negative
- Additional borrowings:
 - other lenders
 - extension of creditor days
- Review of bank statements
- Changes in credit status
- Changes in ownership and management

- Late filings at Companies House

WORKING WITH THE BORROWER

CASE STUDY

- Borrower acknowledged that they were going to breach covenant test and requested that they be waived / reset
- Severe cashflow pressure:
 - Creditors being managed
 - HMRC arrears and threat of WUP
- External equity raise in progress
- Meetings held with the management team and advisors (Credit, Monitoring and Recoveries)
 - Commissioned and Independent Business Review (paid for by the borrower)
 - Revised projections and management accounts requested
- Decision made to support the borrower subject to the successful equity raise:
 - Professional advisors to join the board as NEDs
 - The investment into the business will enable the business to grow and therefore enhance the value of the business
 - Additional assets will be purchased, which will be caught by our security, thereby strengthening the security position

RECOVERIES

- Work with credit on restructuring scenarios and “manage aways”
- Commercial strategies to maximise returns for lenders:
 - Accelerated sale of the business
 - Protection of intellectual property and contracts
 - Enhanced asset realisations via work out scenarios
- Work with the borrower where possible:
 - Engagement at an early stage
 - Always have plan B running in the background
- Patience can maximise returns.
- Hostile appointments are sometimes necessary:
 - Ostrich syndrome
 - Preservation of assets

Enforcement:

- Appointment of Administrators or Receivers - of our choosing.
- Demand and appointment can be made on the same day if considered appropriate.
- Recovery under corporate and personal guarantees.
- Instruct independent solicitors and agents to act on behalf of lenders.

Pre funded recoveries to date

FIGHTING HARD ON YOUR BEHALF

CASE STUDY 1

- Roll up loans - not defaulted or matured
- Director issued notice of a meeting of creditors to put the company into liquidation
- Claimed that there were no assets other than debtors that we believed to be fictitious
- The director was paying a fixed cash contribution to the proposed liquidator – effectively a company burial fee
- We objected to the proposed liquidator and appointed our own who specialised in fraud investigations
- Provided an indemnity of £100k to the Court to enable the liquidator to apply for freezing orders across 40+ properties owned by the director and his family
- Achieved 100% capital recovery plus a proportion of interest and fees

CASE STUDY 2

- Protracted refinance proposals but we were always running Plan B
- Served demand on the guarantor at the same that we made hostile appointments across the corporate entities
- The next day we made an emergency application to the High Court London for the appointment of an interim receiver (same day hearing), on the grounds that we had concerns regarding asset dissipation. Including key information on personal computers
- Application made without notice to the debtor
- We provided an undertaking of £50k to the Court for costs
- After 2 days in Court the judge did not make the order but did say that were perfectly within our rights to have made the application



PLATFORM & TECHNOLOGY UPDATE

JOHN MOULD - CEO

PROGRESS IN 2018

Borrowers

- Released new internal application which starts to enable the full automation of onboarding borrowers

Scalability

- Continued development to ensure the platform is scalable to support the business growth (e.g. automated payment processing)

Stability

- Continuous bug fixes resolving issues impacting the operational staff and lenders





NEW PRODUCTS

MATT JONES – FINANCE DIRECTOR

DIVERSIFIED LOAN PORTFOLIO

- Opportunity to lend to a selection of loans previously listed on the ThinCats Platform
- Lenders can achieve greater diversification in a portfolio
- ThinCats will charge a 1.0% administration fee
- Target Term will typically be two years



Diversified Loan Portfolio Realisation

All capital and interest repayments received from Borrowers less fees will be returned to Lenders

- No Secondary Market trading of either the Underlying Loans or the Diversified Loan Portfolio
- Prior to the end of the Target Term, all remaining performing Underlying Loans will be offered for sale via the Secondary Market

INNOVATIVE FINANCE ISA (IFISA)

IFISA - 2018

Lenders can open a Thincats IFISA 2018 Account

- Add £20,000 before 6th April 2019 and pay no income tax or capital gains tax
 - Self-select loans are eligible for an IFISA Investment
 - DLPs are eligible for an IFISA Investment
 - IFISA - 2019
 - Give the ability to perform transfers in





FCA

JOHN MOULD



THE FCA

- **The FCA Journey**
- **ThinCats FCA Journey**
- **The Future**
 - Lenders
 - ThinCats
 - Other P2P