FitchRatings

RATING ACTION COMMENTARY

Fitch Revises Outlook on Together to Stable; Affirms at 'BB-'

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Fitch Ratings - London - 12 Oct 2021: Fitch Ratings has revised the Outlook on Together Financial Services Limited's (Together) Long-Term Issuer Default Rating (IDR) to Stable from Negative and affirmed the IDR at 'BB-', Short-Term IDR at 'B', and the senior secured notes issued by subsidiary Jerrold FinCo Plc (FinCo) and guaranteed by Together at 'BB-'.

Fitch has also affirmed the GBP368.2 million senior PIK toggle notes, maturing 2023 and issued by Together's indirect holding company Bracken Midco1 PLC (Midco1), at 'B'.

KEY RATING DRIVERS

TOGETHER - IDRS AND SENIOR DEBT

The Outlook revision reflects the more stable UK economic backdrop, improvements in Together's liquidity and earnings profiles, and its success over the past year in developing its funding base.

Together's IDR is underpinned by its long-established franchise in providing secured credit to under-served borrowers, sound risk controls, generally healthy profitability and an increasingly diversified, albeit largely secured, funding profile. These factors mitigate the inherent risk involved in lending to a niche sector of non-standard UK borrowers, as reflected in Together's weaker asset quality metrics (compared with prime mortgage lenders) and the associated funding needs.

Together is a privately-owned UK non-bank lender with a good franchise in its market segment having been in operation for over 47 years as a provider of secured lending products to predominantly non-standard borrowers. It benefits from strong business relationships, for example, with mortgage brokers (including mortgage packagers), which have proved supportive of Together's ability to increase loan originations . The business is split between the regulated personal finance division and the unregulated commercial finance division and products offered range from first- and second-charge mortgages, buy-to-let mortgages, bridging loans, commercial term loans to development finance. In the context of the overall UK mortgage market, Together's franchise is moderate but its position in specialist lending is well established.

Loans are secured on UK property with fairly conservative loan-to-value (LTV) ratios of on average below 60% at origination, which mitigates the riskier lending profile when compared with mainstream UK mortgage lenders. Underwriting is of a more bespoke nature than mainstream mortgage providers, but Together has been increasing the level of automation to make the process more robust and efficient.

Together's non-performing loan ratio (defined by IFRS 9 stage 3 loans/gross loans) had increased to 11.8% at end-June 2021 (end FY21) from pre-pandemic levels (FYE19: 8.4%). Asset quality metrics could worsen as government support schemes are phased out. However, we expect that principal losses should remain low as Together's weighted average indexed LTV ratio was 52.1% at FYE21, indicating a significant headroom to absorb any collateral valuation declines. Positively, there are no loans left on the mortgage payment deferral scheme.

Earnings and profitability have proved robust with pre-tax income to average assets of 3.4% in the 12 months to end-FY21 (FY20: 2.3%). Profitability was negatively affected by a high impairment charge in 2020, which has since reduced significantly but may remain sensitive to inherent fluctuations in expected credit loss model assumptions.

The net interest margin has contracted over the past few years due to a combination of higher rate loans being replaced by lending at lower rates and general competitive pressure on nominal rates. Together has demonstrated an ability to manage the cost base to protect profit margins and implemented cost cuts in 2020. However, in Fitch's view, future scope for cutting costs will be more limited.

Leverage, defined by gross debt to tangible equity, has declined in line with more recent lower origination levels (end-FY21: 4.1x; end-FY20: 4.8x). We expect this ratio to increase as lending picks up but for it to remain at an acceptable level for Together's rating. When calculating Together's leverage, Fitch adds Midco1's debt to that on Together's own balance sheet, regarding it as effectively a contingent obligation of Together. 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. Profits are largely re-invested in the business and this somewhat mitigates the dependence on debt funding.

Together's funding profile is wholesale, via public and private securitisations, senior secured bonds issued by the financing arm Jerrold FinCo Plc, PIK notes issued by Bracken Midco 1 PLC as well as an undrawn revolving credit facility (RCF) of GBP71.9 million. Together has diversified its funding profile over recent years, but the wholesale nature can leave it exposed to funding and liquidity risks in highly volatile markets. In particular, the private securitisations contain a number of performance covenants and the senior secured bonds and RCF have maximum gearing ratios attached to them. In a worsening credit environment, these facility restrictions could limit funding availability.

Positively, Together has been building up cash buffers by limiting the amount of new lending while generating a sound level of loan redemptions in line with pre-pandemic levels. Together's total accessible liquidity, which includes liquidity that can be accessed from the private securitisations in exchange for eligible assets as well as RCF drawings, was around GBP453 million at end-FY21 (end-FY20: GBP145 million). The debt profile is staggered, which mitigates some refinancing risk and Together has shown a good ability to access the wholesale funding markets over the past year, successfully pushing out maturity dates and decreasing the overall funding costs.

MIDCO1 -SENIOR PIK TOGGLE NOTES

Midco1's debt rating is notched from Together's IDR as we take Midco1's debt into account when assessing Together's leverage, and Midco1 is totally reliant on Together to service its obligations. The notching between Together's IDR and the rating of the senior PIK toggle notes 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 when Together was also in a much weakened financial condition, as otherwise its upstreaming of dividends for Midco1 debt service would have been maintained.

RATING SENSITIVITIES

TOGETHER - IDRS AND SENIOR DEBT

Factors that could, individually or collectively, lead to positive rating action/upgrade:

-An upgrade would be supported by evidence that Together's franchise and business model has remained robust amid abating pandemic pressures, in addition to improving financial profile metrics, notably asset quality and an absence of a material increase in leverage.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

-Material asset quality weakness feeding into liquidity pressures. This could arise from a significant decline in redemptions and repayments or material depletion of Together's immediately accessible liquidity buffer, for example resulting from constrained funding access, or if Together needs to inject cash or eligible assets into the securitisation vehicles to cure covenant breaches driven by asset quality deterioration, which could weaken its corporate liquidity.

- Consolidated leverage increasing to above 6x on a sustained basis, which could arise from a material slowdown in Together's rate of internal capital generation, for example due to a deteriorating operating environment adversely affecting asset quality leading to higher impairment charges, significant net interest margin erosion or property price declines leading to an inability to realise sufficient collateral values.

MIDCO1 - SENIOR PIK TOGGLE NOTES

The senior PIK toggle notes' rating is sensitive to changes in Together's IDR, from which it is notched, as well as to Fitch's assumptions regarding recoveries in a default. Lower asset encumbrance by senior secured creditors could lead to higher recovery assumptions and therefore narrower notching from Together's IDR. The notes would be sensitive to wider notching if they are further structurally subordinated by the introduction of more senior notes at Midco1 with similar recovery assumptions.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to

'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Jerrold Finco Plc					
• senior secured	LT	BB-	Affirmed		BB-
Together Financial Services Limited	LT IDR	BB- Rating Outlook Stable	Affirmed		BB- Rating Outlook Negative
	ST IDR	B	Affirmed		B
Bracken Midco1 Plc					
• subordinated	LT	B	Affirmed	RR6	B

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Non-Bank Financial Institutions Rating Criteria (pub. 28 Feb 2020) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Bracken Midco1 Plc	UK Issued, EU Endorsed
Jerrold Finco Plc	UK Issued, EU Endorsed
Together Financial Services Limited	UK Issued, EU Endorsed

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Non-Bank Financial Institutions Europe United Kingdom