# ARROW GLOBAL GROUP PLC

Q1 Results

9 May, 2019

# Agenda

I. Q1 Highlights

II. Q1 Financial Performance

III. Summary

# I. Q1 Highlights

# Q1 Highlights
## Strong cash generation leads to further reduction in leverage

**Core cash collections**
(31 March 2018: £86.0m)
**£105.5m**
22.7%

**Organic portfolio purchases**
(31 March 2018: £79.9m)
**£56.4m**
29.4%

**Profit before tax**
(31 March 2018: -£7.6m)
**£15.8m**

**Free cashflow[1]**
(31 March 2018: £43.8m)
**£57.8m**
32.0%

**Leverage**
(31 March 2018: 4.0x)
**3.4x**
-0.6x

**Underlying PBT**
(31 March 2018: £14.2m)
**£16.2m**
14.1%

**Underwriting performance**
(31 March 2018: 103%)
104%
+1.0 ppt.

**Gross AMS Income**
(31 March 2018: - )[2]
**£32.1m**

**Underlying LTM RoE**
(31 March 2018: 33.3%)
**34.5%**
+1.2 ppts.



[1]Adjusted EBITDA after the effects of capital expenditure, financing and tax cash impacts and before the replacement rate
[2]No comparator for Q1 2018 due to relevant disclosure being provided for the first time at the 2018 Interim Results

# Key areas of management focus

| | | |
|---|---|---|
| 1 | Free cashflow generation | - Core collections<br>- Cost efficiency |
| 2 | Balance sheet discipline | - Leverage<br>- Funding diversification |
| 3 | Capital allocation | - Investment returns<br>- Shareholder returns |
| 4 | Increasing quality of earnings | - AMS growth<br>- Fund management growth |

**Business prudently managed to generate predictable cash flows**

# II. Q1 Financial Performance

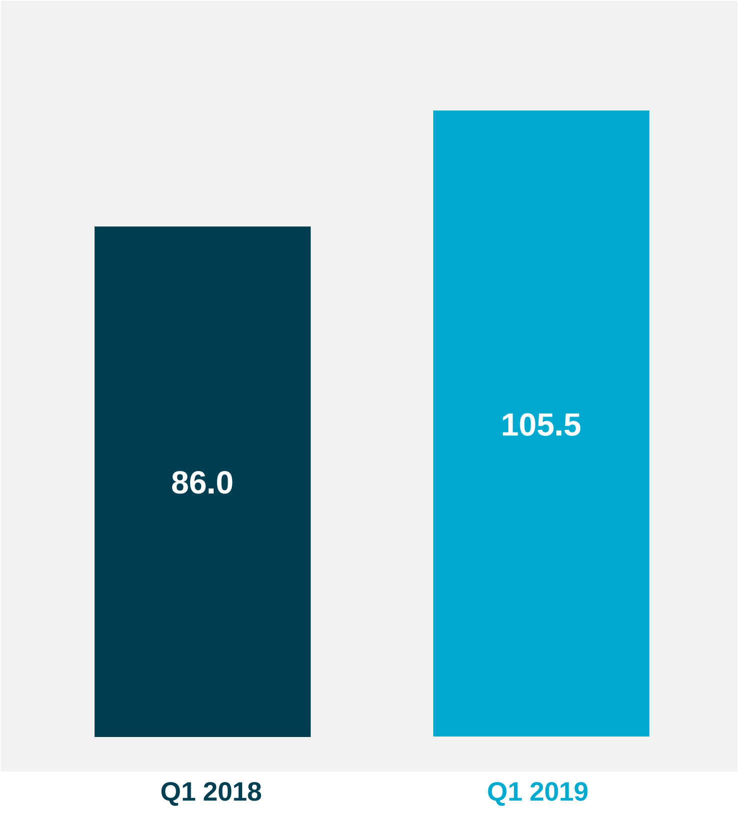
# STRONG CASHFLOW DRIVES INCOME GROWTH

| | Q1 2018 | Q1 2019 | |
|---|---|---|---|
| **Total cash income**<br>*Core collections plus third-party AMS income* | **£104.9m** | **£128.5m** | **+22.5%** |
| **Income from portfolio investments** | **£58.3m** | **£63.6m** | +9.1% |
| **Third-party AMS income** | **£18.9m** | **£23.0m** | **+21.7%** |
| Other income | - | £0.1m | |
| Total income | **£77.1m** | **£86.6m** | **+12.3%** |
| Collection activity costs | (£27.3m) | (£26.8m) | |
| Other operating expenses (incl. D&A) | (£24.7m) | (£31.1m) | |
| **Underlying operating profit** | **£25.2m** | **£28.8m** | **+14.3%** |
| **Underlying PBT** | **£14.2m** | **£16.2m** | **+14.1%** |
| **Underlying PAT before non-controlling interest** | **£11.4m** | **£11.8m** | **+3.5%** |
| **Underlying PAT** | **£11.4m** | **£11.0m** | **-3.5%** |

- **Total cash income** increased by **22.5%** to £128.5m
- Core collections growth continued to be driven by **strong cashflow** from **secured assets**
- **21.7% increase** in third-party AMS revenue
- Collection activity costs **reduced** as **trending towards longer-term CAC** rate as per guidance
- Increase in other operating expenses reflects the **investment and acquisition activity** of the group
  - Cost:income target of towards 60% maintained
  - Further guidance on cost review at H1
- **Underlying PBT** increased by 14.1% to **£16.2m**
- Underlying PAT before NCI **impacted by tax effect** from higher proportion of **non-UK profits**
- Underlying PAT reduced after **impact from NCI**

# Increasing core collections and cash generation

## Core Cash Collections (£m)




## Free cashflow[1] (£m)


## Key Highlights

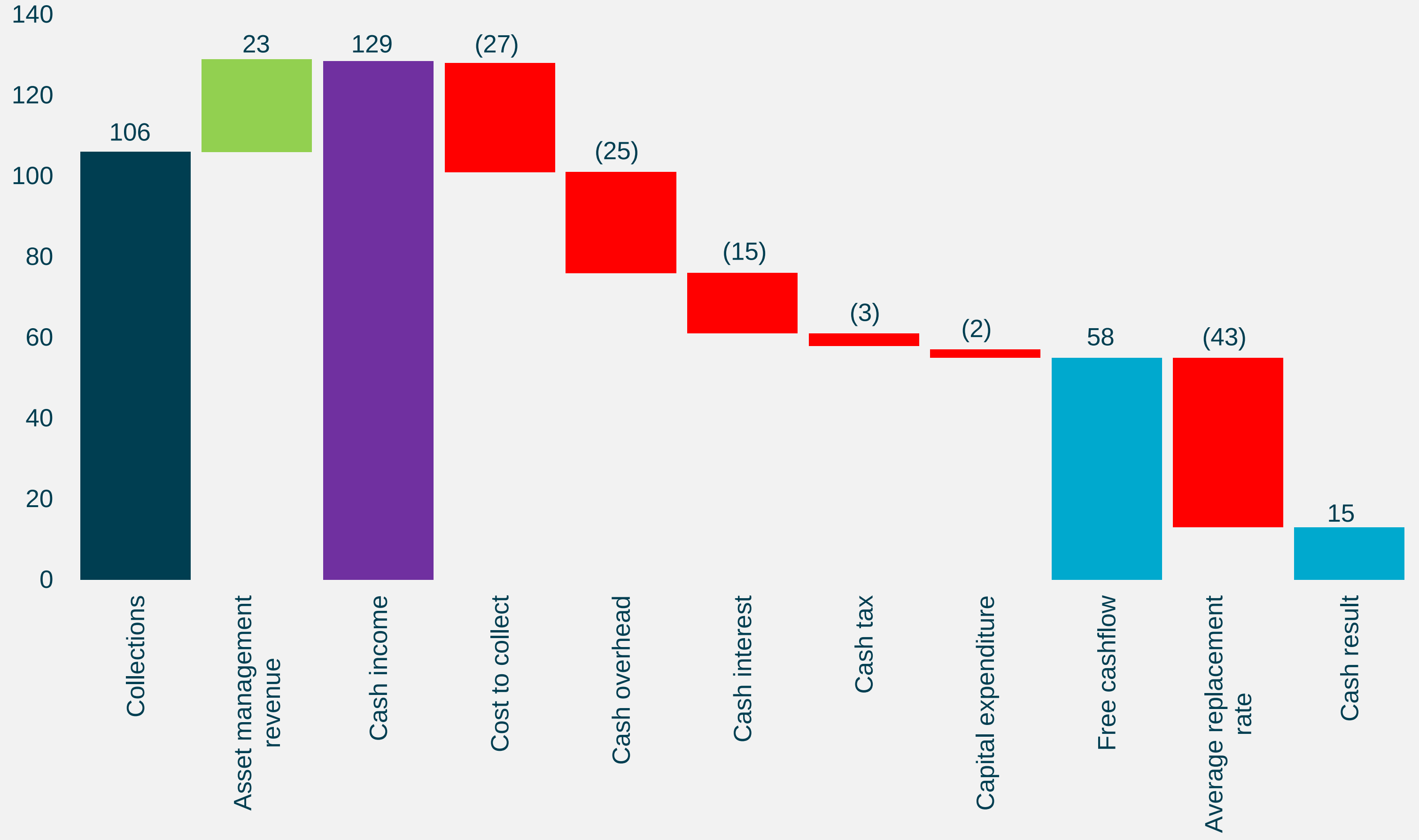
- Core collections grew 22.7% to £105.5m
- Free cashflow increased by 32.0% to £57.8m
- Over £118.0m of cash headroom before ABS funding addition

**Strong collections drives high cash generation and provides capital allocation optionality**

[1]Means Adjusted EBITDA after the effects of capital expenditure, financing and tax cash impacts and before investment at replacement rate

# Strong free cashflow generation

## Cash Result (£m)

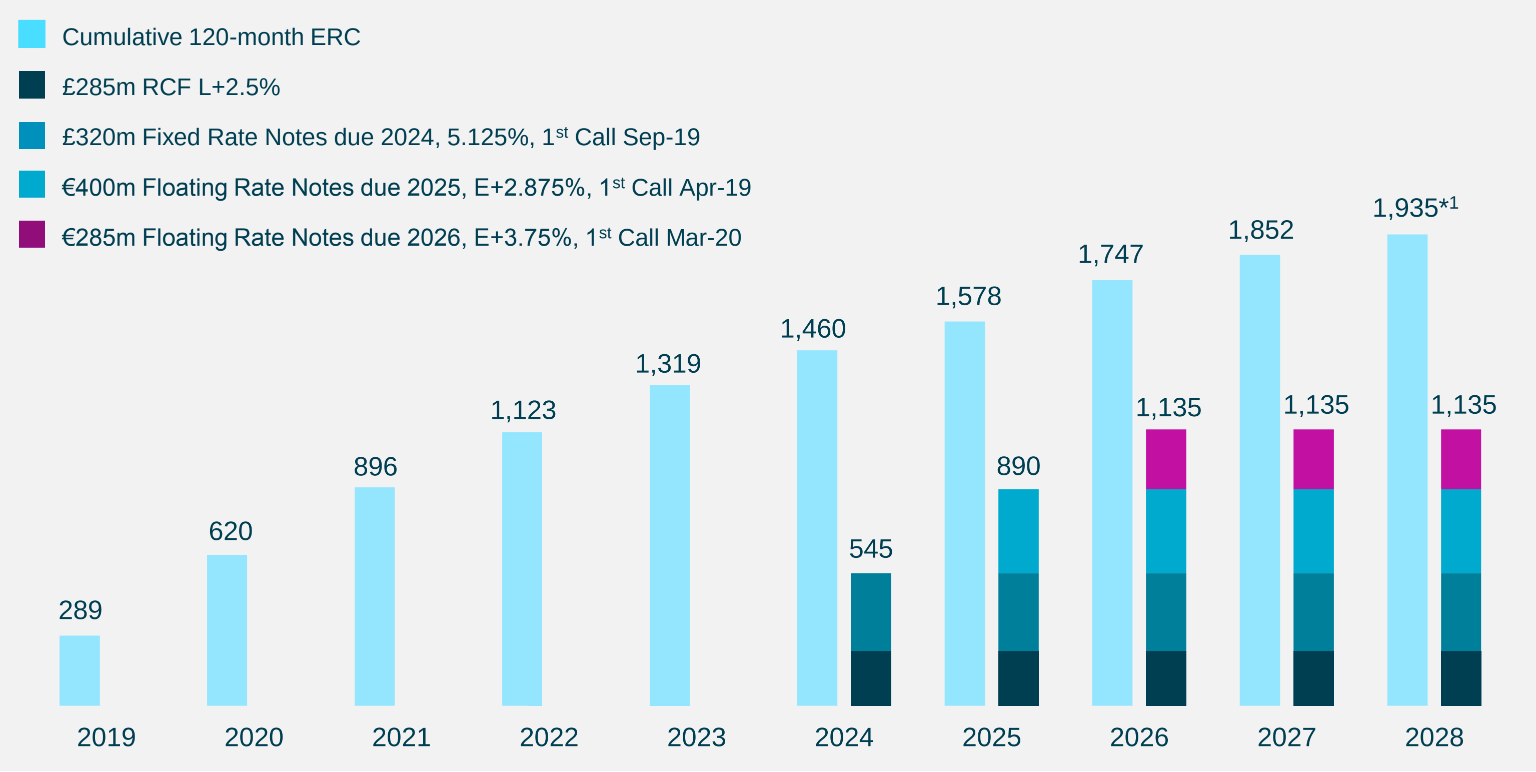



## Key Highlights

- Total cash income increased by 22.5% to £128.5m
- Free cashflow increased by 32.0% to £57.8m
- Cash result following investment in portfolio purchases at average replacement rate increased by 61.1% to £14.5m

# Long-term funding drives competitive advantage

## Debt Maturity & 120-month ERC at Q1 (£m)




*[1] Includes £16 million collections expected January-March 2029 to reflect 120 months of ERC.*

## Key Highlights

- ABS facility has resulted in further **funding diversification**
- No debt maturities **until 2024**
- Significant ERC coverage of debt maturities
- Weighted average debt **duration 5.8 years**
  - Compares favorably to shorter weighted average asset life
- Secured net debt to Adjusted EBITDA reduced to **3.4x** (Q1 2018: 4.0x)
- Strong cash interest cover at 7.0 times

# £100m asset backed facility

## Overview

- Arrow has entered into a £100m non-recourse asset backed facility, through its wholly owned subsidiary
- Diverse pool of unsecured UK consumer loans have been securitised

## Key Benefits

✓ Diversifies sources of funding, providing an alternative to future high yield bond and RCF refinancing

✓ Supplements headroom, providing financial flexibility and firepower to capitalise on investment opportunities

✓ Shareholders and bondholders to benefit from redeployment of proceeds

✓ Maintains low cost of funding and long maturity profile

✓ Substantiates quality of Arrow's existing back-book

## Summary Terms

| | |
|---|---|
| **Size** | • £100 million |
| **Underlying Assets** | • Diverse pool of unsecured UK consumer loans spread across product types, originators and portfolios |
| **Advance Rate** | • 55% of 84-month ERC |
| **Margin** | • 1-month LIBOR + 3.10% |
| **Term** | • 2 years revolving + 3 years amortising<br>• Option to extend revolving period by 1 year |
| **Intended Use of Proceeds** | • Diversify funding by reducing drawn balance of existing revolving credit facility |

# III. Summary

# Attractive investment case

| | | |
|---|---|---|
| 1 | Sophisticated investment platform in a growth market | **Unlevered asset level IRRs in mid-teens** |
| 2 | Increasing quality of earnings | **AMS towards 50% of Group revenues and increasing to mid-20s margins** |
| 3 | Resilient balance sheet | **Leverage of 3.0x-3.5x** |
| 4 | Consistently strong returns for shareholders | **ROE in mid-20s%** |
| 5 | Reliable through the cycle performance | **Dividend policy of ≥ 35%** |

**Sustainable return, prudently funded business model with predictable cash flows**

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# Appendix

# IFRS 16 TRANSITIONAL IMPACT

- IFRS 16 is the new leasing standard, which brings operating leases on-balance sheet and changes how the associated costs are phased into the income statement, as well as where in the income statement they reside.

- For the Group 2019 opening balance sheet, the impact has been as follows:

| | |
|---|---|
| Fixed Assets | + £23.8m |
| Net Lease Liabilities | (£24.7m) |
| **Opening Reserves Reduction** | **(£0.9m)** |

- This will modestly impact EBITDA and related metrics on an ongoing basis: operating expenses will decrease with a roughly commensurate increase in the depreciation and finance costs lines in the income statement.