ARROW GLOBAL

23 March 2021

# Arrow Global Group plc preliminary results for the twelve months ended 31 December 2020

***Robust cashflow generation and strong return to profitability in H2; new five-year targets reflect confidence in capital-light fund management strategy***

## Highlights

- Loss before tax of £114.8 million (FY 2019: £51.3 million profit) – loss driven by non-cash impairment from ERC asset write-down taken at HY 2020
- Year-end leverage of 5.1x comfortably within revised covenant levels
- Delivery against ambitious five-year targets set in November remains on track

## Fund and Investment Management business (FIM) – strong fundraising performance

- Achieved final close of Arrow Credit Opportunities 1 fund (ACO 1) with total capital commitments of €1.7 billion, with €1.3 billion from third party investors
- Total Funds Under Management (FUM) of €4.3 billion (FY 2019: €3.7 billion)
- Increased capital deployment from H2 2020 in line with increasing investment opportunities – 35% of Arrow Credit Opportunities 1 (ACO 1) fund deployed or committed by end February 2021 – expect this to have increased by end of Q1 2021

## Asset Management and Servicing business (AMS) – resilient revenue performance

- AMS third-party income grew 2.8% to £97.0 million (FY 2019: £94.4 million)
- Record 26 new third-party contract wins in 2020, evidencing increased demand for Arrow's services – expected to contribute materially to AMS income in 2021
- Further 6 AMS contract wins in 2021

## Balance Sheet business (BS) – continued cashflow generation

- Cash collections of £338.9 million (FY 2019: £442.3 million) – strong performance in collections at 125% of revised 84-month ERC in H2 2020
- Approach taken to revalue balance sheet assets against uncertain economic outlook at HY 2020 remains appropriate – current cash collections outperformance supports methodology

## Managed business effectively throughout COVID-19

- Maintained a strong liquidity position with liquidity headroom of £174.6 million (FY 2019: £152.9 million)
- Additional ABS facility of €104.7 million enhanced liquidity
- Revolving credit facility covenant restructure achieved – year end leverage of 5.1x remains well within covenant levels
- €75 million Eurobond tap completed in January 2021 extending duration and demonstrating continued access to the funding market

## Attractive outlook and updated targets

- Economic outlook more positive than original forecasts used to inform ERC write-down. However, economic dislocation expected to present increased investment and asset servicing opportunities
- Expect to continue to perform at least in line with revised ERC and win further AMS contracts
- Expect to reach 70% deployment of ACO 1 around end of 2021, enabling start of fundraising for ACO 2
- Confident in ability to deleverage to circa 4.0x by end 2021 and enter target range of 3.0-3.5x by 2023

- Plan to resume dividend payments earlier than originally planned, with a final dividend in respect of year-end 2021

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

"2020 was a year when Arrow remained true to its purpose and values and ensured we put colleagues and customers first. Indeed, Arrow's rapid ability to ensure that 100% of our staff were working fully operationally from home, combined with our excellent customer treatment, has been a notable driver of our record third-party servicing contract wins. Despite the disruption from COVID-19, the Group performed resiliently in 2020. Decisive management action taken early in the year ensured the maintenance of strong liquidity levels and the business registered a clear return to profitability in H2 2020 following the non-cash impairment in H1 2020 relating to the ERC asset write-down."

"It is exciting to see a notable increase in investment returns available in the market as economic dislocation generates new opportunities. We are therefore confident that we will continue to increase investment volumes and win new servicing contracts, driving further capital-light revenue increases and positioning us well to start raising the ACO 2 fund faster than originally planned."

"Trading in 2021 has started the year strongly. Our new set of five-year targets demonstrate our confidence in our ability to grow both the quantum and quality of the Group's earnings significantly as we look to raise new funds and grow funds under management."

| **Group highlights** | **31 December 2020** | **31 December 2019** | **Change** |
|---|---|---|---|
| Capital-light % of Group EBITDA (%) | (48.4)* | 33.3 | (81.7) |
| FIM EBITDA margin (%) | 7.2 | 38.6 | (31.4) |
| AMS EBITDA margin (%) | 12.4 | 17.9 | (5.5) |
| Free cash flow (£m) | 156.6 | 261.4 | (104.8) |
| (Loss)/profit after tax (£m) | (114.8) | 51.3 | (166.1) |
| Basic EPS (£) | (0.52) | 0.20 | (0.72) |
| Return on Equity (%) | (63.7) | 17.9 | (81.6) |
| Leverage (x) | 5.1 | 3.4 | 1.7 |
| FUM (€bn) | 4.3 | 3.7 | 0.6 |

* Negative Group EBITDA

## Presentation and Q&A details

A presentation is available to download on the company's investor relations website here: https://bit.ly/3tIrIne.

There will be a presentation from Arrow's management team via conference call starting at 0830. There will be a Q&A session with management following the presentation. The dial-in details for the conference call and Q&A session are copied below.

**Conference call:**
**Dial-in details: +44 (0)330 336 9126**
**Confirmation Code: 3678637**

**Notes:**

A list of alternative performance measurements and a glossary of definitions can be found at the end of the document.

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

**For further information:**


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|---|---|
| **Arrow Global Group plc** | |
| Duncan Browne, Head of investor relations | +44 (0) 7925 643 385<br>dbrowne@arrowglobal.net |
| **FTI Consulting** | |
| Tom Blackwell | +44 (0)20 3727 1141<br>arrowglobal@fticonsulting.com |


## 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.

ARROW GLOBAL

# Group chief executive officer's review

**An exciting new chapter for Arrow**

**Putting our purpose and values front and centre**

The unique challenges presented by the events of 2020 meant that we were determined that our response would be shaped by our purpose and values. Our foremost priority was to safeguard the health and wellbeing of our colleagues and ensure the continuity of service for customers and clients. I believe Arrow succeeded on both counts. We ensured that 100% of our workforce could work from home effectively within three weeks of the pandemic's outbreak. We maintained full service to clients, while also offering customers appropriate levels of forbearance where necessary through an enhancement of our already comprehensive vulnerable customer policy. The Group's policy of offering forbearance to those in financial distress or ill health was expanded by implementing a specific COVID-19 customer support programme enabling us to help customers directly affected by the virus.

**Arrow proved its resilience in a challenging operating environment**

Trading conditions in the first half of 2020 were dominated by the global COVID-19 pandemic. The business started the year strongly before the impact from the global crisis. After outperforming Estimated Remaining Collections (ERC) in January and February 2020, Balance Sheet (BS) cash collections began to be impacted by the end of March 2020 and reduced to a low point in April 2020, as the macroeconomic environment deteriorated and the business's ability to operate was significantly restricted due to European lockdowns. Since then, we have seen improvements in cash collections in H2 2020, where cash collections outperformed the reforecast ERC by 24.6%.

Third-party Asset Management and Servicing (AMS) income also remained robust, with performance relatively flat on FY 2019, demonstrating the resilience of the business's capital-light cash flows, the impact of a record 26 new contract wins and the early signs of the benefits to AMS from our ACO 1 fund launch.

Overall, this resilient operational performance meant that the Group returned strongly to profitability in H2 2020.

**Decisive action taken to secure the balance sheet and enhance liquidity**

The Group also took a highly proactive response to the crisis's impact on our balance sheet. Early on, we sought to compensate for COVID-19 induced cash collection weakness by reducing investments and costs. We also raised additional funds through the execution of a €104.7 million ABS facility and completed a long-term support agreement with our revolving credit facility banks, providing ample covenant headroom to deliver fully against our strategy. Post year end we issued €75 million senior secured notes maturing 2026. Taken together, these actions ensure that we can look forward to capturing the significant investment opportunities presented by COVID-19 economic dislocation with confidence, backed by a strong and highly liquid balance sheet with long-term lender support.

**Refined approach taken to revalue balance sheet assets against uncertain economic outlook**

At the interim results, we ran a number of macroeconomic scenarios through our ERC model and booked a reforecast ERC asset which we believe represents a blend of 'baseline' and 'downside' macroeconomic scenarios. This led to a balance sheet write down of portfolio investments and associated non-cash charge of £133.6 million to the statement of profit or loss at H1 2020, subsequently reducing to £95.5 million at FY 2020, resulting in an accounting loss before tax for the year of £114.8 million. We have re-assessed this approach at the end of the year and reaffirmed our view of the appropriateness of this valuation approach.

Following this write down the Group's balance sheet cash collections strongly outperformed our reforecast ERC. While this is clearly positive, it is the Group's view that as the substantial levels of economic support that has been provided by governments across Europe begins to fall away in 2021, there will be a deterioration in the near-term macroeconomic outlook which will have an adverse impact on the operating environment. Therefore, no material changes in the valuation of the ERC following our reforecasting exercise at H1 2020 have been made.

**Completed the strategic pivot to a more capital-light model and successfully raised our inaugural distressed credit fund, ACO 1**

We announced the first close of our inaugural pan-European fund, ACO 1, in December 2019. Fundraising continued throughout 2020, with final close of €1.7 billion announced in November 2020, representing one of the largest ever first-time fundraises in the European private credit market. I am enormously proud of this achievement as it not only entailed passing the stringent due diligence tests set by some of the most sophisticated alternative asset allocators in the world, but was also conducted during the current global pandemic where the usually necessary face-to-face contact was rendered impossible. Our success in raising such a large first-time fund, therefore, not only represents the attractiveness of Arrow's fund management offering, but also the confidence sophisticated investors have in our long track record of delivering strong through-the-cycle returns.

At our fund and investment management analyst seminar in November 2020, we unveiled a new segmental structure which reflects the Group's new model better. Alongside Arrow's current Balance Sheet business and Asset Management and Servicing business, we launched a new Fund and Investment Management business segment. This segment comprises the new fund manager, AGGCM, alongside our current Fund and Investment Management businesses of Norfin, Europa Investimenti and Arrow Portfolio Management, which manages Arrow's balance sheet assets. Together Arrow's Fund and Investment Management business has total Funds Under Management (FUM) of €4.3 billion at the end of 2020. We are confident we can grow FUM to over €10.0 billion by the end of 2025.

**New five-year targets underline our ambition to become a scaled integrated alternative asset manager and significantly grow capital-light earnings**

Following the successful final close of ACO 1, we announced an updated set of five-year targets that better reflect our ambition to grow into a fully scaled integrated alternative asset manager. These targets underline our belief that we can increase both the quantum and quality of our earnings as we grow profits from our capital-light Asset Management and Servicing and Fund and Investment Management businesses, while simultaneously significantly reducing net debt and leverage.

**Five-year targets:**

- 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 end 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

**Business well positioned to take advantage of the significant market opportunity**

Arrow's business model is structured to benefit from times of economic dislocation. Even prior to COVID-19, Arrow's addressable market was extremely large with around €1.5 trillion of non-core and non-performing assets estimated across Europe, with around €1 trillion of these still sitting on bank balance sheets. This is despite over €800 billion of assets being sold by banks into the capital markets in the last seven years; this alone is expected to generate a secondary market of around €300 billion over the next four years as these assets are characterised by their long lives and initial buyers will sell on many of the assets. Based on the provisions that banks incurred in 2020, early estimates suggest that the non-performing loan market will increase at least 50% to around €500 billion in the coming years.

While Arrow's market is growing rapidly, deployment of capital into attractive market opportunities was limited in the first half as the Group looked to preserve liquidity and assess the market pricing and availability of assets. Deployment picked up in the second half of 2020, with attractive returns available, as markets began to reopen following European-wide lockdowns. In 2020, the Group had deployed or committed the ACO 1 fund at a current net deal IRR of 17%. We expect capital deployment to pick up significantly in 2021. ACO 1 was 35% deployed or committed by end February 2021; we expect this to have increased by the end of Q1 2021 and to have deployed 70% of the ACO 1 fund by early 2022, with Arrow's balance sheet expected to constitute around 25% of that investment volume. We also continue to see evidence of available returns increasing.

Alongside an attractive investment market opportunity, there is also a significant opportunity for Arrow to grow its Asset Management and Servicing business. This will be driven by an increase in banks requiring more support to service their non-performing assets and institutional investors requiring a servicer to manage their investment assets. Arrow won a record 26 new Asset Management and Servicing contracts in 2020, providing us with further confidence that we can meet our ambitious targets to grow revenues in this business by 10% per annum over the next five years.

**A message for the entire Arrow team**

2020 has been an extraordinarily tough year for the entire world. I am enormously proud of how my Arrow colleagues rose to the challenge of adapting so quickly to a drastically new way of working in the face of the global COVID-19 pandemic. Recent events have been the ultimate test of every company's resilience and culture and I believe that Arrow rose to that challenge on both fronts. The work of our support functions to enable the entire company to work fully operationally from home by the end of March and of our operations teams, who supported our customers and clients through this difficult time, meant we were able to ensure quality continuity of service. Our underwriting and investment teams worked tirelessly to ensure we appropriately revalued our back book of assets, as well as access new investment opportunities in response to client demand. The external recognition we have received, is testament to the quality of service we have continued to deliver this year and we were delighted, therefore, to win awards for our customer-service operations, most notably the Credit Strategy 'Best Outsourcing and Partnership' Initiative for Onboarding and Customer Engagement, in recognition of our work with Virgin Money.

**Outlook**

We are looking forward to 2021 with optimism. I am confident that our approach to the valuation of the assets on our balance sheet in line with our cautious view on the macro-economic outlook means we are well insulated against further economic shocks. However, we remain highly alert for any signs of further macroeconomic deterioration that could impact operations. Our analysis of the impact of the pandemic on the balance sheets of European financial institutions shows that our addressable market is set to increase significantly due to economic dislocation, providing strong tailwinds for our investment and servicing activities. The raising of €1.7 billion within our ACO 1 fund means we are well positioned to be a leading investor in the European NPL market, with a record amount of dry investment powder at a time when the cycle has turned significantly in our favour, increasing the likelihood of investment returns rising.

The work we undertook this year to maximise liquidity and renegotiate our banking covenant under favourable terms means we have ample liquidity to invest into this market opportunity through our 25% co-investment alongside ACO 1, which means that Arrow will continue to grow strongly while simultaneously reducing capital intensity and increasing capital-light earnings from the Fund and Investment Management and Asset Management and Servicing businesses. Our confidence in our ability to deliver this capital-light strategy is reflected in the new set of five-year targets, announced as part of our Q3 results in November 2020, that reflect our commitment to scale significantly the Group’s funds under management and increase the proportion of our earnings that come from capital-light sources to at least 50% over the next five years. This will result in a significantly higher quality of earnings with significantly less leverage and net debt. This is a strategy I am hugely excited to deliver.

Offer

On 22 February 2021, Arrow received a preliminary, conditional proposal from TDR Capital LLP, in its capacity as manager of various TDR Capital LLP managed investment funds, for a possible cash offer of 307.5 pence per share for the entire issued and to be issued ordinary share capital of Arrow. The board of Arrow has confirmed to TDR Capital LLP that it is minded to recommend a firm offer for Arrow at this price, subject to the agreement of terms relating to the proposal.

**Lee Rochford**
Group chief executive officer
23 March 2021

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# Group chief financial officer's review

**Decisive action to protect the business and take advantage of opportunities**

**Overview**

In what has been an unprecedented year, Arrow responded rapidly to the challenges presented by the COVID-19 pandemic, taking early and decisive action to secure the balance sheet and enhance liquidity. At the half year, the Group undertook a comprehensive exercise to review the Estimated Remaining Collections (ERC) balance sheet asset in light of the significant economic uncertainty present in all its markets. This led to a write down of portfolio investments generating a non-cash impairment of £133.6 million, subsequently reducing to £95.5 million at FY 2020, and was the main driver for the Group's pre-tax loss of £114.8 million (2019: £51.3 million pre-tax profit). At the end of 2020, the 84-month ERC was £1,555.8 million (2019: £1,817.9 million). See the cash ERC to portfolio investments reconciliation on page 29 for more detail. In the second half of the year, we returned strongly to profitability, principally driven by a resilient performance in collections, action to reduce costs, contract wins in AMS and a targeted approach to deploying capital in response to uncertain external market conditions.

The Group reached an important landmark in November 2020, with the final close of ACO 1, which raised total capital commitments of €1.7 billion. We also invested significant time and resource to ensure we have the right strategy in place to scale the Fund and Investment Management business. At our fund and investment management analyst seminar in November 2020, we presented our updated five-year targets and segmental business model aligned with our ambition to drive significant growth through our capital-light businesses. As a result, Arrow's financial reporting has been updated to disclose four segments to better reflect the development of the Group's fund management capabilities: Balance Sheet, Asset Management and Servicing, Fund and Investment Management and Group functions.

**Balance Sheet business**

The balance sheet predominantly reflects the performance of the assets purchased with Arrow's own capital. In 2020, balance sheet cash collections from our portfolio asset base were £338.9 million (2019: £442.3 million).

Whilst recent collections performance has been encouraging, Arrow remains cautious and the Group anticipates that there continues to be high probability of a deterioration in the economic outlook in 2021 and beyond as the government support that has been provided throughout the pandemic begins to recede. Balance sheet segment income was £65.0 million (2019: £226.5 million) as the revaluation of the ERC balance sheet asset at the half year resulted in a non-cash impairment of portfolio investments of £133.6 million, subsequently reducing to £95.5 million at FY 2020. Cash collections performed strongly against revised estimates in the second half, outperforming by 24.6%. However, due to the significant level of uncertainty, no material changes in the valuation of the ERC balance sheet asset have been made. Gross margin was (51.7%) (2019: 51.0%) so collections costs in absolute terms declined year on year in line with volumes.

Due to the COVID-19 pandemic, we proactively managed cash in H1 2020 and took decisive action to reduce capital deployment. We saw a slowdown in the market, predominantly driven by financial institutions taking a prudent approach to valuations and banks focusing on initial provisioning over asset sales in H1 2020, returning to significant investment opportunities in H2 2020.

Going forward, we are well positioned to invest at substantial volume into a growing market opportunity. Full-year purchases for 2020 were £109.9 million (2019: £303.7 million), partly due to COVID-19 impact discussed above and also due to our new investment model. In 2020, Arrow's balance sheet was typically invested alongside ACO 1 fund investments. Participation in the current ACO 1 fund was around 25%. We expect this percentage to reduce over time and for Arrow balance sheet investments to remain at around £150 million per annum. Arrow still runs investment committees on all deals and has carve-outs to support policy requirements, thereby having strong control over liquidity risk.

The co-invest model, where Arrow invests alongside most ACO 1 investments, requires lower Arrow balance sheet investment volume than historic levels, likely leading to a faster deleveraging profile and absolute net debt reduction. 2020 year-end leverage was 5.1x (2019: 3.4x), within covenant levels and secured net debt was £1,181.0 million (2019 as represented: £1,107.6 million. See note 14 on page 27 for more detail). Strong trading in 2021, provides increased confidence that leverage will reduce to circa 4x by the end of 2021 – significantly lower than the amended covenant requirements – and return back to the Group's target range of 3.0x to 3.5x by the end of 2023. Leverage is expected to peak towards the middle of 2021, as the negative impact of H1 2020 COVID-19 lockdowns on collections remain in the Group's trailing 12-month secured net debt to Adjusted EBITDA leverage calculation. See page 35 for more detail on net debt.

In addition, the co-invest structure with the ACO 1 fund will simplify Arrow's accounting profile. As assets purchased through the fund co-invest structure increase, the proportion of income accounted for on a fair value basis through the Arrow SMA and Fund SPVs will increase, and the share of portfolios accounted for on an amortised cost basis will therefore decline.

**Asset Management and Servicing business**

Segment Asset Management and Servicing income remained robust at £125.4 million (2019: £128.8 million), demonstrating the resilience of this capital-light income stream through a significant economic downturn. Throughout 2020, we secured a record 26 new contract wins. The Group is well placed to win further new third-party Asset Management and Servicing contracts as a servicing partner for financial institutions which require additional collections capacity with growing non-performing loan volumes as a result of the pandemic. There are also significant opportunities for the Asset Management and Servicing business created by the ACO 1 fund launch. It is estimated that around 75% of fund purchases will be serviced on Arrow's servicing platforms and that the ACO 1 fund will pay market referenced fees for servicing. As a result of the above, the Asset Management and Servicing business is in a strong position for future growth, with total income expected to increase at a 10.0% CAGR over next five years. Profitability for the AMS business is steadily increasing as we continue to develop our operational efficiency. The AMS EBITDA margin for the year was 12.4% (2019: 17.9%) and the Group is targeting a 25% EBITDA margin from the AMS business by 2025.

**Fund and Investment Management business**

This segment comprises the new ACO 1 fund, alongside our current Fund and Investment Management businesses of Norfin, Europa Investimenti, Sagitta and Arrow Portfolio Management. Limited Partners in ACO 1 will pay AGGCM, the fund and investment manager, fees predominantly on drawn capital with a small amount paid on committed capital.

In addition, Limited Partner investors incentivise the fund managers of ACO 1 through performance fees. Arrow participates in this performance fee regime with a 30 to 40% share, which represents an income stream to the Fund and Investment Management business.

Europa Investimenti and Norfin earn fees relating to fund and investment activity. Income earned by for Arrow Portfolio Management is predominantly intra-segmental and relates to the commercial charges between Arrow's Balance Sheet business and the Fund and Investment Management business. These commercial charges cover portfolio management services relating to the assets held on Arrow's balance sheet at a rate of 150bps on net asset value and for the Arrow SMA based on a rate of 175bps during 2020 and 150bps from 1 January 2021 on drawn capital during the investment period. The total blended fee rate for Fund and Investment Management is 0.9%.

Fund and Investment Management's EBITDA margin was 7.2% (2019: 38.6%). During the year we have continued to build the Fund and Investment Management business alongside the ACO 1 fund raise and have therefore continued to incur £3.7 million of set-up costs as part of the overall investment. We are targeting a 40% EBITDA margin from Fund and Investment Management by 2025.

**Group function costs**

These relate predominantly to support functions and reflect those costs incurred as a result of running an international group, which is a listed business in the UK, comprising predominantly plc executives and plc Group oversight costs. This segment made a loss for the year of £78.3 million (2019: £82.1 million), with all costs included in the underlying trading result with no adjusting items.

Across all segments we have continued to focus on efficiency and strong cost control throughout 2020. Total operating expenses were £224.8 million, which represents a reduction on 2019 on a cash basis (2019: £233.7 million). The £10 million cost reduction programme announced at the half year is on track.

**Finance costs and tax**

Net interest and financing costs of £57.5 million were 5.5% higher than 2019 (2019: £54.5 million) linked to the additional ABS facility, which was raised to secure the balance sheet and provide additional financing during the COVID-19 pandemic.

The taxation credit for the year was £21.2 million (2019: £14.0 million taxation charge) with an effective tax rate of (18.5)% (2019: 27.3%). The rate is in line with the UK corporation tax rate, which is reflective of the Group's full-year result having been primarily generated in the UK.

**Leverage, cash and liquidity**

The Group maintained a strong cash and liquidity position, having raised an additional €104.7 million through ABS financing and a covenant amendment agreement with the revolving credit facility banks. Liquidity headroom was £174.6 million (2019: £152.9 million).

The Group's secured net debt position was £1,181.0 million (2019 as represented: £1,107.6 million. See note 14 on page 27 for more detail). Leverage at the year-end was 5.1x (2019: 3.4x), the increase being predominantly related to lower cash flows in H1 2020 due to the impact of European lockdowns. Free cash flow was £156.6 million (2019: 261.4 million). Arrow's increased focus on reducing capital intensity and growing earnings from its capital-light businesses should result in high levels of cash generation. The Group is targeting £500 million of cash generation after fund investments over the next five years and expects leverage to circa 4.0x by end of 2021 and within our target 3.0x-3.5x range by 2023. This is well in advance of the first bond refinancing requirement in 2024.

The Group's borrowing facilities weighted average period to maturity is 3.7 years (2019: 4.8 years), with a weighted average cost of debt 3.7% (2019: 3.7%).

**Returns to shareholders**

Return on equity (ROE), one of the key performance metrics for the Group, was (63.7)% (2019: 17.9%), which was adversely impact by external events and the subsequent losses in the first half. ROE in the second half of the year was 11.6% (2019 H2: 6.7%) and represents a return to profitability from the first half of 2020 as well as an improvement from the second half of 2019.

The Group currently expects to resume dividend payments at year-end 2021.

**Summary and outlook**

Despite the events of 2020, the Group demonstrated a resilient performance across its business lines in the context of significant macroeconomic uncertainty. The pre-tax loss in the first half of 2020, was the result of the non-cash impact of the impairment of portfolio investments of £133.6 million, subsequently reducing to £95.5 million at FY 2020, due to the reforecast ERC balance sheet asset in light of the Group's view that the macroeconomic environment will continue to deteriorate in 2021. In the second half of the year, the Group outperformed its reforecast significantly, with cash collections 24.6% above forecasts and Arrow registered a strong return to profitability in H2 2020. Despite this outperformance, no material revaluations of the ERC balance sheet asset were considered necessary at the full year as the Group remains cautious regarding the macroeconomic outlook for 2021 and beyond.

The completion of the ACO 1 fundraise is a landmark achievement for the Group. The accelerated capital-light strategy and five-year targets underline our confidence that Arrow can quickly evolve into a fully fledged integrated alternative asset manager with the majority of its earnings originating from higher quality, capital-light sources in our Fund and Investment Management and Asset Management and Servicing businesses. The restructure of our income statement into four segments demonstrates our commitment to be measured against this ambition and allow the market to value each business line independently.

Due to the decisive action taken throughout the year to secure the balance sheet, liquidity and cash position, Arrow is well positioned to take advantage of the significant market opportunities likely to be presented by the current economic dislocation being seen across the world's economies. It is encouraging that trading has started strongly in 2021 and I am optimistic about the improved prospects for the Group's performance in 2021 and beyond.

**Matt Hotson**
Group chief financial officer
23 March 2021

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# Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2020

| | Note | 2020 £000 | 2019 £000 |
|---|---|---|---|
| Income from portfolio investments at amortised cost | 12 | 164,597 | 199,094 |
| Fair value gains on portfolio investments at FVTPL | 12 | 4,976 | 32,397 |
| Impairment (losses)/gains on portfolio investments | 12 | (100,436) | 12,714 |
| Income from real estate inventories | 12 | 492 | 561 |
| Total income from portfolio investments | | 69,629 | 244,766 |
| Income from asset management and servicing and fund and investment management | 3 | 97,026 | 94,360 |
| Gain on disposal of leases | | 453 | – |
| Other income | | 384 | 392 |
| Total income | | 167,492 | 339,518 |
| Operating expenses: | | | |
| Collection activity and fund management costs | 5 | (130,572) | (131,527) |
| Other operating expenses | 5 | (94,248) | (102,173) |
| Total operating expenses | | (224,820) | (233,700) |
| Operating (loss)/profit | | (57,328) | 105,818 |
| Finance income | | 61 | 61 |
| Finance costs | 4 | (57,556) | (54,559) |
| (Loss)/profit before tax | | (114,823) | 51,320 |
| Taxation credit/(charge) on ordinary activities | 6 | 21,206 | (14,033) |
| (Loss)/profit after tax | | (93,617) | 37,287 |
| 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 | | 6,741 | (7,077) |
| Movement on hedging reserve | | 356 | 161 |
| Total comprehensive (loss)/income | | (86,520) | 30,371 |
| (Loss)/profit after tax attributable to: | | | |
| Owners of the Company | | (92,829) | 35,223 |
| Non-controlling interest | | (788) | 2,064 |
| | | (93,617) | 37,287 |
| Comprehensive (loss)/income attributable to: | | | |
| Owners of the Company | | (85,732) | 28,307 |
| Non-controlling interest | | (788) | 2,064 |
| | | (86,520) | 30,371 |
| Basic EPS (£) | 7 | (0.52) | 0.20 |
| Diluted EPS (£) | 7 | (0.52) | 0.19 |

Note –There has been a reclassification between the two operating expenses rows 'collection activity and fund management costs' and 'other operating expenses' in the prior year. This change was made to better reflect the evolved nature of the Group's business model and presenting direct costs of the Group's business lines is deemed to provide more relevant information. As such, we have reclassified £21,729,000 from 'other operating expenses' to 'collection activity and fund management costs' in the prior period. The total operating expenses impact is £nil. Further information can be found in note 5.

ARROW GLOBAL

# Consolidated statement of financial position

As at 31 December 2020

| | Note | Group 2020 £000 | As Re-presented Group 2019 £000 |
|---|---|---|---|
| Assets | | | |
| Cash and cash equivalents | 14 | 182,892 | 115,376 |
| Trade and other receivables | | 71,372 | 48,483 |
| Portfolio investments – amortised cost | 12 | 793,554 | 932,199 |
| Portfolio investments – FVTPL | 12 | 187,421 | 169,799 |
| Portfolio investments – real estate inventories | 12 | 61,240 | 61,626 |
| Property, plant and equipment | | 17,612 | 24,521 |
| Intangible assets | | 38,709 | 38,159 |
| Deferred tax asset | | 31,782 | 10,759 |
| Goodwill | 8 | 278,338 | 267,700 |
| Total assets | | 1,662,920 | 1,668,622 |
| Liabilities | | | |
| Bank overdrafts | 13 | 3,648 | 1,386 |
| Revolving credit facility | 13 | 277,552 | 230,963 |
| Derivative liability | | 83 | 509 |
| Trade and other payables | 9 | 166,965 | 223,001 |
| Current tax liability | | 2,110 | 7,645 |
| Other borrowings | 13 | 3,247 | 3,672 |
| Asset-backed loans | 13 | 143,985 | 84,077 |
| Senior secured notes | 13 | 930,575 | 897,875 |
| Deferred tax liability | | 18,056 | 17,637 |
| Total liabilities | | 1,546,221 | 1,466,765 |
| Equity | | | |
| Share capital | | 1,774 | 1,769 |
| Share premium | | 347,436 | 347,436 |
| Retained earnings | | 38,506 | 129,240 |
| Hedging reserve | | (67) | (423) |
| Other reserves | | (274,451) | (280,630) |
| Total equity attributable to shareholders | | 113,198 | 197,392 |
| Non-controlling interest | | 3,501 | 4,465 |
| Total equity | | 116,699 | 201,857 |
| Total equity and liabilities | | 1,662,920 | 1,668,622 |

The 2019 balance sheet has been re-presented to show £26,611,000 of bank balances subject to certain restrictions within cash and cash equivalents in the year, that were previously shown within trade and other receivables. See note 14 on page 27 for more detail.

ARROW GLOBAL

# Consolidated statement of changes in equity

For the year ended 31 December 2020

| Group | Ordinary shares £000 | Share premium £000 | Retained earnings £000 | Hedging reserve £000 | Own share reserve[1] £000 | Translation reserve[1] £000 | Merger reserve[1] £000 | Total £000 | Non-controlling interest £000 | Total £000 |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2019 | 1,763 | 347,436 | 115,642 | (584) | (5,800) | 9,214 | (276,961) | 190,710 | 601 | 191,311 |
| Profit after tax | – | – | 35,223 | – | – | – | – | 35,223 | 2,064 | 37,287 |
| Exchange differences | – | – | – | – | – | (7,077) | – | (7,077) | – | (7,077) |
| Recycled to profit after tax | – | – | – | 7 | – | – | – | 7 | – | 7 |
| Net fair value gains – cash flow hedges | – | – | – | 187 | – | – | – | 187 | – | 187 |
| Tax on hedged items | – | – | – | (33) | – | – | – | (33) | – | (33) |
| Total comprehensive income for the year | – | – | 35,223 | 161 | – | (7,077) | – | 28,307 | 2,064 | 30,371 |
| Shares issued | 6 | – | – | – | – | – | – | 6 | – | 6 |
| Repurchase of own shares | – | – | – | – | (6) | – | – | (6) | – | (6) |
| Share-based payments net of tax | – | – | 1,437 | – | – | – | – | 1,437 | – | 1,437 |
| Dividend paid | – | – | (23,062) | – | – | – | – | (23,062) | – | (23,062) |
| Non-controlling interest on acquisition | – | – | – | – | – | – | – | – | 1,800 | 1,800 |
| Balance at 31 December 2019 | 1,769 | 347,436 | 129,240 | (423) | (5,806) | 2,137 | (276,961) | 197,392 | 4,465 | 201,857 |
| Loss after tax | – | – | (92,829) | – | – | – | – | (92,829) | (788) | (93,617) |
| Exchange differences | – | – | – | – | – | 6,741 | – | 6,741 | – | 6,741 |
| Net fair value gains – cash flow hedges | – | – | – | 427 | – | – | – | 427 | – | 427 |
| Tax on hedged items | – | – | – | (71) | – | – | – | (71) | – | (71) |
| Total comprehensive loss for the year | – | – | (92,829) | 356 | – | 6,741 | – | (85,732) | (788) | (86,520) |
| Shares issued | 5 | – | – | – | – | – | – | 5 | – | 5 |
| Repurchase of own shares | – | – | – | – | (562) | – | – | (562) | – | (562) |
| Share-based payments net of tax | – | – | 1,946 | – | – | – | – | 1,946 | – | 1,946 |
| Repurchase of non-controlling interest | – | – | 232 | – | – | – | – | 232 | (232) | – |
| Change in non-controlling interest | – | – | (83) | – | – | – | – | (83) | 56 | (27) |
| Balance at 31 December 2020 | 1,774 | 347,436 | 38,506 | (67) | (6,368) | 8,878 | (276,961) | 113,198 | 3,501 | 116,699 |

1. Other reserves total £274,451,000 deficit (2019: £280,630,000 deficit).

ARROW GLOBAL

# Consolidated statement of cash flows

For the year ended 31 December 2020

| | Note | Group 2020 £000 | As Re-presented Group 2019 £000 |
|---|---|---|---|
| Net cash generated by operating activities | 14 | 41,510 | 6,456 |
| Investing activities | | | |
| Purchase of property, plant and equipment | | (2,449) | (1,269) |
| Purchase of intangible assets | | (11,375) | (11,830) |
| Proceeds from disposal of intangible assets and property, plant and equipment | | – | 18 |
| Acquisition of subsidiaries, net of cash acquired | | (27) | (2,850) |
| Deferred consideration paid in connection with subsidiary acquisitions | | (7,149) | (12,004) |
| Net cash used in investing activities | | (21,000) | (27,935) |
| Financing activities | | | |
| Movements in other banking facilities | | 34,687 | (7,499) |
| Proceeds from ABS issuing | | 62,440 | 85,604 |
| Increase in non-controlling interest on acquisition | | – | 1,800 |
| Repayment of interest on senior notes | | (38,860) | (33,726) |
| Repayment of interest on asset-backed loans | | (3,909) | (2,144) |
| Repurchase of own shares | | (562) | (6) |
| Issue of share capital | | 5 | 6 |
| Bank interest received | | 61 | 61 |
| Bank and other similar fees paid | | (7,622) | (8,452) |
| Lease payments | | (5,636) | (5,061) |
| Payment of dividends | 10 | – | (23,062) |
| Payment of deferred interest | | (328) | – |
| Net cash flow generated by/(used in) financing activities | | 40,276 | 7,521 |
| Net increase/(decrease) in cash and cash equivalents | | 60,786 | (13,958) |
| Cash and cash equivalents at beginning of year | | 115,376 | 132,672 |
| Effect of exchange rates on cash and cash equivalents | | 6,730 | (3,338) |
| Cash and cash equivalents at end of year | | 182,892 | 115,376 |

Included within cash and cash equivalents is £12,902,000 (2019: £26,611,000) of cash which may be subject to constraints regarding when the balance can be remitted, such as cash in a consolidated securitisation structure awaiting a payment date. The 2019 reconciliation above has been re-presented to remove these amounts from the net cash generated by operating activities, as in the prior year they were included within this line item, but are now included within cash and cash equivalents at the beginning and end of each year.

## 1. Statutory information

This document does not constitute the Group's statutory accounts for the years ended 31 December 2019 or 31 December 2020, but is derived from those accounts. Statutory accounts for 31 December 2019 have been delivered to the Registrar of Companies, and those for 2020 will be delivered to the Registrar of Companies following the Group's annual general meeting.

The auditor has reported on the 2019 and 2020 accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The financial statements of the Group have been prepared under the historical cost convention other than the fair value of derivative contracts and certain portfolio investments and the amortised cost accounting for other financial assets and liabilities. The accounting policies are the same as those that will be disclosed in the annual report and accounts for the year ended 31 December 2020. The financial information included in this preliminary announcement is based on the Group's annual report and accounts for the year ended 31 December 2020, which are prepared in accordance with the international accounting standards in conformity with the requirements of the Companies Act 2006 ('Adopted IFRS'). The Group financial statements have also been prepared in accordance with IFRS adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the EU. The annual report and accounts for the year ended 31 December 2020 will be posted to shareholders in April 2021. The annual general meeting will take place on 2 June 2021.

## 2. General information

Arrow Global Group plc is a company incorporated in England and Wales and is the ultimate parent company of the Group. The address of the registered office is Belvedere, 12 Booth Street, Manchester, M2 4AW. The financial statements are presented in Pounds Sterling, which is the Company's functional currency. All amounts have been rounded to the nearest thousand except when otherwise indicated.

The Group's principal activity is to identify, acquire and manage secured and unsecured defaulted and non-core loan portfolios and real estate from, and on behalf of financial institutions such as banks, institutional investors and credit card companies.

## 3. Segmental reporting

The Group launched its first fund in December 2019. As the Group moves increasingly to an integrated asset manager model, it has aligned its segmental methodology during the year to the new business model. Segmental information has been provided in line with what is reviewed on a regular basis by the chief operating decision maker (CODM), which is the board of directors collectively, as defined in IFRS 8. In the Annual Report and Accounts 2019, the Group reported under three separate reportable segments. Under the new segmental disclosure, the Group will now report under four separates reportable segments, with the Fund and Investment Management business separated out from the Asset Management and Servicing business segment. The principal business categories are as follows:

| | |
|---|---|
| Balance Sheet business | All portfolio investments that the Group owns, and the income and costs associated with them. |
| Asset Management and Servicing business (AMS) | Income and costs associated with managing debt portfolios on behalf of the Group and external servicers. |
| Fund and Investment Management business (FIM) | Income and costs associated with managing debt portfolios on behalf of our fund clients and the Group's Balance Sheet business. |
| Group functions | Costs not directly associated with the other three segments, but relevant to overall oversight and control of the Group's activities. |

These segments represent how the Group manages the wider business, and the organisational structure is aligned to these segments. Therefore, this has been deemed to be the appropriate level of disaggregation to provide information to the CODM. Further granularity, such as type of AMS contract, or type of Balance Sheet business portfolio, is not how the business is managed or organised, and hence such further detail has not been presented to the CODM, or in the segmental disclosures.

As part of the move to understand and provide more details over the segments under the integrated asset manager model, further work has been completed to reallocate depreciation, amortisation and forex from the Group functions to the relevant segments.

The intra-segment elimination column below removes charges made from the AMS business segment to the Balance Sheet business segment and the FIM business segment on behalf of the Group for servicing and collection of the Group and FIM's portfolio investments and performance fees charged by the FIM business in respect to its investments on behalf of the Group. The intra-segment charge is calculated on equivalent commercial terms to charging third parties.

| 2020 | Balance Sheet business £000 | AMS business £000 | FIM business £000 | Group functions £000 | Intra-segment elimination £000 | Total 2020 £000 |
|---|---|---|---|---|---|---|
| Total income | 64,882 | 125,361 | 36,774 | 837 | (60,362) | 167,492 |
| Collection activity and fund management costs | (98,446) | (71,164) | (21,324) | – | 60,362 | (130,572) |
| Gross margin | (33,564) | 54,197 | 15,450 | 837 | – | 36,920 |
| Gross margin % | (51.7)% | 43.2% | 42.0% | | | |
| Other operating expenses excluding depreciation, amortisation and forex | (10,724) | (38,599) | (12,800) | (12,472) | – | (74,595) |
| EBITDA | (44,288) | 15,598 | 2,650 | (11,635) | – | (37,675) |
| EBITDA margin % | (68.3)% | 12.4% | 7.2% | | | |
| Depreciation, amortisation and forex | (5,094) | (4,903) | (513) | (9,143) | – | (19,653) |
| Operating (loss)/profit | (49,382) | 10,695 | 2,137 | (20,778) | – | (57,328) |
| Net finance costs | – | – | – | (57,495) | – | (57,495) |
| (Loss)/profit before tax | (49,382) | 10,695 | 2,137 | (78,273) | – | (114,823) |

| 2019 | Balance Sheet business £000 | AMS business Restated[1] £000 | FIM business Restated[1] £000 | Group functions Restated[1] £000 | Intra-segment elimination Restated[1] £000 | As re-presented Total 2019 £000 |
|---|---|---|---|---|---|---|
| Total income | 226,475 | 128,785 | 48,329 | 392 | (64,463) | 339,518 |
| Collection activity and fund management costs[2] | (110,936) | (68,071) | (16,983) | – | 64,463 | (131,527) |
| Gross margin | 115,539 | 60,714 | 31,346 | 392 | – | 207,991 |
| Gross margin % | 51.0% | 47.1% | 64.9% | | | |
| Other operating expenses excluding depreciation, amortisation and forex[2] | (10,654) | (37,638) | (12,711) | (21,717) | – | (82,720) |
| EBITDA | 104,885 | 23,076 | 18,635 | (21,325) | – | 125,271 |
| EBITDA margin % | 46.3% | 17.9% | 38.6% | | | |
| Depreciation, amortisation and forex | (5,845) | (6,921) | (365) | (6,322) | – | (19,453) |
| Operating profit/(loss) | 99,040 | 16,155 | 18,270 | (27,647) | – | 105,818 |
| Net finance costs | – | – | – | (54,498) | – | (54,498) |
| Profit/(loss) before tax | 99,040 | 16,155 | 18,270 | (82,145) | – | 51,320 |

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 2019 has also been restated. The adjusting items for 2019 have been absorbed within the segments as part of the restatement.

2. The split of total operating expenses has changed from the Annual Report and Accounts 2019, with a reclass between 'collection activity and fund management costs' and 'other operating expenses', as part of the change in the segmental reporting structure aligned to the Group now being managed through an integrated asset management model. The total operating expenses impact is £nil. The main movements between the categorisation relate to allocation of internal staff costs and professional fees. The prior year has been re-presented accordingly on this basis.

Total income includes income from portfolio investments, fund and investment management and performance fees, asset management and servicing and other income.

| 2020<br>Geographical information | UK and Ireland<br>£000 | Portugal<br>£000 | Italy<br>£000 | Netherlands<br>£000 | Intra-Group trading<br>£000 | Total<br>£000 |
|---|---|---|---|---|---|---|
| Total income | 74,787 | 65,518 | 43,299 | 44,250 | (60,362) | 167,492 |
| Third-party AMS and FIM income | 42,795 | 34,868 | 42,336 | 37,389 | (60,362) | 97,026 |
| Non-current assets | 109,546 | 79,587 | 85,029 | 60,497 | – | 334,659 |

| 2019<br>Geographical information | UK and Ireland<br>£000 | Portugal<br>£000 | Italy<br>£000 | Netherlands<br>£000 | Intra-Group trading<br>£000 | Total<br>£000 |
|---|---|---|---|---|---|---|
| Total income - as re-presented [1] | 141,184 | 104,999 | 88,244 | 69,554 | (64,463) | 339,518 |
| Third-party AMS and FIM income - as re-presented [1] | 42,428 | 38,365 | 38,864 | 39,166 | (64,463) | 94,360 |
| Non-current assets | 114,110 | 74,535 | 82,226 | 59,509 | – | 330,380 |

1. See page 17 for more detail.

Income from contracts with customers has been disaggregated on a geographical basis, as a similar set of services are provided to customers across the geographies, and therefore this was deemed to be the most appropriate level of disaggregation for this disclosure.

Non-current assets are assets with a useful life of more than one year with the exception of deferred tax which has been excluded.

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

Gross FIM income includes fund management and performance fees and intra-Group income for these services.

| | 2020<br>£000 | 2019<br>£000 |
|---|---|---|
| Third-party AMS and FIM income | 97,026 | 94,360 |
| Intra-Group AMS and FIM income | 60,362 | 64,463 |
| Income reallocation from Balance Sheet business | 4,747 | 18,291 |
| Gross AMS and FIM income | 162,135 | 177,114 |
| Balance sheet business income | 69,629 | 244,766 |
| Income reallocation to FIM business | (4,747) | (18,291) |
| Gross Balance Sheet income | 64,882 | 226,475 |
| Other income | 837 | 392 |
| Gross income | 227,854 | 403,981 |

Gross income includes commission income, debt collection, due diligence, real estate management, advisory fees and intra-Group income for Asset Management and Servicing, fund and investment management and performance fees and intra-Group income for Fund and Investment Management, total income for the Balance Sheet business, and other income.

## 4. Finance costs

| | 2020 £000 | 2019 £000 |
|---|---|---|
| Interest and similar charges on bank loans | 8,324 | 8,028 |
| Interest and similar charges on senior secured notes | 38,648 | 38,232 |
| Interest and similar charges on asset-backed securitisation | 6,205 | 2,509 |
| Interest rate swap and forward exchange contract hedge costs | 370 | 515 |
| Lease liability interest | 1,107 | 1,395 |
| Other interest | 2,902 | 3,880 |
| Total finance costs | 57,556 | 54,559 |

## 5. Collection activity and fund management costs, other operating expenses and staff costs

### 5.a Total operating expenses

Total operating expenses are made up of direct and indirect costs, the detail of each is shown in the following tables:

| Collection activity and fund management costs | Note | 2020 £000 | As re-presented 2019 £000 |
|---|---|---|---|
| External collection costs | | 28,345 | 31,499[1] |
| Staff costs | 5.b | 62,458 | 62,761[1] |
| Direct temp labour | | 4,981 | 5,476[1] |
| Direct operating costs | | 22,828 | 15,057 |
| Legal disbursements | | 8,944 | 14,416 |
| Other collection activity costs | | 3,016 | 2,318[1] |
| Total collection activity and fund management costs | | 130,572 | 131,527 |

1. The split of total operating expenses has changed from in the Annual Report and Accounts 2019, with a reclass between the 'collection activity and fund management costs' and 'other operating expenses', as part of the change in the segmental reporting structure aligned to the Group now being managed through an integrated asset management model. The total operating expenses impact is £nil. The main movements between the categorisation relate to allocation of internal staff costs and professional fees. The prior year has been re-presented accordingly on this basis.

| Other operating expenses | Note | 2020 £000 | As re-presented 2019 £000 |
|---|---|---|---|
| Staff costs | 5.b | 40,074 | 36,170[1] |
| Other staff related costs | | 6,389 | 11,591[1] |
| Premises | | 4,485 | 5,401[1] |
| IT | | 14,459 | 13,830[1] |
| Depreciation and amortisation | | 18,910 | 18,435 |
| Write off of PPE and intangible assets | | 249 | 6,377 |
| Net foreign exchange losses/(gains) | | 743 | 1,018 |
| Acquisition related expenses | | – | 1,457 |
| Contingent consideration remeasurement | | (5,755) | – |
| Deferred consideration renegotiations | | – | (21,119) |
| Other operating expenses | | 14,694 | 29,013[1] |
| Total other operating expenses | | 94,248 | 102,173 |

1. The split of total operating expenses has changed from in the Annual Report and Accounts 2019, with a reclass between the 'collection activity and fund management costs' and 'other operating expenses', as part of the change in the segmental reporting structure aligned to the Group now being managed through an integrated asset management model. The total operating expenses impact is £nil. The main movements between the categorisation relate to allocation of internal staff costs and professional fees. The prior year has been re-presented accordingly on this basis.

The other staff-related costs largely relates to temporary labour, recruitment and training.

### 5.b Staff costs

| | 2020 £000 | 2019 £000 |
|---|---|---|
| Wages, bonuses and salaries | 82,889 | 77,698 |
| Pension costs | 4,415 | 2,833 |
| Social security costs | 13,037 | 12,576 |
| Share-based payments | 1,753 | 1,437 |
| Staff restructuring | 438 | 4,387 |
| | 102,532 | 98,931 |

### 6. Taxation

The Group's activities are predominantly UK based. The analysis below therefore uses the UK rate of corporation tax.

| a. Amounts recognised in profit and loss | 2020 £000 | 2019 £000 |
|---|---|---|
| Current tax (credit)/expense | | |
| Tax charge at standard UK corporation tax rate | 6,241 | 14,152 |
| Changes in estimate related to prior years | (5,374) | 1 |
| Total current tax expense | 867 | 14,153 |
| Deferred tax expense | | |
| Origination and reversal of temporary differences | (23,212) | (1,332) |
| Adjustment in relation to prior years | 297 | 2,421 |
| Recognition of previously unrecognised tax losses | 842 | (1,209) |
| Total deferred tax (credit)/expense | (22,073) | (120) |
| Total income tax (credit)/expense | (21,206) | 14,033 |

The differences in the effective tax rate for the period and the standard rate of corporation tax in the UK at 19% (2019: 19%) are as follows:

| b. Reconciliation of effective tax rate | 2020 £000 | 2019 £000 |
|---|---|---|
| (Loss)/profit before tax | (114,823) | 51,320 |
| Tax (credit)/charge at standard UK corporation tax rate | (21,816) | 9,751 |
| Effect of tax rates in foreign jurisdictions | 1,950 | 2,052 |
| Expenses not deductible for tax purposes | 2,293 | (358) |
| Changes in corporate tax rates in the year | 842 | (1,209) |
| Movements in unrecognised deferred tax | 602 | 1,376 |
| Changes in estimate relating to prior years | (5,077) | 2,421 |
| Total income tax (credit)/expense | (21,206) | 14,033 |

| | | 2020 | | | 2019 | |
|---|---|---|---|---|---|---|
| c. Amounts recognised in OCI | Before tax £000 | Tax (expense)/ benefit £000 | Net of tax £000 | Before tax £000 | Tax (expense)/ benefit £000 | Net of tax £000 |
| Items that are/may be reclassified to profit or loss | | | | | | |
| Movement in hedging reserve: | | | | | | |
| Effective portion of changes in fair value | 427 | (71) | 356 | 187 | (33) | 154 |
| Net amount reclassified to profit or loss | – | – | – | 7 | – | 7 |
| Total movement in hedging reserve | 427 | (71) | 356 | 194 | (33) | 161 |

The rate of UK corporation tax, as enacted under previous Finance Acts, was expected to reduce to 17% from 1 April 2020. The UK Government enacted legislation for the rate to remain at 19% and deferred tax recognised in the UK has been restated accordingly, with a credit of £305,000 reflected during the year ended 31 December 2020.

In December 2019, a new corporate tax law was enacted in the Netherlands. Consequently, as of 1 January 2020, the corporate tax rate in the Netherlands will be reduced from 25% to 21.7%. This change resulted in a gain of €1,147,000 related to the remeasurement of deferred tax assets and liabilities of the Group's Dutch subsidiaries being recognised during the year ended 31 December 2019. In September 2020, the Dutch Government announced the reversal of this planned decrease, maintaining the rate at 25%. A credit of £1,147,000 has been reflected in the year ended 31 December 2020, which reverses the prior year restatement.

**Deferred tax**

The Group has recognised a deferred tax asset in relation to losses of £27,683,000 (2019: £6,353,000), of which £18,669,000 (2019: £nil) relate to the UK. The UK losses arose in the current period as a result of an impairment of portfolio balances due to COVID-19. The underlying profitability of the Group has remained, and such losses are expected to be utilised against future taxable profits.

The Group has not recognised a deferred tax asset in respect of £2,864,000 (2019: £2,634,000) of tax losses carried forward, due to uncertainties over the future utilisation of the losses, including the future profitability of the relevant subsidiaries. These losses may be available for offset against future profits and have no expiry date. There are no unrecognised deferred tax liabilities.

The rate of UK corporation tax is expected to increase to 25% from 1 April 2023. Deferred taxation is measured at the rates that are expected to apply in the periods in which the temporary timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted at the statement of financial position date. As noted above, there is a significant UK deferred tax asset in relation to losses carried forward, the restatement of which is expected to generate a statement of profit and loss tax credit once the applicable legislation has been substantially enacted.

## 7. Earnings per share (EPS)

| | 2020<br>£000 | 2019<br>£000 |
|---|---|---|
| Profit after tax attributable to shareholders | (92,829) | 35,223 |
| Weighted average ordinary shares | 177,150 | 175,859 |
| Potential exercise of share options | 7,698 | 4,942 |
| Weighted average ordinary shares (diluted) | 184,848 | 180,801 |
| Basic earnings per share (£) | (0.52) | 0.20 |
| Diluted earnings per share (£) | (0.52) | 0.19 |

## 8. Goodwill

| | £000 |
|---|---|
| Cost | |
| At 1 January 2019 | 264,988 |
| Additions | 14,519 |
| Adjustment of the discounted value of deferred consideration paid for EI | 462 |
| Modification to Drydens' opening balance sheet fair value post-acquisition | 693 |
| Exchange rate differences | (10,653) |
| At 31 December 2019 | 270,009 |
| Exchange rate differences | 10,638 |
| At 31 December 2020 | 280,647 |
| Amortisation and impairment | |
| At 31 December 2019 and 31 December 2020 | 2,309 |
| Net book value | |
| At 31 December 2020 | 278,338 |
| At 31 December 2019 | 267,700 |

The following table provides a breakdown of goodwill acquired during the current and prior year:

| | £000 |
|---|---|
| Goodwill on acquisition | |
| At 1 January 2019 | 264,988 |
| Drydens Limited (Drydens) | 14,519 |
| Exchange rate differences | (9,498) |
| At 31 December 2019 | 270,009 |
| Exchange rate differences and | 10,638 |
| Impairment | (2,309) |
| At 31 December 2020 | 278,338 |

Goodwill acquired in a business combination is allocated, at acquisition, to the CGUs that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated to four aggregated CGUs on the basis that these represent the lowest level at which goodwill is monitored for internal management purposes and are not larger than the single operating segment defined under IFRS 8 (Operating Segments).

*Goodwill CGU allocation*

In relation to goodwill, the four CGUs identified are UK and Ireland, comprising all Group companies acquired in the Capquest acquisition, Arrow Global Receivables Management Limited, Mars Capital, Bergen and Drydens; Portugal, comprising all of the Group companies acquired in the Whitestar, Gesphone, Redrock and Norfin acquisitions; Benelux, comprising all the Group companies acquired in the Vesting acquisition; and Italy, comprising Zenith, Parr Credit and Europa Investimenti S.p.A. The UK and Ireland, Portugal, Benelux, and Italy CGUs, represent the cash flows generated principally from collections on acquired portfolio investments and management and servicing of third-party debt.

Given the structure and operating model of the Group, it has been deemed appropriate to combine a number of CGUs for impairment testing purposes. This is in line with the Group's stated strategy of providing a range of services in each geographic region in which the Group operates and represents the lowest level at which the Group's resources and assets are allocated internally.

The discount rate was a post-tax rate based on the yield of average European 10-year government bonds, adjusted for a risk premium to reflect both the increased risk of investing in equities generally and the systemic risk of the specific CGU.

Five years of cash flows were included in the discounted cash flow model. A long-term growth rate into perpetuity has been determined as the lower of the nominal gross domestic product rates for the countries in which the CGU operates and the long-term compound annual profit before taxes, depreciation and amortisation growth rate estimated by management.

Budgeted profit before taxes, depreciation and amortisation were based on expectations of future outcomes taking into account past experience, adjusted for the anticipated revenue growth. Revenue growth was projected taking into account the average growth levels experienced over the past five years and the estimated growth for the next five years.

The key assumptions described above may change as economic and market conditions change. The Group estimates that likely possible changes in these assumptions would not cause the recoverable amount of any CGU to decline below the carrying amount.

The Group's goodwill balance has been assessed and no part of the overall balance is deemed to be deductible for tax purposes.

For the purposes of impairment testing, goodwill is allocated to the Group's CGUs as follows:

| | 2020 £000 | 2019 £000 |
|---|---|---|
| UK and Ireland | 78,900 | 79,476 |
| Portugal | 73,662 | 69,156 |
| Benelux | 43,124 | 40,824 |
| Italy | 82,652 | 78,244 |
| | 278,338 | 267,700 |

An impairment review was carried out at 31 December 2020 that resulted in no impairment to goodwill. The goodwill was assessed to be appropriately stated. The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amount of the CGUs is determined as the higher of fair value, less cost to sell and value in use. Discount rate and forward-looking growth assumptions applied in the value in use calculations were as follows:

| | 2020 | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | UK and Ireland | Portugal | Benelux | Italy | UK and Ireland | Portugal | Benelux | Italy |
| Discount rate % | 8.9% | 9.3% | 8.4% | 9.4% | 8.6% | 9.0% | 8.2% | 9.0% |
| Growth rate used to extrapolate forecasts | 2.0% | 2.2% | 2.0% | 1.7% | 2.0% | 2.2% | 2.0% | 1.7% |

*Discount rates*

Management estimates discount rates using post-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. Post-tax rates are used alongside post-tax cash flows, as the post-tax discount rate is more readily derived from observable market information. Any potential differences between post-tax discount rates and cash flows and the pre-tax method under IAS 36 – Impairment of assets have been considered, and no material differences between approaches have been identified.

The starting point for determining the discount rates for each CGU was to use the Group's weighted average cost of capital (WACC) and adjust this for specific factors for each of the CGUs to derive a market participant's rate. The factors took into account the risks inherent in each of the CGUs; such as currency, regulatory, and economic risks and the different operations in the CGUs were also considered.

In determining the appropriate WACC to use in the current impairment test, in line with advice from experts, management took into account both the current and target leverage structure of the Group, as well as pre-COVID-19 and post-COVID-19 market conditions. An average of these approaches provided a balanced view of the appropriate discount rate to use for the value in use calculation in the midst of the uncertainty created by COVID-19.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next five years and extrapolates cash flows into perpetuity. The forecasts assume growth rates in collection activity which in turn drive forecast collections and cost figures. These assumptions are in keeping with the directors' expectations of future growth. Appropriate tax rates are applied to the cash flow forecasts for each CGU. The analysis has been prepared using post-tax cash flows and discount rates, as post-tax discount rates can be more readily derived from observable market data. The Group is satisfied that this is materially equal to performing the analysis on pre-tax cash flows and discount rates.

The result of the goodwill impairment review was that no impairment was deemed to exist as at 31 December 2020. The Group has conducted a sensitivity analysis over the key inputs used in the impairment test of the CGU's carrying value. The CGUs would become impaired based on a net post-tax cash flow reduction set out below, or based on an increase in the discount rate noted below:

| | A cash flow reduction of | A discount rate increase of |
|---|---|---|
| UK and Ireland | 39% | 4% |
| Portugal | 23% | 3% |
| Benelux | 21% | 2% |
| Italy | 48% | 7% |

## 9. Trade and other payables

| Current | 2020 £000 | 2019 £000 |
|---|---|---|
| Trade payables | 9,889 | 15,635 |
| Deferred consideration on acquisition of subsidiaries | 18,497 | 11,332 |
| Deferred consideration on portfolio investments | 10,538 | 62,944 |
| Taxation and social security | 2,001 | 356 |
| Accruals | 33,300 | 35,006 |
| Liabilities arising on acquisition of bankruptcy portfolios | 12,959 | – |
| Other liabilities | 5,123 | 19,495 |
| Lease liability | 3,560 | 5,312 |
| | 95,867 | 150,080 |

| Non-current | | |
|---|---|---|
| Trade payables | 8,137 | 15,278 |
| Deferred consideration on acquisition of subsidiaries | 1,633 | 19,040 |
| Deferred consideration on portfolio investments | 1,500 | – |
| Taxation and social security | (124) | – |
| Accruals | 887 | – |
| Liabilities arising on acquisition of bankruptcy portfolios | 23,367 | 16,629 |
| Other liabilities | 21,057 | 3,782 |
| Lease liability | 14,641 | 18,192 |
| | 71,098 | 72,921 |
| Total trade and other payables | 166,965 | 223,001 |

Deferred consideration on acquisition of subsidiaries has reduced as amounts were repaid in the period, alongside remeasurements of deferred contingent consideration liabilities in the period which reduced their value. Deferred consideration on portfolio investments have decreased in the period as significantly less portfolio acquisitions had an element of deferred consideration outstanding at 31 December 2020 than 31 December 2019.

## 10. Dividends

The following dividends were recognised as distributions to owners during the year ended 31 December 2020:

| | 2020 £000 | 2019 £000 |
|---|---|---|
| Interim dividend 2020: nil (2019: 4.4p per ordinary share) | – | 7,751 |
| Final dividend 2019: nil (2018: 8.7p per ordinary share) | – | 15,311 |
| | – | 23,062 |

In line with the Group's near-term focus in Q1 2020, being the preservation of cash and liquidity, on the 6 April 2020, the Group announced its intention to withdraw its recommended final dividend for 2019, preserving approximately £15.0 million of cash within the business.

The board has also not paid an interim dividend for H1 2020, however it expects to resume dividend payments at year-end 2021.

## 11. Related party transactions

Related party balances as at each year end were as follows:

| | Key management personnel £000 | Total £000 |
|---|---|---|
| As at 31 December 2020 and 2019: | | |
| Trade | – | – |
| | – | – |

*Summary of transactions*

Key management, defined as permanent members of the board plus all non-executive directors, were awarded the following compensation for the financial year:

| Remuneration | 2020 £000 | 2019 £000 |
|---|---|---|
| Salaries and performance-related bonus | 1,220 | 1,628 |
| Pension-related benefits | 87 | 110 |
| Share-based payments | – | (306) |
| | 1,307 | 1,432 |

The number of key management during the year was 7 (2019: 6).

## 12. Portfolio investments

Split of portfolio investments by period:

| | 2020 £000 | 2019 £000 |
|---|---|---|
| Expected falling due after one year | 742,153 | 916,123 |
| Expected falling due within one year | 300,062 | 247,501 |
| Total | 1,042,215 | 1,163,624 |

The movements in portfolio investments were as follows:

As at 31 December 2020

| | Financial instruments | | | |
|---|---|---|---|---|
| | Amortised cost £000 | FVTPL £000 | Real estate inventories £000 | Total £000 |
| As at the beginning of the year | 932,199 | 169,799 | 61,626 | 1,163,624 |
| Portfolios purchased during the year | 47,169 | 62,681 | – | 109,850 |
| Balance sheet cash collections in the year | (287,662) | (46,074) | (5,136) | (338,872) |
| Income from portfolio investments at amortised cost | 164,597 | – | – | 164,597 |
| Fair value gain on portfolio investments at FVTPL | – | 4,976 | – | 4,976 |
| Income from portfolio investments – real estate inventories | – | – | 492 | 492 |
| Net impairment losses | (100,022) | – | (414) | (100,436) |
| Exchange and other movements | 37,273 | (3,961) | 4,672 | 37,984 |
| As at the year end | 793,554 | 187,421 | 61,240 | 1,042,215 |

As at 31 December 2019

| | Financial instruments | | | |
|---|---|---|---|---|
| | Amortised cost £000 | FVTPL £000 | Real estate inventories £000 | Total £000 |
| As at the beginning of the year | 869,056 | 217,974 | – | 1,087,030 |
| Portfolios purchased during the year | 248,470 | 30,052 | 25,165 | 303,687 |
| Transfer between categories | 11,483 | (55,262) | 43,779 | – |
| Balance sheet cash collections in the year | (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 the year end | 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 whilst extinguishing related liabilities. Note that for real estate inventories, which are not financial instruments, the balance sheet cash collections figure above is analogous to total sales of inventories, and the net of balance sheet cash collections and income from portfolio investments – real estate inventories, is analogous to cost of sales of inventories. Sales of inventories are accounted for as revenue under IFRS 15, as they are not financial instruments, but are presented alongside the other portfolio investments for ease of reference.

## 13. Borrowings and facilities

| | 2020 £000 | 2019 £000 |
|---|---|---|
| Senior secured notes net of transaction fees of £10,480,000 (2019: £12,780,000) | 930,575 | 897,875 |
| Revolving credit facility net of transaction fees of £2,790,000 (2019: £3,720,000) | 277,552 | 230,963 |
| Asset-backed loans net of transaction fees of £4,708,000 (2019: £1,658,000) | 143,985 | 84,077 |
| Bank overdrafts | 3,648 | 1,386 |
| Other borrowings | 3,247 | 3,672 |
| | 1,359,007 | 1,217,973 |
| Total borrowings: | | |
| Amount due for settlement within 12 months | 362,427 | 257,500 |
| Amount due for settlement after 12 months | 996,580 | 960,473 |

*Senior secured notes*

The senior secured notes comprise three publicly issued Euro and Sterling senior notes secured by substantially all of the assets of the Group; £320 million 5.125% fixed-rate notes due September 2024, €400 million floating rate senior secured notes due April 2025 at a coupon of 3.75% over three-month Euribor and €285 million floating rate senior secured notes due March 2026 at a coupon of 3.75% over three-month Euribor. The Euro notes are subject to a zero percent floor on Euribor.

*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.

*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.

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 comprising 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 balance sheet cash 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 31 December 2020, £299,117,000 of the portfolio investments, set out in note 12, are pledged as collateral for the asset-backed securitisations.

## 14. Notes to the statement of cash flows

| | 2020 £000 | As Re-presented 2019 £000 |
|---|---|---|
| (Loss)/profit after tax | (93,617) | 37,287 |
| Adjusted for: | | |
| Balance sheet cash collections in the year | 338,872 | 442,311 |
| Income from portfolio investments | (165,089) | (199,655) |
| Fair value gains on portfolios | (4,976) | (32,397) |
| Net impairment losses/(gains) | 100,436 | (12,714) |
| Deferred consideration renegotiations | – | (21,119) |
| Depreciation and amortisation | 18,910 | 18,435 |
| (Profit)/loss on write-off and disposal of property, plant and equipment | (453) | 1,419 |
| Loss on write-off and disposal of intangible assets | 249 | 5,766 |
| Net interest payable | 56,388 | 53,103 |
| Lease liability interest | 1,107 | 1,395 |
| Foreign exchange losses | 743 | 1,018 |
| Equity settled share-based payment expenses | 1,753 | 1,437 |
| Tax (credit)/charge | (21,206) | 14,033 |
| Operating cash flows before movement in working capital | 233,117 | 310,319 |
| (Increase)/decrease in other receivables | (30,551) | 1,740 |
| (Decrease)/increase in trade and other payables | (44,715) | 12,120 |
| Cash generated by operations | 157,851 | 324,179 |
| Income taxes and overseas taxation paid | (6,491) | (14,036) |
| Net cash flow from operating activities before purchases of portfolio investments | 151,360 | 310,143 |
| Purchase of portfolio investments | (109,850) | (303,687) |
| Net cash generated by operating activities | 41,510 | 6,456 |

Included within cash and cash equivalents is £12,902,000 (2019: £26,611,000) of cash which may be subject to constraints regarding when the balance can be remitted, such as cash in a consolidated securitisation structure awaiting a payment date. The 2019 reconciliation above has been re-presented to remove these amounts from the movement in other receivables, as in the prior year they were included within this line item, but are now included within cash and cash equivalents.

**15. Post balance sheet events**

On 12 February 2021, Arrow Global Finance plc issued €75,000,000 senior secured notes maturing 2026 at an issue price of 99%. This tap issue of the existing €285,000,000 senior secured floating rate bonds due 2026 means that all terms and conditions of the new bonds are identical to those of the existing 2026 bonds, except for the issue price. The proceeds from the transaction of €74,250,000 less transaction fees and expenses will be used to partially repay drawings under the Group's revolving credit facility.

ARROW GLOBAL

# Additional information (unaudited)

**IFRS to cash measure reconciliations**

We provide two reconciliations between reported IFRS profit and cash measures. The first looks at the movement in our portfolio investments compared to the movements in the ERC – the gross cash value of the portfolio before it is discounted to present value for inclusion in the reported results. The second reconciles the reported profit for the year to free cash flow. A number of the terms referred to in this section are defined in the glossary.

As part of the Group's Balance Sheet business, we acquire portfolios and turn these into regular, predictable and long-term cash flows. This predominantly involves high volumes of low-value balance sheet cash collections from customers, and therefore we use analytical models to estimate cash flows we expect at an individual account level. The output of these account level forecasts is aggregated to a portfolio and then into the Group's total ERC.

When we purchase portfolio investments, we recognise them in the statement of financial position at the purchase price in accordance with IFRS. In terms of the equivalent cash measure, we add the portfolio ERC to the Group ERC at the point of purchase. We quote both 84-month and 120-month ERC forecasts as key performance measures for the business.

Balance sheet cash collections from portfolios can extend beyond 15 years; however, we only include 84-months of cash flow in assessing the majority of our portfolio investments. As we progress through the months of each year, we roll forward the ERC forecast, meaning we always have 84-months of expected cash flow from our portfolios recognised on the statement of financial position.

Due to the nature of our business, actual balance sheet cash collections on portfolio investments will not perform exactly as initially forecast and, each half year, we review performance against balance sheet cash collections experience and update the ERC forecast where appropriate. This updated cash flow forecast, discounted at the applicable rate is the year-end carrying value of the portfolio investments. This movement of the portfolio investments is reflected as income in the statement of profit or loss. The size of the portfolio asset, associated ERC and cash balance sheet cash collections in the year are therefore all key drivers to the result we report.

*Movement in portfolio investments under IFRS reconciled to cash ERC - total portfolios*

| Total portfolio investments | IFRS £000 | ERC 84-month £000 | ERC 120-month £000 | |
|---|---|---|---|---|
| Brought forward | 1,163,624 | 1,817,940 | 2,035,421 | ERC brought forward |
| Portfolios acquired during the year[1] | 109,850 | 158,607 | 172,072 | ERC acquired during the year |
| Balance sheet cash collections in the year[2] | (338,872) | (338,872) | (338,872) | Balance sheet cash collections in the year |
| Income from portfolio investments at amortised cost[3] | 164,597 | – | – | |
| Fair value gains on portfolio investments at FVTPL[4] | 4,976 | – | – | |
| Net impairment losses[5] | (100,436) | – | – | |
| Net income from real estate inventories | 492 | – | – | |
| Exchange and other movements | 37,984 | – | – | |
| | | (81,924) | (146,266) | ERC roll forward and reforecast[6] |
| | | 1,555,751 | 1,722,355 | ERC carried forward |
| Effect of discounting[7] | | (513,536) | | |
| Carried forward 31 December 2020 | 1,042,215 | 1,042,215 | | |

*Movement in portfolio investments under IFRS reconciled to cash ERC - amortised cost*

| Portfolio investments – amortised cost | IFRS £000 | ERC 84-month £000 | ERC 120-month £000 | |
|---|---|---|---|---|
| Brought forward | 932,199 | 1,426,516 | 1,608,448 | ERC brought forward |
| Portfolios acquired during the year[1] | 47,169 | 57,191 | 68,665 | ERC acquired during the year |
| Balance sheet cash collections in the year[2] | (287,662) | (287,662) | (287,662) | Balance sheet cash collections in the year |
| Income from portfolio investments at amortised cost[3] | 164,597 | – | – | |
| Net impairment losses[5] | (100,022) | – | – | |
| Exchange and other movements | 37,273 | – | – | |
| | | (26,759) | (56,545) | ERC roll forward and reforecast[6] |
| | | 1,169,286 | 1,332,906 | ERC carried forward |
| Effect of discounting[7] | | (375,732) | | |
| Carried forward 31 December 2020 | 793,554 | 793,554 | | |

1. Portfolios acquired in the year are added to the statement of financial position carrying value of portfolio investments at their initial purchase price. The undiscounted forecast of estimated remaining balance sheet cash collections is included in the ERC.
2. Balance sheet cash collections made in the period are deducted from both the IFRS carrying value of portfolio investments and ERC.
3. Income on portfolio investments at amortised cost is calculated with reference to the effective interest rate (EIR) of the portfolio. This income is recognised after taking account of new portfolios, balance sheet cash collections, updated ERC forecast, disposals and any foreign exchange impacts. See footnote 1. in the reconciliation of profit after tax to free cash flow below for more detail on total income.
4. Fair value gain on portfolio investments at FVTPL re-presents net increases to carrying values, discounted to calculate the market interest rate of portfolio investments held at FVTPL as a result of reassessments to their estimated future cash flows.
5. Net impairment losses represents net increases to carrying values, discounted at the credit-adjusted EIR rate, of portfolio investments held at amortised cost as a result of reassessments to their estimated future cash flows.
6. The ERC roll forward and reforecast reflects management's updated estimation of future balance sheet cash collections. It takes account of updated information on specific portfolios, the latest exchange rate and rolls forward the 84-month and 120-month forecast collection period.
7. Under IFRS, the carrying value of portfolio investments primarily includes 84-months of discounted cash flows, however we expect to see cash flows beyond this period and report a 120-month ERC also, as is customary for the industry.

*Reconciliation of profit after tax to free cash flow*

| | Reported profit £000 | Other items £000 | Cash result £000 | |
|---|---|---|---|---|
| Income from portfolio investments | 165,089 | 173,783 | 338,872 | Balance sheet cash collections in the period |
| Fair value gains on portfolio investments at FVTPL | 4,976 | (4,976) | – | |
| Net impairment losses | (100,436) | 100,436 | – | |
| Income from AMS and FIM | 97,026 | – | 97,026 | Income from AMS and FIM |
| Gain on disposal of leases | 453 | (453) | – | |
| Other income | 384 | – | 384 | |
| Total income[1] | 167,492 | 268,790 | 436,282 | |
| Total operating expenses | (224,820) | 21,701[2] | (203,119) | Cash operating expenses |
| Operating (loss)/profit | (57,328) | 290,491 | 233,163 | Adjusted EBITDA[4] |
| Net finance costs | (57,495) | 1,200[3] | (56,295) | |
| (Loss)/profit before tax | (114,823) | 291,691 | 176,868 | |
| Taxation credit/(charge) on ordinary activities | 21,206 | (27,697) | (6,491) | |
| (Loss)/profit after tax | (93,617) | 263,994 | 170,377 | |
| | | | (13,824) | Capital expenditure |
| | | | 156,553 | Free cash flow[5] |

1. Total income is largely derived from income from portfolio investments as explained in footnote 3. above, plus income from asset management and servicing, being commission on balance sheet cash collections for third parties and fee income received. The non-cash 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 foreign exchange.
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 31 for detailed reconciliations of Adjusted EBITDA.
5. Free cash flow is the Adjusted EBITDA after the effect of capital expenditure and working capital movements.

*Adjusted EBITDA reconciliations*

| Reconciliation of net cash flow to Adjusted EBITDA | 31 December 2020 £000 | As re-presented 31 December 2019 £000 |
|---|---|---|
| Net cash flow used in operating activities | 41,510 | 6,456 |
| Purchases of portfolio investments | 109,850 | 303,687 |
| Income taxes paid | 6,491 | 14,036 |
| Working capital adjustments | 75,266 | (13,860) |
| Amortisation of acquisition and bank facility fee | 46 | 127 |
| Write off and disposal of intangible asset and property plant and equipment | – | (7,185) |
| Adjusting items | – | 26,789 |
| Adjusted EBITDA | 233,163 | 330,050 |

| Reconciliation of balance sheet cash collections to Adjusted EBITDA | | |
|---|---|---|
| Income from portfolio investments including fair value and impairment losses and gains | 69,629 | 244,766 |
| Portfolio amortisation | 269,243 | 197,545 |
| Balance sheet cash collections (includes proceeds from disposal of portfolio investments) | 338,872 | 442,311 |
| Income from asset management and servicing, fund and investment management and other income | 97,410 | 94,752 |
| Operating expenses | (224,820) | (233,700) |
| Depreciation and amortisation | 18,910 | 18,435 |
| Foreign exchange losses | 743 | 1,018 |
| Amortisation of acquisition and bank facility fees | 46 | 127 |
| Deferred consideration renegotiations | – | (21,119) |
| Loss on disposal of intangible assets | 249 | – |
| Share-based payments | 1,753 | 1,437 |
| Adjusting items | – | 26,789 |
| Adjusted EBITDA | 233,163 | 330,050 |

| Reconciliation of operating (loss)/profit to Adjusted EBITDA | | |
|---|---|---|
| (Loss)/profit after tax for the year | (93,617) | 37,287 |
| Net finance costs | 57,495 | 54,498 |
| Taxation (credit)/charge on ordinary activities | (21,206) | 14,033 |
| Operating (loss)/profit | (57,328) | 105,818 |
| Portfolio amortisation | 269,243 | 197,545 |
| Depreciation and amortisation | 18,910 | 18,435 |
| Foreign exchange losses | 743 | 1,018 |
| Amortisation of acquisition and bank facility fees | 46 | 127 |
| Profit on disposal of leased property | (453) | – |
| Loss on disposal of intangible assets | 249 | – |
| Share-based payments | 1,753 | 1,437 |
| Deferred consideration renegotiations | – | (21,119) |
| Adjusting items | – | 26,789 |
| Adjusted EBITDA | 233,163 | 330,050 |

For more detail on the re-presentations, see note 14 on page 27.

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. |
| Free cash flow | The free cash flow represents current cash generation on a sustainable basis and is calculated as Adjusted EBITDA less cash interest, income taxes and overseas taxation paid, purchase of property, plant and equipment and purchase of intangible assets. | Free cash flow provides a measure of how much cash the Group generates across the reporting period which it can utilise on a discretionary basis. |
| Balance sheet cash collections | Balance sheet cash 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. |
| 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 | Leverage is calculated as secured net debt over Adjusted EBITDA. | The leverage metric provides an indication of the level of indebtedness of the Group, relative to its underlying cash earnings. |

# Glossary of terms

‘ABS’ means asset-backed security.

‘ACO 1’ is Arrow Credit Opportunities Scsp, 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.

’AMS EBITDA margin’ is the EBITDA margin for the AMS segment and can be seen in note 3.

‘APM’ means alternative performance measure.

‘Average net assets’ is calculated as the average quarterly net assets from 2019 to 2020 as shown in the quarterly and half yearly statements.

‘Balance Sheet business’ was previously referred to as Investment Business (IB).

’Capital-light % of Group EBITDA’ is the Asset Management Servicing and Fund and Investment Management segment EBITDAs as a percentage of total EBITDA.

| | 2020<br>£000 | 2019<br>£000 |
|---|---|---|
| AMS EBITDA | 15,598 | 23,076 |
| FIM EBITDA | 2,650 | 18,635 |
| Total capital-light | 18,248 | 41,711 |
| Group EBITDA | (37,675) | 125,271 |
| Capital light % of Group EBITDA | (48.4)% | 33.3% |

‘CGU’ means cash generating unit.

‘CODM’ means chief operating decision maker.

‘Creditors’ means financial institutions or other initial credit providers to consumers, certain of which entities choose to sell paying accounts or non-paying accounts receivables related to debt purchasers (such as the Group).

‘Customers’ means consumers whose unsecured loan obligation is owed to the Group as a result of a portfolio purchase made by the Group.

‘Defaulted debt’ means a debt where a customer has breached the repayment terms governing that debt such that it is unlikely to be paid. Under the Consumer Credit Act 1974, there are specific legal obligations which require a customer to be sent the relevant statutory default notice(s) after which the customer’s agreement may ultimately be terminated. Other types of debts may also be defined as defaulted in the event that they remain unpaid for a period of 90 days or more, if there is not an acceptable arrangement in place to bring the account back up to date, in which case the creditor or lender may reasonably believe that the relationship has broken down. Under the Data Protection Act 1990, it is a requirement that any organisation seeking to register a default with a credit reference agency must also send a notice of intention to file a default, this notice is very similar in nature to that required under the Consumer Credit Act both of which give the debtor 28 days to bring the account back up to date before action is taken.

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

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

‘EIR’ means effective interest rate (which is based on the loan portfolio’s gross internal rate of return) calculated using the loan portfolio purchase price and forecast gross ERC at the date of purchase. On acquisition, there is a short period that is required to determine the EIR, due to the complexity of the portfolios acquired.

‘EPS’ means earnings per share.

’ERC’ means Estimated Remaining Collections. More information on the 84-month and 120-month ERCs can be seen on page 32.

‘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 movement and the impact of reforecast in the period.

FCA’ means the Financial Conduct Authority.

‘FIM’ means the Fund and Investment Management.

’FIM EBITDA margin’ is the EBITDA margin for the FIM segment and can be seen in note 3.

‘Free cash flow’ or ‘FCF’ means Adjusted EBITDA after the effect of capital expenditure and working capital movements.

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

‘FUM’ means the value of all fund management assets managed by Arrow Global plc, including Arrow Credit Opportunities, Norfin Investimentos, Europa Investimenti, Sagitta, 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 with others in the market.

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

| | 2020<br>£000 | 2019<br>£000 |
|---|---|---|
| Third-party AMS and FIM income | 97,026 | 94,360 |
| Intra-Group AMS and FIM income | 60,362 | 64,463 |
| Income reallocation from Balance Sheet business | 4,747 | 18,291 |
| Gross AMS and FIM income | 162,135 | 177,114 |

‘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.

| | 2020<br>£000 | 2019<br>£000 |
|---|---|---|
| Third-party AMS and FIM income | 97,026 | 94,360 |
| Intra-Group AMS and FIM income | 60,362 | 64,463 |
| Income reallocation from Balance Sheet business | 4,747 | 18,291 |
| Gross AMS and FIM income | 162,135 | 177,114 |
| Balance Sheet business income | 69,629 | 244,766 |
| Income reallocation from FIM business | (4,747) | (18,291) |
| Gross Balance Sheet income | 64,882 | 226,475 |
| Other income | 837 | 392 |
| Gross income | 227,854 | 403,981 |

‘Gross money multiple’ means balance sheet cash collections to date plus the 84-month gross ERC or 120-month gross ERC, as applicable, all divided by the purchase price for each portfolio, excluding REO purchases and purchase price adjustments relating to asset management fees.

‘IAS’ means International accounting standards.

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

‘Loan to value’ or ‘LTV ratio’ represents the ratio of 84-month ERC to net debt.

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

‘NCI’ means non-controlling interest.

‘Net debt’ means the sum of the outstanding principal amount of the senior secured notes, interest thereon, amounts outstanding under the revolving credit facility and deferred consideration payable in relation to the acquisition of portfolio investments, less cash and cash equivalents. Net debt is presented because it indicates the level of debt after taking out of 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 year ended 31 December 2020 (with 2019 re-presented, as set out in note 14) is as follows:

| | 2020 £000 | As re-presented 2019 £000 |
|---|---|---|
| Cash and cash equivalents | (182,892) | (115,376) |
| Senior secured notes (pre-transaction fees net off) | 935,487 | 902,656 |
| Revolving credit facility (pre-transaction fees net off) | 280,342 | 234,683 |
| Asset-backed loans (pre-transaction fees net off) | 148,044 | 85,604 |
| Secured net debt | 1,180,981 | 1,107,567 |
| Deferred consideration – portfolio investments | 12,038 | 62,944 |
| Deferred consideration – business acquisitions | 20,130 | 30,372 |
| Senior secured loan notes interest | 5,568 | 7,999 |
| Asset-backed loan interest | 649 | – |
| Bank overdrafts | 3,648 | 1,386 |
| Other borrowings | 3,247 | 3,672 |
| Net debt | 1,226,261 | 1,213,940 |

‘NPL’ means non-performing loan.

‘OCI’ means other comprehensive income.

‘Paying account’ means an account that has shown at least one payment over the last three months or at least two payments over the last six months.

‘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.

’REO portfolio’ means a portfolio investment which is related to real estate owned assets.

‘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 2019 to 2020 as shown in the quarterly and half-yearly statements. The quarterly and half-yearly statements can be found here https://www.arrowglobal.net/en/investors/results-reports-presentations.html.

‘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.