ARROW GLOBAL

12 November 2020

Arrow Global plc interim results for the nine months ended 30 September 2020

Strong balance sheet cash collections and return to profitability in Q3; new five-year targets announced aligning to Arrow's capital light fund management strategy

Strong Q3 performance

- Q3 discrete profit after tax up 15.8% at £9.1 million (Q3 2019: £7.9 million)
- Balance sheet cash collections of £260.9 million (Q3 2019: £312.5 million)
- Continued improving trend in balance sheet cash collections performance following the impact of COVID-19 lockdowns – Q3 2020 discrete collections of £85.1 million represents 141% of revised 84-month ERC
- Remain cautious of economic outlook upon the winding down of government support schemes; no change to balance sheet write-down taken at the half year 2020 following Q3 review
- Asset Management and Servicing (AMS) business cashflows remained resilient
    - AMS revenues improved 2.1% to £70.2 million (Q3 2019: £68.7 million)
    - Record 16 new third-party contract wins in 2020 – currently equating to £4.8 billion of gross book value, evidencing increased demand for Arrow's services
- Increased capital deployment in line with increasing investment opportunities – total investments of £64.2 million, including pro-rata fund co-investments
- Q3 discrete total operating expenses of £56.0 million represents a 12.8% reduction on 2019 on a cash basis (2019: £55.4 million including benefits of £8.9 million of non-cash deferred consideration release).
- £10 million cost reduction programme on track

Balance sheet and liquidity remain robust

- The Group maintained a strong liquidity position – latest available cash headroom of £225.5 million (FY 2019: £153.0 million)
- Free cash flow (FCF) generation of £120.4 million (Q3 2019: £174.4 million)
- LTM leverage of 4.2x (Q3 2019: 3.7x)
- Expect leverage to be circa 4.0x by end 2021 and within target 3.0x-3.5x range by 2023 – well in advance of first bond refinancing requirement in 2024

Further fundraising success – Arrow Credit Opportunities (ACO) fund closed

- Total ACO capital commitments at close €1.7 billion, with €1.3 billion from third party investors
- Total Funds Under Management (FUM) at close of €4.2 billion – new target of €10 billion by 2025
- Analyst seminar teach-in and Q&A scheduled for 1400 today (12 November 2020)

Attractive medium-term outlook and updated targets

- Economic dislocation expected to present increased investment and asset servicing opportunities
- New targets reflect an acceleration of our capital-light strategy in an increasingly attractive operating environment:
    - Greater than €10.0 billion of FUM by end 2025
    - Greater than 50% of EBITDA from capital light businesses (Fund and Investment Management Business (FIM) and Asset Management and Servicing Business (AMS)) by FY 2025
    - 40% EBITDA margin from FIM and at least 25% EBITDA margin in AMS by end 2025
    - Return on equity of greater than 25% through-the-cycle between FY 2021 – FY 2025
    - Greater than £500 million of cash generation after fund investments between FY 2021 – 2025
    - Leverage of circa 4.0x by end 2021 and within target range of 3.0-3.5x by 2023

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

"Arrow performed well in Q3 2020, registering a clear return to profitability and strong balance sheet cash collections. It is encouraging to see a notable increase in investment returns available in the market as the economic dislocation generates new opportunities. This has also led to increased demand for Arrow's third-party asset servicing capabilities, driving new, long-term contract wins for our Asset Management & Servicing Business.

Today we have also announced the final close of the fundraising for Arrow Credit Opportunities, our first discretionary closed-end fund with total capital commitments of €1.7 billion. This marks an exciting new chapter for the business as it continues its pivot towards an increasingly capital-light model. Raising such a significant pool of third-party capital means that we are well positioned to be a leading investor into a large and fast-growing market with an improving returns trend, underpinning our target to manage €10 billion of FUM by 2025.

The close of our flagship fund has led us to outline a new set of 5-year targets for the Group which reflects our confidence in the business's ability to grow earnings, increase the contribution from capital-light fund management and servicing operations and significantly reduce leverage."

Group financial highlights	**30 September 2020**	**30 September 2019**	**Change**
Total income	85.0	256.9	(171.9)
FCF	120.4	174.4	(54.0)
Operating (loss)/profit	(83.4)	82.8	(166.2)
(Loss)/profit after tax (£m)	(101.3)	32.2	(133.5)
Basic EPS (£)	(0.57)	0.17	(0.74)
Leverage (x)	4.2	3.7	0.5

	30 September 2020	**31 December 2019**	**Change**
84-month ERC (£m)	1,567.2	1,817.9	(250.7)
120-month ERC (£m)	1,743.9	2,035.4	(291.5)

Presentation and Q&A details for Q3 2020 results and analyst fund management seminar

Q3 Results presentation:
A presentation detailing Arrow's Q3 2020 results is available on the Group's Investor Relations website.

Fund Management Analyst Seminar
A separate Fund Management Analyst Seminar will take place via video conference at 14:00 (GMT) and will be available to view via the Company's investor relations website https://www.arrowglobal.net/en/index.html.

Investors and analysts wishing to view this can register here: https://bit.ly/3mPx8t2

Investors and analysts wishing to listen to the presentation via audio only may do so using the below dial-in details. Please dial-in at least 10 minutes prior to the start of the session in order to ensure registration can take place in time for the call to commence:

Dial-in details for audio only listening
+44 (0)330 336 9126
Meeting ID: 2178984

A full recording will subsequently be made available on the Group's Investor Relations website https://www.arrowglobal.net/en/index.html

Q&A for Fund Management Analyst Seminar and Q3 results
A live Q&A session will take place with Arrow's management team immediately following the session. Analysts and investors watching the video conference will be able to submit written questions via the viewing platform at any time during the presentation, which management will answer once the Q&A session starts.

Questions can also be submitted to the company's Investor Relations email address (IR@arrowglobal.net) at any time during the presentation

If investors and analysts would prefer to ask questions in person, they may use the audio only dial-in details above to submit their questions over the phone line. Registration will be required, so dialling in ahead of the Q&A session is advised to ensure questions can be asked without unnecessary delay.

Notes:

A glossary of terms can be found at the end of the document.

More details explaining Arrow's business can be found on the Company's website at www.arrowglobal.net

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Forward looking statements

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CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the period ended 30 September 2020

	Unaudited nine months ended 30 September 2020 £000	Unaudited nine months ended 30 September 2019 £000	Unaudited three months ended 30 September 2020 £000	Unaudited three months ended 30 September 2019 £000
Continuing operations				
Income from portfolio investments at amortised cost	128,948	142,703	37,933	47,696
Fair value (losses)/gains on portfolio investments at FVTPL	(4,454)	27,634	8,387	6,510
Impairment (losses)/gains on portfolio investments	(110,307)	17,440	10,446	1,719
Income from portfolio investments - real estate inventories	264	118	97	118
Total income from portfolio investments	**14,451**	**187,895**	**56,863**	**56,043**
Income from asset management and servicing	70,151	68,680	24,693	23,041
Other income	385	292	44	90
Total income	**84,987**	**256,867**	**81,600**	**79,174**
Operating expenses:				
Collection activity costs	(74,984)	(83,124)	(24,600)	(29,107)
Other operating expenses	(93,373)	(90,953)	(31,438)	(26,300)
Total operating expenses	**(168,357)**	**(174,077)**	**(56,038)**	**(55,407)**
Operating (loss)/profit	**(83,370)**	**82,790**	**25,562**	**23,767**
Net finance costs	(41,747)	(40,394)	(14,737)	(13,884)
(Loss)/profit before tax	**(125,117)**	**42,396**	**10,825**	**9,883**
Taxation credit/(charge) on ordinary activities	23,800	(10,177)	(1,709)	(2,008)
(Loss)/profit after tax	**(101,317)**	**32,219**	**9,116**	**7,875**
Other comprehensive (loss)/income:				
Items that are or may be reclassified subsequently to profit or loss:				
Foreign exchange translation difference arising on revaluation of foreign operations	9,506	(1,402)	(28)	(769)
Movement on the hedging reserve	210	38	43	95
Total comprehensive (loss)/income for the period	**(91,601)**	**30,855**	**9,131**	**7,201**
(Loss)/profit attributable to:				
Owners of the Company	(100,631)	30,010	9,140	7,906
Non-controlling interest	(686)	2,209	(24)	(31)
	(101,317)	**32,219**	**9,116**	**7,875**
Basic EPS (£)	**(0.57)**	**0.17**	**0.05**	**0.05**
Diluted EPS (£)	**(0.55)**	**0.17**	**0.05**	**0.04**

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2020

Assets	Note	Unaudited 30 September 2020 £000	Audited 31 December 2019 £000	Unaudited 30 September 2019 £000
Cash and cash equivalents		224,498	88,765	97,828
Trade and other receivables		66,542	75,094	98,132
Portfolio investments – amortised cost	2	795,195	932,199	927,306
Portfolio investments – FVTPL	2	163,043	169,799	175,354
Portfolio investments – real estate inventories	2	63,362	61,626	59,877
Property, plant and equipment		23,189	24,521	27,542
Intangible assets		37,937	38,159	38,388
Deferred tax asset		40,358	10,759	8,697
Goodwill		281,085	267,700	275,211
Total assets		**1,695,209**	**1,668,622**	**1,708,335**
Liabilities				
Bank overdrafts	3	5,888	1,386	2,477
Revolving credit facility	3	281,013	230,963	247,975
Derivative liability		92	509	642
Trade and other payables		154,146	223,001	215,291
Current tax liability		7,174	7,645	8,873
Other borrowings	3	4,374	3,672	3,384
Asset-backed loans	3	175,828	84,077	91,620
Senior secured notes	3	934,368	897,875	916,096
Deferred tax liability		20,706	17,637	15,305
Total liabilities		**1,583,589**	**1,466,765**	**1,501,663**
Equity				
Share capital		1,771	1,769	1,769
Share premium		347,436	347,436	347,436
Retained earnings		30,705	129,240	124,730
Hedging reserve		(210)	(423)	(546)
Other reserves		(271,686)	(280,630)	(274,956)
Total equity attributable to shareholders		**108,016**	**197,392**	**198,433**
Non-controlling interest		3,604	4,465	8,239
Total equity		**111,620**	**201,857**	**206,672**
Total equity and liabilities		**1,695,209**	**1,668,622**	**1,708,335**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 September 2020

	Share capital £000	Other equity reserves £000	Total £000	Non-controlling interest £000	Total £000
Balance at 1 January 2019	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 gains - 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	6	–	6	–	6
Repurchase of own shares	–	(6)	(6)	–	(6)
Share-based payments net of tax	–	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 (unaudited)	**1,769**	**196,664**	**198,433**	**8,239**	**206,672**
Profit after tax	–	5,213	5,213	(145)	5,068
Exchange differences	–	(5,675)	(5,675)	–	(5,675)
Recycled to income statement net of tax	–	7	7	–	7
Net fair value gains - cash flow hedges	–	138	138	–	138
Tax on hedged items	–	(22)	(22)	–	(22)
Total comprehensive loss for the period	–	**(339)**	**(339)**	**(145)**	**(484)**
Share-based payments net of tax	–	(587)	(587)	–	(587)
Dividend paid	–	(115)	(115)	–	(115)
Non-controlling interest on acquisition	–	–	–	(3,629)	(3,629)
Balance at 31 December 2019 (audited)	**1,769**	**195,623**	**197,392**	**4,465**	**201,857**
Loss for the period	–	(100,631)	(100,631)	(686)	(101, 317)
Exchange differences	–	9,506	9,506	–	9,506
Net fair value losses - cash flow hedges	–	346	346	–	346
Tax on hedged items	–	(136)	(136)	–	(136)
Total comprehensive loss for the period	–	**(90,915)**	**(90,915)**	**(686)**	**(91,601)**
Shares issued	2	–	2	–	2
Repurchase of own shares	–	(561)	(561)	–	(561)
Share-based payments net of tax	–	1,950	1,950	–	1,950
Purchase of non-controlling interest	–	232	232	(232)	–
Change in non-controlling interest	–	(84)	(84)	57	(27)
Balance at 30 September 2020 (unaudited)	**1,771**	**106,245**	**108,016**	**3,604**	**111,620**

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 30 September 2020

	Unaudited period ended 30 September 2020 £000	Unaudited period ended 30 September 2019 £000
Net cash flows from operating activities before purchases of portfolio investments	**123,445**	**202,298**
Purchase of portfolio investments	(64,168)	(221,885)
Net cash generated by/(used in) operating activities	**59,277**	**(19,587)**
Net cash used in investing activities	**(18,277)**	**(20,227)**
Net cash flows generated by financing activities	**85,908**	**47,003**
Net increase in cash and cash equivalents	**126,908**	**7,189**
Cash and cash equivalents at beginning of period	88,765	92,001
Effect of exchange rates on cash and cash equivalents	8,825	(1,362)
Cash and cash equivalents at end of period	**224,498**	**97,828**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Significant accounting policy updates

These financial statements are unaudited and do not include all the information required for 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 Group's consolidated annual report and accounts for the year ended 31 December 2019 and the Group's consolidated interim results for the period ended 30 June 2020.

The Group's consolidated annual report and accounts 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 by applying the accounting policies and presentation that were applied in the preparation of the Group's published consolidated annual report and accounts for the year ended 31 December 2019.

The consolidated annual report and accounts for the year ended 31 December 2019 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.arrowglobal.net.

2. Portfolio investments

The movements in portfolios investments were as follows:

Period ended 30 September 2020

	Amortised cost £000	FVTPL £000	Real estate inventories £000	Total £000
As at 1 January 2020	932,199	169,799	61,626	1,163,624
Portfolios purchased during the period	35,537	28,631	–	64,168
Collections in the period	(217,788)	(38,572)	(4,513)	(260,873)
Income from portfolio investments at amortised cost	128,948	–	–	128,948
Fair value losses on portfolio investments at FVTPL	–	(4,454)	–	(4,454)
Income from portfolio investments - real estate inventories	–	–	264	264
Net impairment losses	(110,298)	–	(9)	(110,307)
Exchange and other movements	26,597	7,639	5,994	40,230
As at 30 September 2020	**795,195**	**163,043**	**63,362**	**1,021,600**

Year ended 31 December 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	248,470	30,052	25,165	303,687
Transfer between categories	11,483	(55,262)	43,779	–
Collections in the period	(390,734)	(48,034)	(3,543)	(442,311)
Income from portfolio investments at amortised cost	199,094	–	–	199,094
Fair value gain on portfolio investments at FVTPL	–	32,397	–	32,397
Income from portfolio investments - real estate inventories	–	–	561	561
Net impairment gains/(losses)	12,720	–	(6)	12,714
Exchange and other movements	(4,729)	(7,328)	(4,330)	(16,387)
Portfolio restructure	(13,161)	–	–	(13,161)
As at 31 December 2019	**932,199**	**169,799**	**61,626**	**1,163,624**

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.

2. Portfolio investments (*continued*)

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
Transfers 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 September2019	**927,306**	**175,354**	**59,877**	**1,162,537**

3. Borrowings and facilities

Secured borrowing at amortised cost	30 September 2020 £000	31 December 2019 £000	30 September 2019 £000
Senior secured notes (net of transaction fees of £11,048,000, 31 December 2019: £12,780,000, 30 September 2019: £13,329,000)	934,368	897,875	916,096
Revolving credit facility (net of transaction fees of £3,023,000, 31 December 2019: £3,720,000, 30 September 2019: £3,937,000)	281,013	230,963	247,975
Asset backed loan (net of transaction fees of £4,810,000, 31 December 2019: 1,658,000, 30 September 2019: £1,606,000)	175,828	84,077	91,620
Bank overdrafts	5,888	1,386	2,477
Other borrowings – non-recourse facility	4,374	3,672	3,384
	1,401,471	**1,217,973**	**1,261,552**
Total borrowings			
Amount due for settlement within 12 months	370,096	257,500	274,923
Amount due for settlement after 12 months	1,031,375	960,473	986,629

Asset backed securitisation

On 30 April 2019, the Group entered into a £100 million non-recourse committed asset backed securitisation facility with an advance rate of 55% of 84-month ERC. On the same date, the Group sold £137 million of ERC into AGL Fleetwood Limited, a wholly owned Arrow Global Group subsidiary, and borrowed an initial amount of £75 million non-recourse funding at LIBOR plus 3.1%, under the facility.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (*continued*)

3. Borrowings (*continued*)

On 31 July 2019, the Group sold a further £44 million of ERC into AGL Fleetwood Limited and subsequently borrowed an additional £25 million non-recourse funding on the same terms under the facility.

On 31 March 2020, the Group sold a further £30 million of ERC into AGL Fleetwood Limited and on 2 April 2020 borrowed an additional £21 million non-recourse funding on the same terms under the facility. As at 2 April 2020, the amount drawn under the facility was £100 million. The facility had 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.

During July 2020, the Group entered into further arrangements in connection with the non-recourse facility to mitigate potential collections impacts of COVID-19. An additional £33 million of 84-month ERC was sold into the structure with no additional borrowings made. In consideration of the additional ERC pledged, the lender agreed to amend certain performance criteria.

During July 2020, a second non-recourse amortising loan of €104,700,000 was fully drawn during the month. The second loan was secured against €356 million of Portuguese 84-month ERC at a margin of 4.25%.

As at 30 September 2020, £303,498,000 of the portfolio investments, set out in note 2, are pledged as collateral for the asset backed securitisations.

Revolving credit facility

On 26 February 2019, the £285 million revolving credit facility was extended to 2024, with no change to the 2.5% margin.

On 12 August 2020, the Group executed an amendment agreement with its Lenders under the revolving credit facility to amend the financial covenants under the facility to reflect the potential impact on the business of COVID-19. The amendments to the financial covenants are for the period from September 2020 up to and including June 2022 and provide suitable headroom based upon the Group's downside projections, including an amendment to the maximum permitted leverage and minimum liquidity, and a move to a more dynamic margin calculation.

ADDITIONAL INFORMATION (UNAUDITED)

The adjusted EBITDA reconciliations for the periods ended 30 September 2020 and 30 September 2019 respectively are shown below:

	30 September 2020 £000	30 September 2019 £000
Reconciliation of net cash flow to adjusted EBITDA		
Net cash flow generated by/(used in) operating activities	59,277	(19,587)
Purchase of portfolio investments	64,168	221,885
Income taxes paid	4,351	9,091
Working capital adjustments	49,578	6,367
Amortisation of acquisition and bank facility fee	41	72
Adjusting items	–	7,984
Adjusted EBITDA	**177,415**	**225,812**
Reconciliation of balance sheet cash collections to EBITDA		
Income from portfolio investments including fair value and impairment losses and gains	14,451	187,895
Portfolio amortisation	246,422	124,599
Balance sheet cash collections (includes proceeds from disposal of portfolio investments)	**260,873**	**312,494**
Income from asset management and servicing and other income	70,536	68,972
Operating expenses	(168,357)	(174,077)
Depreciation and amortisation	12,568	14,509
Foreign exchange losses	714	660
Amortisation of acquisition and bank facility fees	41	72
(Profit)/loss on disposal of intangible asset	(910)	2,051
Share-based payments	1,950	2,024
Adjusting items	–	7,984
Provision releases	–	(8,877)
Adjusted EBITDA	**177,415**	**225,812**
Reconciliation operating profit to EBITDA		
(Loss)/profit after tax	(101,317)	32,219
Net finance costs	41,747	40,394
Tax (credit)/charge on ordinary activities	(23,800)	10,177
Operating (loss)/profit	**(83,370)**	**82,790**
Portfolio amortisation	246,422	124,599
Depreciation and amortisation	12,568	14,509
Foreign exchange losses	714	660
Amortisation of acquisition and bank facility fees	41	72
(Profit)/loss on disposal of intangible asset	(910)	2,051
Share-based payments	1,950	2,024
Adjusting items	–	7,984
Provision releases	–	(8,877)
Adjusted EBITDA	**177,415**	**225,812**

ADDITIONAL INFORMATION (UNAUDITED) *(continued)*

The table below reconciles the reported profit after tax for the period to the free cash flow result.

Reconciliation of profit after tax to the free cash flow result

Income	**Reported profit £000**	**Other items £000**	**Free cash flow £000**	
Income from portfolio investments	129,212	131,661	260,873	Balance sheet cash collections in the period
Fair value gain on portfolio investments at FVTPL	(4,454)	4,454	–	
Impairment gains on portfolio investments at amortised cost and real estate inventories	(110,307)	110,307	–	
Income from asset management and servicing	70,151	–	70,151	Income from asset management and servicing
Other income	385	–	385	Other income
Total income[1]	**84,987**	**246,422**	**331,409**	Cash income
Total operating expenses	(168,357)	14,363[2]	(153,994)	Cash operating expenses
Operating (loss)/profit	**(83,370)**	**260,785**	**177,415**	Adjusted EBITDA[4]
Net financing costs	(41,747)	136[3]	(41,611)	Cash financing costs
(Loss)/profit before tax	**(125,117)**	**260,921**	**135,804**	
Taxation credit/(charge) on ordinary activities	23,800	(28,151)	(4,351)	Cash taxation
(Loss)/profit after tax	**(101,317)**	**232,770**	**131,453**	
			(11,054)	Capital expenditure
			120,399	**Free cash flow [5]**

[1] *Total income is largely derived from income from portfolio investments plus income from asset management and servicing, being commission on balance sheet cash collections for third-parties and fee income received. The other items add back loan portfolio amortisation to get to balance sheet cash collections. Amortisation reflects a reduction in the statement of financial position carrying value of the portfolio investments arising from balance sheet cash collections, which are not allocated to income. Amortisation plus income from portfolio investments equates to balance sheet cash 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] *Adjusted EBITDA is a key driver to free cash flow. This measure allows us to monitor the operating performance of the Group. See additional information provided on page 12 for detailed reconciliations of adjusted EBITDA.*

[5] *Free cash flow is the adjusted EBITDA after the effect of capital expenditure and working capital movements.*

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GLOSSARY OF KEY PERFORMANCE INDICATORS (KPIs)

A description of the Group's KPIs relating to clients, financial position and performance is set out in the 'additional information' section.

The Group's KPIs are used throughout this document to help explain the performance of the business. This glossary sets out why each of these KPIs are important to the Group.

84-month ERC
The 84-month ERC means the Group's estimated remaining balance sheet cash collections on portfolio investments (of all classifications) over the next 84-months, representing the expected future balance sheet cash collections on portfolio investments during this period. The expected future balance sheet cash collections are calculated at the end of each month, based on the Group's proprietary ERC forecasting model, as amended from time to time. The 84-month ERC is particularly important for the Group as it shows the forecast cash inflows over the same period that is used to calculate the future cash flows of the Group's portfolio investments.

120-month ERC
The 120-month ERC means the Group's estimated remaining balance sheet cash collections on portfolio investments (of all classifications) over the next 120-months, representing the expected future balance sheet cash collections on portfolio investments during this period. The expected future balance sheet cash collections are calculated at the end of each month, based on the Group's proprietary ERC forecasting model, as amended from time to time. The 120-month ERC is an important metric for the Group as in some cases the collection profile of a particular portfolio can extend beyond 84-months, and as such, the 120-month ERC gives a more holistic view of potential remaining balance sheet cash collections from the Group's portfolio investments.

Leverage ratio
The Group's leverage ratio is calculated by dividing the secured net debt outstanding at the end of the period by the LTM (12 months' rolling average) Adjusted EBITDA. The leverage ratio presented in the condensed consolidated interim financial statements is calculated on the same basis as the financial covenant stipulated within the Group's revolving credit facility provided by a syndicate of banks. As at 30 September 2020, the actual leverage was 4.2x.

Funds under management (FUM)
The funds under management figure for the Group represents the current gross discretionary capital that the Group is responsible for managing in some capacity, including any of its own capital which it has committed to invest alongside third-parties. FUM is an important metric used to understand the scale of the Group's Fund and Investment Management business and how this compares to others in the market.

Net IRR
The net Internal Rate of Return (Net IRR) is calculated by taking the cumulative expected returns from a portfolio investment (or group of portfolio investments) and discounting these at a rate that makes the net present value of such returns equal to the price paid for the investment(s). This is an important metric for the business as it is a measure of the returns which are being generated by investing the Group's own capital into new purchases in the period.

ARROW GLOBAL

GLOSSARY OF ALTERNATIVE PERFORMANCE MEASURES

APM	Definition	Why is the measure used?
Adjusted EBITDA	The Adjusted EBITDA figure represents the Group's earnings before interest, tax, depreciation and amortisation, adjusted for any non-cash income or expense items.	Adjusted EBITDA is an approximate measure of the underlying cash EBITDA of the Group. In addition, the leverage ratio of the Group is calculated as the ratio of secured net debt to Adjusted EBITDA. This makes the Adjusted EBITDA figure a key component of this metric, which also features in the Group's banking covenant measures.
Balance sheet cash collections	Balance sheet cash collections or collections represent cash collections on the Group's existing portfolio investments including ordinary course portfolio sales and put-backs.	Balance sheet cash collections is a key metric as it represents the Group's most significant cash inflow. It is also a key component of adjusted EBITDA which is used to calculate the Group's leverage position.
Leverage	Leverage is calculated as secured net debt over LTM adjusted EBITDA.	The leverage metric provides an indication of the level of indebtedness of the Group, relative to its underlying cash earnings. This is also an important metric used in the Group's banking covenants.

GLOSSARY OF OTHER ITEMS

'ABS' means asset-backed security.

'ACO' is Arrow Credit Opportunities, our first closed fund encompassing all fund vehicles.

'AMS' Income from Asset Management and Servicing (AMS) contracts. The Group recognises revenue when it satisfies a performance obligation related to a service it has undertaken to provide to a customer.

'APM' means alternative performance measure.

'Collection activity costs' represents the direct costs of balance sheet cash 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 balance sheet cash collections.

'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.

'ERC roll forward' relates to additional cash flows from rolling the asset life on all portfolios to seven years from the date of ERC, including the impact of any foreign exchange movements and the impact of reforecast in the period.

'FIM' means Fund and Investment Management.

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

'Funds under management (FUM)' means the value of all fund management assets managed by Arrow Global plc., including Arrow Credit Opportunities, Norfin Investimentos, Saggita, any of Arrow's own capital which it has committed to invest alongside third-parties committed capital and Arrow's back book. FUM is an important metric used to understand the scale of the Group's Fund and Investment Management business and how this compares to others in the market.

'FVTPL' – means financial instruments designated at fair value with all gains or losses being recognised in the profit or loss.

'FY' means full year being the 12 months to 31 December 2019.

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

	30 September 2020 £000	30 September 2019 £000
Third party AMS income	70,151	68,680
Intra-Group AMS income	33,605	34,010
Gross AMS income	**103,756**	**102,690**

'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 Balance Sheet Business and other income.

	30 September 2020 £000	30 September 2019 £000
Third party AMS income	70,151	68,680
Intra-Group AMS income	33,605	34,010
Gross AMS income	**103,756**	**102,690**
Balance Sheet Business income	14,451	187,895
Other income	385	292
Gross income	**118,592**	**290,877**

'Balance Sheet Business' was previously referred to as Investment Business (IB).

'IFRS' means EU adopted international financial reporting standards.

'Income from AMS' includes commission income, debt collection, due diligence, real estate management, and advisory fees.

'LTIP' means the Arrow 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 2019 and the consolidated financial data for the three months to 30 September 2020, and the subtraction of the consolidated financial data for the three months to 30 September2019.

'NCI' means non-controlling interest.

GLOSSARY OF OTHER ITEMS *(continued)*

'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 as at 30 September 2020 is as follows:

	30 September 2020 £000	31 December 2019 £000
Cash and cash equivalents	(224,498)	(88,765)
Senior secured notes (pre-transaction fees net off)	943,963	902,656
Revolving credit facility (pre-transaction fees net off)	284,036	234,683
Asset-backed loans (pre-transaction fees net off)	179,630	85,604
Secured net debt	**1,183,131**	**1,134,178**
Deferred consideration – portfolio investments	25,146	62,944
Deferred consideration – business acquisitions	24,508	30,372
Senior secured loan notes interest	1,453	7,999
Asset backed loan interest	1,008	–
Bank overdrafts	5,888	1,386
Other borrowings	4,374	3,672
Net debt	**1,245,508**	**1,240,551**

'OCI' means other comprehensive income.

'Portfolio amortisation' represents total balance sheet cash collections plus income from portfolio investments.

'Portfolio investments' are on the Group's statement of financial position and represent all debt portfolios that the Group owns at the relevant point in time. A portfolio comprises a group of customer accounts purchased in a single transaction.

'Secured net debt' see table in net debt definition.

'Translation reserve' comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.