



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-'

Contact:

Primary Analyst

David Pierce

Director

+44 20 3530 1014

Fitch Ratings Limited

30 North Colonnade

London E14 5GN

Secondary Analyst

Silvana Gandolfo

Associate Director

+44 20 3530 1301

Committee Chairperson

Christian Kuendig

Senior Director

+44 20 3530 1399

Media Relations: Elaine Bailey, London, Tel: +44 203 530 1153, Email: elaine.bailey@fitchratings.com.

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

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=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiWkxSV0JlPQ0dFVFRPS1JaOVVORjdOUjFSRkRHWUdBNEowSUplNQ0tSVyIsImV4cCI6MTQ0OTA3MjY1NCwidXNlckkljoyNDUyMzYwfQ.qtZMweXnqN4HGLE3pOrLVf43VYTKltNNWdCnK6sAK9E)

Solicitation Status (https://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=1019948)
Endorsement Policy (<https://www.fitchratings.com/regulatory>)

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:

[HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings)

(<https://www.fitchratings.com/understandingcreditratings>). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM.

PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2016 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Solicitation Status