

Arrow Global Group PLC

Results for the nine months ended
30 September 2018

8 November 2018

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Reduced leverage while continuing to grow a diversified platform generating strong cashflows at high returns

Arrow Global Group PLC (the “Company”, and together with its subsidiaries the “Group”), a leading European investor and asset manager in non-performing and non-core assets, announces its results for the nine months ended 30 September 2018.

Key Highlights

- **Strong Group operating and financial performance**
 - Core collections increased 18.2%, driving a strong adjusted EBITDA result, up 28.8%
 - Underlying profit after tax increased 10.2% to £42.9 million
 - Profit after tax increased 28.4% to £20.5 million
 - Underlying LTM ROE of 33.4%
 - Improved underwriting performance increased to 104% of original forecast
 - Completion of the Europa Investimenti S.p.A. acquisition marks the successful scaling of our European platform with the primary focus now on organic growth

- **Investment Business**
 - Record organic portfolio acquisitions of £200.1 million, increasing from £155.0 million in Q3 2017, and on track to deliver £230 million to £240 million of portfolio purchases
 - Non-UK portfolio investments now represent more than 50% of ERC

- **Asset Management & Servicing business (AMS)**
 - Third party AMS income increased 25.1% to £63.3 million
 - Assets under management increased 22.6% to £51.5 billion
 - New target to double AMS income, growing to 50% of total income over the next five years

- **Strong balance sheet discipline**
 - Leverage decreased to 3.8 times secured net debt to adjusted EBITDA, with new five year target leverage ratio of 3.0 to 3.5 times
 - Strong cash interest cover at 6.6 times
 - Commitment to prudent balance sheet management maintained
 - Attractive WACD of 3.9% and no bond maturities until 2024; strong liquidity with £128.8 million cash headroom to fund organic growth

Underlying financial highlights	30 September 2018	30 September 2017	Change %
Underlying profit after tax (£m)	42.9	38.9	10.2
Underlying LTM return on equity (%)	33.4	33.9	-0.5ppts
Underlying basic earnings per share (EPS) (p)	24.5	22.3	10.2

Financial highlights	30 September 2018	30 September 2017	Change %
Assets under management (£bn)	51.5	42.0	22.6
Core collections (£m)	288.5	244.1	18.2
Total income (£m)	255.3	231.6	10.2
Third party AMS income (£m)	63.3	50.6	25.1
Profit after tax (£m)	20.5	16.0	28.4
Basic EPS (p)	11.7	9.2	28.4
84-month ERC (£m)	1,635.6	1,455.6	12.4
120-month ERC (£m)	1,968.9	1,690.1	16.5

Commenting on today's results, Lee Rochford, Group chief executive officer of Arrow Global, said:

"I am delighted that our successful diversification of the business continues to bear fruit. Our Investment Business continues to thrive, with growing volumes and our highly disciplined approach generating resilient cashflows and unlevered returns ahead of our mid-teens target."

"Our AMS Business continues to flourish and its strong growth contributes to an improving diversification and quality of earnings."

"In combination, our two operating segments are generating a strong increase in earnings and cashflow at very attractive returns and we remain confident in delivering our targets for the year."

A Capital Markets day and Q3 presentation for investors and analysts will be held at 0900 at the The Savoy, Strand, London WC2R 0EZ

Webcast Details:

Webcast link: <https://fotwlive.videosync.fi/2018-11-08-arrow-cmd-2018>

Alternatively, if you are in transit and wish to listen to the webcast via an audio bridge, please use the following number:

+44 203 695 0088

Meeting ID: 602 149 665

International numbers available: <https://zoom.us/j/602149665>

Notes:

A glossary of terms can be found on pages 14 to 16.

More details explaining the business can be found in the Annual Report & Accounts 2017 which is available on the Company's website at www.arrowglobalir.net

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Forward looking statements

This document contains statements that constitute forward-looking statements relating to the business, financial performance and results of the Group and the industry in which the Group operates. These statements may be identified by words such as "expectation", "belief", "estimate", "plan", "target", or "forecast" and similar expressions or the negative thereof; or by forward-looking nature of discussions of strategy, plans or intentions; or by their context. All statements regarding the future are subject to inherent risks and uncertainties and various factors could cause actual future results, performance or events to differ materially from those described or implied in these statements. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. Further, certain forward-looking statements are based upon assumptions of future events which may not prove to be accurate and neither the Company nor any other person accepts any responsibility for the accuracy of the opinions expressed in this document or the underlying assumptions. The forward-looking statements in this document speak only as at the date of this presentation and the Company assumes no obligation to update or provide any additional information in relation to such forward-looking statements.

Unaudited consolidated statement of profit or loss and other comprehensive income
For the nine months ended 30 September 2018

	Unaudited nine months ended 30 September 2018 £000	Unaudited nine months ended 30 September 2017 £000	Unaudited three months ended 30 September 2018 £000	Unaudited three months ended 30 September 2017 £000
Continuing operations				
Income from portfolio investments	149,837	131,015	53,694	45,904
Fair value gain on portfolio investments at FVTPL	10,609	5,298	4,501	3,139
Impairment gains on portfolio investments at amortised cost	30,795	44,640	7,514	16,324
Total income from portfolio investments	191,241	180,953	65,709	65,367
Income from asset management and servicing	63,336	50,637	21,984	16,434
Profit on sale of property	731	-	731	-
Total income	255,308	231,590	88,424	81,801
Operating expenses:				
Collection activity costs	(90,331)	(88,514)	(30,391)	(33,409)
Other operating expenses	(85,668)	(63,680)	(30,923)	(22,756)
Total operating expenses	(175,999)	(152,194)	(61,314)	(56,165)
Operating profit	79,309	79,396	27,110	25,636
Net finance costs	(35,101)	(33,495)	(12,307)	(10,935)
Refinancing costs	(18,658)	(27,352)	-	-
Share of profit in associate	-	1,522	-	450
Profit before tax	25,550	20,071	14,803	15,151
Taxation charge	(5,016)	(4,073)	(2,782)	(2,883)
Profit after tax	20,534	15,998	12,021	12,268
Other comprehensive income:				
Items that are to be reclassified subsequently to profit or loss:				
Foreign exchange translation difference arising on revaluation of foreign operations	431	3,524	882	352
Movement on the hedging reserve	(279)	299	96	(217)
Total comprehensive income for the period	20,686	19,821	12,999	12,403
Profit attributable to:				
Owners of the Company	20,489	15,987	12,008	12,257
Non-controlling interest	45	11	13	11
	20,534	15,998	12,021	12,268
Basic EPS (p)	11.7	9.2	6.8	7.0
Diluted EPS (p)	11.5	8.9	6.8	6.9

UNDERLYING PROFIT

Underlying profit is considered to be a key measure in understanding the Group's ongoing financial performance.

Adjusting items are those items that management deem by virtue of their size, nature or incidence (i.e. outside the normal operating activities of the Group) are not considered to be representative of the ongoing performance of the Group and these items are excluded from underlying profit.

	Unaudited nine months ended 30 September 2018 £000	Unaudited nine months ended 30 September 2017 £000
Continuing operations		
Total income	255,308	231,590
Operating expenses		
Collection activity costs	(89,411)	(88,104)
Other operating expenses	(77,533)	(63,050)
Total operating expenses	(166,944)	(151,154)
Operating profit	88,364	80,436
Net finance costs	(35,101)	(33,495)
Share of profit in associates	-	1,522
Underlying profit before tax	53,263	48,463
Taxation charge	(10,326)	(9,538)
Underlying profit after tax	42,937	38,925
Non-controlling interest	(45)	(11)
Underlying profit attributable to owners of the company	42,892	38,914
Underlying basic EPS (p)	24.5	22.3

Reconciliation between reported profit and underlying profit

	30 Sept 2018 Profit before tax £000	30 Sept 2018 Tax £000	30 Sept 2018 Profit after tax £000	30 Sept 2017 Profit before tax £000	30 Sept 2017 Tax £000	30 Sept 2017 Profit after tax £000
Reported profit	25,550	(5,016)	20,534	20,071	(4,073)	15,998
Adjustments:						
Collection activity costs	920	(230)	690	410	(79)	331
Other operating expenses	8,135	(1,535)	6,600	630	(121)	509
Bond refinancing costs	18,658	(3,545)	15,113	27,352	(5,265)	22,087
Total adjustments	27,713	(5,310)	22,403	28,392	(5,465)	22,927
Underlying profit	53,263	(10,326)	42,937	48,463	(9,538)	38,925
Non-controlling interest	(45)	-	(45)	(11)	-	(11)
Underlying profit attributable to owners	53,218	(10,326)	42,892	48,452	(9,538)	38,914

The adjustments for collection activity costs and other operating expenses in the period relate to 'One Arrow' costs of £6.0 million and business acquisition and other costs of £3.1 million.

Bond refinancing costs in both periods relate to costs associated with restructuring the Group's long-term financing.

Unaudited consolidated statement of financial position

As at 30 September 2018

		30 September 2018 £000	31 December 2017 £000	30 September 2017 £000
	Notes			
Assets				
Intangible assets		268,651	196,272	185,087
Property, plant and equipment		6,846	10,168	6,075
Investments in associates		-	-	9,537
Cash and cash equivalents		62,073	35,943	36,150
Other receivables		80,245	56,885	49,297
Portfolio investments	2	1,051,501	951,467	909,442
Total assets		1,469,316	1,250,735	1,195,588
Equity				
Share capital		1,763	1,753	1,753
Other equity reserves		185,524	193,395	175,230
Total equity attributable to shareholders		187,287	195,148	176,983
Non-controlling interest		1,820	173	138
Total equity		189,107	195,321	177,121
Liabilities				
Trade and other payables		149,314	98,359	101,264
Net tax liability		12,642	18,688	13,997
Derivative liability		77	2,865	1,654
Borrowings	3	1,118,176	935,502	901,552
Total liabilities		1,280,209	1,055,414	1,018,467
Total equity and liabilities		1,469,316	1,250,735	1,195,588

Unaudited consolidated statement of changes in equity
For the nine months ended 30 September 2018

	Ordinary shares £000	Other equity reserves £000	Total £000	Non- controlling interest £000	Total £000
Balance at 1 January 2017	1,744	165,647	167,391	-	167,391
Profit for the period	-	15,987	15,987	11	15,998
Exchange differences	-	3,524	3,524	-	3,524
Net fair value losses - cash flow hedges	-	351	351	-	351
Tax on hedged items	-	(52)	(52)	-	(52)
Total comprehensive income for the period	-	19,810	19,810	11	19,821
Non-controlling interest (NCI)	-	-	-	187	187
Shares issued in the period	9	-	9	-	9
Repurchase of own shares	-	(1,355)	(1,355)	-	(1,355)
Share-based payments	-	2,326	2,326	-	2,326
Dividend paid	-	(11,198)	(11,198)	-	(11,198)
Dividends paid to NCI	-	-	-	(60)	(60)
Balance at 30 September 2017	1,753	175,230	176,983	138	177,121
Profit for the period	-	23,884	23,884	33	23,917
Exchange differences	-	777	777	-	777
Recycled to profit after tax	-	(1,870)	(1,870)	-	(1,870)
Net fair value gains - cash flow hedges	-	(3)	(3)	-	(3)
Tax on hedged items	-	(7)	(7)	-	(7)
Remeasurement of defined benefit liability	-	(25)	(25)	-	(25)
Total comprehensive income for the period	-	22,756	22,756	33	22,789
Share-based payments	-	1,008	1,008	-	1,008
Dividends paid	-	(5,599)	(5,599)	-	(5,599)
Dividends paid by NCI	-	-	-	2	2
Balance at 31 December 2017	1,753	193,395	195,148	173	195,321
Impact of adopting IFRS 9	-	(14,000)	(14,000)	-	(14,000)
Impact of adopting IFRS 15	-	(231)	(231)	-	(231)
Balance post IFRS adjustments at 1 January 2018	1,753	179,164	180,917	173	181,090
Profit for the period	-	20,489	20,489	45	20,534
Exchange differences	-	431	431	-	431
Net fair value gains - cash flow hedges	-	(355)	(355)	-	(355)
Tax on hedged items	-	76	76	-	76
Total comprehensive income for the period	-	20,641	20,641	45	20,686
Shares issued in period	10	-	10	-	10
Repurchase of own shares	-	(2,509)	(2,509)	-	(2,509)
Share-based payments	-	2,384	2,384	-	2,384
Non-controlling interest on acquisition	-	-	-	1,645	1,645
Dividend paid	-	(14,156)	(14,156)	-	(14,156)
Dividend paid to NCI	-	-	-	(43)	(43)
Balance at 30 September 2018	1,763	185,524	187,287	1,820	189,107

Unaudited consolidated statement of cash flows

For the nine months ended 30 September 2018

	Nine months ended 30 September 2018 £000	Nine months ended 30 September 2017 £000
Net cash flows from operating activities before purchases of portfolio investments	180,556	155,920
Purchase of portfolio investments	(203,150)	(155,653)
Purchase price adjustment relating to prior year	-	474
Net cash (used in)/ generated by operating activities	(22,594)	741
Net cash used in investing activities	(61,630)	(18,157)
Net cash flows generated by financing activities	110,511	30,097
Net increase in cash and cash equivalents	26,287	12,681
Cash and cash equivalents at beginning of period	35,943	23,203
Effect of exchange rates on cash and cash equivalents	(157)	266
Cash and cash equivalents at end of period	62,073	36,150

Notes

1. Significant accounting policy updates

These financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2017.

The annual financial statements of the Group are prepared in accordance with IFRS as adopted for use in the EU, and therefore comply with Article 4 of the EU IFRS Regulation. As required by the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority, these financial statements have been prepared applying the accounting policies and presentation that were applied in the preparation of the Group's published consolidated annual report for the year ended 31 December 2017, other than IFRS 9 and IFRS 15, which have been applied for the first time this year. Changes to significant accounting policies in 2018 have been disclosed in the condensed consolidated interim financial statements of the Group for the period ended 30 June 2018.

The consolidated financial statements of the Group for the year ended 31 December 2017 are available upon request from the Company's registered office at Belvedere, 12 Booth Street, Manchester, M2 4AW and can also be found, along with the condensed consolidated interim financial statements of the Group for the period ended 30 June 2018, online at www.arrowglobalir.net.

2. Portfolio investments

The Group recognises income from portfolio investments in accordance with IFRS 9 from 1 January 2018.

The movements in portfolio investments were as follows:

	Nine months ended 30 September 2018 £000	Year ended 31 December 2017 £000	Nine months ended 30 September 2017 £000
As at the period brought forward	951,467	804,107	804,107
Impact of adopting IFRS 9 at 1 January 2018	(17,000)	-	-
Brought forward after impact of IFRS 9 opening adjustment	934,467	804,107	804,107
Portfolio investments acquired during the period *	211,051	225,734	155,653
Collections in the period	(288,513)	(342,210)	(244,116)
Total income from portfolio investments	191,241	247,917	180,953
Foreign exchange gain	3,255	16,393	13,319
Purchase price adjustment relating to prior year	-	(474)	(474)
As at the period end	<u>1,051,501</u>	<u>951,467</u>	<u>909,442</u>

* Inclusive of acquisition costs and portfolios acquired through acquisition of EI

2. Portfolio investments *(continued)*

Classification of portfolio investments

The following table provides a breakdown of the categories of portfolio investments under IFRS 9.

	Amortised cost £000	FVTPL £000	30 September 2018 £000
As at the period end	858,577	192,924	1,051,501

3. Borrowings

	30 September 2018 £000	31 December 2017 £000	30 September 2017 £000
Senior secured notes	914,711	763,740	759,478
Senior secured notes interest	1,349	6,670	1,210
Revolving credit facility	185,024	153,036	126,234
Bank overdrafts	3,624	1,332	1,323
Finance lease	-	1,816	1,832
Other borrowings	13,468	8,908	11,475
Total borrowings	1,118,176	935,502	901,552

On 7 March 2018, Arrow Global Finance Plc issued €285 million floating rate senior secured notes due 2026 at a coupon of 3.75% over three-month EURIBOR and also issued a £100 million tap of its existing £220 million 5.125% fixed rate notes due 2024. As part of the transaction Arrow Global Finance Plc also redeemed its €230 million 4.75% over three-month EURIBOR floating rate senior secured notes.

In 2018, bond refinancing costs comprised £18,658,000 incurred on the early redemption of the €230 million notes due 2023, of which £13,623,000 was a cash cost related to the call premium. The remaining £5,035,000 was due to a non-cash write-off of related transaction fees, relating to the 2023 notes.

On 4 January 2018 the commitments under the revolving credit facility were increased from £215 million to £255 million. The maturity of the facility was extended to 2 January 2023 and the margin reduced to 2.5%.

On 1 November 2018 the commitments under the revolving credit facility were increased from £255 million to £285 million.

4. Acquisition of subsidiary undertakings

Europa Investimenti S.p.A (“EI”)

On 13 September 2018, the Group acquired 100% of the share capital of EI. EI originates and manages Italian distressed debt investments. The acquisition builds on the 2017 acquisition of Zenith, and subsequent acquisition of Parr in 2018. These three acquisitions now give the Group Italian primary and special servicing capabilities that support the Group’s growth ambitions. The fair value of total consideration for the acquisition is €65,450,000 (£58,735,000) including deferred and contingent consideration. The provisional net assets acquired totalled €9,958,000 (£8,897,000).

The initial accounting for the acquisition has been determined provisionally because of the limited time available between the acquisition date and the preparation of these quarterly statements.

Additional Information

The adjusted EBITDA reconciliations for the periods ended 30 September 2018 and 30 September 2017 are shown below:

	Nine months ended 30 September 2018 £000	Nine months ended 30 September 2017 £000
Reconciliation of net cash flow to adjusted EBITDA		
Net cash (used in)/ generated by operating activities	(22,594)	741
Purchase of portfolio investments	203,150	155,653
Purchase price adjustment relating to prior year	-	(474)
Income taxes paid	6,505	7,510
Working capital adjustments	1,769	(10,752)
Dividends received from associates	-	2,735
Amortisation of acquisition fees	206	206
Proceeds from sale of property	3,759	-
Adjusting operating expenses	9,055	1,040
Adjusted EBITDA	201,850	156,659
Reconciliation of core collections to EBITDA		
Income from portfolio investments including revaluations	£000 191,241	£000 180,953
Portfolio amortisation	97,272	63,163
Core collections (includes proceeds from disposal of portfolio investments)	288,513	244,116
Income from asset management and servicing	63,336	50,637
Operating expenses	(175,999)	(152,194)
Depreciation and amortisation	10,696	8,387
Foreign exchange gains	(100)	(593)
Amortisation of acquisition fees	206	206
Share-based payments	2,384	2,325
Proceeds from sale of property	3,759	-
Dividends received from associates	-	2,735
Adjusting operating expenses	9,055	1,040
Adjusted EBITDA	201,850	156,659
Reconciliation of Operating Profit to EBITDA		
Profit after tax	£000 20,534	£000 15,998
Underlying net finance costs	35,101	33,495
Taxation charge on ordinary activities	5,016	4,073
Share of profit on associate	-	(1,522)
Adjusting financing costs	18,658	27,352
Operating profit	79,309	79,396
Portfolio amortisation	97,272	63,163
Depreciation and amortisation	10,696	8,387
Foreign exchange gains	(100)	(593)
Amortisation of acquisition fees	206	206
Share-based payments	2,384	2,325
Profit on sale of property	(731)	-
Proceeds from sale of property	3,759	-
Dividends received from associates	-	2,735
Adjusting operating expenses	9,055	1,040
Adjusted EBITDA	201,850	156,659

Glossary

‘Adjusted EBITDA’ means profit for the period attributable to equity shareholders before interest, tax, depreciation, amortisation, foreign exchange gains or losses and adjusting items.

‘Adjusting items’ are those items that by virtue of their size, nature or incidence (i.e. outside the normal operating activities of the Group) are not considered by the Board to be representative of the ongoing performance of the Group and are therefore excluded from underlying profit after tax.

‘AMS’ means asset management and servicing.

‘Collection activity costs’ represents the direct costs of collections related to the Group’s portfolio investments, such as internal staff costs, commissions paid to third party outsourced providers, credit bureau data costs and legal costs associated with collections.

‘Core collections’ or ‘core cash collections’ mean cash collections on the Group’s existing portfolios including ordinary course portfolio sales and put backs.

‘Diluted EPS’ means the earnings per share whereby the number of shares is adjusted for the effects of potential dilutive ordinary shares, options and LTIP’s.

‘EBITDA’ means earnings before interest, taxation, depreciation and amortisation.

‘EPS’ means earnings per share.

‘84-month ERC’ and **‘120-month ERC’** (together **‘gross ERC’**), mean the Group’s estimated remaining collections on portfolio investments over an 84-month or 120-month period, respectively, representing the expected future core collections on portfolio investments over an 84-month or 120-month period (calculated at the end of each month, based on the Group’s proprietary ERC forecasting model, as amended from time to time).

‘FVTPL’ – Financial instruments at fair value with all gains or losses being recognised in the profit or loss.

‘IFRS’ means EU adopted international financial reporting standards.

‘Income from AMS’ includes commission income, debt collection, due diligence, real estate management, advisory fees and intra-group income for these services.

	30 September 2018 £000
Third party AMS Business income	63,336
Intra-Group AMS income	27,940
AMS Business income	91,276

‘LTIP’ means the Arrow Global long-term incentive plan.

Glossary (continued)

'LTM' means last twelve months and is calculated by the addition of the consolidated financial data for the year ended 31 December 2017 and the consolidated financial data for the nine months to 30 September 2018, and the subtraction of the consolidated financial data for the nine months to 30 September 2017.

'Net debt' means the sum of the outstanding principal amount of the senior secured notes, interest thereon, amounts outstanding under the revolving credit facility and deferred consideration payable in relation to the acquisition of portfolio investment, less cash and cash equivalents. Net debt is presented because it indicates the level of debt after removing the Group's assets that can be used to pay down outstanding borrowings, and because it is a component of the maintenance covenants in the revolving credit facility. The breakdown of net debt for the period ended 30 September 2018 is as follows:

	30 September 2018	31 December 2017
	£000	£000
Cash and cash equivalents	(62,073)	(35,943)
Senior secured notes (pre transaction fees net off)	930,000	779,347
Revolving credit facility (pre transaction fees net off)	188,310	155,757
Secured net debt	1,056,237	899,161
Deferred consideration – acquisitions	44,468	15,200
Deferred consideration – portfolios	37,516	15,309
Senior secured notes interest	1,349	6,670
Bank overdrafts	3,624	1,332
Other borrowings	13,468	10,724
Net debt	1,156,662	948,396

'NCI means non-controlling interest.

'Off market' means those portfolio investments that were not acquired through a process involving a competitive bid or an auction like process.

'ROE' means the return on equity as calculated by taking profit after tax divided by the average equity attributable to shareholders. Average equity attributable is calculated as the average quarterly equity from Q3 2017 to Q3 2018 as shown in the quarterly, half year and full year statements. In the comparative period this is calculated as the average annual equity attributable.

'Secured net debt' means the sum of the outstanding principal amount of the senior secured notes, amounts outstanding under the revolving credit facility, less cash and cash equivalents. Secured net debt is presented because it indicates the level of secured debt after taking out the Group's assets that can be used to pay down outstanding secured borrowings, and because it is a component of the incurrence tests in the senior secured notes. The breakdown of secured net debt for the period ended 30 September 2018 is shown in net debt above.

'Underlying basic EPS' represents earnings per share based on underlying profit after tax, excluding any dilution of shares.

Glossary (continued)

'Underlying profit after tax' means profit for the year attributable to equity shareholders adjusted for the post-tax effect of certain adjusting items. The Group presents underlying profit after tax because it excludes the effect of items (and the related tax on such items) which are not considered representative of the Group's ongoing performance, on the Group's profit or loss and forms the basis of its dividend policy.

'Underlying ROE' represents the ratio of underlying profit for the period attributable to equity shareholders to average shareholder equity.

'WACD' means weighted average cost of debt.