INVESTMENT AND SOVEREIGN RESEARCH *November-13- 2018*

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Eppley Limited Preference Share Offer

PLEASE SEE IMPORTANT DISCLOSURES & COPYRIGHT INFRINGEMENT IN THE APPENDIX

Invitation Overview

Eppley Limited is inviting applications for subscription for 66,500,000 new fixed-rate Cumulative Redeemable 7.50% Preference Shares due 2024 in the Company for a consideration of J$399,000,000. Eppley may elect to upsize this offer by an additional 33,500,000 units, bringing the total consideration to J$600,000,000.

Term Sheet

Issuer	Eppley Limited
Instrument	66,500,000 new fixed-rate cumulative redeemable 2024 Preference Shares; upsize option to 100,000,000 shares
Arranger	JMMB Securities Limited
Invitation Price	J$6.00 per 2024 Preference Share
Interest Rate/ Payment Frequency	Cumulative Preferential Dividend at a fixed rate of 7.50% per annum, payable monthly
Tenor	6 years/72 months
Redemption	The Preference Shares are redeemable on the Maturity Date at a price equivalent to the Invitation Price. The Company reserves the right to redeem the Preference Shares on any dividend payment date that is not less than 4 years from the issue date, without payment of any premium or penalty, with at least 30 days' notice to holders.
Financial Covenants	The Company shall: 1) not incur any indebtedness that is in excess of 5x its shareholders' equity and 2) subordinate all related party loans
Use of proceeds	To finance credit facilities and pay for expenses related to this Invitation
Minimum Subscription	10,000 shares with increments in multiples of 1,000 shares

Company Background

Eppley is a publicly-listed investment company whose strategy historically has been to generate stable and attractive returns by focusing on originating and investing in loans, leases and other forms of credit. In recent times, the company has broadened its horizons to mezzanine and real estate opportunities, deploying funds from its own balance sheet and from the investment funds it now manages. In 2016, the company launched the first mezzanine credit fund focused in the Caribbean in a joint venture with NCB Capital Markets. Earlier this year, Eppley took control of the Fortress Caribbean Property fund, a closed-end real estate fund listed on the Barbados and Trinidad stock exchanges, which has since been renamed the Eppley Caribbean Property Fund. To date the Company has deployed $3.1B to various credit and real estate investments.

The areas in which the company is invested are:

Commercial loans – providing a variety of loans to business

Leasing – providing finance lease arrangements to commercial clients. Equipment leased includes industrial equipment and motor vehicles.

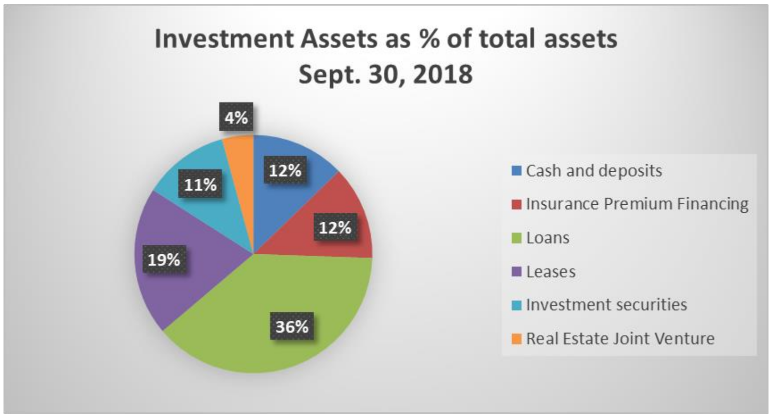
Insurance premium financing – providing credit to both individuals and business for the financing of insurance premiums. Generally for personal lines motor and homeowners' insurance contracts.

Real Estate Joint Venture – the Company diversified by making a large commercial real estate investment with joint venture partners to provide the company with a stream of tenanted cash flows at a higher yield than many investments in the credit portfolio.

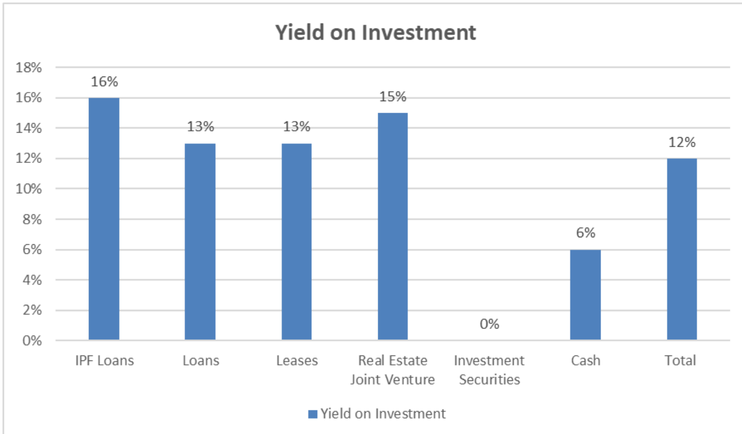
Asset Management – the company formed the Caribbean Mezzanine Fund, an investment vehicle it co-manages with NCB Capital Markets which allows Eppley to take advantage of a wider set of investment opportunities and invest larger amounts of capital in deals across the region.

The Eppley Caribbean Property Fund allows the Company to focus on new asset classes and generate management fees which provide greater stability to its revenue stream.

Investment Assets by Type



Yield by Investment Type



Financial Summary

Profitability

For the year ended December 31, 2017, Eppley reported net revenues of $139.9M, down 9.8% year-over-year. While net interest income rose 9.3% to $103.0M year-over-year, other operating income declined by 39.4% to $36.9M. Interest income amounted to $261.4M, up 24.4% year-over-year, as the gross income yield on the investment portfolio was 12%. Meanwhile, interest expense rose 36.6% to $158.4M.

Other operating income was impacted by foreign exchange losses of $15.8M, which compared to gains of $43.9M in the prior year, as the dollar appreciated on an annual basis. The foreign exchange loss offset asset management income of $7.4M and investment management income of $17.0M.

Administrative expenses rose 11.7% to $87.9M, driven mainly by higher staff costs while the share of net profit from joint venture fell 47.1% to $16.1M. As a result, Eppley' profit before taxation amounted to $68.1M, down 36.3% year-over-year. Net profits amounted to 69.2M, a 35.1% decline from the prior year's result.

Liquidity & Solvency

Eppley's total assets amounted to $2.45B as at December 31, 2017, up 17.4% from its opening balance. Loans receivable represented the largest asset class at 47% of total assets, amounting to $1.1B, up 26.0% from a year earlier. Lease receivable amounted to $382.3M, down 2.5%, while insurance premium financing receivable amounted to $324.1M, up 6.3% year-over-year.

Investment in joint venture rose 17.3% to $109.7M while investment securities amounted to $80.3M. Property, plant and equipment fell 36.1% to $10.5M.

Cash & cash deposits amounted to $315.3M, up 6.1% year-over-year. Given the nature of Eppley's business lines, large cash balances are not unusual. However, what does raise concern is the negative cash flows from operations over the last five financial years. Net cash outflows amounted to $197.3M in 2017, down from net outflows of $558.9M in 2016. This is significant as prolonged negative cash flows could indicate ineffective credit management or actual loss. If cash flows from operating activities are negative it may mean the business is not covering its expenses or not being paid quickly enough.

Assets were financed by liabilities amounting to $1.74B and shareholders' equity amounting to $708.3M. Liabilities consisted mainly of debt which amounted to $1.69B, up 27.0% year-over-year. Leverage as measured by the debt-to-equity ratio was 2.39x as at December 31, 2017, up from 1.88x a year prior. Borrowings included $381.0M of short-term lending and $1.31B from long term loans, which consisted of redeemable preference shares. The effective cost of debt was 9%. The table below displays Eppley's average return on operating assets and the average cost of operating liabilities as well as the net income spread.

	2013	**2014**	**2015**	**2016**	**2017**
Average operating assets	609,120	1,058,594	1,368,184	1,685,510	2,174,484
Income	65,292	117,681	199,589	240,614	277,538
Average return on operating assets	**10.7%**	**11.1%**	**14.6%**	**14.3%**	**12.8%**
Average operating liabilities	410,046	756,547	1,043,714	1,190,862	1,512,923
Interest expense	16,554	48,701	117,438	115,918	158,394
Average cost of operating liabilities	**4.0%**	**6.4%**	**11.3%**	**9.7%**	**10.5%**
Average net income spread	**6.7%**	**4.7%**	**3.3%**	**4.5%**	**2.3%**

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Eppley's average net income spread has narrowed from 6.7% in 2013, to 2.3% in 2017 as the return on assets have fallen since 2015, which the company has attributed to the general decline in interest rates observed in the Jamaican economy over the same period. Eppley's average cost of borrowing has trended upwards over the past five years, which the company explained was a "consequence of the growth of the Company's preference share programme." This asset-liability mismatch resulted in the narrowing of the net income spread as Eppley locked into borrowing costs over the medium term whilst the terms of investments were typically much shorter.

Shareholders' equity was relatively unchanged at $708.3M, down 0.3% from the prior years' balance. Retained earnings fell 1.1% year-over-year to $216.0M as the $70.3M in comprehensive income for 2017 was more than offset by the $71.5M in dividend payments.

Year-to-date Performance

Eppley reported a net profit of $80.7M for the nine months ended September 30, 2018, a 56.3% increase on the comparable period's performance in 2017. Driving this result was a 43.6% increase in net interest income to $106.8M, while other operating income surged 73.4% to $68.5M. The growth in net interest income was driven by a 22.8% increase in interest income to $234.4M, which compared to a 9.5% increase in interest expense to $127.6M.

The growth in other operating income was attribute to income generated from the management of the Eppley Caribbean Property Fund. As of September 2018, Eppley had earned five months' worth of management fees that totalled $23M. Share of income from the Caribbean Mezzanine Fund for the period was $19M.

Total assets rose 28.3% to $3.16B as at September 30, 2018, driven by a 63.3% increase in lease receivable to $599.3M and a $333.8M increase in investment securities to $362.8M. Loans receivable was down 1.1% to $1.15B. Borrowings grew by 32.5% to $2.3B while shareholders' equity increased by 6.1% to $740.8M. The growth in shareholders' equity was driven by a 20.5% increase in retained earnings to $247.6M. Cash and deposits fell 2.1% to $383.9M and net cash outflows from operations amounted to $110.2M, down from net outflow of $193.6M in the comparable period of 2017.

Eppley noted that the average income yield on its investment portfolio was 13% while the average cost of debt was 7%. This translated to an improvement in the average income spread to 5%, relative to 2017's 2.3%.

Investment Positives & Negatives

Positives

- Relatively low minimum buy-in of $60,000 making it accessible for retail clients
- Stable, predictable and frequent income stream – dividends are fixed and payable monthly
- Investments in the real estate joint venture and the mezzanine financing fund diversifies Eppley's revenue base while management fee income adds a stable revenue stream.
- With an interest rate of 7.50%, these preference shares offer a spread of 3.12 percentage points over the rate being offered on GOJ local bonds of a similar tenor. Given the relatively low minimum piece to purchase, these shares offer an attractive alternative to bank deposit rates.
- Shares will be listed on the Jamaica Stock Exchange, providing an avenue to exit the investment before the Maturity Date. However, liquidity in the secondary market for these shares is not expected to be high as prior listings of Eppley Preference Shares has been relatively minimal.

Negatives

- Eppley has had negative cash flow from operations for the last five years. This raises liquidity and refinancing risk concerns as the company is not able to fund growth organically and is highly dependent on external funding to continue its business. If the current economic conditions being enjoyed of high liquidity and historically low interest rates were to deteriorate, Eppley may face challenges in the future.
- The company has seen a deterioration in its average net income spread over the last five years which could explain the negative cash flow from operations, raising asset-liability matching concerns. Of note, the company has seen an improvement for 9M18 period as the cost of debt has improved following the refinancing of preference shares earlier this year.

Recommendation

Eppley has enjoyed modest growth in profitability over the past few years as total assets have grown at an average rate of 20% per annum over the last 3 years compared to an average growth rate of 11% in net revenues and net profits, respectively. The spread it makes on its investments have narrowed considerably over the past five years but the company has launched two new initiatives (real estate and mezzanine financing) which it hopes will diversify its revenue stream and increase its income yield and has lowered its cost of funding. It is hoped that these initiatives will boost the return on operating activities and lead to positive cash flows from operating activities as the company is highly dependent on external funding to run its business and grow.

Given these factors, we recommend this investment as an UNDERWEIGHT. This investment is suitable for retail and institutional clients seeking a stable and frequent income stream. With a low buy-in, retail clients will find the rate of return attractive in relation to traditional interest rates offered at deposit-taking institutions.

Source: http://www.Jamstockex.com, JMMB Investment & Research, Bloomberg, Company Financials, Offering Prospectus

APPENDIX

IMPORTANT DISCLOSURES

ABSTRACT—As a part of our new Portfolio Strategy we are recommending strict adherence to the following Portfolio Allocation **DEFINITIONS/RECOMMENDATIONS**.

PLEASE NOTE THAT NO INDIVIDUAL ASSET IN YOUR PORTFOLIO SHOULD HAVE A WEIGHTING GREATER THAN 5% UNLESS OTHERWISE RECOMMENDED BY YOUR PORTFOLIO MANAGER OR A SPECIFIC JMMB RESEARCH REPORT. CONSEQUENTLY THE FOLLOWING **DEFINITIONS** ARE PROVIDED FOR CLARITY.

UNDERWEIGHT—REDUCE EXPOSURE IN YOUR PORTFOLIO TO LESS THAN 5% FOR THIS PARTICULAR ASSET

SELL—REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO.

HOLD/MARKETWEIGHT—EXPOSURE TO THE ASSET SHOULD BE EQUAL TO 5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB.

OVERWEIGHT/BUY—EXPOSURE TO THIS ASSET SHOULD BE BETWEEN 5% AND 10% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

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