# ARROW GLOBAL GROUP PLC

## Interim results for the six months to 30 June 2017

31 August 2017

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# AGENDA


| Agenda | |
|---|---|
| I | Highlights |
| II | H1 Review |
| III | HY Financial Performance |
| IV | 2017 Outlook |
| | Q&A |

# I. HIGHLIGHTS

# H1 2017 HIGHLIGHTS

- Underlying profit after tax up 35.5% to £25.8 million (H1 2016: £19.1 million)
- Underlying basic earnings per share (EPS) increased 35.8% to 14.8p (H1 2016: 10.9p)
- Underlying LTM Return on Equity (ROE) of 32.8% (H1 2016: 27.4%)
- Interim dividend of 3.2p per share (H1 2016: 2.7p) up 18.5%
- Strong organic portfolio purchases up 30.3% to £125.1 million (H1 2016: £96.0 million)
- Revenue growth of 47.6% supported by 11.3% increase in core collections and 98.6% increase in Asset Management income
- Successfully raised €400 million senior secured floating rate notes due 2025, at a coupon of E+2.875%, reducing the Group’s cost of debt to 3.9% (31 December 2016: 4.9%) and average debt facility maturity 6.8 years as of 30 June 2017
- Completion of the acquisition of Zenith Service S.p.A. in Italy
- Agreed terms to acquire Mars Capital, expanding UK secured servicing capabilities and entering the Irish market with strategic partnership with Oaktree Capital Management

# II. H1 REVIEW

# HIGH GROWTH

| | |
|---|---|
| **Market potential** | ► €2 trillion NPLs across Europe plus secondary market sales<br>► Market volumes in 2017 expected to exceed €100 billion seen in 2016 & 2015<br>► Increased pressure from European regulators to deal with legacy NPLs<br>► Introduction of IFRS9 in January 2018 will accelerate provisions |
| **Arrow's strong franchise provides long-term opportunities** | ► Long-term relationships with primary sellers and a network of institutional funds<br>► Strong portfolio purchases with a face value of £968.2 million for a purchase price of £125.1 million<br>► 51.2% from off-market transactions and 35.8% from Asset Management business |
| **An attractive mix of businesses and diversification improves earnings** | ► Entry into the active Italian market going well<br>► Entry into high-growth markets: agreed purchase of Mars Capital provides entry into Ireland, and expanded UK capability<br>► Continued growth in asset management, almost doubling revenues to £34.2 million<br>► Total AuM Increased to £38 billion |

**A HIGHLY VISIBLE RUNWAY FOR SIGNIFICANT LONG-TERM GROWTH**

# ITALY AND FRANCE


## Zenith

- Completed the acquisition of Zenith on 28 April 2017
- Strong local origination capabilities
- Regulated business
- Deep data and 54 primary servicer relationships
- AUM up approx. 15% from €14.8 billion to over €17 billion, driven by two large mandates, including one from Fondo Atlante, the Italian private equity fund that is dedicated to recapitalise some Italian banks
- Completed two small portfolio purchases in Italy for a consideration of €10 million. One was master serviced by Zenith, while the second was with a long-term partner of Zenith
- Deep pipeline of opportunities in Italian NPL market of €342 billion

## MCS

- Exiting French market with proposed sale of 15% interest in MCS Group
- MCS investment has delivered excellent returns to shareholders
- Subject to completion, the sale is expected to result in an exceptional net gain for Arrow in H2

# MARS CAPITAL EXPANDS UK CAPABILITIES AND ENTRY INTO IRELAND


## Proposed acquisition

- Proposed acquisition of Mars Capital UK and Ireland, a leading UK and Irish credit servicing business for an enterprise value of £15.5 million
- Strategic partnership with Oaktree Capital Management
- Mars Capital provides servicing for mortgages covering 1st & 2nd lien residential, buy-to-let and SME commercial mortgages
- Almost 11,000 customer accounts and £1.6 billion of AuM
- Earnings neutral in 2018 post amortisation of acquisition intangible
- Transaction subject to regulatory approval by the FCA and Central Bank of Ireland and is expected to complete late 2017
- Acquisition will strengthen Arrow's asset management capabilities and reinforces our leading position in the UK

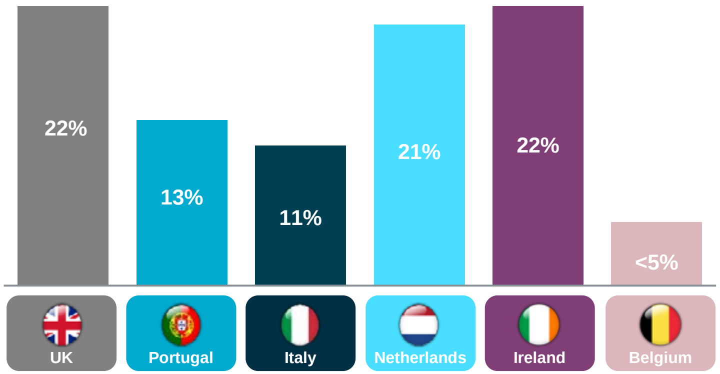
## Opportunity

- Provides strategic entry into Ireland, a new market for the Group offering significant debt purchasing and servicing potential
- UK secured market is £1.3 trillion
- In the UK, scale matters
  - Regulatory permissions
  - Financial institutional relationships
  - Multi-asset class execution
- Ireland is a large NPL market (€59 billion)
- Ireland has a growing economy, falling unemployment and recovering house prices
- Irish banks have improved capital positions and high propensity to sell (22%)
- Significant deal flow (€63 billion) to Arrow's stable of Fund relationships in past five years

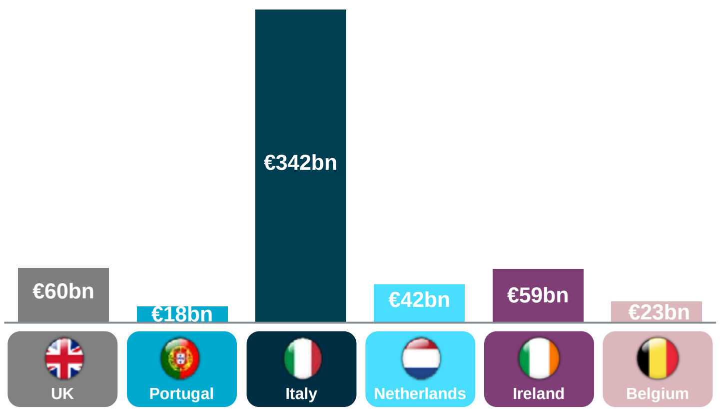
# ADDRESSABLE MARKET

## Addressable market

**Stage of market maturity – propensity to sell[1]**




**€500bn+ outstanding NPL**




## Arrow industry positioning

- €500 billion addressable market for Arrow today, prior to non-core assets of banks
- Leadership positions in UK, Portugal and Benelux and growing presence in Italy
- UK is the most mature market, other markets are at a relatively early stage of industry development
- Unique position to deliver significant growth given:
  - Relationships and service offering to investor participants in the industry
  - Expertise in portfolio carve-outs
  - Excellence in data

*Source: Deloitte's Deleveraging Europe H1 2017, PWC's Portfolio Advisory Group Market update Q1 2017*

*1. Calculated as NPL sales/Face value of NPLs*

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# OUR EXPANDED EUROPEAN FOOTPRINT ENHANCES MARKET POSITION

**Progress in H1 reinforces our pan-European Multi-Asset Class, Asset Management Platform,**

**2012**

**UK debt purchaser**

- 140 employees
- 2 geographies
- Unsecured asset classes
- Without in-house asset management competences

- Acquisition of asset management platforms
- Acquisition and management of new asset classes
- 6 geographies
- Partnerships in origination
- Co-investment partnerships
- 1,500 employees

**2017**

**Pan-European asset management platform**

Co-investment capacity

Expertise and sophisticated data analysis

Capital partners network and track record

Strong & diversified client/base

**Complete range of skills**

- NPL purchase
- Secured servicing
- Primary, Special and Master Servicing
- Multi-asset classes
- Deep data services
- Real Estate
- Securitisation and structuring
- Local expertise and leadership

# OPERATIONAL EXCELLENCE

| | |
|---|---|
| **Arrow's Key Strengths** | ▶ Expertise in data and analytics<br>▶ Strong track record of underwriting discipline<br>▶ Continual improvements in the customer journey in a regulatory compliant framework<br>▶ Scale and best practice deployed across all platforms |
| **One Arrow** | ▶ Strong culture and commitment to serving all of our stakeholders<br>▶ Strengthening key Group capabilities in order to be able to manage growth sustainably and consistently<br>▶ Build strength-in-depth across key competencies<br>    ▶ Data & Analytics<br>    ▶ Origination<br>    ▶ Portfolio Management<br>    ▶ Risk Management<br>    ▶ IT & Change |
| **Investing for Growth** | ▶ Significant opportunity to grow Asset Management revenues – beyond 30% of total<br>▶ Bolt-on acquisitions in certain key markets<br>▶ Increased IT spend to provide leading-edge customer journey and improve productivity<br>▶ Simplification of operations and processes |

**PROVIDES SCALABLE PLATFORM TO DRIVE COMPETITIVE ADVANTAGE AND THE FUTURE GROWTH**

# FINANCIAL EXCELLENCE

**ERC overview**

- 84-month ERC increased by 10.4% to £1,478.5 million (as at 31 December 2016: £1,339.1 million)
- 120-month ERC increased by 10.6% to £1,708.8 million (as at 31 December 2016: £1,544.5 million)
- Replacement rate of approx. £130 million

**Asset management creates capital-light revenues**

- Long-term Asset Management contracts
- Grown asset management revenues from 16.9% in H1 2016 to 22.8% of Group revenue in H1 2017

**Balanced capital structure with reducing cost of capital**

- A balanced capital structure producing a reduced cost of capital
- Ratings upgrade to Ba3 by Moody’s in February 2017
- Issued €400 million senior secured notes due 2025, at a floating rate of E+2.875%
- Weighted average cost of debt 3.9% and weighted average maturity of 6.8 years

**HIGHLY PREDICTABLE CASH GENERATING BUSINESS, PRUDENTLY FUNDED**

# STRONG RETURNS

| | |
|---|---|
| **ROE** | ▶ Underlying LTM ROE: H1 2017 32.8% (H1 2016: 27.4%) |
| **EPS** | ▶ Underlying EPS: H1 2017 14.8p, up 36% (H1 2016: 10.9p) |
| **Profit after tax** | ▶ Underlying profit after tax of £25.8 million, up 35.5% (H1 2016: £19.1 million) |
| **Interim dividend** | ▶ Interim dividend up 18.5% to 3.2p (H1 2016: 2.7p) |

**A SUSTAINABLY–HIGH RETURN BUSINESS MODEL, ALLOWING GROWTH AND CAPITAL DISTRIBUTION**

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# III. HY FINANCIAL PERFORMANCE

# H1 2017 HIGHLIGHTS – FINANCIAL

11.3%

**Core cash collections**
*(H1 2016: £138.8 million)*

£154.5m

30.3%

**Organic portfolio purchases**
*(H1 2016: £96.0 million)*

£125.1m

35.8%

**Underlying basic earnings per share ("EPS")**
*(H1 2016: 10.9.p)*

14.8p

2.1%

**Adjusted EBITDA**
*(H1 2016: £104.0 million)*

£101.8m

10.4%

**120 Month ERC**
*(31 December 2016: £1,544.5 million)*

£1,708.8m

*(+ 20.6% from 30 June 2016: £1,417.2m)*

19.7%

**Underlying return on equity ("ROE")**
**LTM** *(H1 2016: 27 4%)*

32.8%

35.5%

**Underlying net income**
*(H1 2016: £19.1 million)*

£25.8m

12.1%

**Purchased loan portfolios**
*(31 December 2016: £804.1 million)*

£901.7m

*(+ 30.3% from 30 June 2016: £692.0m)*

18.5%

**Interim dividend**
*(H1 2016: 2.7p)*

3.2p per share

Executing our strategy to drive earnings and dividend growth

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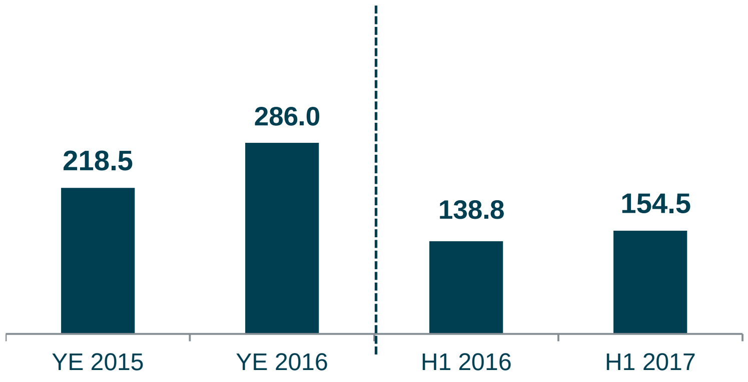
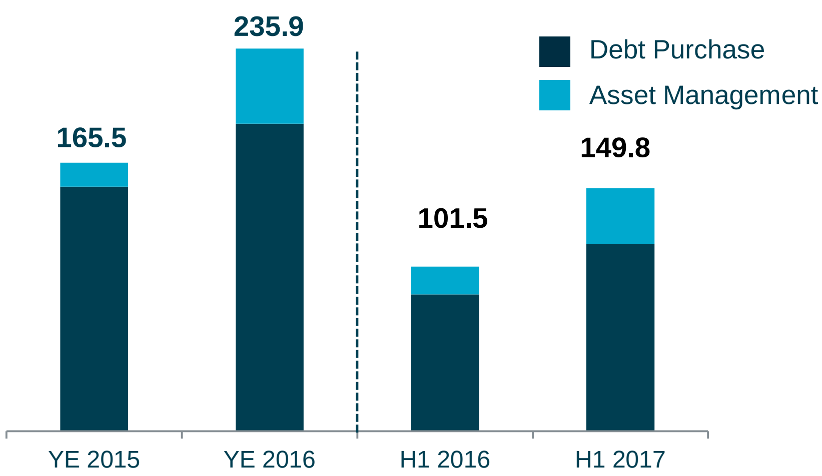
# CORE COLLECTIONS & REVENUES

## Core Cash Collections (£m)




## Revenue (£m)

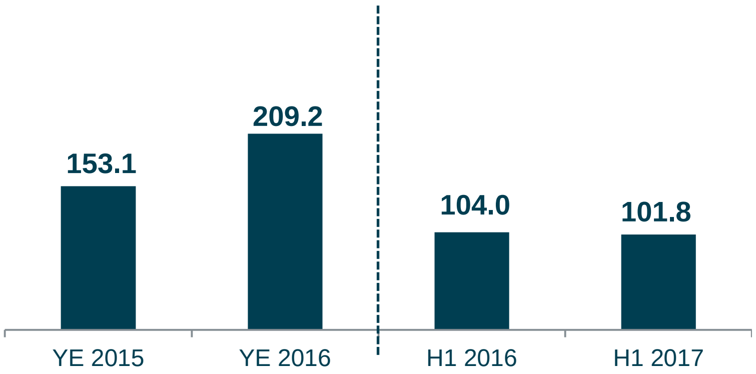



## Key Highlights

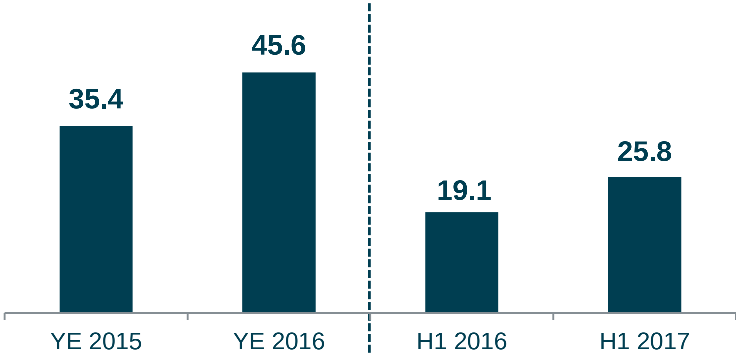
- Core collections growth reflecting increase in portfolio asset base
- Collections in HY 2017 were above our ERC forecast
- H1 2016 we experienced high collections from recent purchases
- Additional ERC supported by additional legal costs increases portfolio income
- Strong revenue growth underpinned by enhanced asset management revenues – a trend we expect to continue
- Asset management revenues up 98.6% to £34.2 million contributing 22.8% of total revenues (H1 2016: 16.9%)

# ADJUSTED EBITDA AND UNDERLYING NET INCOME

**Adjusted EBITDA (£m)**




**Underlying net income (£m)**




**Key Highlights**

- For the period ended 30 June 2017, Adjusted EBITDA decreased by £2.1 million (2.1%) to £101.8 million
- Cost : income ratio of 64% impacted by investment in legal collection costs of £12 million. This programme will continue in Q3
- EPS: HY 2017 14.8p, up 35.7% (HY 2016: 10.9p)
- Underlying profit after tax continues to grow, increasing by 35.5% to £25.8 million
- LTM underlying ROE increased to 32.8% (HY 2016: 27.4%)
- Interim dividend of 3.2p (H1 2016: 2.7p)
- Expect the MCS sale to complete in H2 and result in a gain on disposal and an excellent financial return
- Reinvestment of proceeds into Mars acquisition and One Arrow investment programme

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# INVESTING FOR GROWTH – ONE ARROW

**Principal Benefits**

- Governance and oversight
- Office consolidation
- Enhanced IT platforms
- Streamlined operational processes
- Improved customer journey
- Expanded product capability
- Strengthened asset management capabilities

**Financial Impact**

- £22 million total programme
- Of which £10 million capex
- Balance to be reported as non-recurring item
- Operational leverage from 2019 onwards

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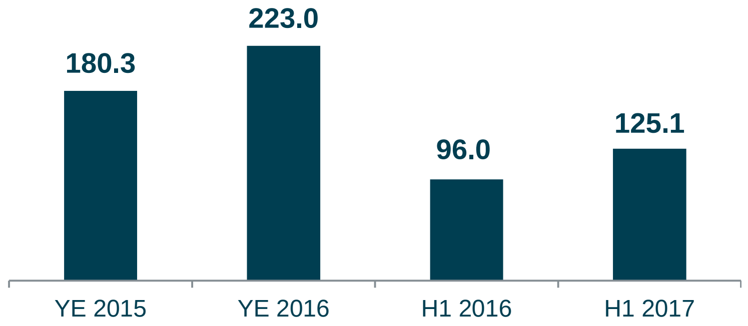
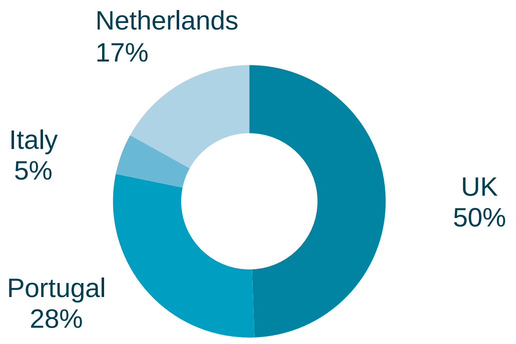
# PORTFOLIO ACQUISITIONS

## Organic portfolio purchases (£m)



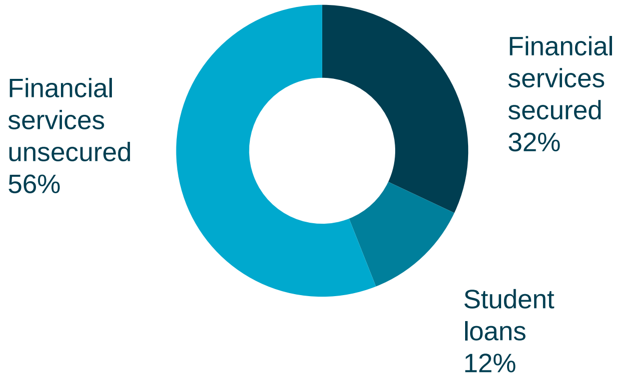

## Investment split by geography H1 2017




## H1 2017

| Year | Volume of Deals | | | | Win Ratio | Bid Ratio |
|---|---|---|---|---|---|---|
| | Won | Lost | Did Not Trade / Passed | Total | | |
| 2014 | 23 | 28 | 35 | 86 | 45% | 59% |
| 2015 | 23 | 20 | 52 | 95 | 53% | 55% |
| 2016 | 23 | 31 | 75 | 129 | 43% | 42% |
| 2017 H1 | 13 | 16 | 40 | 69 | 45% | 41% |

## Investment by asset class H1 2017

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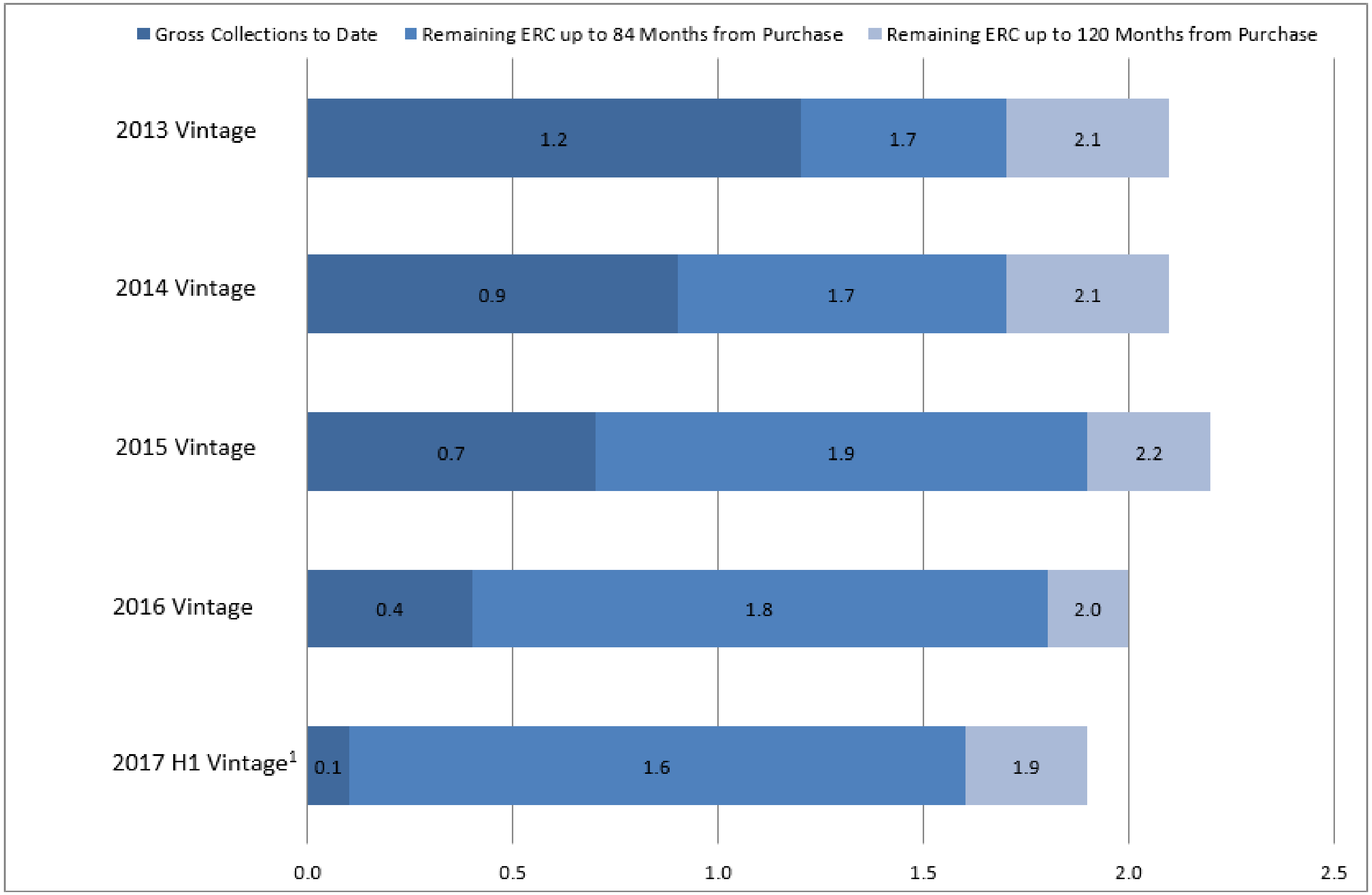
# MONEY MULTIPLES: GROSS COLLECTIONS TO DATE AND ERC FROM PURCHASE 30 JUNE 2017




- We expect total returns to be higher as they mature as collections are expected beyond 120 months
- H1 2017 vintage include 32.1% secured by purchase price
- Of the portfolios purchased, 35.8% came from asset management, with lower cost-to-collect

[1] *Excluding REO purchases and purchase price adjustments relating to asset management fees.*

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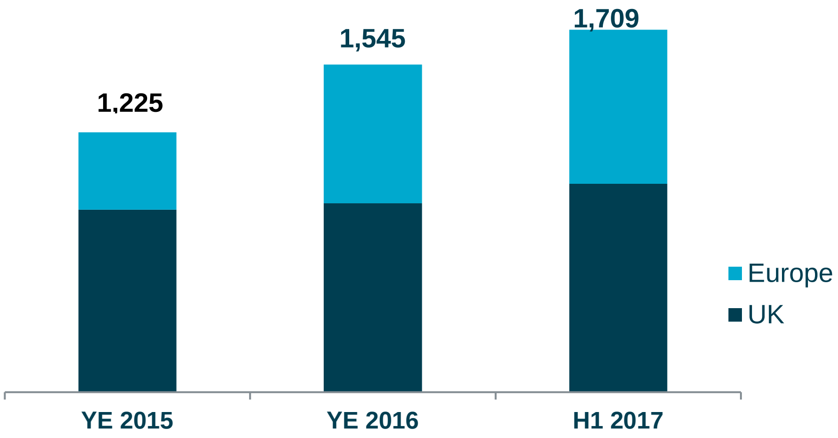
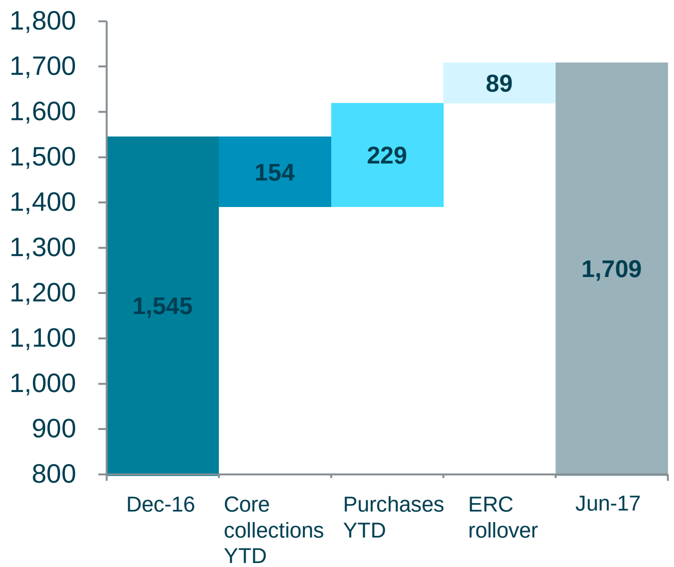
# ERC DEVELOPMENT

**120-Month Gross ERC (£m)**




**120-month ERC bridge Dec 16 to Jun 17 (£m)**




- Continued growth in ERC driven by strong H1 2017 purchases
- 120-month ERC breakdown
  - UK 57.5%
  - Portugal 28.5%
  - Netherlands 13.2%
  - Italy 0.8%
- At 30 June 2017, approx. 600,000 accounts paid Arrow in the last three months with a current face value of approx. £1.8 billion
- Replacement rate for next 12 months approx. £130 million[1]
- £12 million additional investment in legal collection costs drive additional back book ERC

*1. Excluding REO purchases and Loan Note held at fair value.*

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# NET DEBT & KEY CREDIT RATIOS

**Indebtedness – as at 30 June 2017 (£m)**

| | |
|---|---|
| Net Debt | 929.7 |
| Secured Net Debt | 882.3 |
| *Pro forma* LTM Adjusted EBITDA[1] | 218.6 |
| 84-Month ERC | 1,478.5 |
| **Leverage Metrics** | |
| Secured Net Debt[2] / *Pro forma* LTM Adjusted EBITDA | 4.0x |
| Secured LTV[2] (Secured Net Debt / 84-Month ERC) | 60.3% |
| LTM cash interest cover | 5.3x |

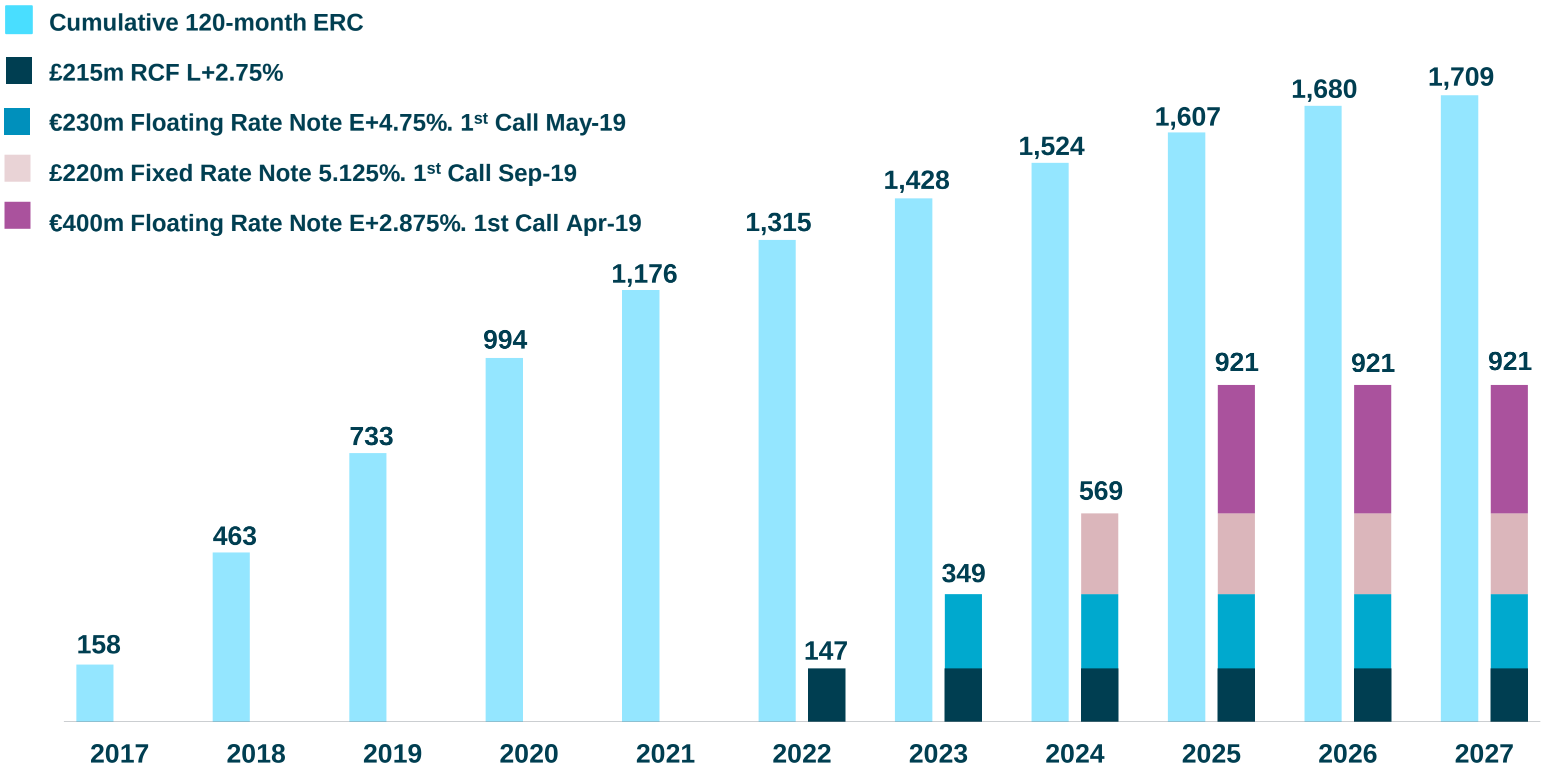
**Key Highlights**

- Leverage ratio has increased reflecting strong portfolio acquisitions, investment in litigation activity and incurrence of refinancing costs.
- Leverage expected to reduce during H2 2017 to be within 3.5x – 4.0x policy
- Strong cash cover at 5.3x, continued strengthening expected as full benefits of reduced WACD are realised
- Significant headroom on 75% LTV covenant with LTV of 60.3%
- Revolving credit facility increased in February 2017 to £215 million across five banks
- £104.9 million of cash and RCF available as at 30th June 2017

*[1] Pro forma LTM Adjusted EBITDA includes £3.2 million relating to the full year effect of the Zenith acquisition, £3.8 million cash distribution received from the RNHB (Project Yellow) securitization and £5.8 million cash distribution from MCS received in H2 2016 not previously recognized in Adjusted EBITDA.*
*[2] Excluding debt (£13.9 million) and estimated remaining collections (£15.5 million) attributable to non-recourse borrowings, accrued interest (£4.0 million), amounts drawn under unsecured bank overdrafts (£1.3 million), Zenith finance lease (£1.7 million) and deferred consideration (£26.5 million).*

# LONG-TERM FUNDING

## Debt maturity & 120-month ERC




- Successfully raised €400 million E+2.875% 8-year bond. Strong demand led to:
  - pricing at tight end of indication and at a record low for our sector
  - upsized issuance by €40 million

- Significant ERC coverage of debt maturities
- Continue to reduce cost of debt since IPO
- Weighted average cost of debt reduced to 3.9%
- Weighted average debt duration c. 6.8 years
- No debt maturities until 2022

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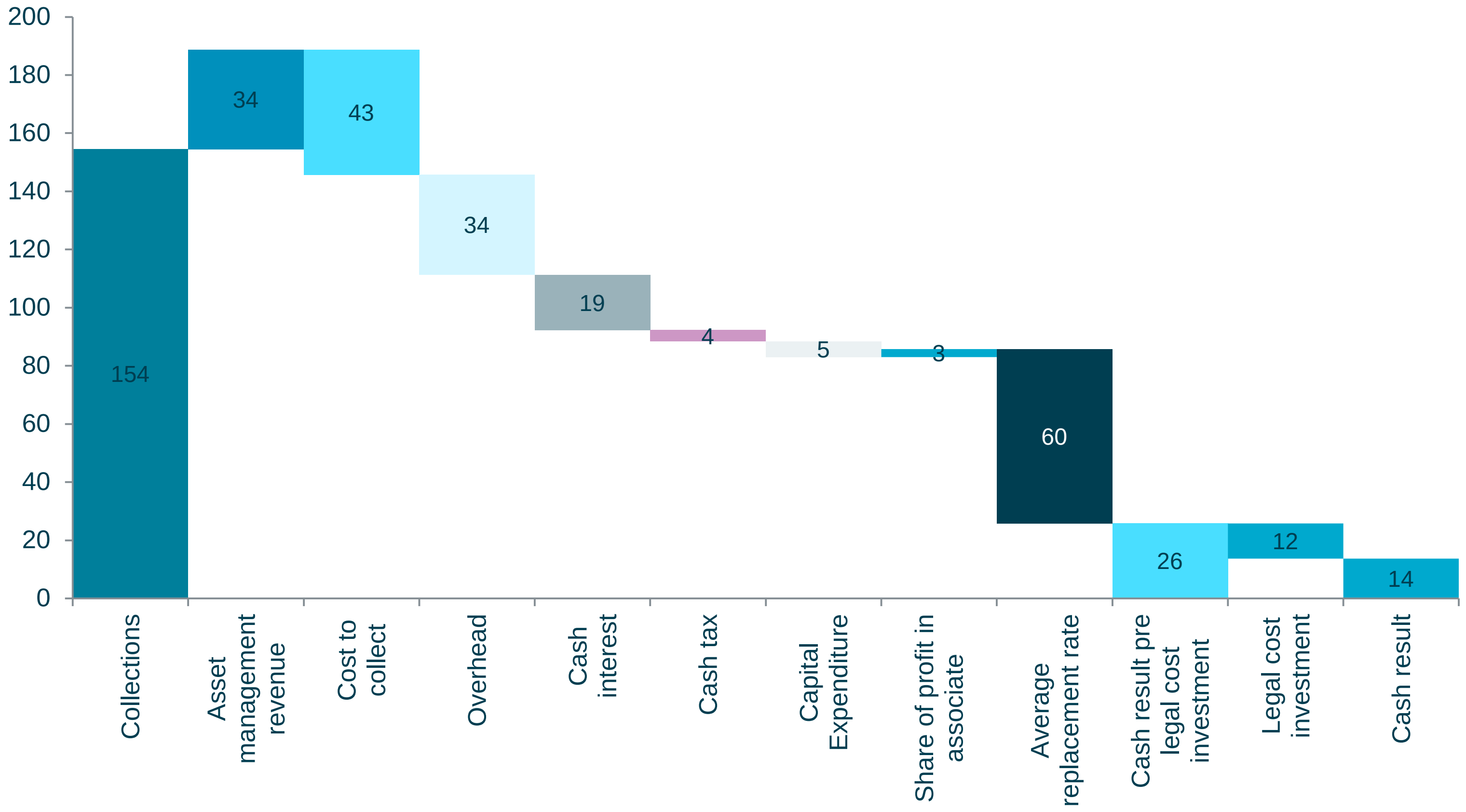
# YEAR TO DATE PERFORMANCE: 30 JUNE 2017

## Cash Result (£m)



# IV. 2017 OUTLOOK

# OUTLOOK

- Strong H1 performance and we continue to see attractive opportunities across our markets
- Strong market positions, a good pipeline of business and well-funded strong financial profile, leaves us well positioned to invest at least £200 million in 2017
- Mindful of macro economic uncertainty prevailing in the UK and more generally, but remain confident that our business has strong foundations
- Confidence in the One Arrow programme and its ability to deliver a scalable, high quality platform to support future growth
- Confident in delivering:
  - a medium-term underlying ROE percentage in the mid-twenties
  - high-teen EPS growth
  - a progressive dividend policy

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# Q&A