



## Fitch Affirms Together at 'BB-'; Outlook Stable

Fitch Ratings-London-02 March 2017: Fitch Ratings has affirmed Together Financial Services Limited's (Together; formerly Jerrold Holdings Limited) Long-Term Issuer Default Rating at 'BB-', and the rating of the senior secured notes issued by subsidiary Jerrold FinCo Plc (FinCo) also at 'BB-'.

At the same time the agency has affirmed the Long-Term IDR of Together's indirect holding company Bracken MidCo1 Plc (MidCo1) at 'B+', and the rating of the senior PIK toggle notes issued by MidCo1 at 'B-/RR6'.

The Outlook on both Long-Term IDRs is Stable. A full list of rating actions is at the end of this rating action commentary.

### KEY RATING DRIVERS

#### TOGETHER - IDRS AND SENIOR DEBT

The ratings reflect Together's concentration of activities within UK specialist mortgage lending, with associated higher arrears relative to mainstream lenders. They also factor in the institution's moderate leverage by mainstream lender standards, taking into consideration the increase following the buyout of minority shareholders in 2016. The ratings also take account of the ongoing strong profitability of Together, and recent steps to spread its funding maturities and sources, within wholesale market boundaries.

The additional debt taken on to fund the minority shareholder buyout, in the form of the senior PIK toggle notes issued by MidCo1, does not sit on Together's own reported balance sheet. However, Fitch views it as implicitly an additional obligation of Together, as MidCo1 has no separate financial resources of its own with which to service it, and failure to do so would have considerable negative implications for Together's own creditworthiness. Fitch therefore consolidates the senior PIK toggle notes when assessing Together's leverage, while also recognising within equity the GBP43 million subordinated shareholder notes maturing in 2036 provided by ultimate parent Redhill Famco Limited.

Together's owner has not historically drawn dividends from the business, but the introduction of the senior PIK toggle notes will require the upstreaming, if available, of GBP23.1 million per year from Together to MidCo1 to service their coupon. Fitch expects implied interest coverage to remain fairly comfortable, noting the coupon would have been 3.1x covered by Together's net income for the financial year to June 2016. However, the resultant lower earnings retention will still slow the group's rate of internal capital generation, which could entail increasing leverage if Together is to continue to grow its loan portfolio at the same pace as recently (10.4% over the six months to 31 December 2016, following 26.5% in the year to 30 June 2016).

Together's funding is wholesale market-focused, but is more diversified by both provider and maturity following the launch of a third securitisation programme (of GBP90 million) in January 2017, and FinCo's February 2017 issuance of GBP200 million of 6.125% seven-year senior secured notes, supplementing the GBP375 million 6.25% five-year senior secured notes issued in October 2016.

Together continues to perform soundly, reporting a pre-tax profit of GBP34.4 million for the six months to 31 December 2016, after recognition of GBP14.8 million of charges in relation to the early refinancing of its previous senior secured notes in October, and GBP8.6 million of costs relating to the buyout of the minority shareholders. Earnings are underpinned by the group's franchise within the UK specialist mortgage lending market, and the group's associated pricing power, and without the two exceptional items would have continued recent years' upward trend.

The Stable Outlook on Together's Long-Term IDR reflects Fitch's view that Together should continue to report adequate profitability without substantially increasing leverage further.

#### MIDCO1 - IDR AND SENIOR PIK TOGGLE NOTES

MidCo1's Long-Term IDR is notched down once from Together's Long-Term IDR, reflecting the former's structural subordination. Fitch limits the rating differential between the two companies to one notch, primarily because of the present sizeable headroom within Together's restricted payment basket under the terms of FinCo's senior secured notes.

The notching between MidCo1's IDR and the rating of the senior PIK toggle notes themselves reflects Fitch's view of the likely recoveries in the event of MidCo1 defaulting. While sensitive to a number of assumptions, this scenario would only be likely to occur in a situation where Together is also in much weakened financial condition, as otherwise its upstreaming of dividends for MidCo1 debt service would have been maintained. The subordinated rank of the senior PIK toggle notes would then place their holders in a weaker position than Together's senior secured creditors for available recoveries from the group's assets.

### RATING SENSITIVITIES

#### TOGETHER - IDRS AND SENIOR DEBT

A significant further increase in leverage, or declining profitability, for example due to a deteriorating operating environment

adversely affecting asset quality, could prompt a downgrade. A sustained reduction in leverage, or a further diversification in funding beyond the wholesale market, could lead to an upgrade.

#### MIDCO1 - IDR AND SENIOR PIK TOGGLE NOTES

MidCo1's Long-Term IDR is primarily sensitive to changes to Together's Long-Term IDR. Equalisation of the IDRs is unlikely in view of MidCo1's structural subordination. A weakening of implied interest coverage within MidCo1, for instance as a result of diminishing net income at Together or any other restrictions on Together's dividend upstream capacity, could widen their notching and so be negative for MidCo1's Long-Term IDR.

The rating of the senior PIK toggle notes is sensitive primarily to changes to MidCo1's IDR, from which it is notched, as well as to Fitch's assumptions regarding recoveries in a default scenario. Lower asset encumbrance by senior secured creditors could lead to higher recovery assumptions and therefore narrower notching from MidCo1's IDR.

The rating actions are as follows:

#### Bracken MidCo1 plc

Long-Term IDR affirmed at 'B+'; Outlook Stable

Senior PIK toggle notes rating affirmed at 'B-/Recovery Rating 'RR6'

#### Together Financial Services Ltd

Long-Term IDR affirmed at 'BB-'; Outlook Stable

Short-Term IDR affirmed at 'B'

#### Jerrold FinCo Plc

Senior secured debt rating affirmed at 'BB-'

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#### Summary of Financial Statement Adjustments:

When calculating leverage, Fitch increases debt from the Together reported consolidated balance sheet by GBP220 million (and equally reduces equity), to reflect as an implicit additional debt obligation of Together the senior PIK toggle notes issued by MidCo1 and downstreamed into Together. Fitch also assigns equity credit to the GBP43 million subordinated shareholder loan issued by Redhill Famco Limited, deducting that from debt and adding it to equity.

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

#### Applicable Criteria

Global Non-Bank Financial Institutions Rating Criteria (pub. 15 Jul 2016) (<https://www.fitchratings.com/site/re/884128>)

#### Additional Disclosures

Dodd-Frank Rating Information Disclosure Form

([https://www.fitchratings.com/creditdesk/press\\_releases/content/ridf\\_frame.cfm?pr\\_id=1019948&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUz11NiJ9.eyJzZXNzaW9uS2V5IjoiWkxSV0JlPQ0dFVFRPS1JaOVVORjdOUjFSRkRHWUdBNEowSUplNQ0tSVyIsImV4cCI6MTQ0OTA3MjY1NCwidXNlckkljoyNDUyMzYwfQ.qtZMweXnqN4HGLE3pOrLVf43VYTKltNNWdCnK6sAK9E](https://www.fitchratings.com/creditdesk/press_releases/content/ridf_frame.cfm?pr_id=1019948&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUz11NiJ9.eyJzZXNzaW9uS2V5IjoiWkxSV0JlPQ0dFVFRPS1JaOVVORjdOUjFSRkRHWUdBNEowSUplNQ0tSVyIsImV4cCI6MTQ0OTA3MjY1NCwidXNlckkljoyNDUyMzYwfQ.qtZMweXnqN4HGLE3pOrLVf43VYTKltNNWdCnK6sAK9E))

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