Diligence Report: Continuing Coverage
1 November 2023

Woodville Consultants Limited: Loan Notes

Next Wave has accorded a BB+ rating with a neutral outlook to the Notes being issued by Woodville Consultants Limited under its loan notes programme. This is an upgrade from the BB 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 publicly 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 a 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.
- The Notes 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 December 2022. However, audited financial statements are not yet available are not audited. Some 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 commingling of investor funds with the Issuer's operating capital mean material risks remain.
- We deem the Notes to be speculative grade investments, but have upgraded the rating from BB to BB+ to reflect the growing track record of timely payment of debt obligations and increasing revenue and profitability. We believe that the coupon on the Notes is commensurate with the nature of the investment risk.

Security Class	Rating	Outlook
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 £100,000.

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

5 Gelliwastad Road
Pontypridd, Wales, CF37 2BP

ISSUER ACCOUNTANTS
Carson Chartered Accountants

ACCOUNT BANK
HSBC Plc

RATING DATE
1 November 2023

NEXT REVIEW DATE
1 November 2024

NEXT WAVE CONTACT DETAILS

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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 Oklahoma, 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.

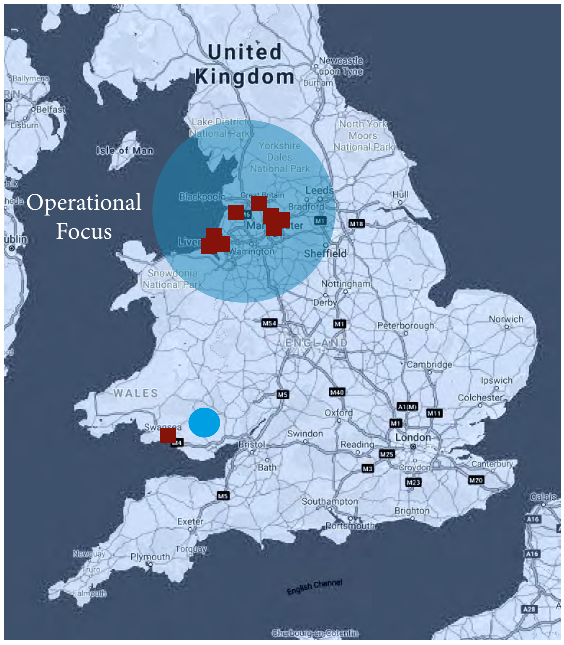
COMPANY

The Issuer's registered address is 5 Gelliwastad Road Pontypridd, Wales, CF37 2BP.

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 was 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.



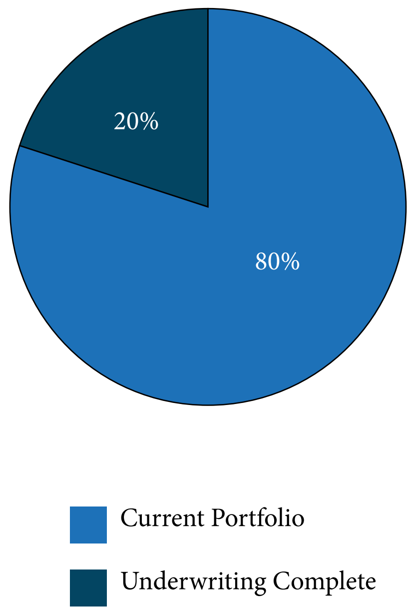
Registered Address

Portfolio Law Firms

MARKETING

The Issuer has focussed its lending on a smaller number of firms than previously. Issuer has performed underwriting and due diligence on ten firms, and is providing funding to eight of them ("Portfolio Law Firms").

Law Firm Pipeline

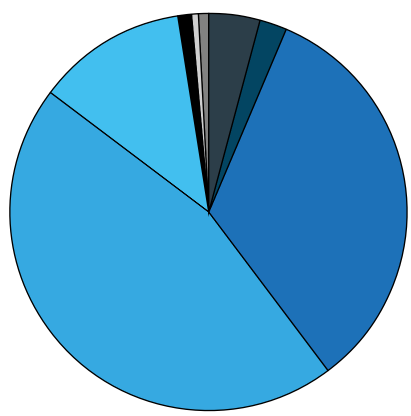


	Law Firm #1	Law Firm #2	Law Firm #3
Location	Manchester	Liverpool	Manchester
Loan Types	Financial Mis-selling, Personal Contract Purchase	Housing disrepair	Personal Contract Purchase
Borrowing	£3,511,850	£1,653,000	£26,325,000

	Law Firm #4	Law Firm #5	Law Firm #6
Location	Swansea	Liverpool	Blackburn
Loan Types	Personal Contract Purchase	Road Traffic Accident, Personal Contract Purchase	Personal Contract Purchase
Borrowing	£36,000,000	£9,685,000	£1,025,000

	Law Firm #7	Law Firm #8
Location	Manchester	Liverpool
Loan Types	Stamp Duty / Land Tax	Personal Contract Purchase
Borrowing	£387,826	£500,000

Portfolio Law Firms

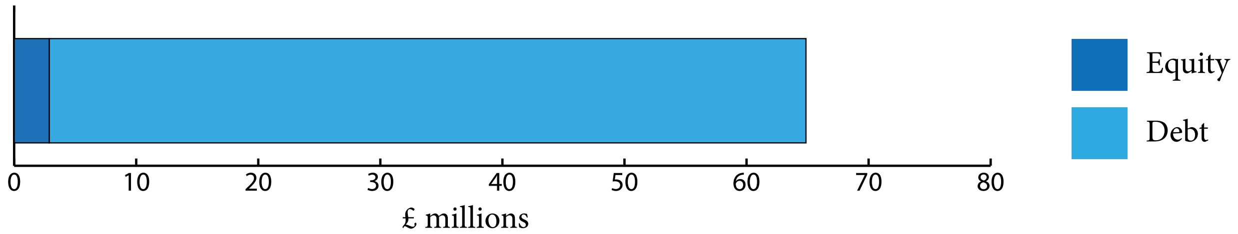


The largest concentration of Issuer's loans are to Law Firm #4, to which 45.5% of the portfolio has been lent. The diversification of the portfolio has increased since 2021, when 66% of the portfolio was invested with a single firm. This can help mitigate risk in the event of isolated problems arising with borrowing by the one or more firms.

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.

CAPITAL STRUCTURE

As of 2023, the share capital of the company was a nominal £100 for the 100 shares outstanding, plus retained earnings of £2,863,532 carried forward from 28th December 2022. 2023 interim net income figures have not been made available. The Issuer had raised approximately £118.3 MM in debt to finance its business, of which around £56.3 MM has been repaid to investors during the last four years as loans have matured. The remaining £62 MM outstanding is borrowed from over 1,500 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 5 Gelliwastad Road Pontypridd, Wales, CF37 2BP. The Issuer has nine staff members.

The Issuer uses loan management software offered by Aryza. 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 has recently changed its financial year end from 28th June to 28th December. As such, the Issuer's accounts for the year ending 2022 are not due to be filed with Companies House until 28th December 2023. In the interim, the Issuer has provided a director's declaration providing information about its financial performance of the Issuer for the 18 month period ending 28th December 2022. The Issuer's accountants are Carston Chartered Accountants, 16 Cathedral Road, Cardiff CF11 9LJ. The management financials show net income for the 18 month period ending 28th December 2022 of £527,344 and a dividend of £140,000, leaving retained earnings carried forward of £387,802. The figures are not directly comparable to the prior accounting periods due to the fact that the prior periods are 12 months long while the most recent period is 18 months long. Nonetheless, the financials clearly indicate strong growth, with revenue up 320% and profits up 570%.

FINANCIAL SUMMARY

A summary of the Issuer's profit and loss position, based on the director's declaration, is presented below:

	29/06/21-28/06/22 (12 months)	29/06/22-28/12/23 (18 months)	change
Revenue from Operations	6,383,471.00	27,495,755.00	331%
Other Income	32,976.00	-	-100%
Cost of Sales	(4,906,181.00)	(22,943,438.00)	368%
Gross Profit	1,510,266.00	4,552,317.00	201%
Administrative Expenses	(1,018,779.00)	(1,495,837.00)	47%
Operating Profit	491,487.00	3,056,480.00	522%
Tax Provision	(86,252.00)	(580,750.00)	573%
Net Income	405,235.00	2,475,730.00	511%

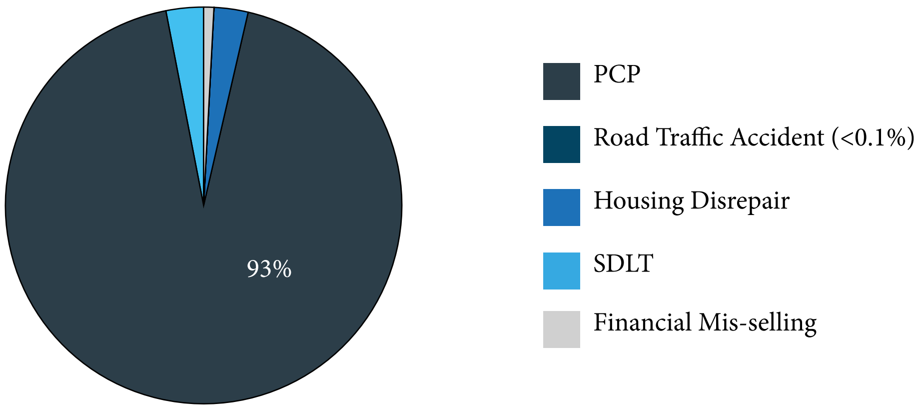
No balance sheet has been made available.

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 Tenancy Deposit Business Energy Professional Negligence

Current Portfolio Composition by Value (as of 30th June 2023)



Issuer's portfolio has become highly concentrated by type of claim funded, with over 93% of loans being made in connection with Personal Contract Purchase ("PCP") claims. This reflects in part the large number of PCP claims available for financing relative to other types of claims. However, the high level of concentration of claim type could expose the Issuer to risks if a change in law or other circumstances reduces the returns from PCP claims.

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. A security interest is obtained by way of a lien placed on every case. However, 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 £5,000. 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 12 months, at a value of £5,000 with £1,788 retained as prepaid interest, though the size of PCP loans has started to decrease due to increasing volumes of cases being funded.

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.

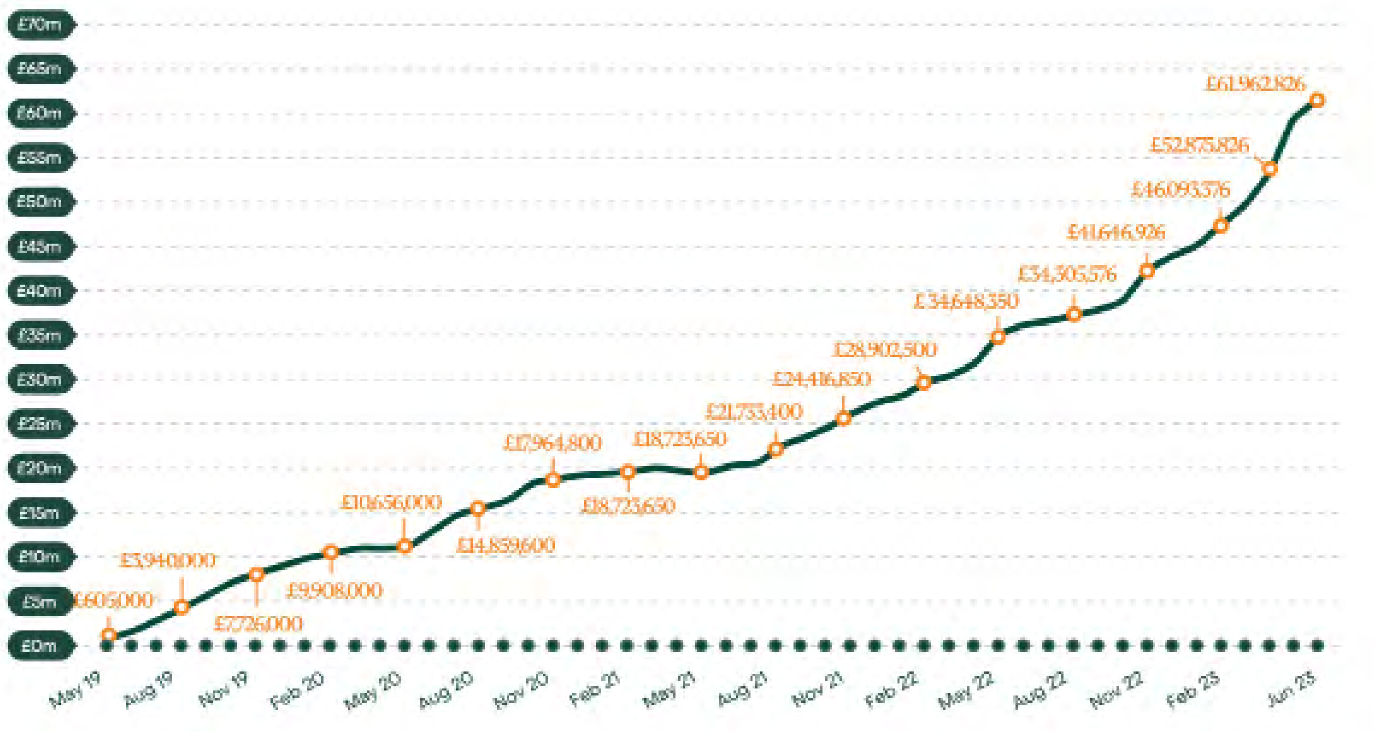
Currency Risk

Investor may invest in GBP, USD, EUR, or a number of other currencies, 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 assets 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. Insufficient data has been made available for an independent analysis to be conducted. In particular, it has not been possible to verify that some loans that were overdue in 2021 have now been repaid. However, on previous occasions, many of the loans that remained outstanding beyond their due date were ultimately repaid. Furthermore, the Issuer's high reported profits should provide substantial scope to absorb portfolio losses that do occur.

A chart showing the Issuer's loan portfolio origination, provided by the Issuer, is shown below.



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, though Issuer does not appear to have experienced any difficulty in deploying its capital.

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:

- 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.[1] 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 as the virus has become endemic in the population.

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 twelve month period ending 28th June 2022, the Issuer reported net income of £2,475,730.

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 Issuer states that it has invested in increasing the automation of its business, using optical character recognition ("OCR") software to assist with the review and checking of documentation.

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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

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
Investment Grade	AA	Very strong capacity to meet financial commitments
Investment Grade	A	Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances
Investment Grade	BBB	Adequate capacity to meet financial commitments, but more subject to adverse economic conditions
Investment Grade	BBB-	Considered lowest investment-grade by market participants
Speculative Grade	BB+	Considered highest speculative-grade by market participants
Speculative Grade	BB	Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions
Speculative Grade	B	More vulnerable to adverse business, financial and economic conditions but currently has the capacity to meet financial commitments
Speculative Grade	CCC	Currently vulnerable and dependent on favorable business, financial and economic conditions to meet financial commitments
Speculative Grade	CC	Highly vulnerable; default has not yet occurred, but is expected to be a virtual certainty
Speculative Grade	C	Currently highly vulnerable to non-payment, and ultimate recovery is expected to be lower than that of higher rated obligations
Speculative Grade	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+.