# ARROW GLOBAL GROUP PLC

HY 2021 Results

12 August 2021

# Highlights

| | |
|---|---|
| **1** | Profit before tax and takeover costs of £22.9 million (H1 2020: loss of £135.9 million); Strong second quarter with Q2 2021 stand-alone result 1.9x greater than Q1 2021; £22.4 million of takeover costs have been recognised leading to a statutory profit before tax of £0.5 million (H1 2020: loss of £135.9 million) |
| **2** | Continued momentum in deployment of ACO 1 – 54% of fund deployed or committed (gross, before capital recycling and including both third-party and balance sheet co-investment); On track for ACO 2 fundraising in early 2022 |
| **3** | Asset Management & Servicing third-party contract wins continue – 11 new contracts in H1 2021 (FY 2020: 26); 71% of ACO 1 deployment being serviced by AMS platforms |
| **4** | H1 2021 collections of £179.6 million (H1 2020: £175.8 million), representing 119% of December 2020 forecast Estimated Remaining Collections (ERC) |
| **6** | Liquidity headroom of £190.0 million (FY 2020: £174.6 million) |
| **7** | Leverage of 4.7x (FY 2020: 5.1x); Continue to expect leverage to be circa 4.0x by the end of 2021 and within target 3.0x-3.5x range by 2023 |
| **8** | Recommended all cash offer by TDR capital approved by Arrow shareholders (93.8% of votes in favour); Completion expected by end of Q3 2021 |

**Strong second quarter performance; Execution of capital-light strategy firmly on track, driving long-term growth**

# Group P&L

## Strong earnings growth delivered

| £m | H1 2021 | H1 2020 | Change (%) |
|---|---|---|---|
| Balance sheet cash collections | 179.6 | 175.8 | 2.2 |
| *Asset-based income[1]* | *110.7* | *(42.4)* | *-* |
| *Fee-based income[2]* | *55.6* | *45.5* | *22.2* |
| *Other income* | *-* | *0.3* | *-* |
| **Total income** | **166.3** | **3.4** | **-** |
| **EBITDA before takeover costs[3]** | **61.3** | **(100.0)** | **-** |
| **Adjusted EBITDA[4]** | **131.2** | **118.7** | **10.5** |
| **Profit/(loss) before tax and takeover costs[3]** | **22.9** | **(135.9)** | **-** |

*[1] Represents statutory income generated from assets on the balance sheet*

*[2] Represents third-party recurring fee income generated from the AMS and FIM businesses*

*[3] These results exclude advisor fees associated with the potential purchase of the business and one-off acceleration of share-based payments and retention arrangements for key personnel below executive directors; Takeover costs amount to £22.4m of which c. £17m are contingent on the successful completion of the deal with the balance representing unavoidable costs relating to the takeover*

*[4] Adjusted EBITDA represents the Group's earnings before interest, tax, depreciation and amortisation, adjusted for any non-cash income or expense items*

# Fund & Investment Management (FIM)

## Continued momentum in deployment of ACO 1 at a net deal IRR of 18%

| £m | H1 2021 | H1 2020 (restated)[1] | Change (%) |
|---|---|---|---|
| *3rd party income* | *10.8* | *5.6* | *92.9* |
| *Intra-segment income* | *13.9* | *10.9* | *27.5* |
| **Gross income** | **24.7** | **16.5** | **49.7** |
| Business operating costs[2] | (11.6) | (10.1) | (14.8) |
| Overheads (excl. D&A and FX)[2] | (5.5) | (6.4) | (14.1) |
| **EBITDA** | 7.6 | - | - |
| *EBITDA margin (%)* | *30.7* | *(0.1)* | - |
| **Profit before tax** | 6.0 | (0.3) | - |

*[1] In line with the requirements of IFRS 8:29, due to the change of the segmental reporting structure aligned to the Group now being managed through an integrated asset manager model, the corresponding information for 2020 has also been restated. This is done on the same basis as in the Annual Report and Accounts 31 December 2020*

*[2] The split of total operating expenses has changed from the Interim results 30 June 2020, with a reclass between 'collection activity and fund management costs' and 'other operating expenses',. The main movements between the categorisation relate to allocation of internal staff costs and professional fees. This re-presented is on the same basis as done in the Annual Report and Accounts 31 December 2020.*

- 54% of ACO 1 deployed or committed (including both third-party and co-investment); 64% excluding co-investment
  - Record level of deployment in Q2 21
  - c. 70% of deals to date in off-market/bilateral trades
- Expect to reach 70% deployment (excluding co-investment) by early 2022, enabling start of fundraising for the second fund, ACO 2
  - Strong Q3 2021 investment pipeline
- FUM of €4.8bn at 30 June 2021 (31 December 2020: €4.3bn)
  - Continue to target at least €10bn of FUM and a 40% EBITDA margin by end of 2025
- Investing in talent, systems, technology and brand-building to drive scale and operating leverage

**On track to begin fundraising for second fund (ACO 2) in early 2022**

# Asset Management & Servicing (AMS)

## High-quality recurring revenue growth and continued contract wins

| £m | H1 2021 | H1 2020 (restated)[1] | Change (%) |
|---|---|---|---|
| *Third-party income* | *44.8* | *39.8* | *12.6* |
| *Intra-segment income* | *19.4* | *19.8* | *(2.0)* |
| **Gross income** | **64.2** | **59.6** | **7.7** |
| Business Operating Costs | (37.3) | (33.3) | (11.1) |
| Overheads (excl. D&A and FX) | (20.8) | (19.5) | (6.7) |
| **EBITDA** | **6.2** | **6.8** | **(8.8)** |
| *EBITDA Margin (%)* | *9.7* | *11.4* | *-* |
| **Profit before tax** | **2.6** | **4.4** | **(41.0)** |

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- Resilient third-party income growth, up 12.6% to £44.8m (H1 2020: £39.8m)
- 11 new contract wins during H1 2021 (FY 2020: 26), continued high third-party demand for servicing capability
  - Averaged circa 5-10 new contract wins per annum from 2014-2019
  - Strong H2 2021 deal pipeline
- 71% of ACO 1 deployment being serviced by AMS platforms
- Confident in achieving our targets of growing revenues by 10% per annum over the next 5 years and an EBITDA margin of 25% by 2025

**Third-party contract wins driving high-quality recurring revenue growth**

# Balance Sheet business

## Continued strong collections, outperforming ERC

| £m | H1 2021 | H1 2020 (restated)[1] | Change (%) |
|---|---|---|---|
| Cash collections | 176.9 | 175.8 | 0.6 |
| *Income (pre-impairments)* | *64.1* | *90.3* | *(29.0)* |
| *Impairment gains/(losses)* | *41.1* | *(133.6)* | - |
| **Gross income** | **105.1** | **(43.3)** | **-** |
| Business Operating Costs | (45.3) | (50.6) | 10.9 |
| Overheads (excl. D&A) | (5.9) | (5.4) | (9.3) |
| **EBITDA** | 53.9 | (99.4) | - |
| **Profit/(loss)before tax** | 52.5 | (102.2) | - |

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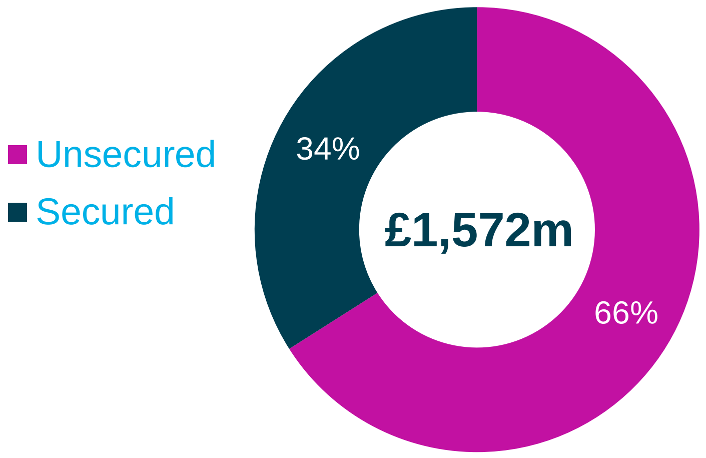
- H1 2021 collections of £179.6 million (H1 2020: £175.8 million), representing 119% of December 2020 forecast Estimated Remaining Collections (ERC)
- No material changes to the outlook for macro-economic factors which informs the assumptions used in our ERC forecast
- Portfolio purchases of £94.8m (H1 2020: £42.9m)
- Expect future collections to perform at least in line with 84-month ERC

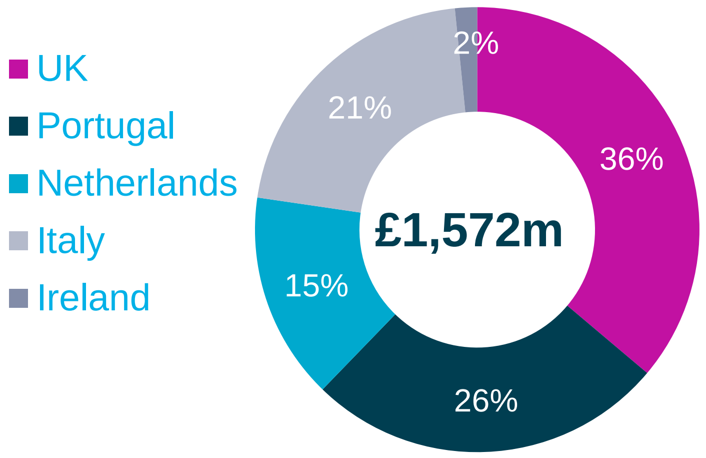
**Maximising collections whilst continuing to maintain high customer service levels**

# ERC exposure by country and asset class remains consistent

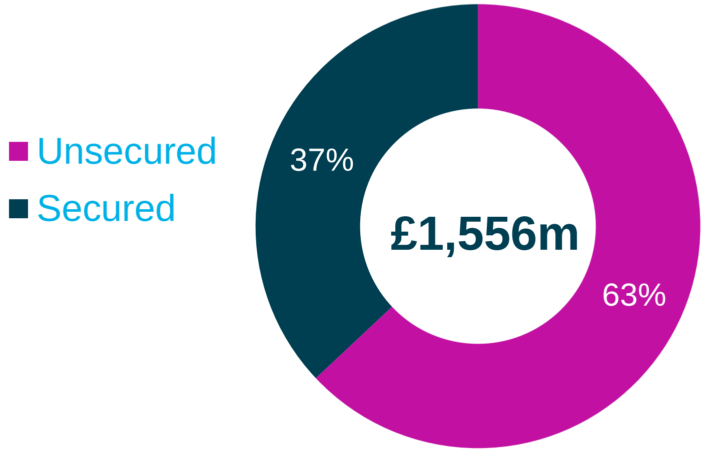
### June 2021 84-month ERC by asset class



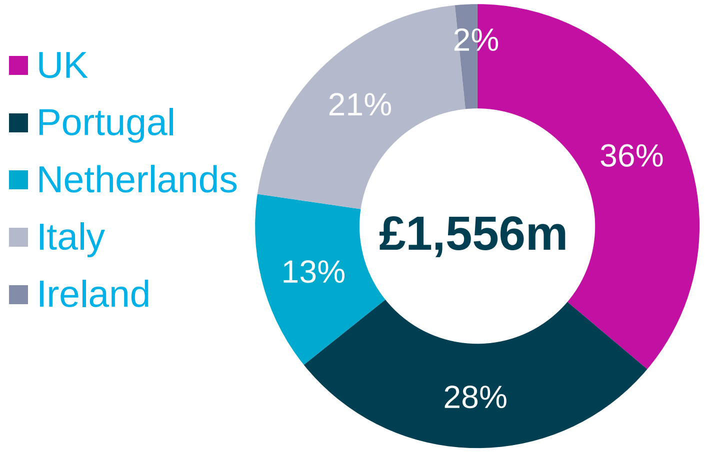

### June 2021 84-month ERC by geography




### Dec 2020 84-month ERC by asset class




### Dec 2020 84-month ERC by geography



# Group functions

| £m | H1 2021 | H1 2020 (restated)[1] | Change (%) |
|---|---|---|---|
| **Income** | **-** | **0.3** | **-** |
| Collection activity costs | - | - | - |
| Other operating expenses (excl. D&A and FX) | (28.8) | (7.8) | (269.2) |
| **EBITDA before takeover costs[2]** | **(28.8)** | **(7.4)** | **(289.2)** |
| Depreciation, amortisation and forex | (1.6) | (3.5) | 54.3 |
| Net finance costs | (30.2) | (27.0) | (11.8) |
| **Loss before tax and takeover costs[2]** | **(60.6)** | **(37.9)** | **(59.9)** |

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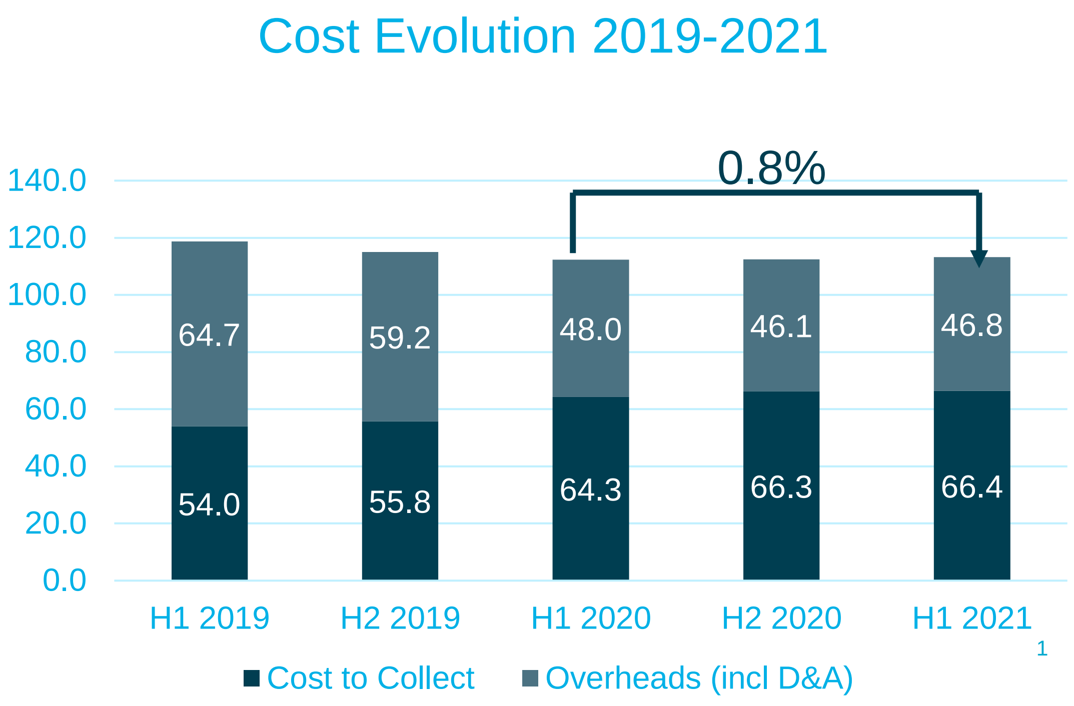
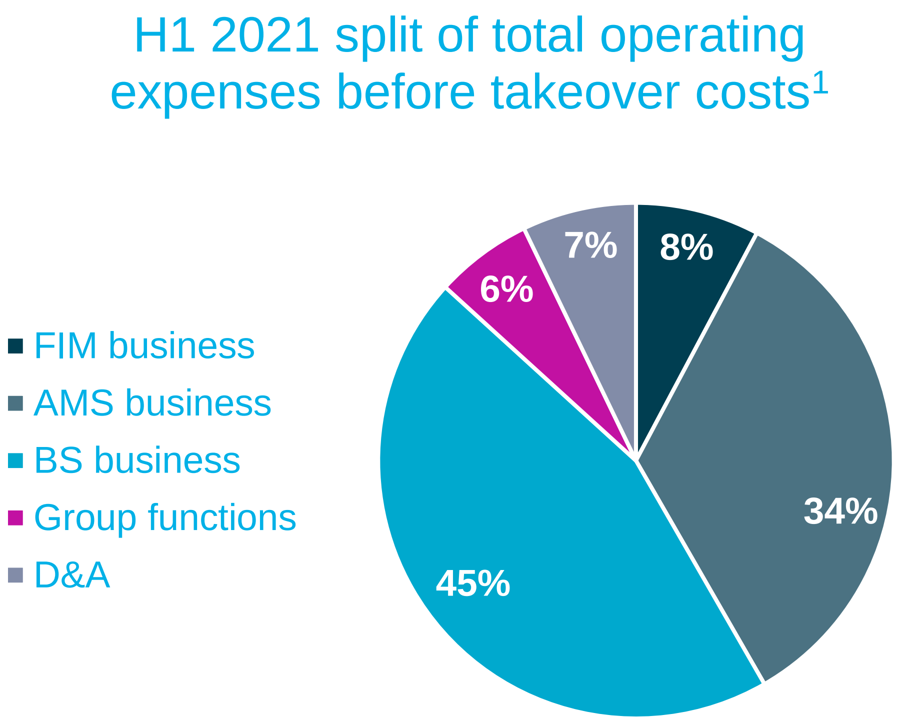
*[2] These results exclude advisor fees associated with the potential purchase of the business and one-off acceleration of share-based payments and retention arrangements for key personnel below executive directors; Takeover costs amount to £22.4m of which c. £17m are contingent on the successful completion of the deal with the balance representing unavoidable costs relating to the takeover*

# Disciplined management of costs



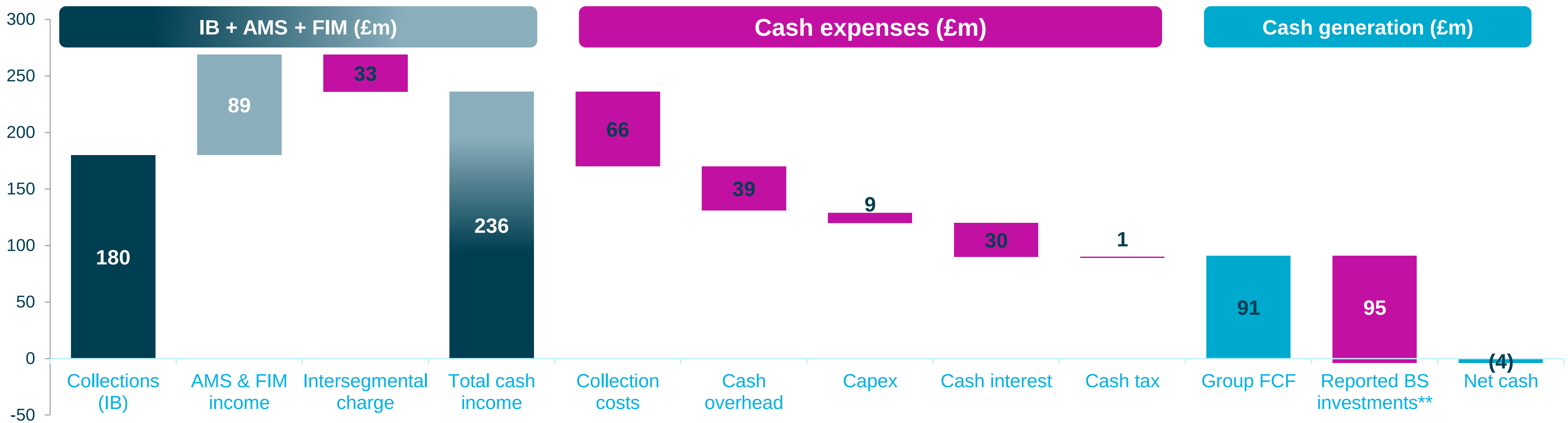

- Marginal 0.8% increase in total operating expenses before takeover costs[1] (incl D&A) vs H1 2020 despite new business growth and higher investments
- Targeting EBITDA margins of 40% and 25% by 2025 in FIM and AMS businesses respectively

*[1] H1 2021 total operating expenses exclude advisor fees associated with the potential purchase of the business and one-off acceleration of share-based payments and retention arrangements for key personnel below executive directors (no impact on H1 2020); Takeover costs amount to £22.4m of which c. £17m are contingent on the successful completion of the deal with the balance representing unavoidable costs relating to the takeover*

# Continued strong free cash generation

## Cash generation of £91m and in-year investments of £95m

### HY 2021 Segmental Free Cashflow*




| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **FY 2020 (£m):** | **339** | **162** | **(65)** | **436** | **(131)** | **(72)** | **(14)** | **(56)** | **(6)** | **157** | **(110)** | **47** |

**Arrow remains highly cash generative; FCF generation offset by Balance Sheet investments into attractive market opportunities**

* Free cashflow = Cash generated after the effects of capital expenditure, financing and tax cash impacts and before reinvestment
** Investments made in HY 2021; does not include funding deferred purchases from previous years

# Cash generation and capital allocation

## Arrow moving towards net debt reduction

| | 2018 | 2019 | 2020 | H1 2021 |
|---|---|---|---|---|
| **FCF** | **£231m** | **£261m** | **£157m** | **£91m** |
| **Reported Balance Sheet investments** | **(£263m)** | **(£304m)** | **(£110m)** | **(£95m)** |
| Deferred portfolio purchases to following period | £12m | £63m | £10m | £6m |
| Deferred purchases from prior year | (£16m) | (£12m) | (£61m) | (£10m) |
| **Total cash purchases in year** | **(£267m)** | **(£253m)** | **(£161m)** | **(£99m)** |
| M&A costs in current year/prior year deferred | (£114m) | (£5m) | - | - |
| Dividends Paid | (£21m) | (£23m) | - | - |
| Other* | (£62m) | (£40m) | £5m | £49m |
| **Movement in net debt** | **(£233m)** | **(£60m)** | **£1m** | **£41m** |

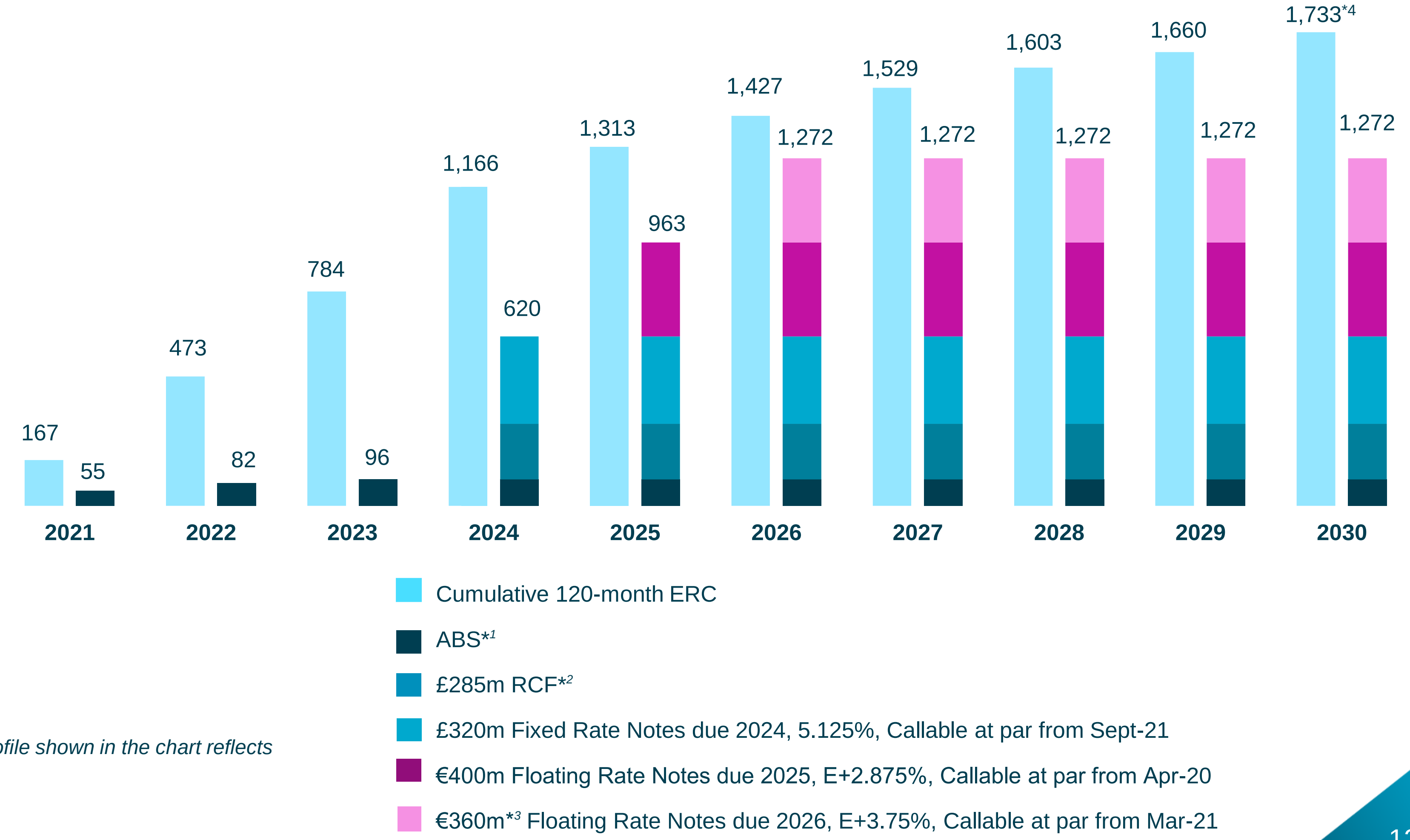
* Includes largely foreign exchange movements on both borrowings and cash

# Prudently managed balance sheet with long-term funding

## ERC shows over £1 billion cashflow prior to first bond maturity in 2024

- Strengthened the liquidity position with successful €75 million bond tap in Q1 2021 with cash headroom increasing to £190.0 million (FY 2020: £174.6 million)
- Leverage reduced in line with expectations to 4.7x (FY 2020: 5.1x) comfortably within revised covenant levels
- **Continue to expect leverage to be circa 4.0x by end 2021 and within target 3.0x-3.5x range by 2023**

**Long term debt profile compared with 120-month ERC (£m)**




*[1] *Drawn ABS revolver as at June 2021 was £96m and the maturity profile shown in the chart reflects debt amortising based upon forecast collections.*

*[2] *Drawn RCF balance as at June 2021 was £204m.*

*[3] *Includes fungible bond tap of €75m issued in Q1 2021.*

*[4] *Includes the ERC due until June 2031.*

# Continuing to execute on our ESG strategy

Our group-wide framework coupled with local areas of focus combine to bring benefits to all stakeholders.

| Environmental | Social | Governance |
|---|---|---|
| Evolution of internal policies | Fair customer treatment | Executive level KPIs |
| + | + | + |
| Due diligence standards | Due Diligence standards | Corporate governance & Sustainability Committees |
| + | + | + |
| Net zero ambitions | Diversity & Inclusion & People Sponsors | Reporting, external ratings and standards |
| = | = | = |
| We are aware of our impact on the natural environment and our effort to improve it | We understand and respond to the needs of our people and customers | We are a responsible business and investor |

# Outlook – Continued improvement in operating environment; attractive investment opportunities

| | |
|---|---|
| 1 | Well-positioned to take advantage of the investment and asset servicing opportunities that are arising from pandemic-driven economic dislocation |
| 2 | Continued recovery in performance during H2 2021 aligned to improving operating conditions and capital-light strategy |
| 3 | Outlook described at FY20 remains appropriate |
| 4 | 2025 strategic targets remain on track |
| 5 | Completion of TDR acquisition, subject to regulatory approvals, expected by the end of Q3 2021 |

**Arrow’s proven track record as a leading investor and servicer means we remain well positioned in the large and growing European market**

# H2 priorities – Capitalise on attractive investment opportunities

| | |
|---|---|
| **1** | Continued deployment of ACO 1 into off-market / bilateral trades, with a continued preference for secured over unsecured assets |
| **2** | Prepare for start of fundraising of ACO 2 in early 2022, leveraging existing institutional investor relationships, targeting a diversified and global investor base for future fundraises |
| **3** | Continued FIM investment in talent, systems, technology as well as building the brand to drive scalability and operational leverage |
| **4** | Seek further new business wins in AMS to drive high-quality recurring revenues |
| **5** | Monitor the macro-economic environment and maximise back book collections, at least in line with ERC, while maintaining strong customer service in line with ESG policy |

**Arrow’s strong financial position, successful track record, and growing capital-light businesses uniquely positions the Group to take advantage of attractive opportunities emerging from the pandemic**

# Appendix

# Ambitious targets reflect Arrow's accelerated capital-light strategy

| | |
|---|---|
| **1. Increasing FUM** | ➢ Targeting **>€10bn of FUM** by end 2025 |
| **2. Increasing capital-light earnings** | ➢ Targeting >**50% of EBITDA from capital light** businesses (FIM and AMS) by end 2025 |
| **3. Increasing margin** | ➢ Targeting **40% EBITDA margin from FIM** by 2025<br>➢ Targeting **25% EBITDA margin from AMS** by 2025 |
| **4. Increasing returns** | ➢ Targeting **ROE of >25% through-the-cycle** over 5 years (2021-2025) |
| **5. Increasing cash generation** | ➢ Targeting **>£500m of cash generation after fund investments** over 5 years (2021-25) |
| **6. Reducing leverage** | ➢ Targeting **c.4.0x** by end 2021<br>➢ Target range **3.0-3.5x by 2023** |

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