Arrow Global Group PLC

Results for the nine months ended
30 September 2019

12 November 2019

Arrow Global Group PLC
Results for the nine months ended 30 September 2019

Strong cash generation and continued focus on developing the fund management business

Arrow Global Group PLC (the "Company", and together with its subsidiaries the "Group"), a leading European investor and asset manager in secured and unsecured defaulted and non-core loan portfolios and real estate, announces its results for the nine months ended 30 September 2019.

Key Highlights

- Free cashflow grew 14.7% to £174.4 million (Q3 2018: £152.0 million)
- Profit before tax increased by 65.6% to £42.4 million (Q3 2018: £25.6 million)
- Underlying profit before tax decreased 5.4% to £50.4 million (Q3 2018: £53.3 million) – including a 15.1% increase in finance costs relating to deferred consideration costs and IFRS 16
- Cost efficiency program on track – actions to deliver 40% of run rate savings complete
- Strong focus on the development of the fund management business with the build out of AGG Capital Management
- Trading is in line with market expectations for the full year

Group financial highlights	30 September 2019	30 September 2018	Change %
Portfolio purchases (£m)	221.9	200.1	10.9
Core collections (£m)	312.5	288.5	8.3
Total income (£m)	256.9	255.3	0.6
Third party AMS income (£m)	68.7	63.3	8.5
Operating profit (£m)	82.8	79.3	4.4
Profit before tax (£m)	42.4	25.6	65.6
Underlying profit before tax (£m)	50.4	53.3	(5.4)
Underlying LTM ROE %	29.5	33.4	(3.9)ppts
Basic EPS (p)	17.1	11.7	46.2
Leverage (x)	3.7	3.8	(0.1x)
84-month ERC (£m)	1,725.8	1,635.6	5.5
120-month ERC (£m)	2,036.7	1,968.9	3.4

Commenting on today's results, Lee Rochford, Group Chief Executive Officer of the Company, said:

"Returns in the investment business remain attractive and collections and cash generation both increased strongly during what is traditionally a quieter quarter.

"The primary focus of the Group continues to be to build out our fund management capabilities and good progress has been made following the formation of AGG Capital Management Limited announced in the Group's interim results. Our clear objective is to build a fund management business which will drive substantial growth in AMS revenues and, when combined with the cost efficiency programme, will see the Group evolve to become a more capital light, high margin business with less leverage.

"The Group's highly cash generative characteristics mean we continue to have the flexibility to allocate capital between investment for growth, dividends and deleveraging. We therefore remain confident that we can continue to grow the business, reward shareholders and finish the year within our new targeted lower leverage range of 3.0x-3.5x."

Conference call

There will be a conference call for analysts and investors at 08.30 (UK time).

Investors and analysts wishing to dial-in to the call can register using the following link:

https://bit.ly/2PcMZEm

Notes:

A glossary of terms can be found on pages 15 to 17. More details explaining the business can be found in the Annual Report & Accounts 2018 which is available on the Company's website at www.arrowglobalir.net

For further information:

Arrow Global Group PLC

Duncan Browne, Head of Investor Relations	**+44 (0) 7925 643 385**
	Dbrowne@arrowglobal.net

FTI Consulting

Neil Doyle	**+44 (0)20 3727 1141**
Tom Blackwell	**arrowglobal@fticonsulting.com**
Laura Ewart	

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 the 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, the Group 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 and the Group assume no obligation to update or provide any additional information in relation to such forward-looking statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the period ended 30 September 2019

	Unaudited nine months ended 30 September 2019 £000	Unaudited nine months ended 30 September 2018 £000	Unaudited three months ended 30 September 2019 £000	Unaudited three months ended 30 September 2018 £000
Continuing operations				
Income from portfolio investments at amortised cost	142,703	149,837	47,696	53,694
Fair value gain on portfolio investments at FVTPL	27,634	10,609	6,510	4,501
Net impairment gains on portfolio investments at amortised cost and real estate inventories	17,440	30,795	1,719	7,514
Income from real estate inventories	118	-	118	-
Total income from portfolio investments	**187,895**	**191,241**	**56,043**	**65,709**
Income from asset management and servicing	68,680	63,336	23,041	21,984
Profit on sale of property	-	731	-	731
Other income	292	-	90	-
Total income	**256,867**	**255,308**	**79,174**	**88,424**
Operating expenses:				
Collection activity costs	(83,124)	(90,331)	(29,107)	(30,391)
Other operating expenses	(90,953)	(85,668)	(26,300)	(30,923)
Total operating expenses	**(174,077)**	**(175,999)**	**(55,407)**	**(61,314)**
Operating profit	**82,790**	**79,309**	**23,767**	**27,110**
Net finance costs	(40,394)	(35,101)	(13,884)	(12,307)
Refinancing costs	-	(18,658)	-	-
Profit before tax	**42,396**	**25,550**	**9,883**	**14,803**
Taxation charge	(10,177)	(5,016)	(2,008)	(2,782)
Profit after tax	**32,219**	**20,534**	**7,875**	**12,021**
Other comprehensive income:				
Items that are or may be reclassified subsequently to profit or loss:				
Foreign exchange translation difference arising on revaluation of foreign operations	(1,402)	431	(769)	882
Movement on the hedging reserve	38	(279)	95	96
Total comprehensive income for the period	**30,855**	**20,686**	**7,201**	**12,999**
Profit attributable to:				
Owners of the Company	30,010	20,489	7,906	12,008
Non-controlling interest	2,209	45	(31)	13
	32,219	**20,534**	**7,875**	**12,021**
Basic EPS (p)	**17.1**	**11.7**	**4.5**	**6.8**
Diluted EPS (p)	**16.6**	**11.5**	**4.4**	**6.8**

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2019

	Note	Unaudited 30 September 2019 £000	Unaudited 31 December 2018 £000	Unaudited 30 September 2018 £000
Assets				
Cash and cash equivalents		97,828	92,001	62,073
Trade and other receivables		98,132	94,206	80,245
Portfolio investments – amortised cost	2	927,306	869,056	870,671
Portfolio investments - FVTPL	2	175,354	217,974	180,830
Portfolio investments – real estate inventories	2	59,877	-	-
Property, plant and equipment		27,542	7,761	6,846
Other intangible assets		38,388	44,264	44,448
Deferred tax asset		8,697	8,113	-
Goodwill		275,211	262,679	224,203
Total assets		**1,708,335**	**1,596,054**	**1,469,316**
Liabilities				
Bank overdrafts	3	2,477	2,696	3,624
Revolving credit facility	3	247,975	242,121	185,024
Derivative liability		642	502	77
Trade and other payables		215,291	197,657	149,314
Current tax liability		8,873	7,915	3,231
Other borrowings	3	3,384	11,635	13,468
Asset-backed loans	3	91,620	-	-
Senior secured notes	3	916,096	926,340	916,060
Deferred tax liability		15,305	14,930	9,411
Total liabilities		**1,501,663**	**1,403,796**	**1,280,209**
Equity				
Share capital		1,769	1,763	1,763
Share premium		347,436	347,436	347,436
Retained earnings		124,730	116,589	113,196
Hedging reserve		(546)	(584)	(622)
Other reserves		(274,956)	(273,547)	(274,486)
Total equity attributable to shareholders		**198,433**	**191,657**	**187,287**
Non-controlling interest		8,239	601	1,820
Total equity		**206,672**	**192,258**	**189,107**
Total equity and liabilities		**1,708,335**	**1,596,054**	**1,469,316**

Note – the balance sheet has been presented on a reducing liquidity basis, and prior periods have been represented accordingly on this basis.

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 September 2019

	Ordinary shares £000	Other equity reserves £000	Total £000	Non-controlling interest £000	Total £000
Balance at 1 January 2018	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	-	(199)	(199)	-	(199)
Balance post IFRS adjustments at 1 January 2018	1,753	179,196	180,949	173	181,122
Profit for the period	-	20,489	20,489	45	20,534
Exchange differences	-	431	431	-	431
Net fair value gains on 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 the 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 by NCI	-	-	-	(43)	(43)
Balance at 30 September 2018	1,763	185,556	187,319	1,820	189,139
Adjustment to IFRS 15 impact through profit	-	(32)	(32)	-	(32)
Balance post IFRS 15 adjustment at 30 September 2018	1,763	185,524	187,287	1,820	189,107
Profit for the period	-	9,512	9,512	-	9,512
Exchange differences	-	2,141	2,141	-	2,141
Recycled to profit after tax	-	(1,202)	(1,202)	-	(1,202)
Net fair value losses on cash flow hedges	-	64	64	-	64
Tax on hedged items	-	(26)	(26)	-	(26)
Total comprehensive income for the period	-	10,489	10,489	-	10,489
Share-based payments	-	883	883	-	883
Dividend paid	-	(7,002)	(7,002)	-	(7,002)
Non-controlling interest on acquisition	-	-	-	(1,219)	(1,219)
Balance at 31 December 2018	1,763	189,894	191,657	601	192,258
Impact of adopting IFRS 16	-	(947)	(947)	-	(947)
Balance post IFRS adjustments at 1 January 2019	1,763	188,947	190,710	601	191,311
Profit for the period	-	30,010	30,010	2,209	32,219
Exchange differences	-	(1,402)	(1,402)	-	(1,402)
Net fair value losses on cash flow hedges	-	49	49	-	49
Tax on hedged items	-	(11)	(11)	-	(11)
Total comprehensive income for the period	-	28,646	28,646	2,209	30,855
Shares issued in the period	6	-	6	-	6
Repurchase of own shares	-	(6)	(6)	-	(6)
Share-based payments	-	2,024	2,024	-	2,024
Non-controlling interest on acquisition	-	-		5,429	5,429
Dividend paid	-	(22,947)	(22,947)	-	(22,947)
Balance at 30 September 2019	1,769	196,664	198,433	8,239	206,672

UNAUDITED CONSOLIDATED STATEMENT OF CASHFLOWS

For the period ended 30 September 2019

	Unaudited period ended 30 September 2019 £000	Unaudited period ended 30 September 2018 £000
Net cash flows from operating activities before purchases of portfolio investments	**202,298**	**180,556**
Purchase of portfolio investments	(221,885)	(203,150)
Net cash used in operating activities	**(19,587)**	**(22,594)**
Net cash used in investing activities	**(20,227)**	**(61,630)**
Net cash flows generated by financing activities	**47,003**	**110,511**
Net increase in cash and cash equivalents	**7,189**	**26,287**
Cash and cash equivalents at beginning of period	92,001	35,943
Effect of exchange rates on cash and cash equivalents	(1,362)	(157)
Cash and cash equivalents at end of period	**97,828**	**62,073**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Significant accounting policy updates

These financial statements are unaudited and do not include all of the information required for full annual or interim financial statements and therefore are not fully compliant with IAS 34 – *Interim financial reporting.* These quarterly results should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2018.

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 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 2018, other than IFRS 16, which has been applied for the first time this year. Changes to significant accounting policies in 2019 have been disclosed below.

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

IFRS 16 is effective from 1 January 2019 and the Group has adopted it from this date.

IFRS 16 replaces the previous standard IAS 17 'Leases', bringing a number of leases on balance sheet, which were previously off-balance sheet and accounted for as operating leases under IAS 17.

The Group is not required to restate comparatives on the initial adoption of IFRS 16 and has therefore applied the modified retrospective approach. The Group has applied exemptions where appropriate for short-term leases of twelve months or less and low value assets to be expensed and has also applied 'grandfathering' to all IAS 17 judgements previously made. The incremental borrowing rates used to measure lease liabilities at initial application ranged between 4.2% and 7.2%.

The standard transition has led to a one-off opening 2019 reserves reduction of £0.9 million, a right-of-use asset disclosed in property, plant equipment of £23.8 million, a lease liability of £27.3 million and a release of lease accruals of £2.6 million, all of which are disclosed in trade and other payables.

The Group now holds a number of material real estate portfolio investments which are being held for immediate sale or being developed with a view to sell immediately once such development work is completed. As such, the Group has assessed that it should account for such investments under 'IAS 2 – Inventories'.

Under IAS 2 these investments are held at their original cost plus any subsequent capital expenditure and are not subject to revaluations on a periodic basis. Such assets will be assessed for impairment at each reporting date, but any gain on these investments will not be recognised until they are sold and derecognised from the balance sheet.

2. Portfolio investments

The movements in portfolios investments were as follows:

Period ended 30 September 2019

	Amortised cost £000	FVTPL £000	Real Estate Inventories £000	Total £000
As at 1 January 2019	869,056	217,974	-	1,087,030
Portfolios purchased during the period	172,417	24,302	25,166	221,885
Transfer between categories	9,954	(44,021)	34,067	-
Collections in the period	(264,002)	(48,164)	(328)	(312,494)
Income from portfolio investments at amortised cost	142,703	-	-	142,703
Fair value gain on portfolios at FVTPL	-	27,634	-	27,634
Income from real estate inventories	-	-	118	118
Net impairment gains/(losses)	17,446	-	(6)	17,440
Exchange and other movements	(7,107)	(2,371)	860	(8,618)
Portfolio restructure	(13,161)	-	-	(13,161)
As at 30 September 2019	**927,306**	**175,354**	**59,877**	**1,162,537**

Transfer between categories represents positions where the Group has originally held one type of instrument relating to a portfolio, and subsequently increased or changed its interest in the portfolio, leading to the requirement to consolidate the underlying structure onto the Group's balance sheet. This leads to a change in the classification of the portfolio investment held. The 'portfolio restructure' represents the restructure of a leveraged structured deal to move to a de-levered position, and hence change the nature of the holding whist extinguishing related liabilities.

Year ended 31 December 2018

	Amortised cost £000	FVTPL £000	Real Estate Inventories £000	Total £000
As at 1 January 2018	920,578	30,889	-	951,467
Impact of adopting IFRS 9 at 1 January 2018	(93,734)	76,734	-	(17,000)
Brought forward after impact of IFRS 9 opening adjustment	826,844	107,623	-	934,467
Portfolios purchased during the period	169,514	93,836	-	263,350
Portfolio additions from acquired entities	3,339	8,514	-	11,853
Collections in the period	(387,699)	(23,889)	-	(411,588)
Income from portfolio investments	188,862	5,070	-	193,932
Fair value gain on portfolios at FVTPL	-	24,745	-	24,745
Net impairment gain	50,727	-	-	50,727
Exchange and other movements	17,469	2,075	-	19,544
As at 31 December 2018	**869,056**	**217,974**	**-**	**1,087,030**

2. Portfolio investments (*continued*)

Period ended 30 September 2018

	Amortised cost	FVTPL	Real Estate Inventories	Total
	£000	£000	£000	£000
As at 1 January 2018	920,578	30,889	-	951,467
Impact of adopting IFRS 9 at 1 January 2018	(93,734)	76,734	-	(17,000)
Brought forward after impact of IFRS 9 opening adjustment	826,844	107,623	-	934,467
Portfolios purchased during the period	134,283	65,845	-	200,128
Portfolio additions from acquired entities	2,409	8,514	-	10,923
Collections in the period	(270,973)	(17,540)	-	(288,513)
Income from portfolio investments at amortised cost	144,767	5,070	-	149,837
Fair value gain on portfolios at FVTPL	-	10,609	-	10,609
Net impairment gain	30,795	-	-	30,795
Exchange and other movements	2,546	709	-	3,255
As at 30 September 2018	**870,671**	**180,830**	**-**	**1,051,501**

3. Borrowings and facilities

	30 September 2019	31 December 2018	30 September 2018
	£000	£000	£000
Senior secured notes (net of transaction fees of £13.3m, 31 December 2018: £14.4m, 30 September 2018: £15.3m)	916,096	926,340	916,060
Revolving credit facility (net of transaction fees of £3.9m, 31 December 2018: £4.0m, 30 September 2018: £3.3m)	247,975	242,121	185,024
Asset backed loan (net of transaction fees of £1.6m)	91,620	-	-
Bank overdrafts	2,477	2,696	3,624
Other borrowings	3,384	11,635	13,468
Total borrowings	**1,261,552**	**1,182,792**	**1,118,176**
Amount due for settlement within 12 months	274,923	259,045	198,575
Amount due for settlement after 12 months	986,629	923,747	919,601
	1,261,552	**1,182,792**	**1,118,176**

3. Borrowings (*continued*)

Asset Backed Securitisation

On 30 April 2019 the Group entered into a £100m non-recourse committed asset backed securitisation facility with an advance rate of 55% of 84-month ERC. On the same date, the Group sold £137m of ERC into AGL Fleetwood Limited, a wholly owned Group subsidiary and borrowed an initial amount of £75m non-recourse funding at Libor +3.1%, under the facility. On 31 July 2019 the Group sold a further £44m of ERC into AGL Fleetwood Limited and subsequently borrowed an additional £25m non-recourse funding on the same terms under the facility. The facility has a five-year term comprised of an initial two-year revolving period followed by a three-year amortising period with an option to extend the revolving period by one year subject to lender consent.

Revolving credit facility

On 26 February 2019, the maturity of the facility was extended by one year to 4 January 2024 with no change in margin.

4. Acquisition of subsidiary undertakings

On 8 April 2019, the Group acquired 100% of the share capital of Drydens. Drydens is a provider of legal services, the acquisition of which has and will broaden the Group's UK range of servicing capabilities and skills across consumer and commercial litigation, probate and insolvency. The total undiscounted consideration for the acquisition was £11,115,000 (including deferred and contingent consideration).

Contingent consideration is payable at various times within two years from completion of the transaction upon the satisfaction of three mutually exclusive conditions which are based upon the business achieving certain targets around future volumes and the successful migration of Group account.

An intangible asset of £688,000 has been recognised at acquisition, being the fair value (after appropriate discounting) of expected cash flows arising from existing customer relationships.

Goodwill of £14,519,000 was created as a result of this acquisition. The primary reason for the acquisition was to broaden the Group's range of servicing capabilities in the UK.

In the period from acquisition to 30 September 2019, Drydens contributed income of £2,508,000 and profit after tax of £696,000 to the consolidated results for the period. If the acquisition had occurred on 1 January 2019, Group total income would have been higher by an estimated £1,167,000 and profit after tax would have been lower by an estimated £24,000.

ADDITIONAL INFORMATION (UNAUDITED)

'Underlying profit' is considered 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) to not be representative of the ongoing performance of the Group and these items are excluded from underlying profit.

Reconciliation of reported to underlying costs

	Period ended 30 September 2019			Period ended 30 September 2018		
	Reported	**Adjustments**	**Underlying**	**Reported**	**Adjustments**	**Underlying**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Continuing operations						
Income	**256,867**	**-**	**256,867**	**255,308**	**-**	**255,308**
Operating expenses						
Collection activity costs	(83,124)	-	(83,124)	(90,331)	920	(89,411)
Other operating expenses	(90,953)	7,984	(82,969)	(85,668)	8,135	(77,533)
Total operating expenses	**(174,077)**	**7,984**	**(166,093)**	**(175,999)**	**9,055**	**(166,944)**
Operating profit	**82,790**	**7,984**	**90,774**	**79,309**	**9,055**	**88,364**
Net finance costs	(40,394)	-	(40,394)	(53,759)	18,658	(35,101)
Underlying profit before tax	**42,396**	**7,984**	**50,380**	**25,550**	**27,713**	**53,263**
Taxation charge	(10,177)	(1,704)	(11,881)	(5,016)	(5,310)	(10,326)
Underlying profit after tax	**32,219**	**6,280**	**38,499**	**20,534**	**22,403**	**42,937**
Non-controlling interest	(2,209)	-	(2,209)	(45)	-	(45)
Underlying profit attributable to owners of the Company	**30,010**	**6,280**	**36,290**	**20,489**	**22,403**	**42,892**
Underlying Basic EPS (p)			**20.6**			**24.5**
Underlying effective tax rate			**23.6%**			**19.4%**

Adjusting items in the period relate to business acquisition related costs of £1.7 million, costs related to the expansion of the Group fund management business of £1.0 million and other costs of £5.3 million related to the Group's simplification programme, including redundancy and IT decommissioning costs.

Prior period adjusting items within collection activity costs and other operating expenses in the period related to 'One Arrow' costs of £6.0 million and business acquisition and other costs of £3.1 million.

Financing costs adjusting items in the prior period relate to costs associated with restructuring the Group's long-term financing.

ADDITIONAL INFORMATION (UNAUDITED)

The adjusted EBITDA reconciliations for the periods ended 30 September 2019 and 30 September 2018 are shown below:

	30 September 2019 £000	30 September 2018 £000
Reconciliation of net cash flow to adjusted EBITDA		
Net cash used in operating activities	(19,587)	(22,594)
Purchase of loan portfolios	221,885	203,150
Income taxes paid	9,091	6,505
Working capital adjustments	6,367	1,769
Amortisation of acquisition and bank facility fees	72	206
Proceeds from sale of property	-	3,759
Adjusting items	7,984	9,055
Adjusted EBITDA	**225,812**	**201,850**
Reconciliation of core collections to EBITDA		
Income from loan portfolios including revaluations	187,895	191,241
Portfolio amortisation	124,599	97,272
Core collections (includes proceeds from disposal of loan portfolios)	**312,494**	**288,513**
Other income	68,972	63,336
Operating expenses	(174,077)	(175,999)
Depreciation and amortisation	14,509	10,696
Foreign exchange losses/(gains)	660	(100)
Amortisation of acquisition and bank facility fees	72	206
Disposal of intangible asset	2,051	-
Share-based payments	2,024	2,384
Proceeds from sale of property	-	3,759
Adjusting items	7,984	9,055
Provision releases	(8,877)	-
Adjusted EBITDA	**225,812**	**201,850**
Reconciliation of Operating Profit to EBITDA		
Profit after tax	32,219	20,534
Underlying net finance costs	40,394	35,101
Taxation charge on ordinary activities	10,177	5,016
Adjusting financing costs	-	18,658
Operating profit	**82,790**	**79,309**
Portfolio amortisation	124,599	97,272
Depreciation and amortisation	14,509	10,696
Foreign exchange losses/(gains)	660	(100)
Amortisation of acquisition and bank facility fees	72	206
Disposal of intangible asset	2,051	-
Share-based payments	2,024	2,384
Profit on sale of property	-	(731)
Proceeds from sale of property	-	3,759
Adjusting operating expenses	7,984	9,055
Provision releases	(8,877)	-
Adjusted EBITDA	**225,812**	**201,850**

Additional Information *(continued)*

The table below reconciles the reported profit for the period to the free cash flow result. For completeness we also split out other adjusting items.

Reconciliation of profit after tax to the free cash flow result

Income	**Reported profit £000**	**Adjusting items [4] £000**	**Underlying profit £000**	**Other items £000**	**Free cash flow £000**	
Income from portfolio investments at amortised cost	142,703	-	142,703	169,791	312,494	Collections in the period
Fair value gain on portfolio investments at FVTPL	27,634	-	27,634	(27,634)	-	
Net impairment gains on portfolio investments at amortised cost and real estate inventories	17,440	-	17,440	(17,440)	-	
Income from real estate inventories	118	-	118	(118)	-	
Income from asset management and servicing	68,680	-	68,680	-	68,680	Income from asset management and servicing
Other income	292	-	292	-	292	
Total income [1]	**256,867**	**-**	**256,867**	**124,599**	**381,466**	Cash income
Total operating expenses	(174,077)	7,984	(166,093)	10,437[2]	(155,656)	Cash operating expenses
Operating profit	**82,790**	**7,984**	**90,774**	**135,036**	**225,810**[5]	Adjusted EBITDA
Net financing costs	(40,394)	-	(40,394)	3,554[3]	(36,840)	
Profit before tax	**42,396**	**7,984**	**50,380**	**138,590**	**188,970**	
Taxation charge on ordinary activities	(10,177)	(1,704)	(11,881)	2,790	(9,091)	
Profit after tax	**32,219**	**6,280**	**38,499**	**141,380**	**179,879**	
					(5,448)	Capital expenditure
					(138,292)	Replacement rate [6]
					36,139	**Cash result**

[1] *Total income is largely derived from income from portfolio investments plus income from asset management and servicing, being commission on collections for third parties and fee income received. The other items add back loan portfolio amortisation to get to core collections. Amortisation reflects a reduction in the statement of financial position carrying value of the portfolio investments arising from collections which are not allocated to income. Amortisation plus income from portfolio investments equates to core collections*

[2] *Includes non-cash items including depreciation and amortisation, share-based payment charges and FX*

[3] *Non-cash amortisation of fees and interest*

[4] *The cash result is viewed on an underlying basis which excludes certain items. These items have been excluded to provide a more comparable basis for assessing the Group's performance between financial periods*

[5] *This is the adjusted EBITDA for the business, which is a key driver to the cash result. This measure allows us to monitor the operating performance of the Group. See page 13 for detailed reconciliations of adjusted EBITDA*

[6] *Replacement rate is the rate of portfolio investments purchases, at our target portfolio returns, required over the next 12 months to maintain the 84-month ERC as at 30 September 2019*

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.

'Drydens' means Drydens Limited, a company incorporated in England with company number 06765260.

'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).

'Free cashflow' means Adjusted EBITDA after the effects of capital expenditure, financing and tax cash impacts and before the replacement rate.

'FVTPL' – means 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.

'Gross AMS income' includes commission income, debt collection, due diligence, real estate management, advisory fees and intra-group income for these services.

	30 September 2019 £000
Third party AMS income	68,680
Intra-Group AMS income	34,010
Gross AMS income	**102,690**

GLOSSARY *(continued)*

'Gross income' includes commission income, debt collection, due diligence, real estate management, advisory fees and intra-group income for Asset Management and Servicing, total income for the Investment Business and other income.

	30 September 2019 £000
Third party AMS income	68,680
Intra-Group AMS income	34,010
Gross AMS income	**102,690**
Investment Business income	187,895
Other income	292
Gross income	**290,877**

'Leverage' is secured net debt to LTM Adjusted EBITDA.

'LTIP' means the Group long-term incentive plan.

'LTM' means last twelve months and is calculated by the addition of the consolidated financial data for the year ended 31 December 2018 and the consolidated financial data for the nine months to 30 September 2019, and the subtraction of the consolidated financial data for the nine months to 30 September 2018.

'Net debt' means the sum of the outstanding principal amount of the senior secured notes and asset-backed loans, 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 2019 is as follows:

	30 September 2019 £000	31 December 2018 £000
Cash and cash equivalents	(97,828)	(92,001)
Senior secured notes (pre-transaction fees net off)	928,046	935,567
Revolving credit facility (pre-transaction fees net off)	251,909	245,587
Asset-backed loans (pre-transaction fees net off)	93,098	-
Secured net debt	**1,175,225**	**1,089,153**
Deferred consideration – acquisitions	43,386	59,922
Deferred consideration – portfolios	31,293	12,031
Senior secured notes interest	1,379	5,542
Asset backed loan interest	129	-
Bank overdrafts	2,477	2,696
Other borrowings	3,384	11,635
Net debt	**1,257,273**	**1,180,979**

'NCI means non-controlling interest.

GLOSSARY *(continued)*

'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 2018 to Q3 2019 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 and asset-backed loans, 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 2019 is shown in net debt above.

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

'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.