



Woodville Consultants Limited: Unsecured Loan Notes

Next Wave has accorded a BB rating with a neutral outlook to the Notes being issued by Woodville Consultants Limited under its unsecured loan notes programme. This is an upgrade from the B rating issued in the prior report. Please see appendix for the rating scale used. This assessment is based solely on information provided by the Issuer or its agents, and on publically available documents. Next Wave provides no assurance as to the accuracy of such information. This report is a private company research report intended for the use of the requesting client only. It is not a credit rating, and may not be used for regulatory purposes.

SUMMARY

- Woodville Consultants Limited is a company domiciled under the laws of, and operating in, England and Wales (the “Issuer”, company number 08093201). The Issuer has established an unsecured loan note programme. The Issuer is issuing notes for terms of 1, 2 or 3 years, bearing annual coupons of 10%, 11% and 12% respectively (the “Notes”). Interest is payable quarterly, in arrears. The Notes are issued in GBP, EUR or USD.
- The proceeds of the Notes are used to make loans to law firms, secured against the proceeds of litigation cases brought by borrowers on behalf of their clients. Repayment of the loans by law firms is insured by After The Event (“ATE”) insurance policies which cover the cost of litigation if the claimant loses the case.
- Although the Notes themselves are not secured, they are backed by specific loans in the Issuer’s loan portfolio. The anticipated annual rate of return on the Issuer’s deployed capital is over 60%. If the Issuer strictly complies with its lending policies, it should be able to meet its Note repayment obligations.
- The Issuer has reported robust financial results for the year ending 28th June 2020. However, its financial statements are not audited, and more recent financial information has not been provided. Most other information in this report has also not been revised, due to the lack of updates from Issuer. Lack of verifiability and third-party oversight, lack of independent administration of assets, and comingling of investor funds with the Issuer’s operating capital mean material risks remain. Furthermore, some portfolio loans have been restructured to provide “payment holidays” to borrowers, which will reduce the Issuer’s portfolio returns.
- Accordingly, we deem the Notes to be speculative grade investments, but have upgraded the rating from B to BB to reflect a growing track record of timely payment of debt obligations. The coupon on the Notes is commensurate with the nature of the investment risk.

Security Class	Rating	Outlook
Unsecured Loan Notes	BB	Neutral

Sector: Business Lending
 Country: United Kingdom
 Use of Proceeds: Law Firm Lending
 Currency: GBP, EUR or USD
 Min Amount in Note Currency: 10,000

	Term	Coupon
Option 1	1 year	10%
Option 2	2 years	11%
Option 3	3 years	12%

Interest Payments: Quarterly in arrears
 Capital insurance: Capital insurance is offered to investors investing over £500,000.

ISSUER
 Woodville Consultants Limited
 England & Wales private limited company
 CRN: 08093201

Suite F, Llanover House, Llanover Road,
 Pontypridd, Wales, CF37 4DY

ISSUER ACCOUNTANTS
 Carson Chartered Accountants

ACCOUNT BANK
 HSBC Plc

RATING DATE
 1 November 2021

NEXT REVIEW DATE
 1 May 2022

Informes sobre ventas/distribución:

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OVERVIEW

The Issuer makes loans to law firms to finance legal claims, primarily in the personal injury or financial mis-selling areas. Law firms bring the claims under conditional fee arrangements (CFAs), under which they only get paid if the claim is successful. Each claim is insured with an After the Event (ATE) insurance policy that reimburses litigation costs in the event that the claim is unsuccessful. If the case succeeds, the costs of the litigation are paid by the defendant, which usually has its own insurance. ATE insurance is provided by an insurance provider based in Nevada, USA.

The Issuer's business model bears some similarity to litigation financing, which is the funding by third parties of legal claims to which they are not a party. However, the normal practice in litigation financing is for the financier to take a non-recourse percentage interest in the legal claim (similar to an equity interest) in exchange for a specified investment. The litigation financing market in the UK is dominated by companies that finance large claims, usually at least £500,000, though some finance claims worth as little as £50,000.

Unlike typical litigation financing, the Issuer is actually in the business in making loans to law firms, which are repaid either using proceeds from legal claims or from payouts on ATE insurance policies. As such, we view Issuer's business as a form of specialised business lending, rather than litigation financing. The typical value of the claims that the issuer finances range from £4,000 to £9,000 depending on the nature of the claim.

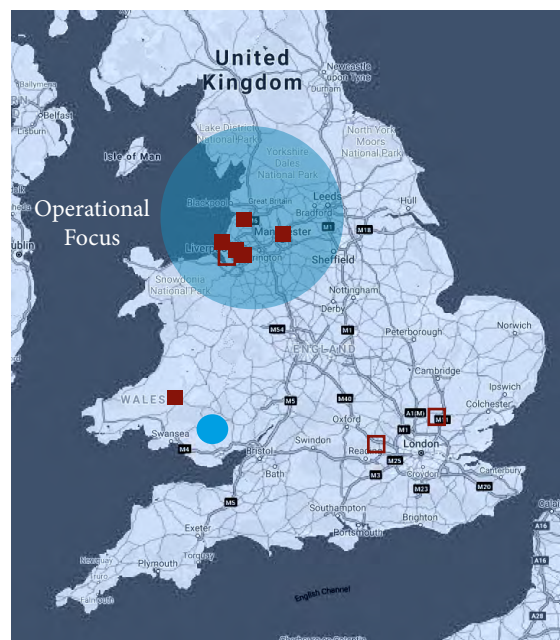
COMPANY

The Issuer's registered address is Suite F Llanover House, Llanover Road, Pontypridd, Wales, CF37 4DY. Prior to 15th September 2020, the Issuer maintained its registered address at various locations in Preston, in northern England.

The Issuer was incorporated on 1st June 2012. The Issuer has two directors, Ann Marie Bell and Peter Legge, each of whom own between 25% and 50% of the shares of the Issuer. Mr. Legge is also listed as having at least 25% but not more than 50% of the voting rights of the Issuer. Until 19 January 2020, a Mrs Melanie Legge was also listed as a person with significant control over the Issuer, holding voting rights of between 25% and 50%.

For the first seven years of its existence, until around May 2019, the Issuer appears to have been engaged in unrelated business activities, which have been characterised by the Issuer as consultancy work.

The Issuer is not regulated by any regulatory authority in the United Kingdom, or elsewhere, and is not a member of any self-regulating organisation or association.



- Registered Address
- Portfolio Law Firms
- Potential Portfolio Firms



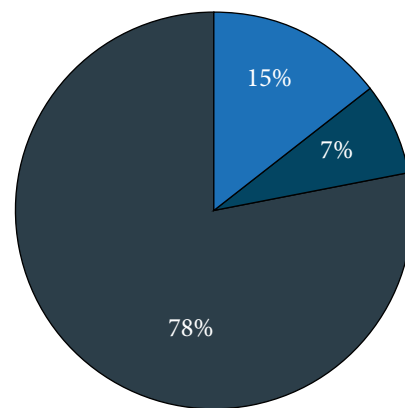
MARKETING

The Issuer had an indicative list of 41 law firms to which it would consider providing financing. The Issuer had performed underwriting and due diligence on nine of these firms, and is providing funding to six of them (“Portfolio Law Firms”).

	Law Firm #1	Law Firm #2	Law Firm #3
Location	Preston	Manchester	Liverpool
Loan Types	Road traffic accident, housing disrepair	Financial mis-selling	Housing disrepair
Borrowing	£2,884,000	£16,167,200	£2,235,000

	Law Firm #4	Law Firm #5	Law Firm #6
Location	Liverpool	Liverpool	Llandoverly
Loan Types	Road traffic accident, financial mis-selling	Financial mis-selling	Financial mis-selling
Borrowing	£781,250	£2,100,000	£249,400

Law Firm Pipeline

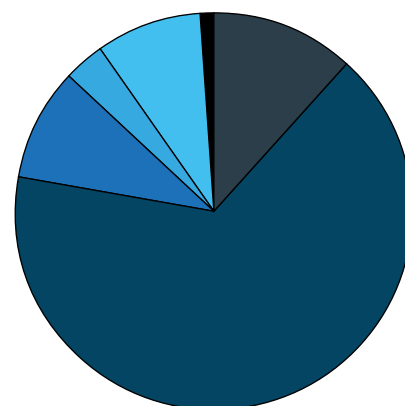


- Current Portfolio
- Underwriting Complete
- Identified Pipeline

Note that 66% of the Issuer’s loans have been made to a single law firm. This concentration of the portfolio could expose Issuer to risk in the event of problems arising with the firm or its claim portfolio.

Initially, the Issuer’s main marketing channel was its exclusive ATE insurance provider, Box Legal. All the Portfolio Law Firms already received ATE insurance from Box. Box’s high underwriting criteria for issuing ATE policies was considered an indicator of the Portfolio Law Firm’s creditworthiness. The Issuer explained that it “promotes its lending business through a series of targeted marketing initiatives in parallel with the insurer.” Subsequently, the Issuer changed its ATE provider, and has indicated that it increasingly sources new borrowers through organic channels such as personal relationships and referrals.

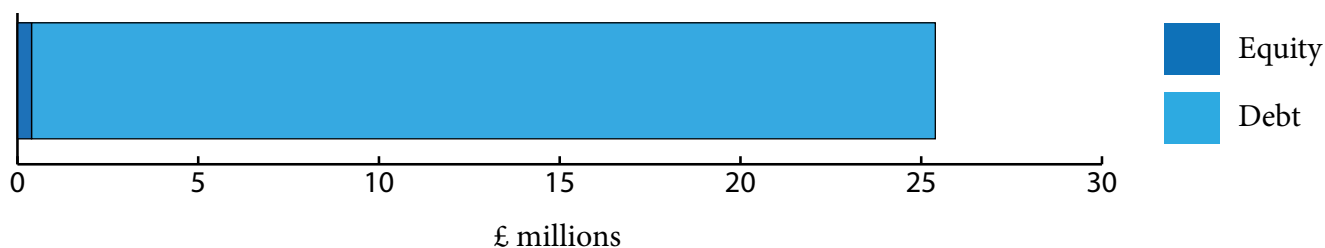
Portfolio Law Firms





CAPITAL STRUCTURE

The share capital of the company is a nominal £100 for the 100 shares outstanding, plus retained earnings of £387,802 carried forward from the financial year ending 30th June 2020. The Issuer has raised approximately £35 MM in debt to finance its business, of which around £10 MM has been repaid to investors during the last two years as loans have matured. The remaining £25 MM outstanding is borrowed from private investors. The Company has no undrawn credit lines in place.



MANAGEMENT

Anne Marie Bell

DOB: January 1973

Appointed Director: 15 May 2019

Ms. Bell has primary responsibility for business operations. Mrs. Bell previously practiced as a solicitor, SRA number 396672, but her registration is currently designated as “non-practising”.

Peter James Legge

DOB: September 1974

Appointed Director: 1 June 2012

Mr. Legge’s primary role is business development, and he has set himself the goal of raising £120 MM for the Issuer.

OPERATIONS

The Issuer’s primary office address is Unit 16, Eastway Business Village, Olivers Place, Fullwood, Preston, PR2 9WT. The Issuer has nine staff members.

The Issuer uses loan management software offered by Samepage Group Limited. The Issuer offers direct access to its software to investors that invest over £500,000 to allow such creditors to directly monitor their loans.

FINANCIALS

The Issuer provided accounts for its financial year ending 28th June 2020, which have also been filed with Companies House. The Issuer’s accountants for the financial year ending 28th June 2020 were Carston Chartered Accountants, 16 Cathedral Road, Cardiff CF11 9LJ. The financials show net income of £527,344 and a dividend of £140,000, for retained earnings carried forward of £387,802.

The Issuer reported turnover of £2.3 MM, against cost of sales of £1.1 MM, which likely consists mostly of fees paid to financial introducers helping Issuer raise capital. The accounts show operating expenses of around £50,000 per month, which are understood to primarily consist of staff costs (including director compensation) and fees payable for loan management software. A breakdown of expenses was not provided.

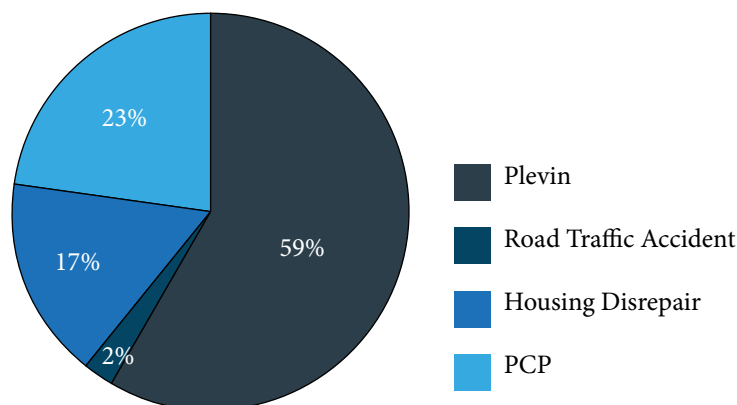


PORTFOLIO

Claim Types

Currently Financed Claim Types	Potential Future Claim Types
Road Traffic Accidents Housing Disrepair Financial Mis-selling (“Plevin”) Personal Contract Purchase (“PCP”)	Cavity Wall Insulation Knotweed Dental Negligence Cosmetic Solar panel Tenancy Deposit

Current Portfolio Composition by Value (as of 30th Sept 2021)



PORTFOLIO STRUCTURE

Claim Probability of Success

Litigation claims must have a 51% chance or higher prospect of success before an ATE insurance policy will be issued. As such, we expect any claim funded by the Issuer must also meet this minimum standard, since only claims covered by an ATE insurance policy are funded.

Enforceability

Even where a legal claim is successful, it is sometimes necessary to enforce the judgment in order to collect payment. For claims of the type financed by the Issuer, the most likely reason for difficulties in enforcement is that the defendant is unable to pay the judgment due to lack of funds. However, in most cases the defendant is insured so the judgment is settled by a well-capitalised insurance company, giving a very high chance of successful enforcement of any judgment. However, in the event of an unenforceable judgment, the ATE insurance policy should pay out to cover the litigation costs.



Collateralisation

Funds raised from the sale of loan notes to investors are backed by specific loans made by the Issuer to law firms. However, a security interest based on a publicly registered fixed and floating charge is only created for certain large investors. Without a registered security interest, in the event of default, the investor would only have a general creditor claim against the Issuer. The loans are not cross-collateralised.

When extending loans to law firms, the Issuer deducts interest up-front from the principal amount lent, keeping this cash buffer on hand for the duration of the financing. This means that a loan made by the Issuer cannot default for lack of payment of interest, but only at the end of the term for failure to pay the principal. This also creates a cash reserve from which the Issuer can make interest payments to its own investors.

The Issuer also obtains a security interest in the litigation claims that it finances, pursuant to which it is paid directly from the claim proceeds, avoiding reliance on the borrowing law firm to repay the loan when the claim is successful, and allowing the Issuer to maintain an ongoing interest in the litigation even if the law firm representing the claimant changes. The ATE policy is also assigned to the Issuer, allowing the Issuer to make a claim against the policy directly with the insurer.

Finally, the Issuer obtains personal guarantees from law firm partners to secure loans made by the Issuer to borrowers. In the event of misconduct by law firm borrowers, the Issuer may also be able to make a claim against the law firm's indemnity insurance, or The Law Society's Solicitors Indemnity Fund (SIF).

Typical Loan Structure

Loan values range from £650 to £3,000. Road Traffic Accident (RTA) loans have a term of six months, are generally for £1,000, with £770 paid out to the borrower, and £230 retained as prepaid interest. Housing Disrepair (HDR) loans have a term of nine months, are generally for £3,000, with £2,000 paid out to the borrower, and £1,000 retained as prepaid interest. Financial mis-selling ("Plevin") loans have a term of 9 months, are generally for £1,750, with £1,210 paid out to the borrower, and £540 retained as prepaid interest. The Issuer also charges an "administration fee" of £50 for each RTA loan, and £100 for each HDR loan. These fees are payable together with the principal at the end of the loan term. Personal Contract Plan ("PCP") loans have a term of 9 months, at a value of £5,000 with £1,788 retained as prepaid interest.

Yield

The Issuer charges 5% interest per month on the amount actually loaned to law firms (e.g., £770 for an RTA loan). The effective rate on the nominal reported value of the loan (e.g., £1,000 for an RTA loan) is approximately 3.85% for RTA loans and 3.33% for HDR loans.

Investment Mechanism

Investors subscribe directly by filling out an application form, providing personal details and proof of identity in order to comply with anti-money laundering laws, and sending funds via bank transfer to the Issuer. Interest payments are made by the Issuer by bank transfer to the investor's bank account specified on the application form. Investors may also invest through a broker or custodian using the loan notes' ISIN codes, with investments and remittances to be settled via CREST.

Currency Risk

Investor may invest in GBP, USD or EUR, but the Issuer operates and offers financing only in GBP. As such, the Issuer is exposed to risk from currency fluctuations due to the likelihood that some of the Issuer's as-



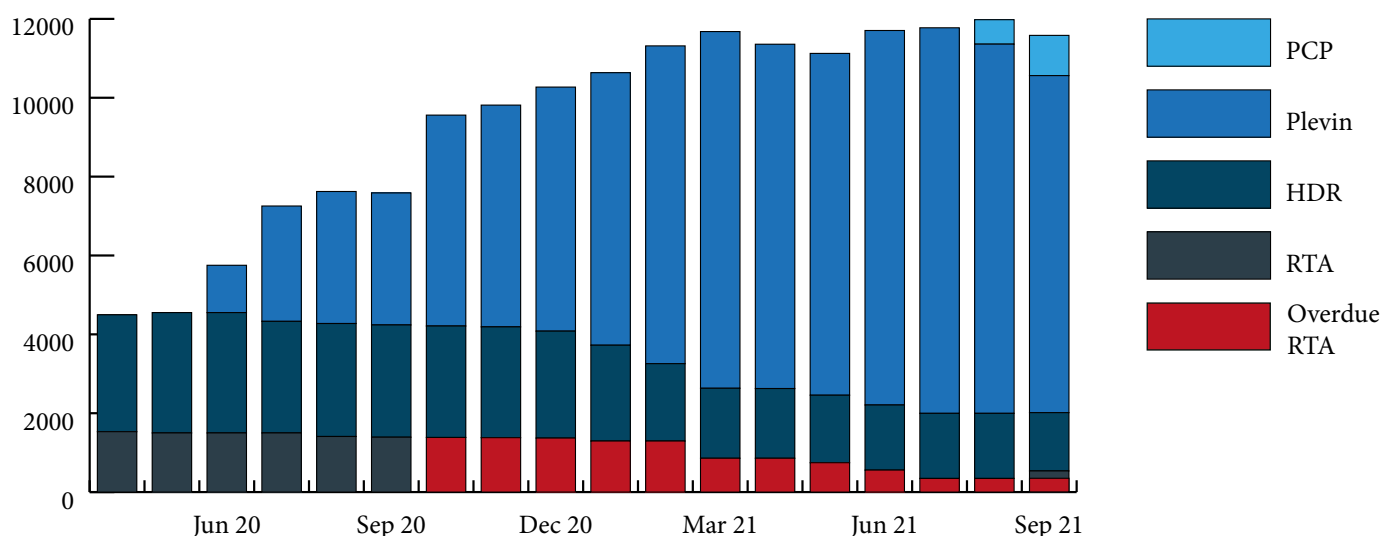
sets and liabilities are in different currencies at any given time. The Issuer hedges its currency exposure and absorbs the cost of hedging as an operating expense. Investor remittances are converted by the Issuer through its foreign exchange provider, deposited to its operating accounts with HSBC and then paid to each investor from the same operating accounting to which the investor sent their investment. The Issuer’s foreign exchange provider is HiFX.

Performance

The Issuer states that there have been no defaults in its portfolio to date. However, possibly due to delays in processing cases as a result of court closures during the COVID-19 pandemic, it is likely that many loan terms have had to be extended. For example, it is clear from the portfolio data available that all outstanding RTA loans should have been paid back by now under the original terms of the loans. No new RTA loans were made at least between May 2020 and September 2021. With a term of 6 months, all RTA loans made before May 2020 should have been repaid by the end of October 2020. However, 23% of the loans made in or before April 2020, a total of 346 loans, are in fact still outstanding.

The Issuer has made clear that these loans have been restructured by mutual consent of the Issuer and the borrowers, and so the loans are not delinquent or in default. However, restructuring of the loan terms is expected to have negatively impacted the yield received from the portfolio by the Issuer. Nonetheless, the high indicative returns on the Issuer’s portfolio should provide it with considerable scope to absorb losses without jeopardising the Issuer’s ability to meet its obligations under the Notes. Furthermore, many of the loans that remained outstanding beyond their due date have ultimately been repaid.

We will continue to closely monitor the performance of the Issuer’s portfolio and adjust our ratings and outlook accordingly.





RISK FACTORS

Information Memorandum

The Issuer's information memorandum ("IM") lists a range of risk factors associated with a potential investment in the Issuer. Such risk disclosures are intended to protect the Issuer and its representatives from liability in the event of a future claim of misrepresentation, and so should be read carefully as a reflection of the true possible risks inherent in the investment.

In particular, the IM notes that "[a]n investment in Loan Notes involves a high degree of risk" and that "the value of the Loan Notes could decline due to any of these risks and Investors could lose all or part of their investment, although it will be secured by way of the debenture." This is a standard investment risk disclosure, except for the qualification that the investment will be secured by way of debenture.

The IM also states that "risk for non-payment of funds will be through the fraudulent activities of the Solicitor in which case the SRA Indemnity fund would activate or insurance being relied upon." For the reasons stated below, this appears to be an incomplete disclosure of the reasons for which non-payment might occur.

Other Risk Factors

Loan Servicing

Since the Issuer is responsible for servicing the assets and associated loan notes, repayment of investments depends on performance by the Issuer of its obligations. Where a charge has not been publicly registered against specific loan assets for the benefit of an investor, it is likely that in the event the Issuer defaults on a loan note, investors in the defaulted note would not have any priority claim against specific assets of the Issuer. Even where an investor is able to directly exercise a claim against specific loan assets, in the absence of assistance from the Issuer, the investor would have to assume responsibility for collection of proceeds itself. Due to the small value of each loan and the lack of experience most investors are likely to have in the operational handling of loan assets, such a situation may pose prohibitive enforcement and recovery challenges.

Cash Management

Investor funds are not segregated from Issuer funds. As such, there is no effective mechanism for freezing or securing cash belonging to the investor in the possession of the Issuer in the event of default.

Furthermore, investor funds are at risk of misuse, including embezzlement and fraud. Although bank transactions may require the approval of two authorised signatories, such internal control arrangements do not preclude the possibility of wilful misconduct arising from collusion between the authorised signatories.

Availability of Investment Opportunities

The Issuer's business model depends on the availability of opportunities to finance suitable litigation. The lack of opportunities is a noted challenge for other litigation financing businesses.¹

If the Issuer is unable to find sufficient investment opportunities, its revenue will fall and could lead to losses for the Issuer. While it appears that the available market is quite large and there are plenty of investment opportunities, some risks remain:

² "Litigation finance industry opens up to private investors" The Financial Times, 23 August 2018 available at <https://www.ft.com/content/03921f5e-a49a-11e8-926a-7342fe5e173f> (quoting a senior representative of an international litigation finance business: "Getting a pipeline of cases ... [is] one of the biggest struggles.")



- competition from other lenders may reduce the number of investment opportunities available to the Issuer. Even if there is limited competition at this time, if the Issuer's business model is successful, the Issuer's success may draw new entrants to the market, or induce well-established litigation financing companies to enter this market segment.
- as the amount of financing increases relative to the number of investment opportunities, the market will become increasingly saturated. This would be expected to reduce the cost of borrowing for law firms, by driving down interest rates. As such, even if the Issuer is able to achieve its expected returns in the short term, over time return on investment would be expected to decline.

COVID-19

Investment opportunities could decline as a result in a fall in the number of legal claims of the type financed by the Issuer. For example, as a result of the COVID-19 outbreak in early 2020, pandemic mitigation measures such as lockdowns imposed by many countries, including the UK, would be expected to lead to a decrease in the number of road traffic accident claims due to the reduced number of journeys of any kind taken in the country.

In addition, pandemic mitigation measures in the spring of 2020 in the UK resulted in the closure of courts and increasing times to process cases.² General business disruption for solicitors, insurers and expert witnesses could lead to further delays in concluding settlement negotiations and other steps to resolve a claim. This could lead to an increase in the time it takes for a claim to proceed from initial financing to final payout. In this case, the Issuer would either (i) have to insist on repayment of a loan to a law firm before the case is resolved, thereby putting pressure on the law firm's finances and business relationship with the Issuer; (ii) extend the loan and charge additional interest, again putting pressure on the law firm and its relationship with the Issuer; or (iii) extend the loan and waive some or all of the additional interest, thereby reducing the return on investment to the Issuer. In scenarios (ii) and (iii), the Issuer would not receive the repayment of principal with which to repay its investors, and may either have to cover the repayment itself, or default on the Note. However, most loans issued from this period have now been paid back, and risks from COVID have decreased due to increased social adaptation.

Operating Losses

If the Issuer experiences operating losses, for example due to defaults, a lack of investment opportunities or falling returns on its investments, funds provided by investors to finance loans may instead end up being used to finance the Issuer's operations. In this case, there may be insufficient portfolio assets to repay Note obligations, and noteholders will be exposed to the Issuer's general credit risk, which would increase in line with increasing operating losses. However, for the year ending 28th June 2020, the Issuer reported net income of £527,344, and after declaring a dividend of £140,000, carried forward £387,802 in retained earnings.

It is worth noting that as the Issuer states, small claim litigation financing is an underserved market. There may be good reason for this. For example, it may not ordinarily be operationally cost effective to service small claims. The Issuer's ability to do so will likely depend on extremely efficient operations based on effective technological systems including automation, algorithmic underwriting and electronic data interchange. The

³ See, e.g.: on the topic of criminal (rather than civil) cases, "The coronavirus lockdown forced the closure of more than half of courts in England and Wales, with only urgent cases such as overnight custody, terrorism and coronavirus-related crimes being dealt with." <https://www.independent.co.uk/news/uk/home-news/court-case-delay-england-wales-coronavirus-lockdown-cps-a9577006.html>



Issuer asserts that servicing its portfolio is indeed highly automated. The truth of this assertion is key to the operational viability of their business.

However, automation typically entails high levels of up-front capital expenditure, which can lead to losses in the short term, with profits dependent on scaling the business. This can leave the business exposed to losses if it is unable to achieve the necessary scale, or fails to maintain it.

Finally, automation, and automated underwriting in particular, depends on algorithms that implement pre-defined assumptions and parameters. These assumptions and parameters are usually based on past experience and data. If the lending environment changes in such a way as to make these assumptions and parameters obsolete, automated underwriting may fail to produce the expected results, and could lead to the approval of non-creditworthy loans. However, based on the Issuer's Credit Framework Policy, it does not seem that their underwriting process contains any noteworthy automation.



APPENDIX: CREDIT RATING SCALE

For consistency and ease of comparison, we have broadly adopted Standard & Poor’s credit rating scale for debt issuers. In general terms, this is as follows:

	RATING	DESCRIPTION
Investment Grade	AAA	Extremely strong capacity to meet financial commitments. Highest rating
	AA	Very strong capacity to meet financial commitments
	A	Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances
	BBB	Adequate capacity to meet financial commitments, but more subject to adverse economic conditions
	BBB-	Considered lowest investment-grade by market participants
Speculative Grade	BB+	Considered highest speculative-grade by market participants
	BB	Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions
	B	More vulnerable to adverse business, financial and economic conditions but currently has the capacity to meet financial commitments
	CCC	Currently vulnerable and dependent on favorable business, financial and economic conditions to meet financial commitments
	CC	Highly vulnerable; default has not yet occurred, but is expected to be a virtual certainty
	C	Currently highly vulnerable to non-payment, and ultimate recovery is expected to be lower than that of higher rated obligations
	D	Payment default on a financial commitment or breach of an imputed D promise; also used when a bankruptcy petition has been filed or similar action taken

With respect to small private issuers or other issuers with limited operating history, ratings will generally be in the speculative category. Within this category, strong issuers for which there are no foreseeable concerns will be rated B, BB or BB+.