ARROW GLOBAL GROUP PLC (the "Company" or the "Group")

Q1 results and trading update

For the three months ended 31 March 2020

14 May 2020

Robust Q1 performance

Raised a further €356 million of committed fund management capital

Putting staff and customers first

- The Group's foremost priority has been to safeguard the health and wellbeing of our colleagues and ensure continuity of service for customers and clients - 100% of our employees were working from home and fully operational by the end of March
- Arrow is continuing to offer support and forbearance to impacted customers in line with the Group's values and ESG commitments

Robust Q1 performance but short-term uncertainty

- Conservative cash deployment – new portfolio purchases of £28.1 million (Q1 2019: £56.4 million)
- Investment Business (IB) collections of £85.1 million in the first quarter (Q1 2019: £105.5 million) representing 92% of Estimated Remaining Collections (ERC) assumptions. April collections were 93% of ERC assumptions
- Asset Management and Servicing (AMS) business cashflows remained resilient – AMS revenues improved 2.6% to £23.6 million (Q1 2019: £23.0 million)
- The Group maintained a strong liquidity position – latest available cash headroom in excess of £150 million (Q1 2020: £129.0 million, FY 2019: £152.9 million)
- Short term collections environment uncertain due to court closures and frozen property market; 2020 guidance withdrawn

Continued strategic progress and attractive medium-term outlook

- Closed a further €356 million of capital commitments – total fund management capital commitments now €1.2 billion, with €896 million from third party investors
- A recessionary environment and associated credit dislocation are expected to generate attractive investment and servicing opportunities

Group financial highlights	31 March 2020	31 March 2019	Change %
Total income (£m)	77.1	86.6	(11.0)
Free cash flow (£m)	33.5	57.8	(42.0)
Operating profit (£m)	22.5	28.3	(20.5)
Profit before tax (£m)	9.0	15.8	(43.0)
Basic EPS (p)	3.9	6.1	(36.1)
Leverage (x)	3.8	3.4	(0.4x)
84-month ERC (£m)	1,834.3	1,602.8	14.4
120-month ERC (£m)	2,050.9	1,935.4	6.0

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

"I am extremely proud of the way all of our employees have risen to the challenge of lockdown. We were able to ensure that 100% of our employees were working from home fully operationally by the end of March, continuing to service the needs of our customers and clients. At the same time, we have been true to our purpose of Building Better Financial Futures, enhancing our Vulnerable Customer Policy that already offers forbearance to those in financial distress or ill health by implementing a specific COVID-19 customer support programme where our employees provide additional support to customers directly affected by the virus.

"Our liquidity position remains strong and, when combined with the capital allocation optimisation offered by our Fund Management Business, I am confident in our ability to navigate successfully through the near-term uncertainty. While the virus is clearly a humanitarian tragedy, Arrow provides services that are more in demand in times of economic dislocation. Therefore, while our immediate outlook on collections remains cautious, we are highly optimistic about an increasingly attractive investment and asset servicing environment.

"The €356 million increase of capital commitments into our fund against the continuing backdrop of uncertainty from COVID-19 highlights the strength of Arrow's business model and the attractiveness of our fund management strategy to the alternative investment community."

Trading update

Fund Management Business

Today's announcement that we have raised a further €356 million of capital commitments into our fund management offering underlines the shared belief between us and our alternative asset investors that there will be significant and attractive future investment opportunities within the sector. We have continued to diversify our LP investor base successfully, both by geography and investor type, adding Asian funds and sovereign wealth funds in this close, as well as successfully establishing a US dollar feeder fund to the main fund that should enable investor diversification further. To achieve further fund commitments against a highly challenging backdrop due to a disrupted fundraising environment because of COVID-19 is testament to the strength of our fund offering and the attraction of our services. While the virus does present a previously unforeseen logistical challenge for physical investor meetings and related due diligence processes, the Group continues to target an ambitious total new Funds Under Management (FUM) target of €2 billion. Including our Norfin and Sagitta businesses, Arrow's Fund Management Business now has total FUM of €2.6 billion.

Update on the impact of COVID-19 on collection activity

By the end of March 100% of our employees were able to work effectively from home. The Group has begun to see early signs of the COVID-19 virus's impact on cash collections and servicing revenues across its European operations. First quarter IB cash collections of £85.1 million represents 92% of ERC assumptions with the only material shortfall relating to £10 million of delayed collections from two large ticket secured assets in Italy and Ireland. Performance in April remained robust at 93% of ERC, albeit enhanced by the acceleration of cashflows from the restructuring of one of the Group's co-investment portfolios. Excluding this, collections were at 75% of ERC in April – around the mid-point of the Group's range of modelled collections scenarios. Year to date, collections are currently running at 92% of ERC.

While the impact of the European lockdown remains highly uncertain, it is expected to vary depending on asset class and geography. Approximately 40% of the Group's ERC derives from secured portfolios – primarily in Portugal and Italy – where cash collections are often driven either by the local court system or result from the completion of real estate sales. Whilst both of these collection strategies have been directly impacted by the COVID-19 restrictions imposed by European governments, secured portfolios are backed by underlying assets and so cash collections are expected to be mainly subject to a timing delay rather than an ultimate loss of cashflows. Therefore, any impact of delayed cash collections from secured assets on the balance sheet carrying value and on the 84-month and 120-month undiscounted ERC curves might be less material. The majority of the remaining 60% of the Group's ERC consists of unsecured assets – primarily in the UK, followed by Portugal and the Netherlands – where collections are driven by smaller, more frequent monthly cash collections. Here, we are unaffected by regulatory measures introducing forbearance on performing loans but continue to protect vulnerable customers, including those affected by the current situation. Currently, automated collections form around 46% of total Group collections and around 80% of Northern European unsecured collections. Where unsecured collections are not automated they are substantially all paid by remote electronic means. Whilst not directly comparable, our experience of the global financial crisis would suggest that circa 50% of initially lost unsecured collections are collected in subsequent years.

Third party AMS revenues have continued to contribute capital-light income, driven by continued management fees from our long-term contracts and the ongoing collections rate. A reduction in collection rates would result in softer AMS revenues, although April AMS revenues have remained robust.

Capital and liquidity

The Group continues to actively monitor its liquidity and covenant adherence. The Group's liquidity position remains strong, with latest available cash headroom in excess of £150 million, up from £129.0 million at the end of the first quarter. Arrow's prudent approach to its balance sheet means that the Group has no debt to refinance until 2024. Relationships with lending banks and bondholders are good, with strong support for our strategy. Arrow has implemented various actions to preserve cash and liquidity: On 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; non-essential operational and capital expenditure has been cancelled; and we have accessed government support schemes where available. Given the increase in business volumes we expect to see as a result of the deteriorating economic environment, we have not taken actions to reduce our overall headcount. Our secured net debt to adjusted EBITDA increased by 0.4x to 3.8x – well below our revolving credit facility covenant level of 4.4x. Foreign exchange movements since December increased leverage by approximately 0.1x. The remainder of the increase was due to the natural volatility in expected collections, amplified by delays to collections primarily due to court closures in our countries.

Outlook

Given the level of continued operational and economic uncertainty across Europe, we have withdrawn financial guidance for the 2020 financial year. We have delayed the date of our Interim Results to 25th August to provide the maximum time for economic forecasts to stabilise. We would hope to provide revised guidance for 2020 performance at that time. Arrow currently anticipates a deep recessionary environment in its European markets. Whilst the impact of this unprecedented economic and court system pause in H1 might cause us to re-evaluate the ERC at the half year, the Group believes that it continues to have the necessary financial flexibility to benefit from anticipated future market tail winds. This cautious outlook means the Group will continue to take a highly selective approach to capital allocation. While the cause of this downturn is highly regrettable, Arrow's business model benefits from periods of economic dislocation and we see evidence of very attractive investment and asset servicing opportunities in our IB, AMS and Fund Management businesses in both the primary and secondary markets. We expect these opportunities to grow considerably in the months and years ahead and are already seeing an increase in servicing opportunities for our AMS business amongst our client base. We will continue to monitor operational performance closely and maximise liquidity to take full advantage of the opportunities presented by market dislocation. Arrow's unique combination of balance sheet capability alongside our Fund Management Business capital base means that the Group should be one of the best positioned buyers of assets in our target market segments.

Conference call

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

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

https://bit.ly/3btCfdn

Notes:

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

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

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Forward looking statements

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

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

For the period ended 31 March 2020

	Unaudited three months ended 31 March 2020 £000	Unaudited three months ended 31 March 2019 £000
Continuing operations		
Income from portfolio investments at amortised cost	45,259	44,760
Fair value gain on portfolio investments at FVTPL	4,134	6,647
Impairment gains on portfolio investments at amortised cost	3,848	12,172
Losses on real estate inventories	(20)	–
Total income from portfolio investments	**53,221**	**63,579**
Income from asset management and servicing	23,580	22,952
Other income	262	98
Total income	**77,063**	**86,629**
Operating expenses:		
Collection activity costs	(26,058)	(26,790)
Other operating expenses	(28,492)	(31,515)
Total operating expenses	**(54,550)**	**(58,305)**
Operating profit	**22,513**	**28,324**
Finance income	6	19
Finance costs	(13,486)	(12,590)
Profit before tax	**9,033**	**15,753**
Taxation charge	(2,168)	(4,360)
Profit after tax	**6,865**	**11,393**
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	6,356	(4,682)
Movement on the hedging reserve	85	(54)
Total comprehensive income	**13,306**	**6,657**
Profit/(loss) after tax attributable to:		
Owners of the Company	6,950	10,673
Non-controlling interest	(85)	720
	6,865	**11,393**
Basic EPS (p)	**3.9**	**6.1**
Diluted EPS (p)	**3.8**	**5.9**

ARROW GLOBAL

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2020

	Note	31 March 2020 £000	31 December 2019 £000	31 March 2019 £000
Assets				
Cash and cash equivalents		101,589	88,765	58,428
Trade and other receivables		77,041	75,094	63,372
Portfolio investments – amortised cost	2	950,022	932,199	852,311
Portfolio investments – FVTPL	2	176,832	169,799	178,089
Portfolio investments – real estate inventories	2	64,456	61,626	30,836
Property, plant and equipment		22,166	24,521	30,538
Intangible assets		38,524	38,159	40,275
Deferred tax asset		10,120	10,759	8,055
Goodwill		276,190	267,700	254,326
Total assets		**1,716,940**	**1,668,622**	**1,516,230**
Liabilities				
Bank overdrafts	3	4,111	1,386	4,249
Revolving credit facility	3	275,141	230,963	221,262
Derivative liability		407	509	729
Trade and other payables		199,174	223,001	170,474
Current tax liability		3,525	7,645	9,475
Other borrowings	3	3,838	3,672	–
Asset-backed loans	3	77,611	84,077	–
Senior secured notes	3	918,137	897,875	896,691
Deferred tax liability		19,147	17,637	14,582
Total liabilities		**1,501,091**	**1,466,765**	**1,317,462**
Equity				
Share capital		1,769	1,769	1,763
Share premium		347,436	347,436	347,436
Retained earnings		137,108	129,240	112,405
Hedging reserve		(338)	(423)	(639)
Other reserves		(274,274)	(280,630)	(263,518)
Total equity attributable to shareholders		**211,701**	**197,392**	**197,447**
Non-controlling interest		4,148	4,465	1,321
Total equity		**215,849**	**201,857**	**198,768**
Total equity and liabilities		**1,716,940**	**1,668,622**	**1,516,230**

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

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 31 March 2020

	Share capital	Other equity reserves	Total	Non-controlling interest	Total
	£000	£000	£000	£000	£000
Balance at 1 January 2019	1,763	189,894	191,657	601	192,258
Impact of adopting IFRS 16	–	(947)	(947)	–	(947)
Balance post IFRS adjustments at 1 January 2019	**1,763**	**188,947**	**190,710**	**601**	**191,311**
Profit after tax	–	10,673	10,673	720	11,393
Exchange differences	–	(4,682)	(4,682)	–	(4,682)
Net fair value gains - cash flow hedges	–	(65)	(65)	–	(65)
Tax on hedged items	–	11	11	–	11
Total comprehensive income for the period	–	**5,937**	**5,937**	**720**	**6,657**
Share-based payments net of tax	–	800	800	–	800
Balance at 31 March 2019	**1,763**	**195,684**	**197,447**	**1,321**	**198,768**
Profit after tax	–	24,550	24,550	1,344	25,894
Exchange differences	–	(2,395)	(2,395)	–	(2,395)
Recycled to income statement net of tax	–	7	7	–	7
Net fair value losses - cash flow hedges	–	252	252	–	252
Tax on hedged items	–	(44)	(44)	–	(44)
Total comprehensive income for the period	–	**22,370**	**22,370**	**1,344**	**23,714**
Shares issued	6	–	6	–	6
Repurchase of own shares	–	(6)	(6)	–	(6)
Share-based payments net of tax	–	637	637	–	637
Dividend paid	–	(23,062)	(23,062)	–	(23,062)
Non-controlling interest on acquisition	–	–	–	1,800	1,800
Balance at 31 December 2019	**1,769**	**195,623**	**197,392**	**4,465**	**201,857**
Profit after tax	–	6,950	6,950	(85)	6,865
Exchange differences	–	6,356	6,356	–	6,356
Net fair value losses - cash flow hedges	–	102	102	–	102
Tax on hedged items	–	(17)	(17)	–	(17)
Total comprehensive income for the period	–	**13,391**	**13,391**	**(85)**	**13,306**
Share-based payments net of tax	–	775	775	–	775
Non-controlling interest on acquisition	–	232	232	(232)	–
Change in non-controlling interest	–	(89)	(89)	–	(89)
Balance at 31 March 2020	**1,769**	**209,932**	**211,701**	**4,148**	**215,849**

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UNAUDITED CONSOLIDATED STATEMENT OF CASHFLOWS

For the period ended 31 March 2020

	Unaudited period ended 31 March 2020 £000	Unaudited period ended 31 March 2019 £000
Net cash flows from operating activities before purchases of portfolio investments	**30,985**	**64,961**
Purchase of portfolio investments	(28,066)	(56,377)
Net cash used in operating activities	**2,919**	**8,584**
Net cash used in investing activities	**(3,939)**	**(7,752)**
Net cash flows generated by financing activities	**11,360**	**(32,546)**
Net increase in cash and cash equivalents	**10,340**	**(31,714)**
Cash and cash equivalents at beginning of period	88,765	92,001
Effect of exchange rates on cash and cash equivalents	2,484	(1,859)
Cash and cash equivalents at end of period	**101,589**	**58,428**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Significant accounting policy updates

These financial statements are unaudited and do not include all the information required for annual or interim financial statements and therefore are not fully compliant with IAS 34 – Interim financial reporting. These quarterly results should be read in conjunction with the Group’s consolidated annual report and accounts for the year ended 31 December 2019.

The Group’s consolidated annual report and accounts are prepared in accordance with IFRS as adopted for use in the EU, and therefore comply with Article 4 of the EU IFRS Regulations. As required by the Disclosure and Transparency Rules of the Financial Conduct Authority, these financial statements have been prepared by applying the accounting policies and presentation that were applied in the preparation of the Group's published consolidated annual report and accounts for the year ended 31 December 2019.

In light of the ongoing impact of COVID-19 and the uncertainties it creates, the Group has sought to reaffirm the going concern basis of preparation that was adopted for the year ended 31 December 2019. In assessing whether the going concern basis remains appropriate, the directors have undertaken a thorough review of the latest forecast cash flow models and scenarios for a period in excess of 12 months. Based on the outcome of this exercise, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

The consolidated annual report and accounts for the year ended 31 December 2019 are available upon request from the Company’s registered office at Belvedere, 12 Booth Street, Manchester, M2 4AW and can also be found online at www.arrowglobal.net.

2. Portfolio investments

The movements in portfolios investments were as follows:

Period ended 31 March 2020

	Amortised cost	FVTPL	Real Estate Inventories	Total
	£000	£000	£000	£000
As at 1 January 2020	932,199	169,799	61,626	1,163,624
Portfolios purchased during the period	19,148	8,918	–	28,066
Collections in the period	(72,962)	(11,862)	(227)	(85,051)
Income from portfolio investments at amortised cost	45,259	–	–	45,259
Fair value gain on portfolio investments at FVTPL	–	4,134	–	4,134
Losses from portfolio investments - real estate inventories	–	–	(20)	(20)
Net impairment gains	3,848	–	–	3,848
Exchange and other movements	22,530	5,843	3,077	31,450
As at 31 March 2020	**950,022**	**176,832**	**64,456**	**1,191,310**

Year ended 31 December 2019

	Amortised cost	FVTPL	Real Estate Inventories	Total
	£000	£000	£000	£000
As at 1 January 2019	869,056	217,974	–	1,087,030
Portfolios purchased during the period	248,470	30,052	25,165	303,687
Transfer between categories	11,483	(55,262)	43,779	–
Collections in the period	(390,734)	(48,034)	(3,543)	(442,311)
Income from portfolio investments at amortised cost	199,094	–	–	199,094
Fair value gain on portfolio investments at FVTPL	–	32,397	–	32,397
Income from portfolio investments - real estate inventories	–	–	561	561
Net impairment gain	12,720	–	(6)	12,714
Exchange and other movements	(4,729)	(7,328)	(4,330)	(16,387)
Portfolio restructure	(13,161)	–	–	(13,161)
As at 31 December 2019	**932,199**	**169,799**	**61,626**	**1,163,624**

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

2. Portfolio investments (*continued*)

Period ended 31 March 2019

	Amortised cost £000	FVTPL £000	Real Estate Inventories £000	Total £000
As at 1 January 2019	869,056	217,974	–	1,087,030
Portfolios purchased during the period	48,107	8,270	–	56,377
Transfers between categories	(8,156)	(22,680)	30,836	–
Collections in the period	(81,054)	(24,439)	–	(105,493)
Income from portfolio investments at amortised cost	44,760	–	–	44,760
Fair value gain on portfolios at FVTPL	–	6,647	–	6,647
Net impairment gain	12,172	–	–	12,172
Exchange and other movements	(19,413)	(7,683)	–	(27,096)
Portfolio restructure	(13,161)	–	–	(13,161)
As at 31 March 2019	**852,311**	**178,089**	**30,836**	**1,061,236**

3. Borrowings and facilities

	31 March 2020 £000	31 December 2019 £000	31 March 2019 £000
Senior secured notes (net of transaction fees of £12,233,000, 31 December 2019: £12,780,000 , 31 March 2019: £14,388,000)	918,137	897,875	896,691
Revolving credit facility (net of transaction fees of £3,487,000, 31 December 2019: £3,720,000, 31 March 2019: £3,982,000)	275,141	230,963	221,262
Asset backed loan (net of transaction fees of £1,438,000, 31 December 2019 £1,658,000)	77,611	84,077	–
Bank overdrafts	4,111	1,386	4,249
Other borrowings	3,838	3,672	–
Total borrowings	**1,278,838**	**1,217,973**	**1,122,202**
Amount due for settlement within 12 months	296,605	257,500	226,944
Amount due for settlement after 12 months	982,233	960,473	895,258
	1,278,838	**1,217,973**	**1,122,202**

3. Borrowings (*continued*)

Senior secured notes

As at 31 March 2020, the Group has three senior secured notes in issue; £320 million with a fixed coupon of 5.125% due to be repaid in 2024 (the '2024 Notes'), €400 million floating rate notes at a coupon of 2.875% over three-month EURIBOR due to be repaid in 2025 (the '2025 Notes') and €285 million of floating rate notes at a coupon of 3.75% over three-month EURIBOR due to be repaid in 2026 (the '2026 Notes').

The senior secured notes are secured by substantially all the assets of the Group.

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. Borrowings under the facility are secured by substantially all the assets of the Group.

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 has a five-year term comprising an initial two-year revolving period followed by a three-year amortising period with an option to extend by one year, subject to lender consent.

ADDITIONAL INFORMATION (UNAUDITED)

The adjusted EBITDA reconciliations for the periods ended 31 March 2020 and 31 March 2019 respectively are shown below:

	31 March 2020 £000	31 March 2019 £000
Reconciliation of net cash flow to adjusted EBITDA		
Net cash used in operating activities	2,919	8,584
Purchase of portfolio investments	28,066	56,377
Income taxes paid	5,560	2,625
Working capital adjustments	24,279	8,853
Amortisation of acquisition and bank facility fee	17	43
Write off lease assets	(1,689)	-
Adjusting items	-	451
Adjusted EBITDA	**59,152**	**76,933**
Reconciliation of core collections to EBITDA		
Income from portfolio investments including fair value and impairment gains	53,221	63,579
Portfolio amortisation	31,830	41,914
Core collections (includes proceeds from disposal of loan portfolios)	**85,051**	**105,493**
Other income	23,842	23,050
Operating expenses	(54,550)	(58,305)
Depreciation and amortisation	3,953	4,728
Foreign exchange losses	64	673
Amortisation of acquisition and bank facility fees	17	43
Share-based payments	775	800
Adjusting items	-	451
Adjusted EBITDA	**59,152**	**76,933**
Reconciliation operating profit to EBITDA		
Profit after tax for the period	6,865	11,393
Finance income and costs	13,480	12,571
Tax charge on ordinary activities	2,168	4,360
Operating profit	**22,513**	**28,324**
Portfolio amortisation	31,830	41,914
Depreciation and amortisation	3,953	4,728
Foreign exchange losses	64	673
Amortisation of acquisition and bank facility fees	17	43
Share-based payments	775	800
Adjusting items	-	451
Adjusted EBITDA	**59,152**	**76,933**

Additional Information *(continued)*

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

Reconciliation of profit after tax to the free cash flow result

Income	Reported profit £000	Other items £000	Free cash flow £000	
Income from portfolio investments at amortised cost	45,259	39,792	85,051	Collections in the period
Fair value gain on portfolio investments at FVTPL	4,134	(4,134)	-	
Net impairment gains on portfolio investments at amortised cost and real estate inventories	3,848	(3,848)	-	
Income from real estate inventories	(20)	20	-	
Income from asset management and servicing	23,580	-	23,580	Income from asset management and servicing
Other income	262	-	262	
Total income [1]	**77,063**	**31,830**	**108,893**	Cash income
Total operating expenses	(54,550)	4,809[2]	(49,741)	Cash operating expenses
Operating profit	**22,513**	**36,639**	**59,152**[4]	Adjusted EBITDA[5]
Net financing costs	(13,480)	(4,588)[3]	(18,068)	
Profit before tax	**9,033**	**32,051**	**41,084**	
Taxation charge on ordinary activities	(2,168)	(3,392)	(5,560)	
Profit after tax	**6,865**	**28,659**	**35,524**	
			(2,072)	Capital expenditure
			33,452	**Free cash flow** [6]
			(47,335)	Replacement rate [5]
			(13,883)	**Cash result**

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

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

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

[4] *Adjusted EBITDA is a key driver to the cash result. This measure allows us to monitor the operating performance of the Group. See additional information provided on page 14 for detailed reconciliations of adjusted EBITDA*

[5] *Replacement rate is the rate of portfolio investments purchases, at our target portfolio returns, required during the next 12 months to maintain the 84-month ERC as at 31 March 2020*

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

ARROW GLOBAL

GLOSSARY

'Adjusted EBITDA' means profit for the period attributable to equity shareholders before interest, tax, depreciation, amortisation, foreign exchange gains or losses and adjusting items.

'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.

'Cash result' 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, purchase of intangible assets and average replacement rate.

'Collection activity costs' represents the direct costs of collections related to the Group's portfolio investments, such as internal staff costs, commissions paid to third party outsourced providers, credit bureau data costs and legal costs associated with collections.

'Core collections' or 'core cash collections' mean cash collections on the Group's existing portfolios including ordinary course portfolio sales and put backs.

'Diluted EPS' means the earnings per share whereby the number of shares is adjusted for the effects of potential dilutive ordinary shares, options and LTIP's.

'EBITDA' means earnings before interest, taxation, depreciation and amortisation.

'EPS' means earnings per share.

'84-month ERC' and **'120-month ERC'** (together **'gross ERC'**), mean the Group's estimated remaining collections on portfolio investments over an 84-month or 120-month period, respectively, representing the expected future core collections on portfolio investments over an 84-month or 120-month period (calculated at the end of each month, based on the Group's proprietary ERC forecasting model, as amended from time to time).

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

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

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

'IFRS' means EU adopted international financial reporting standards.

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

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

	31 March 2020 £000
Third party AMS income	23,580
Intra-Group AMS income	10,676
Gross AMS income	**34,256**

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

	31 March 2020 £000
Third party AMS income	23,580
Intra-Group AMS income	10,676
Gross AMS income	**34,256**
Investment Business income	53,221
Other income	262
Gross income	**87,739**

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

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

'LTM' means last twelve months and is calculated by the addition of the consolidated financial data for the Year ended 31 December 2019 and the consolidated financial data for the three months to 31 March 2020, and the subtraction of the consolidated financial data for the three months to 31 March 2019.

GLOSSARY *(continued)*

'Net debt' means the sum of the outstanding principal amount of the senior secured notes and asset-backed loans, interest thereon, amounts outstanding under the revolving credit facility and deferred consideration payable in relation to the acquisition of portfolio investment, less cash and cash equivalents. Net debt is presented because it indicates the level of debt after removing the Group's assets that can be used to pay down outstanding borrowings, and because it is a component of the maintenance covenants in the revolving credit facility. The breakdown of net debt as at 31 March 2020 is as follows:

	31 March 2020	**31 December 2019**
	£000	**£000**
Cash and cash equivalents	(101,589)	(88,765)
Senior secured notes (pre-transaction fees net off)	928,937	902,656
Revolving credit facility (pre-transaction fees net off)	278,628	234,683
Asset-backed loans (pre-transaction fees net off)	78,940	85,604
Secured net debt	**1,184,916**	**1,134,178**
Deferred consideration – portfolio investments	60,760	62,944
Deferred consideration – business acquisitions	29,584	30,372
Senior secured loan notes interest	1,433	7,999
Asset backed loan interest	109	-
Bank overdrafts	4,111	1,386
Other borrowings	3,838	3,672
Net debt	**1,284,751**	**1,240,551**

'NCI means non-controlling interest.

'ROE' means the return on equity as calculated by taking profit after tax divided by the average equity attributable to shareholders. Average equity attributable is calculated as the average quarterly equity from Q3 2018 to Q3 2019 as shown in the quarterly, half year and full year statements. In the comparative period this is calculated as the average annual equity attributable.

'Secured net debt' means the sum of the outstanding principal amount of the senior secured notes and asset-backed loans, amounts outstanding under the revolving credit facility, less cash and cash equivalents. Secured net debt is presented because it indicates the level of secured debt after taking out the Group's assets that can be used to pay down outstanding secured borrowings, and because it is a component of the incurrence tests in the senior secured notes. The breakdown of secured net debt for the Period ended 31 March 2020 is shown in net debt above.