28 February 2019

Arrow Global Group PLC

Preliminary results for the twelve months ended 31 December 2018

Arrow Global Group PLC (the "Company", and together with its subsidiaries the "Group") announces its results for the period ended 31 December 2018.

Highlights

- Record net operating cash flow prior to portfolio investment of £244.3 million
- Record portfolio investments of £263.4 million
- Improvement in Investment Business (IB) returns, with net IRRs rising to 17% (2017: 15%)
- Total Asset Management and Servicing (AMS) income of £132.3 million – 32.9% of total segmental income
- Further reduction in leverage ratio to 3.7x secured net debt to Adjusted EBITDA (2017: 3.9x)
- Underlying profit after tax up 13.3% to £64.1 million, underlying ROE of 34.8% and dividend per share of 12.7p, up 12.4%

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

"2018 was an important year as Arrow largely completed the build-out of its pan-European platform through the 'One Arrow' programme. This positions the business to deliver superior returns in a differentiated asset class through its broad access to niche markets and distinct operating skillset.

Within the period we were pleased with financial progress, showing strong cash generation, improved investment returns and a reduction in leverage ratios. At the same time, we exited a non-core geography through the sale of our small Belgian business and continued to add scale to our Asset Management and Servicing platform, which ends the year at £52.6 billion of assets under management.

As we look to the year ahead, we are mindful of volatile market conditions and pockets of high competition, but remain confident in our ability to deliver the goals we outlined at our November 2018 Capital Markets Day. We see potential for further growth, strong investment returns and continued momentum in capital-light revenues."

Financial highlights	**31 December 2018**	**31 December 2017**	**Change %**
Underlying profit after tax (£m)	64.1	56.6	13.3
Underlying return on equity (ROE) (%)	34.8	32.9	+1.9ppts
Underlying basic earnings per share (EPS) (p)	36.6	32.4	13.0
Assets under management (£bn)	52.6	47.4	11.0
Core collections (£m)	411.6	342.2	20.3
Total income (£m)	361.8	319.0	13.4
Net operating cashflow prior to portfolio investment (£m)	244.3	197.8	23.5
AMS EBITDA margin (%) (H1 2018 comparative)	20	19	+1ppts
Profit after tax (£m)	30.0	39.9	(24.9)
Basic EPS (p)	17.0	22.8	(25.4)
Proposed full year dividend per share (p)	12.7	11.3	12.4
120-month ERC (£m)	1,972.1	1,780.2	10.8

Additional information on reconciling underlying to statutory measures can be found on pages 15 and 36

A presentation for analysts will be held at 0930 and a live webcast will be available.

Webcast Details:

Webcast link: https://fotwlive.videosync.fi/2019-02-28-arrow-global-group

A recording of the webcast will also be made available on Arrow Global's investor website via http://www.arrowglobalir.net

Notes:
A glossary of terms can be found on pages 38 to 40.

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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 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 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 assumes no obligation to update or provide any additional information in relation to such forward-looking statements.

About Arrow Global

Established in 2005, Arrow Global specialises in the purchase, collection and servicing of non-performing and non-core assets. We identify, acquire and manage secured and unsecured loan and real estate portfolios from and on behalf of financial institutions, such as banks, institutional fund investors and specialist lenders.

We play an active role in helping financial institutions reduce their balance sheets and recapitalise in order to increase mainstream lending. By purchasing and managing non-performing loans and other non-core assets, we provide valuable capital and expertise to a growing European market.

We are a regulated business in all of our European markets, managing over £52.0 billion of assets across five geographies with over 1,700 employees.

Chairman’s statement

Ambitious five-year strategy

This year the board approved Arrow’s strategic vision for the next five years, which was presented at the Group’s Capital Markets Day in November 2018. Our confidence in the continued growth opportunity for the business in an attractive market is underpinned by through-the-cycle underlying return on equity (ROE) in the mid-20s per cent. An important factor in our belief in this consistent high return delivery is the growing contribution from the capital-light Asset Management and Servicing (AMS) Business. The capital-light income from this division is highly accretive to ROE and has grown rapidly from a negligible contribution at the time of the business’s IPO in 2013, to 32.9% of gross total income in 2018. We have set ourselves an ambitious target to double income from the AMS business over the next five years, while also increasing its margins from the high-teens per cent to the mid-20s per cent.

We also outlined a new, lower, leverage target of 3.0x to 3.5x secured net debt to adjusted EBITDA, from 3.5x to 4.0x. This underlines our confidence in the business’s ability to generate consistently strong cash flows, as we continue to see the benefits from our enlarged European footprint and more diversified income streams. This cash generation profile has also meant that we have taken the decision to increase our dividend policy, raising the pay-out ratio from 25%-35% of underlying profit after tax, to at least 35% of underlying profit after tax. Not only does this create an attractive returns profile when viewed alongside our high return on equity, but it also ensures continued balance sheet discipline – an area of significant focus for the board.

With the significant uncertainty that surrounds Brexit, the Group performed comprehensive stress tests, which showed the Group's future strategy to be resilient to potential economic uncertainty arising from Brexit. We are mindful of the economic and political environment but remain confident in the strategic opportunities for our differentiated business model.

Strong financial performance

I am pleased to report another strong set of financial results. High cash generation remains a fundamental part of this business’s attractive model and, at £244.3 million (2017: £197.8 million), Arrow delivered another record year of free cashflow prior to portfolio investment. This was driven by another excellent year of core collections from the Investment Business of £411.6 million (2017: £342.2 million) and capital-light gross income of £132.3 million from the AMS Business. Underlying profit after tax increased by 13.3% to £64.1 million (2017: £56.6 million), giving an increase in underlying earnings per share of 13.0% to 36.6p. This strong performance enables us to propose a final 2018 dividend of 8.7p, bringing the full year dividend to 12.7p – a 12.4% increase and representing the top of our pay-out range.

A pan-European platform built to drive growth

In recent years, the Group has expanded from one geography and asset class to operate in five geographies and multiple asset classes. This growth has been driven by the significant market opportunity throughout Europe, as well as demand from our institutional fund clients to access our expertise across a broader footprint and gain exposure to attractive investments in high value niches. Through the acquisition of leading servicing businesses and high-quality management teams, we believe we now have the right pan-European platform across the countries and asset niches we view as most attractive in order to provide the best investment opportunities for us and our clients.

A business built to focus on customers and clients

Arrow has a core set of Group values which are focused on helping all of our customers and stakeholders to 'Build better financial futures'. In order to ensure that these values remain at the heart of everything we do, employee remuneration is closely aligned with 'living the Values', with behaviours such as providing excellent customer service being consistently rewarded. Arrow's business strategy is client-led, and this is emphasised by the fact that our co-investment partners, who represent some of the largest institutional funds in the world, invested over £1.6 billion alongside the £263.4 million we invested organically into portfolio purchases. We also focus on maintaining strong relationships with financial institutions and aim to assist them to deleverage and recapitalise by acquiring assets from them. As a trusted partner, we are often able to participate in off-market transactions – a key competitive advantage of the Arrow model – and these deals formed 78% of our portfolio purchases in 2018.

The board and executive management

The Arrow board continues to be made up of highly experienced individuals who all contribute valuable skills and thinking to Arrow's operations. Our Group chief executive officer, Lee Rochford, has been instrumental in shaping Arrow's five-year strategy and is already delivering well against the new objectives presented at the Group's Capital Markets Day. Lee leads a strong executive team of established members and new talent. Dave Sutherland joined Arrow as Group chief operating officer in 2018, becoming the line manager for the country leaders. At the Group's Capital Markets Day, Dave presented his five-year vision for how Arrow can continue to drive synergies through our expanded platform and significantly enhance efficiency. The executive team's energy, focus and commitment is notable and gives me great confidence that they will continue to ensure we deliver against our strategic objectives in the coming years.

Looking forward

I am pleased that Arrow has achieved yet another strong year of growth and financial results and believe that we have the correct strategy in place for us to continue to deliver on our targets. The completion of our pan-European platform is largely complete, which means the business has a more significant market opportunity available to it than any time since IPO. The Group therefore remains extremely well positioned for 2019 and beyond, with a strong balance sheet and proven management team underpinning its prospects.

Finally, I would like to thank my fellow board members, Arrow's senior leadership team and all of the Group's employees for their continued hard work and commitment to make 2018 another successful year for the Group. I also appreciate our shareholders' continued support for the Arrow strategy as we position the business optimally to achieve sustainable through-the-cycle returns.

It continues to be an exciting time for Arrow and I remain confident that we have the right team and strategy in place to deliver long-term shareholder value.

Jonathan Bloomer
Chairman
28 February 2019

Group chief executive officer's review

2018 highlights – another year of growth and delivery

Arrow delivered excellent performance throughout the year and ended 2018 a stronger more diversified Group. Not only did we deliver on our key financial targets, but we also largely completed the pan-European platform that positions us for success in the future. We are now operating leading businesses in all the key geographies where we believe we need a presence in order to offer a compelling service to our financial institutional clients and fund partners.

Our platform has deep investing and servicing capabilities in our chosen markets. This ensures that we continue to source attractive investment opportunities, growing our portfolio investment volumes by 18% in 2018, in order to take advantage of a two-percentage point improvement in net IRRs over the course of the year, from 15% to 17%. Operationally, the Investment Business saw core collections increase by over 20%, as we continued to benefit from enhanced synergies through the 'One Arrow' investment programme and experience strong outperformance versus our initial conservative underwriting practices. This resulted in another record year of operating cash flow prior to investment in new portfolios of £244.3 million, a 23.5% increase. Due to this strong cash generation, our leverage ratio reduced to 3.7x secured net debt to adjusted EBITDA from 3.9x in 2017. Importantly, our cash interest cover also grew to 6.7x, an improvement of 13.6%.

Balance sheet discipline is key to running our business efficiently, and in March 2018 we completed the journey to fully refinance our bonds. On 26 February 2019 we extended the revolving credit facility to 2024 with no change in margin. This means we now have no debt maturities due until 2024, extending the weighted average duration of our debt to 6.1 years and resulting in a weighted average cost of debt of only 3.9%, down from over 8% at IPO in 2013. We consider this to be a strong vote of confidence from the debt markets in the Group's business model and long-term opportunities. Given the softening appetite in the credit markets we have seen in the second half of 2018, we are very happy with our decision to build this attractive capital structure, which we believe is a competitive advantage and positions us well to weather and capitalise on any downturn in the wider economy. I therefore believe we now have the platform and balance sheet strength to continue to source and invest in attractive portfolio opportunities into 2019 and beyond, to drive consistent cash generation and EPS growth.

Segmental reporting – enhanced disclosure

In our interim results in August, we started reporting our financial results on a new segmental basis. This provides the market greater insight into our fast-growing and capital-light Asset Management and Servicing Business. This business again grew strongly in 2018, generating over £130 million of income. We remain excited about the potential for the business, targeting approximately double the income over the next five years, and strongly believe that this should be fundamental to the Company's future valuation.

Investment Business – investing at strong returns

We continued to find opportunities to deploy capital that exceeded our mid-teens IRR target, due to our unique origination capabilities in the high-value niches targeted by our pan-European platform. As a result, we achieved a blended 17% net IRR for the 2018 investment vintage as a whole. The 2018 vintage is the most balanced by geography and asset class that we have ever recorded. The high-return opportunities we continue to originate in our non-UK jurisdictions has meant that, for the first time, the total proportion of our back book that is exposed to the UK – our original country of operation – fell below 50%, resulting in a more diversified book with better risk-adjusted returns. In total, the 120-month Estimated Remaining Collections (ERC) grew by 10.8% to £1,972.1 million.

The ability to price risk is a core competency of our business. We've built an outstanding track record of consistent underwriting, collecting more than our original expectations at the point of underwriting, and this is built on firm foundations, a deep team of experts, across both secured and unsecured asset classes, as well as a deep database of performance data, on which our forensic and prudent underwriting is focused. Maintaining this core competency is fundamental to what we do and facilitates our entry into new markets.

Our sustainable performance is also helped by local expertise, providing experience-based insight into our approach at each stage of the underwriting process. This has meant that the performance on the back book continually informs our front book underwriting. So, we are, getting better as we build on our 13 years of experience. We were particularly pleased, therefore that core collections from our investment portfolio continued to outperform our initial expectations in 2018, with the cumulative core collections exceeding underwriting performance at 104%.

Asset Management and Servicing Business – growing income contribution

In 2018, we grew gross AMS income to £132.3 million and now it constitutes 32.9% of gross income. The AMS Business has been the fastest growing part of the Group in recent years, generating an increasing proportion of capital-light income. This has been built through the establishment of leading servicing platforms in all of the core geographies and asset classes in which we want to operate. This has been a client focused strategy, guided by our wish to provide an increasingly sophisticated and attractive investment and servicing offering. We have taken great care in our approach to building this platform, meticulously identifying the niches that are most attractive and the businesses and management teams that run them. We believe that we now have the optimal platform covering the asset classes and geographies we view as attractive.

2018 saw a small, but quickly growing, contribution from our fund management business. In March, we announced that we had raised a £300 million fund with a single global institutional investor. The fee structure for this business is attractive and will contribute to margin expansion in the AMS Business over time. This fund is now nearly 50% invested – significantly ahead of our initial projections – at returns considered compelling by our sophisticated investment partner. Over the course of the year, we have also added a further number of smaller managed accounts with similar agreements and fee structures in place. We therefore remain excited about the potential to raise a future flagship fund that gives investors access to similar high-return deals, as well as the secondary market offered by our growing AUM base of £52.6 billion as the amortised tails of these assets get sold back into the market. During the year, we acquired Norfin Investimentos, a fund manager specialising in real estate investment. Given the trend in Portugal for banks to increasingly sell mixed portfolios consisting of residential mortgages – a core focus for our Whitestar business – alongside other assets, such as residential developments, office blocks and land, we found ourselves increasingly partnering with Norfin to help us value these parts of portfolios in order to ensure that we retained our pricing discipline. Norfin is an award-winning business and adds over £1 billion of pure fund management AUM to our AMS operations, as well as an experienced management team with notable fund management experience across asset classes.

Our confidence in our ability to continue to grow the AMS Business, due to the significant market opportunity we continue to see, means that we set out an ambitious target at our Capital Markets Day in November 2018, to double capital-light AMS income over the next five years.

Market overview – significant opportunities

We have adapted our business strategy to respond to a more competitive market for purchasing non-performing and non-core assets. By focusing on high-value, smaller transaction niches where higher-quality returns are available we have successfully diversified our income and driven higher-quality earnings through our capital-light AMS business. With the build-out of our unique platform now largely complete we are in prime position in our chosen markets to deliver our strategic priorities over the next five years, which are to be a leading player in our chosen markets, develop our differentiated business model, ensure a fair outcome for our customers, create a high performance culture and realise the investment opportunities of 'One Arrow'. Our strategy aims to build a sustainable and growing business that delivers attractive returns to shareholders. We do not have an ambition to be the largest, but to be the best at what we do. Our two business lines are interdependent and together they will allow us to deploy capital intelligently and maximise returns through the credit cycle.

New strategic targets – Arrow's five-year vision

In November, we held a Capital Markets Day for analysts and investors. I felt that the entire senior management team did an excellent job in explaining what their key individual area of focus is and the way forward they see for Arrow, as we continue to mature as a diversified, pan-European business. It also provided us with the opportunity to outline a number of new targets that we have for the business over the next five years. These are:

- Continue to achieve an underlying ROE in the mid-20s through-the-cycle
- Double gross AMS income towards 50% of Group income and increase margins from high teens percent to mid-20s percent
- Reduce leverage to 3.0x to 3.5x secured net debt to adjusted EBITDA
- Increase our dividend policy to a pay-out ratio of at least 35% of underlying profit after tax
- Reduce our cost to income ratio towards 60%

Business model – unique platform to access high-return opportunities

Looking forward, we're confident that the business will continue the momentum that we've seen over the previous five years as we extract further operating leverage and cost synergies from our platform. That confidence is based on a number of key factors:

- We operate in a sector which offers a long-term growth opportunity. Financial institutions across Europe continue to have an enormous stockpile of non-performing and non-core assets, even 10 years after the financial crisis. Regulatory and accounting changes added to the pressure for accelerated recognition of NPLs and faster sales. In addition, we're starting now to see increasing secondary trades from assets that were first traded in 2012 and onwards, and all of this, before we consider the potential offered from another turn in the credit cycle.

- Arrow has built a highly differentiated business model. We have an attractive Investment Business, with a history of investing at consistently strong returns. We also have a fast-growing Asset Management and Servicing Business, which is generating increased capital-light income. Importantly, these businesses feed each other in a unique way. Our co-investment model is rapidly contributing to new servicing income, and our greatly expanded AUM provides many years of potential future purchasing opportunities.

- We have an outstanding track record of underwriting. This has been maintained even as we've diversified the business – both by geography and by asset class. Over time we get better at what we do, as our data and our market penetration deepens, but also because we continually monitor positive and negative experiences and feed them back into the underwriting process.

- Arrow invests in specialised asset classes that generate resilient cash flows, right through the cycle. We existed before the global financial crisis and, therefore, have a proven track record of 'through-the-cycle' returns. However, we recognise that we have expanded and diversified since then and, in response, we've invested heavily in our portfolio management and risk management capabilities. We believe that we are, therefore, more resilient than a typical financial institution in a downturn.

- We remain acutely aware of where we are in the credit cycle; this applies to both the asset and the liability side of the balance sheet. As a management team, we have spent a considerable amount of time developing a capital-allocation framework that explicitly recognises this. However, the unique aspect of our business model is that it provides optionality to deploy varying degrees of capital intensity depending on the current stage of the economic cycle, by flexing between the capital-intensive Investment Business and the capital-light AMS Business.

- Our entire approach is co-ordinated through a prudent risk management framework. This is demonstrably supported by our actions: we operate in mature regulatory environments where we can achieve regulatory conduct parity with the banks, we focus on building a diversified portfolio by geography and asset class, we have a disciplined approach to returns and we have good balance sheet discipline – a conservative asset recognition policy, long-duration debt and a prudent approach to leverage.

Strong management team – expertise to drive growth

We've also continued to build an extremely strong and capable management team. The business has grown and diversified in recent years, and it's been essential that we've invested in the depth of our management capabilities. The 'One Arrow' investment programme was an important part of this and I'm pleased to say that that project has now been completed on time and to scope. The improved systems and capabilities we have developed mean we are well positioned to drive the business forward.

Over the past 18 months we've brought in a considerable amount of talent, which complements the existing team including the appointment of Paul Cooper as our Group chief financial officer and Dave Sutherland as our Group chief operating officer at the management level. The Group platform is largely complete, and we have a board that's confident we have the right team – with the right skills and experience – for the next chapter of Arrow's growth story. The same applies to the depth of talent within the Group teams and our country-level leaders and their teams – all of which we've invested in heavily.

Outlook – well positioned to deliver consistent shareholder returns

Arrow is a business with an outstanding track record, a unique operating platform and a strong and disciplined capital structure – all supported by a talented management team. We, therefore, remain very ambitious for the business and confident in delivering considerable shareholder value.

Lee Rochford
Group chief executive officer
28 February 2019

Group chief financial officer's review

Strong performance for 2018

Consistent cash generation

The business continued its track-record of strong cash generation in 2018, with net cash flow from operating activities prior to purchases of portfolio investments of £244.3 million (FY2017: £197.8 million). The positive result was driven by an increase in core collections to £411.6 million. This resulted in an increase in adjusted EBITDA of 27.5% to £294.0 million (2017: £230.6 million). The reconciliation for the year of profit after tax to the cash result, including a reconciliation to adjusted EBITDA, is provided on page 19. Adjusted EBITDA is a key proxy of the business' cash flow and allows us to monitor the operating performance and cash flow generation of the Group.

Good income growth

The growth in total income to £361.8 million (2017: £319.0 million) has been driven by both our Investment Business and AMS Business, through the increasing size of the portfolio balance and higher volumes within the AMS business.

Investment Business

Improving returns

Over the course of the year, net IRRs increased from 15% to 17%, as we have seen material benefits from our newly expanded platform and further improved our ability to select what we bid and transact for – all underlined by our disciplined approach to targeting returns in the mid-teens.

Portfolio purchases in-line with guidance

In the improving pricing environment, we have continued to grow our portfolio investment asset base conservatively due to the Group's view that we are approaching the top of the credit cycle. Our focus on appropriately deploying capital means we continued to focus on the significant opportunities presented by the AMS Business in 2018, growing incomes and AUM strongly. Increasing AUM size has tangible future benefits for the business, as it creates future purchasing opportunities when the owners of those portfolios look to sell into the secondary market – where we are extremely well positioned to purchase them at attractive returns given our prior experience of servicing them.

Over the course of the year the Group organically purchased £263.4 million of new assets (2017: £223.9 million). Of the purchase price invested, 63% related to secured portfolios, 37% to unsecured portfolios and 78% was acquired in off-market transactions where no competitive auctions took place. Our strong client relationships and growing secondary market activity due to our large AUM base provides us with this competitive off-market transaction advantage. There continued to be a good balance of investment by geography, providing another important element of diversification.

The Group continues to acquire debt portfolios significantly in excess of the required replacement rate (the amount of annual investment required to keep the Estimated Remaining Collections (ERC) constant). This is reflected in the increased value of the ERC (84-months) from £1,516.9 million to £1,634.8 million, an increase of 7.8%.

All portfolios continue to be monitored carefully and, where appropriate, adjusted for both positively and negatively in the ERC forecast based upon our detailed modelling. Although it has increased in total, individual elements of the ERC have been adjusted up or down to account for any areas of over or underperformance.

Core collections – record performance

Core collections from our purchased portfolio asset base increased to £411.6 million (2017: £342.2 million), reflecting continued strong operational performance. Core collections were again ahead of our ERC forecast in 2018, reflecting our continued outperformance versus our initial underwriting expectations. As at 31 December 2018, we have cumulatively collected 104%, an improvement against 2017's 103%, reflecting our continued underwriting discipline.

Asset Management and Servicing Business – continued income growth

Since IPO, the Group's third party AMS income has grown from £1.4 million to £91.7 million. This has been driven by the continued strength of the franchise, as well as the acquisitions of Mars Capital in November 2017 and Parr Credit in March 2018. Importantly, organic growth remained healthy.

In 2018, the Group published enhanced disclosure on a segmental basis demonstrating the contribution from both the Investment Business and AMS Business. The Group provides asset management and servicing to other group companies as well as external parties and its gross income was £132.3 million, including income from the Group's Investment Business on an arm's length equivalent basis.

At our Capital Markets Day in November 2018, we provided an ambitious target to double gross income from the AMS Business over the next five years to FY 2023 from £132.3 million in FY 2018. The growth in third-party co-investment volumes, representing £1.6 billion on top of our total organic portfolio purchases of £263.4 million means we remain confident of the long-term growth potential for this business.

The EBITDA margin in the AMS Business for 2018 was 20%. Previous guidance for the margins in this business was high-teens and at our Capital Markets Day in November 2018, we indicated that we expected this to increase to towards 25% as we deliver on our strategy to develop our servicing offering in high margin niches and build out our fund management offering. The Group began this process with the raising of a £300 million fund with a single institutional fund client in February 2018 and have since acquired other managed accounts. We expect the fund management business to start contributing materially to the income statement by FY 2021, which supports our AMS income and margin guidance.

Costs – continued ratio improvements

Our total cost-to-income ratio increased to 70.5% (2017: 66.8%) due to an increase in 'One Arrow' and acquisition related expenses. After adjusting items in the year of £23.8 million (2017 £7.1 million) the ratio was 63.9%, being a decrease from 64.6% in 2017. Adjusting items include £9.0 million (2017: £4.6 million) related to the 'One Arrow' investment programme and business acquisition costs of £14.7 million (2017: £2.4 million) that, due to their size and nature are outside the normal operating activities of the Group. The 'One Arrow' programme has now completed on track and on scope.

At our Capital Markets Day in November 2018, the Group gave new guidance that it expects its underlying cost-to-income ratio to fall towards 60% over the next five years. The underlying rate of 63.9% in 2018 reflects the necessary investment in expanding Group functions, including several important executive level appointments, via the 'One Arrow' investment programme. The ratio will reduce through a combination of scale benefits and the benefits of strategic integration flowing from the 'One Arrow' programme, notwithstanding the more rapid growth of the AMS business which carries a higher cost-to-income ratio.

Our underlying cost-to-collect ratio improved by an impressive 4.3 percentage points to 32.6% (2017: 36.9%), as we began to see benefits from the 'One Arrow' investment programme over and above the impact of the growth in the AMS Business, which has a higher cost-to-collect than our Investment Business. Our statutory cost-to-collect ratio also improved to 32.9% (2017: 37.1%). Statutory other operating expenses were £136.0 million (2017: £94.6 million) and underlying other operating expenses were £113.3 million (2017: £88.4 million) in the year.

Tax

The tax charge of £10.0 million represents an effective tax rate of 25.1% (2017: 21.1%) on profit-before tax. The effective tax rate on underlying profit is 22.2% (2017: 19.5%) and has increased, as we continue to generate a greater amount of the Group's profit from non-UK jurisdictions, which have outperformed our business plan, but which have tax rates in excess of the UK.

Profit after tax

On an underlying basis, profit after tax increased by 13.3% to £64.1 million (2017: £56.6 million). Statutory profit after tax decreased to £30.0 million (2017: £39.9 million). 2017 includes an adjusting gain of £14.7 million from the sale of associate Promontoria MCS Holding SAS.

As well as the factors outlined above, FY 2018 also includes non-underlying items totalling £42.4 million (2017: £34.4 million), which the Group considers adjusting items, arising from costs associated with restructuring the Group's long-term financing of £18.7 million and One Arrow costs and business acquisition and other costs of £23.8 million. See page 36 for further details. Offsetting the £42.4 million of adjusting items is a tax impact of £8.3 million.

The underlying result is driven by strong organic growth and sensible business expansion as discussed in previous sections.

Balance sheet – further strengthened following full refinancing

Funding and net debt

The Group has £131.4 million cash headroom and no facilities maturing until 2024 – a very strong position. On 7 March 2018, the Group issued €285 million floating rate senior secured notes due 2026 at EURIBOR + 3.75%. Additionally, the Group issued a tap of £100 million of the existing 5.125% fixed rate notes due 2024. As part of the transaction the Group redeemed its €230 million floating rate secured notes, which were issued at 4.75% over EURIBOR.

On 4 January 2018, the commitments under the revolving credit facility were increased from £215 million to £255 million. The maturity of the facility was extended to 2 January 2023 and the margin reduced to 2.5%. On 1 November 2018, the commitments under the revolving credit facility were increased from £255 million to £285 million, with the margin unchanged. Post year end on 26 February 2019, the revolving credit facility was extended to 2024, with the margin unchanged.

The Group's secured net debt position at the period end was £1,089.2 million (2017: £899.2 million). The Group's total assets at the end of the period increased to £1,596.1 million (2017: £1,258.5 million).

Leverage has reduced to 3.7 times (2017: 3.9 times), and we are on track to reach our new lower target range of 3.0x to 3.5x by FY 2019 and are committed to maintaining leverage in that range in order to position us well for any turn in the credit cycle.

The Group's weighted average cost of debt has been maintained at 3.9% and the average debt facility maturity is now 6.1 years. This means that since its IPO, the Group has more than halved its cost of debt while focusing on long duration debt for added balance sheet stability.

Strong returns and dividends

The underlying ROE is 34.8%, up from 32.9% at 2017, and well above our target of mid-20s underlying ROE. The Group has maintained its target of generating underlying ROE in the mid-20s percent on a through-the-cycle basis.

Basic EPS is 17.0p compared to 22.8p in 2017, with the decrease largely due to adjusting costs offset by the growth in income. Underlying basic EPS has increased 13.0% to 36.6p (2017: 32.4p).

Facilitated by the Group's guidance that income from the capital-light AMS Business will double over the next five years, the Group has revised its dividend policy, giving a pay-out ratio of at least 35% of underlying profit after tax, an increase from the previous guidance of between 25%-35% of underlying profit after tax. The Group proposes to pay an 8.7p final dividend, taking total declared and proposed dividends for the year to 12.7p. This is an increase of 12.4% from the 2017 dividend of 11.3p.

Sale of Belgian business

In December 2018, we took the decision to exit the Belgian market by selling our non-core Belgian platform and some associated portfolios. Our Belgian business existed in a relatively small NPL market and was acquired as part of our much larger acquisition in the Netherlands, to gain access to that attractive NPL opportunity. In line with our disciplined approach to capital allocation, the Belgian business was therefore considered non-core and the sale enables us to focus on the Netherlands as one of our five key geographies.

Brexit

The Group completed stress testing in light of the significant uncertainty around Brexit, which showed the Group and strategy to be resilient to possible outcomes. With extensive scenario testing, strong liquidity, no debt maturities due until 2024 and potential foreign exchange upside in the event of a hard Brexit, the Group feels confident in its future position.

Alternative performance measures

The Group believes that the use of APMs for profitability, earnings per share and cash metrics (see pages 17 to 19), provide valuable information to the readers of the financial statements. They can provide a more comparable basis for assessing the Group's performance between financial periods, by adjusting for items that by their size, nature or incidence are not necessarily representative of the underlying performance of the business. APMs also reflect key operating targets and are used to monitor performance by the board. APMs are not defined within IFRS and, therefore, may not be directly comparable with similarly titled measures reported by other companies. APMs in this document are not a substitute for, but complement, statutory IFRS measures and readers should also consider these.

	2018 PBT £000	2018 Tax £000	2018 PAT £000	2017 PBT £000	2017 Tax £000	2017 PAT £000
Reported profit	39,991	(10,022)	29,969	50,559	(10,644)	39,915
Adjustments:						
Acquisition related costs	14,717	(2,742)	11,975	2,444	(267)	2,177
One Arrow costs	9,039	(1,988)	7,051	4,645	(896)	3,749
Bond refinancing costs	18,658	(3,545)	15,113	27,352	(5,265)	22,087
Gain on sale of associate	–	–	–	(14,696)	3,374	(11,322)
Total adjustments	42,414	(8,275)	34,139	19,745	(3,054)	16,691
Underlying profit before NCI	82,405	(18,297)	64,108	70,304	(13,698)	56,606
Non-controlling interest	–	–	–	(44)	–	(44)
Underlying profit after tax	82,405	(18,297)	64,108	70,260	(13,698)	56,562

See page 36 for further details of adjustments.

	2018 Reported £000	2018 Underlying £000	2017 Reported £000	2017 Underlying £000
Profit after tax	29,969	64,108	39,915	56,562
Average net assets	184,083	184,083	171,905	171,905
ROE (%)	16.3%	34.8%	23.2%	32.9%
Weighted average ordinary shares	174,939	174,939	174,768	174,768
Basic EPS (p)	17.0p	36.6p	22.8p	32.4p

The underlying figures in the table above are important as they are how the business is managed and monitored. It is important to be able to consider the underlying results excluding the adjusting items in the reported results as these may impact on how business decisions are made. See page 36 for further details of adjustments.

Summary and outlook

The Group has performed strongly in the financial period. The new segmental disclosure of our two operating business segments – the Investment Business and the AMS Business – show both divisions contributing strongly to earnings growth.

The high-quality, recurring earnings stream from asset management servicing, underpinned by our institutional fund client base, is capital light and highly accretive to ROE.

The guidance we have given regarding how we intend to grow strongly the AMS Business – by doubling its income and significantly increasing its margins over the next five years – provides for the business's potential. Returns in the Investment Business saw an upward trend despite record levels of investment. When combined with our strong balance sheet, reduced leverage ratio, further operating leverage being extracted from our expanded platform and the delivery of an attractive through-the-cycle ROE target at least in the mid-twenties, we have continued belief in the strong prospects for the business.

Paul Cooper
Group chief financial officer
28 February 2019

IFRS to cash result reconciliations

Introduction

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 the cash result. For completeness we also separate out other adjusting items. A number of the terms referred to in this section are defined in the glossary on pages 38 to 40.

Our core competence is using data to identify, manage and collect non-performing and non-core portfolio investments. We use this competence to drive two key income streams: the Investment Business (IB), where we acquire the portfolio; and the Asset Management and Servicing Business (AMS), where we manage the portfolio, but do not take capital risk.

The way in which the business recognises income on each of these business streams differs substantially.

Investment Business

For IB, we acquire portfolios and turn these into regular, predictable and long-term cash flows; this predominantly involves high volumes of low value collections from customers.

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.

The ERC forecast to 84 months or 120 months from date of purchase divided by the purchase price is the gross money multiple (GMM) that we expect to achieve from that investment. The GMM is an important measure to understand the gross cash return on our investment. The GMM, therefore, is a measure of portfolio asset quality and is one of the metrics we evaluate when we appraise a portfolio. In 2018, we organically purchased portfolio investments for £263.4 million, which with an 84-month GMM of 1.5 times added £406.4 million to ERC and a 120-month GMM of 1.8 times added £463.8 million to ERC.

We are required to calculate the effective interest rate (EIR). This is the discount rate which would allow the estimated future cash flows to be discounted to the day one purchase price of the portfolio. This rate is used to calculate the amount of income we recognise each year. The EIR is fixed at the point of purchase. The EIR is used to allocate the collections received between a repayment of our original purchase price; this is accounted for as a reduction in the loan balance (amortisation) and the balance of the collection as interest income (which is accounted for as income from portfolio investments). This is akin to the way in which a mortgage would pay down.

Collections from portfolios can extend beyond 15 years; however, we only include 84 months of cash flow in assessing our portfolio investments and loan note assets. 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 collections on portfolio investments will not perform exactly as initially forecast and, each half year, we review performance against collections experience and update the ERC forecast where appropriate. This updated cash flow forecast, discounted at the fixed discount rate (EIR) is the year-end carrying value of the portfolio investments. This movement of the portfolio investments is reflected in income from portfolio investments in the income statement. The size of the portfolio asset, associated ERC and cash collections in the year are therefore all key drivers to the result we report.

As we collect on our portfolios, the statement of financial position value, ERC and income we receive decreases over time. Based upon our target returns that we expect to invest at, we are able to calculate a replacement rate, or maintenance capex, being the amount we need to invest to hold the Group's total portfolio value constant. During a year, if we invest higher than the replacement rate at target returns, the income from debt purchase grows. The replacement rate is a key driver to the cash result the business generates.

Asset Management and Servicing Business

As part of our strategy to diversify the business, the Group has also strengthened its capabilities in asset management servicing to complement the strength it has in debt purchase. AMS income is driven by commissions received, largely based on collections, plus fee income.

AMS income does not require significant capital investment and therefore the development of this business is important to improving both the IFRS and cash result for the business.

Movement in portfolio investments under IFRS reconciled to cash ERC

	IFRS £000	ERC 84-month £000	ERC 120-month £000	
Brought forward	934,467	1,516,909	1,780,245	ERC brought forward
Portfolios acquired during the year[1]	263,350	406,362	463,790	ERC acquired during the year
Portfolio additions from acquired entities	11,853	20,753	21,112	
Collections in the year[2]	(411,588)	(411,588)	(411,588)	Collections in the year
Income from portfolio investments at amortised cost[3]	193,932	–	–	
Fair value gain on portfolio investments at FVTPL[4]	24,745	–	–	
Net impairment gains[5]	50,727	–	–	
Exchange and other movements	19,544	–	–	
		102,350	118,571	ERC roll forward and reforecast[6]
		1,634,786	1,972,130	ERC carried forward
Effect of discounting[7]		(547,756)		
Carried forward 31 December 2018	1,087,030	1,087,030		

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 collections is included in the ERC
2. 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, collections, updated ERC forecast, disposals and any FX impacts. See 8, on the next page in the reconciliation of profit after tax to the cash result, for more detail on total income
4. Fair value gain on portfolio investments at FVTPL represents net increases to carrying values, discounted at a market rate, of portfolio investments held at FVTPL as a result of reassessments to their estimated future cash flows
5. Net impairment gain 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 collections. It takes account of updated information on specific portfolios, the latest exchange rate and rolls forward the 84-month forecast collection period
7. Under IFRS, the carrying value of portfolio investments 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 the cash result

	Reported profit £000	Adjusting items[11] £000	Underlying profit after tax £000	Non-cash items £000	Cash Result £000	
Income from portfolio investments	193,932	–	193,932	217,656	411,588	Collections in the period[2]
Fair value gains portfolio investments at FVTPL	24,745	–	24,745	(24,745)	–	
Impairment gains on portfolio investments at amortised cost	50,727	–	50,727	(50,727)	–	
Income from Asset Management and Servicing	91,661	–	91,661	–	91,661	Income from Asset Management and Servicing
Profit on sale of property	731	–	731	3,028	3,759	Proceeds from sale of property
Total income[8]	361,796	–	361,796	145,212	507,008	
Total operating expenses[9]	(255,013)	23,756	(231,257)	18,281	(212,976)	Cash operating expenses
Operating profit	106,783	23,756	130,539	163,493	294,032	Adjusted EBITDA[12]
Net financing costs	(66,792)	18,658	(48,134)	5,183[10]	(42,951)	
Profit before tax	39,991	42,414	82,405	168,676	251,081	
Taxation charge on ordinary activities	(10,022)	(8,275)	(18,297)	8,869	(9,428)	
Profit after tax	29,969	34,139	64,108	177,545	241,653	
					(10,944)	Capital expenditure[13]
					(153,181)	Replacement rate[14]
					77,528	Cash result

8. Total income is largely derived from Income from portfolio investments, as explained in 3 on the previous page, plus income from Asset Management and Servicing being commission on collections for third parties and fee income received. The other 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 purchase loan portfolios arising from collections, which are not allocated to income. Amortisation plus income from purchase loan portfolios equates to core collections
9. Includes non-cash items including depreciation and amortisation, share-based payment charges and FX
10. Non-cash amortisation of fees and interest
11. The cash result is viewed on an underlying basis which excludes certain items. See APM table on page 15. These items have been excluded to provide a more comparable basis for assessing the Group's performance between financial periods. Details of the adjusting items are provided in the Group chief financial officer's review on page 11 and the additional information on page 36.
12. 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 37 for detailed reconciliations of adjusted EBITDA
13. Excludes £2.5 million of 'One Arrow' investment programme capital expenditure
14. Replacement rate is the rate of portfolio investments purchases, at our target portfolio returns, required during 2019 to maintain the 2018 average 84-month ERC

Consolidated statement of profit or loss & other comprehensive income
For the year ended 31 December 2018

	Note	2018 £000	2017 £000
Continuing operations			
Income from portfolio investments at amortised cost		193,932	179,538
Fair value gain on portfolio investments at FVTPL		24,745	5,298
Impairment gains on portfolio investments at amortised cost*		50,727	63,081
Total income from portfolio investments		269,404	247,917
Income from Asset Management and Servicing		91,661	71,098
Other income		731	–
Total income		361,796	319,015
Operating expenses:			
Collection activity costs		(119,041)	(118,468)
Other operating expenses	5	(135,972)	(94,603)
Total operating expenses		(255,013)	(213,071)
Operating profit		106,783	105,944
Finance income		76	9
Finance costs	4	(66,868)	(71,669)
Share of profit in associate net of tax		–	1,578
Gain on sale of associate		–	14,697
Profit before tax		39,991	50,559
Taxation charge on ordinary activities	6	(10,022)	(10,644)
Profit after tax		29,969	39,915
Other comprehensive income:			
Items that are or may be reclassified subsequently to profit or loss:			
FX translation difference arising on revaluation of foreign operations		1,370	2,431
Movement on hedging reserve		(241)	289
Items that will not be reclassified to profit or loss:			
Remeasurements of the defined benefit liability		–	(25)
Total comprehensive income		31,098	42,610
Profit after tax attributable to:			
Owners of the Company		29,969	39,871
Non-controlling interest		–	44
		29,969	39,915
Basic EPS (£)	7	0.17	0.23
Diluted EPS (£)	7	0.17	0.22

*the 2017 comparative was in the prior year included within total income, and represented the portfolio write-up which was taken in 2017 on the Group’s portfolio investments.

Consolidated statement of financial position

As at 31 December 2018

	Note	2018	2017
		£000	£000
Assets			
Non-current assets			
Goodwill	8	262,679	152,779
Other intangible assets		44,264	43,493
Property, plant and equipment		7,761	10,168
Deferred tax asset		8,113	7,780
Total non-current assets		322,817	214,220
Current assets			
Cash and cash equivalents		92,001	35,943
Trade and other receivables		94,206	56,885
Portfolio investments	9	1,087,030	951,467
Total current assets		1,273,237	1,044,295
Total assets		1,596,054	1,258,515
Equity			
Share capital		1,763	1,753
Share premium		347,436	347,436
Retained earnings		116,589	118,710
Hedging reserve		(584)	(343)
Other reserves		(273,547)	(272,408)
Total equity attributable to shareholders		191,657	195,148
Non-controlling interest		601	173
Total equity		192,258	195,321
Liabilities			
Non-current liabilities			
Senior secured notes	12	920,798	763,740
Trade and other payables	10	52,476	16,569
Deferred tax liability		14,930	21,940
Total non-current liabilities		988,204	802,249
Current liabilities			
Trade and other payables	10	145,181	81,790
Derivative liability		502	2,865
Current tax liability		7,915	4,528
Revolving credit facility	12	242,121	153,036
Bank overdrafts	12	2,696	1,332
Other borrowings	12	11,635	10,724
Senior secured notes interest	12	5,542	6,670
Total current liabilities		415,592	260,945
Total liabilities		1,403,796	1,063,194
Total equity and liabilities		1,596,054	1,258,515

Consolidated statement of changes in equity
For the year ended 31 December 2018

	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 2017	1,744	347,436	92,327	(632)	(1,936)	5,413	(276,961)	167,391	–	167,391
Profit after tax	–	–	39,871	–	–	–	–	39,871	44	39,915
Exchange differences	–	–	–	–	–	4,301	–	4,301	–	4,301
Recycled to profit after tax	–	–	–	–	–	(1,870)	–	(1,870)	–	(1,870)
Net fair value losses – cash flow hedges	–	–	–	348	–	–	–	348	–	348
Tax on hedged items	–	–	–	(59)	–	–	–	(59)	–	(59)
Remeasurements of the defined benefit liability	–	–	(25)	–	–	–	–	(25)	–	(25)
Total comprehensive income for the year	–	–	39,846	289	–	2,431	–	42,566	44	42,610
Share-based payments	–	–	3,334	–	–	–	–	3,334	–	3,334
Shares issued	9	–	–	–	–	–	–	9	–	9
Repurchase of own shares	–	–	–	–	(1,355)	–	–	(1,355)	–	(1,355)
Dividend paid	–	–	(16,797)	–	–	–	–	(16,797)	–	(16,797)
Dividend paid by NCI	–	–	–	–	–	–	–	–	(58)	(58)
Non-controlling interest on acquisition	–	–	–	–	–	–	–	–	187	187
Balance at 31 December 2017	1,753	347,436	118,710	(343)	(3,291)	7,844	(276,961)	195,148	173	195,321
Impact of adopting IFRS 9	–	–	(14,000)	–	–	–	–	(14,000)	–	(14,000)
Impact of adopting IFRS 15	–	–	(199)	–	–	–	–	(199)	–	(199)
Balance post IFRS adjustments at 1 January 2018	1,753	347,436	104,511	(343)	(3,291)	7,844	(276,961)	180,949	173	181,122
Profit after tax	–	–	29,969	–	–	–	–	29,969	–	29,969
Exchange differences	–	–	–	–	–	2,572	–	2,572	–	2,572
Recycled to profit after tax	-	-	-	-	-	(1,202)	-	(1,202)	-	(1,202)
Net fair value gains – cash flow hedges	–	–	–	(291)	–	–	–	(291)	–	(291)
Tax on hedged items	–	–	–	50	–	–	–	50	–	50
Total comprehensive income for the year	–	–	29,969	(241)	–	1,370	–	31,098	–	31,098
Shares issued	10	–	–	–	–	–	–	10	–	10
Repurchase of own shares	–	–	–	–	(2,509)	–	–	(2,509)	–	(2,509)
Share-based payments	–	–	3,267	–	–	–	–	3,267	–	3,267
Dividend paid	–	–	(21,158)	–	–	–	–	(21,158)	–	(21,158)
Dividend paid by NCI	–	–	–	–	–	–	–	–	(43)	(43)
Non-controlling interest on acquisition	–	–	–	–	–	–	–	–	471	471
Balance at 31 December 2018	1,763	347,436	116,589	(584)	(5,800)	9,214	(276,961)	191,657	601	192,258

[1] Other reserves total £273,547,000 deficit (2017: £272,408,000 deficit).

Consolidated statement of cash flows
For the year ended December 2018

	Note	2018	2017
		£000	£000
Net cash used in operating activities	15	(19,021)	(27,478)
Investing activities			
Purchase of property, plant and equipment		(2,367)	(4,885)
Purchase of intangible assets		(11,077)	(9,112)
Proceeds from disposal of intangible assets and property, plant and equipment		3,759	1,319
Dividends received from associate		-	7,233
Disposal of associate		-	18,143
Acquisition of subsidiaries, net of cash acquired		(57,022)	(8,201)
Acquisition of subsidiary, deferred consideration		(11,612)	(8,888)
Net cash used in investing activities		(78,319)	(4,391)
Financing activities			
Movements in other banking facilities		91,092	66,327
Proceeds from senior notes (net of fees)		345,847	340,546
Redemption of senior notes		(203,467)	(290,867)
Early repayment of bond		(13,623)	(17,631)
Repayment of interest on senior notes		(36,522)	(31,119)
Repurchase of own shares		(2,509)	(1,355)
Issue of share capital		10	9
Bank interest received		76	9
Bank and other similar fees paid		(6,248)	(4,274)
Payment of dividends		(21,201)	(16,855)
Payment of deferred interest		(257)	(610)
Net cash flow generated by financing activities		153,198	44,180
Net increase in cash and cash equivalents		55,858	12,311
Cash and cash equivalents at beginning of year		35,943	23,203
Effect of exchange rates on cash and cash equivalents		200	429
Cash and cash equivalents at end of year		92,001	35,943

1. Statutory information

This document does not constitute the Group's statutory accounts for the years ended 31 December 2017 or 31 December 2018 but is derived from those accounts. Statutory accounts for 31 December 2017 have been delivered to the Registrar of Companies, and those for 2018 will be delivered to the Registrar of Companies following the Group's annual general meeting.

The auditors have reported on the 2017 and 2018 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 2018 annual report, including the auditor's report, can be obtained free of charge on request to the Group at Belvedere, 12 Booth Street, Manchester, M2 4AW or, alternatively, can be downloaded at www.arrowglobal.net from March 2019. The 2017 annual report is already available via these routes.

The financial statements of the Group have been prepared under the historical cost convention. The accounting policies are the same as those disclosed in the annual report and accounts for the year ended 31 December 2018. The financial information included in this preliminary announcement is based on the Group's annual report and accounts for the year ended 31 December 2018, which are prepared in accordance with International Financial Reporting Standards (IFRSs) and in accordance with IFRSs adopted by the European Union.

The annual report and accounts for the year ended 31 December 2018 will be posted to shareholders in March 2019. The annual general meeting will take place on 4 June 2019.

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 financial statements are presented in Pounds Sterling and rounded to the nearest thousand.

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.

The Group's and the Company's financial statements for the year ended 31 December 2018 have been prepared in accordance with IFRS as adopted for use in the EU, and therefore comply with Article 4 of the EU IFRS Regulation. The accounting policies have been applied consistently in the current and prior periods.

3. Segmental reporting

From 2018, the Group started to report under three separable reportable segments. The prior period is still considered to be one segment as prior to the current financial period, the information by segment was not available.

Segmental information has been provided in line with what is received on a regular basis by the chief operating decision maker, which is the board of directors collectively, as defined in IFRS 8. The principal business categories are as follows:

The Investment Business	All portfolio investments that the Group owns, and the income and costs associated with them
Asset Management and Servicing Business	Income and costs associated with managing debt portfolios on behalf of the Group and external servicers
Group functions	Costs not directly associated with either the Investment or Asset Management and Servicing Business, but to overall oversight and control of the Group's activities

The intra-segment elimination column below removes charges made from the Asset Management and Servicing Business segment to the Investment Business segment on behalf of the Group for servicing and collection of the Group's portfolio investments. The intra-segment charge is calculated on equivalent commercial terms to charging third-parties.

	Investment Business £000	Asset Management and Servicing Business £000	Group Functions £000	Intra-segment elimination £000	Adjusting items £000	Total year ended 31 December 2018 £000	Total year ended 31 December 2017 £000
Total income	269,404	132,306	731	(40,645)	–	361,796	319,015
Collection activity costs	(94,617)	(63,989)	–	40,645	(1,080)	(119,041)	(118,468)
Gross margin	174,787	68,317	731	–	(1,080)	242,755	200,547
Gross margin %	65%	52%					
Other operating expenses excluding depreciation, amortisation and forex	(20,715)	(41,613)	(36,733)	–	(22,676)	(121,737)	(83,485)
EBITDA	154,072	26,704	(36,002)	–	(23,756)	121,018	117,062
EBITDA margin %	57%	20%					
Depreciation, amortisation and forex	–	–	(14,235)	–	–	(14,235)	(11,118)
Operating profit	154,072	26,704	(50,237)	–	(23,756)	106,783	105,944
Net finance costs	–	–	(48,134)	–	–	(48,134)	(44,308)
Refinancing costs	–	–	–	–	(18,658)	(18,658)	(27,352)
Share of profit in associate net of tax	–	–	–	–	–	–	1,578
Gain on sale of associate	–	–	–	–	–	–	14,697
Profit before tax	154,072	26,704	(98,371)	–	(42,414)	39,991	50,559

Other operating expense inclusive of depreciation, amortisation and forex totals £135,972,000. See page 36 for further detail of adjusting items as part of the reconciliation of reported to underlying results.

Geographical information	UK entities 2018 £000	Foreign entities 2018 £000	Intra-group trading 2018 £000	Total 2018 £000
Non-current assets	243,887	78,930	–	322,817

Geographical information	UK entities 2017 £000	Foreign entities 2017 £000	Intra-group trading 2017 £000	Total 2017 £000
Non-current assets	203,701	10,519	–	214,220

4. Finance costs

	2018 £000	2017 £000
Interest and similar charges on bank loans	7,168	6,047
Interest on senior secured notes	37,458	34,616
Interest rate swap and forward exchange contract hedge costs	1,568	2,095
Other interest	2,016	1,562
Bond refinancing costs	18,658	27,349
Total finance costs	66,868	71,669

In 2018, bond refinancing costs comprised £18,658,000 incurred on the early redemption of the €230 million notes due 2023, of which £13,623,000 was a cash cost related to the call premium. The remaining £5,035,000 was due to a non-cash write-off of related transaction fees, in connection with the 2023 Notes.

In 2017, bond refinancing costs comprised £27,349,000 incurred on the early redemption of the €335 million notes due 2021, of which £17,631,000 was a cash cost related to the call premium and cancellation of interest rate hedging linked to the 2021 Notes. The remaining £9,718,000 was due to a non-cash write-off of related transaction fees, related to the 2021 Notes.

5. Other operating expenses

	2018	2017
	£000	£000
Staff costs	53,346	42,954
Other staff related costs	8,625	7,255
Premises	8,242	7,353
IT	11,520	9,213
Depreciation and amortisation	14,235	11,729
Net foreign exchange gains	(2)	(611)
Acquisition related expenses	14,717	2,444
Other operating expenses	25,289	14,266
Total other operating expenses	135,972	94,603

In 2018, £7,537,000 of the other staff related costs relates to temporary labour, recruitment and training (2017: £7,240,000). Staff costs included in other operating expenses are all indirect with all direct staff costs included in the consolidated statement of profit or loss caption 'collection activity costs'.

6. Tax

The Group's activities are predominantly UK based. The analysis below therefore uses the UK rate of corporation tax. The effective tax rate for the year ended 31 December 2018 is higher than the standard rate of corporation tax in the UK at 19% (2017: 19.25%). The differences are as follows:

	2018	2017
	£000	£000
Profit before tax	39,991	50,559
Tax charge at standard UK corporation tax rate	7,598	9,733
Adjustment in respect of prior years	(933)	(724)
Expenses not deductible for tax purposes	768	454
Share in profit in associate reported net of tax	-	(304)
Differences in corporate tax rates	(17)	186
Differing overseas tax rates	2,606	1,327
Movements in unrecognised deferred tax	-	(572)
Chargeable gains	-	544
Tax charge	10,022	10,644
Effective tax rate relating to continuing operations	25.1%	21.1%
Standard UK corporation rate for the year	19.0%	19.25%
Effective tax rate higher/lower than standard UK corporation rate for the year	Higher	Higher

	2018	2017
	£000	£000
Tax charge for the year consists of:		
Current tax charge:		
UK and foreign corporation tax based on profit after tax	13,328	8,947
Adjustment in respect of prior years	(849)	(825)
Total current tax charge	12,479	8,122
Deferred tax charge:		
Origination and reversal of temporary differences	(2,373)	2,806
Adjustment in respect of prior years	(84)	102
Movement in deferred tax previously not recognised	-	(572)
Differences in tax rates	-	186
Total tax charge	10,022	10,644

In the current year, the tax charge is inflated by an increase in expenses not deductible for tax purposes largely due to current year subsidiary acquisition costs and a higher level of taxable income from overseas countries with higher tax rates. This is offset by the movement through deferred tax of GAAP differences on overseas subsidiaries.

Deferred tax
The Group has not recognised a deferred tax asset in respect of £859,000 (2017: £11,455,000) 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.

The rate of UK corporation tax, as enacted under previous Finance Acts, reduced from 20% to 19% from 1 April 2017 and is expected to reduce to 17% from 1 April 2020. Deferred taxation is measured at the tax 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. Accordingly, deferred tax balances have generally been calculated using a rate of 17% in these accounts, apart from balances on overseas companies that are recognised at the relevant rate applicable in the appropriate jurisdictions.

7. Earnings per share (EPS)

	2018 £000	2017 £000
Profit after tax attributable to shareholders	29,969	39,871
Weighted average ordinary shares	174,939	174,768
Potential exercise of share options	4,515	4,344
Weighted average ordinary shares (diluted)	179,454	179,112
Basic earnings per share (£)	0.17	0.23
Diluted earnings per share (£)	0.17	0.22

Refer to table of alternative performance measures on page 15 for details of underlying earnings per share.

8. Goodwill

	£000
Cost	
At 1 January 2017	130,390
Additions	20,911
Exchange rate differences	3,787
At 31 December 2017	155,088
Additions	107,984
Exchange rate differences	1,916
At 31 December 2018	264,988
Amortisation and impairment	
At 31 December 2017 and 31 December 2018	2,309
Net book value	
At 31 December 2018	262,679
At 31 December 2017	152,779

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).

Change in goodwill CGU allocation
In relation to goodwill, the four CGUs identified are UK & Ireland, comprising all group companies acquired in the Capquest acquisition, Arrow Global Receivables Management Limited, Mars Capital and Bergen; Portugal, comprising of all 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 & 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 expansion of the Group in recent years, it has been deemed appropriate to combine a number of CGUs for impairment testing purposes, which were previously assessed separately. 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.

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

	2018	2017
	£000	£000
UK & Ireland	64,312	58,415
Portugal	73,061	41,225
Benelux	43,132	42,614
Italy	82,174	10,525
	262,679	152,779

An impairment review was carried out at 31 December 2018 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. The key assumptions for the value in use calculations are those regarding the discount rate and forecast cash collections net of direct collection costs, and allowable forecast synergies.

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. 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. As a result of applying the various risk factors noted above to the Group's WACC, a market participant rate of 8.5% (2017: 6.1%) was determined for the UK & Ireland CGUs, a rate of 8.9% (2017: 8.5%) was determined for the Portuguese CGU, a rate of 8.2% (2017: 6.0%) was determined for the Benelux CGU and a rate of 8.9% (2017: 6.6%) for the Italian CGU.

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 the 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 Group has conducted a sensitivity analysis on the impairment test of the CGU's carrying value. The CGUs would become impaired based on an unlevered post-tax cash flow noted below or based on an increase in the discount rate noted below.

	A cash flow reduction of	A discount rate increase of
UK & Ireland	30%	2%
Portugal	25%	2%
Benelux	51%	5%
Italy	50%	4%

9. Portfolio investments

Split of portfolio investments by period:

	2018	2017
	£000	£000
Expected falling due after 1 year	841,890	758,113
Expected falling due within 1 year	245,140	193,354
Total	1,087,030	951,467

The Group recognises income from portfolios investments in accordance with IFRS 9 from 1 January 2018.

The movements in portfolio investments was as follows:

	2018	2017
	£000	£000
As at the year brought forward	951,467	804,107
Impact of adopting IFRS 9 at 1 January 2018	(17,000)	-
Brought forward after impact of adopting IFRS 9 opening adjustment	934,467	804,107
Portfolios purchased during the year	263,350	223,949
Portfolio additions from acquired entities	11,853	-
Collections in the year	(411,588)	(342,210)
Income from portfolio investments at amortised cost	193,932	179,538
Fair value gain on portfolios at FVTPL	24,745	5,298
Net impairment gain	50,727	63,081
Foreign exchange gain	19,544	18,178
Purchase price adjustment relating to prior year	-	(474)
	1,087,030	951,467

The impact of IFRS 9 shown above is pre-tax. The post-tax impact is £14,000,000 and can be seen in the statement of changes in equity. The closing IFRS 9 position has not been shown in the table above, as post-implementation the impact of IFRS 9 is subsumed within the net impairment gain, and within income from portfolio investments at amortised cost.

10. Trade and other payables

Current	2018	2017
	£000	£000
Trade payables	24,133	19,634
Deferred consideration on acquisition of subsidiaries	11,119	6,618
Deferred consideration on portfolio investments	12,031	10,830
Taxation and social security	163	152
Accruals	53,954	28,793
Other liabilities and accruals	43,781	15,763
	145,181	81,790

In December 2017, Vesting Finance vacated an office building as part of its office consolidation. The property had an unexpired lease term of 6 years and a provision of £1,169,000 was included in trade and other payables at 31 December 2017. During 2018, the rental obligation was settled, with no provision needed or included as at 31 December 2018.

Non-current	2018	2017
	£000	£000
Trade payables	3,673	3,509
Deferred consideration on acquisition of subsidiaries	48,803	8,581
Deferred consideration on portfolio investments	-	4,479
	52,476	16,569

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 2018 and 2017:		
Trade	–	–
	–	–

Summary of transactions

Key management, defined as permanent members of the executive committee, were awarded the following compensation for the financial year:

Remuneration	2018 £000	2017 £000
Salaries and performance-related bonus	3, 836	4,555
Pension-related benefits	214	222
	4,050	4,777

The number of key management during the year was 7 (2017: 10).

12. Borrowings and facilities

	2018 £000	2017 £000
Senior secured notes (net of transaction fees of £14,769,000, 2017: £15,607,000)	920,798	763,740
Revolving credit facility (net of transaction fees of £3,466,000, 2017: £2,721,000)	242,121	153,036
Senior secured notes interest	5,542	6,670
Bank overdrafts	2,696	1,332
Finance lease	–	1,816
Non-recourse facility	11,635	8,908
	1,182,792	935,502
Total borrowings:		
Amount due for settlement within 12 months	259,045	165,360
Amount due for settlement after 12 months	923,747	770,142

Senior secured notes

On 7 March 2018, Arrow Global Finance Plc issued €285 million floating rate senior secured notes due 2026 (the '2026 Notes') at a coupon of 3.75% over three-month EURIBOR and also issued a £100 million tap of its existing £220 million 5.125% fixed rate notes due 2024. As part of the transaction Arrow Global Finance Plc also redeemed its €230 million 4.75% over three-month EURIBOR floating rate senior secured notes.

The proceeds were used to fund the purchase price for the acquisition of Parr Credit, partially repay drawings under the revolving credit facility and to fund transaction costs and the redemption of the 2023 notes.

In 2018, bond refinancing costs comprised £18,658,000 incurred on the early redemption of the €230 million notes due 2023, of which £13,623,000 was a cash cost related to the call premium. The remaining £5,035,000 was due to a non-cash write-off of related transactions fees, relating to the 2023 notes.

On 30 March 2017, the Group issued €400 million senior secured floating rate notes due 2025 (the '2025 Notes') at a coupon of EURIBOR +2.875% per annum with EURIBOR being not less than 0%. Interest is paid quarterly in arrears. The 2025 Notes can be redeemed in full or in part on or after 1 April 2019 at the Group's option. Prior to 1 April 2019 the Group may redeem, at its option, some or all of the 2025 Notes at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, plus an applicable make-whole premium.

The proceeds from the 2025 Notes were used to redeem the existing €335 million 2021 Notes, pay the early redemption and transaction fees payable in respect of the €335 million 2021 Notes and repay drawings under the revolving credit facility.

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

Revolving credit facility

On 4 January 2018 the commitments under the revolving credit facility were increased from £215 million to £255 million. The maturity of the facility was extended to 2 January 2023 and the margin reduced to 2.5%.

On 1 November 2018 the commitments under the revolving credit facility were increased from £255 million to £285 million.

Post year end on 26 February 2019, the revolving credit facility was extended to 2024, with the margin unchanged.

On 24 February 2017 the commitments under the revolving credit facility were increased from £180 million to £215 million. Upon the redemption of the €335 million 2021 Notes on 30 March 2017, the maturity of the facility was extended to 31 March 2022.

13. Dividend

Dividends paid of £21,158,000 have been included in these financial statements, being the 2017 final dividend of 8.1p per share and the 2018 interim dividend of 4.0p per share. A final dividend for 2018 has been proposed of 8.7p per share, taking the total declared and proposed dividends for the year ended 31 December 2018 to 12.7p, being 35% of underlying profit after tax. The proposed final dividend is subject to approval at the annual general meeting and has, therefore, not been included as a liability in these financial statements.

The 2018 interim dividend was declared at 50% of the 2017 final dividend with the subsequent final dividend being proposed based on the underlying profit after tax for the year.

The ex-dividend date for the final dividend is 6 June 2019 with a record date of 7 June 2019 and a payment date of 12 July 2019. Shareholders will have the opportunity to elect to reinvest their cash dividend and purchase existing shares in the Company through a dividend reinvestment plan ('DRIP') with an election date of 21 June 2019.

14. Acquisition of subsidiary undertaking

Current year acquisitions

a. Parr Credit s.r.l.

On 1 March 2018, the Group acquired 100% of the share capital of Parr Credit. Parr Credit manages unsecured performing and non-performing loans and customer relationships for Tier-1 telecommunications, financial institutions and media companies. The acquisition builds on the 2017 acquisition of Zenith and gives the Group Italian primary and special servicing capabilities that support the Group's growth ambitions. The total undiscounted consideration for the acquisition is €24,924,000 (£21,917,000) including deferred and contingent consideration.

Contingent consideration is split into three tranches and is based on the three future anniversaries of the transaction. It is included at its fair value, at the amount contractually agreed. The contingent consideration is based on the business meeting certain income targets each year.

Effect of the acquisition

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below:

	Total £000
Intangible assets	264
Property, plant and equipment	84
Investments in associates	49
Cash and cash equivalents	21
Trade and other receivables	3,581
Current tax receivables	197
Trade and other payables	(4,387)
Accruals	(298)
Provisions	(868)
Bank overdraft	(5)
Total identifiable net assets	**(1,362)**
Goodwill on acquisition	22,533
	21,171
Fair values of consideration:	
Cash	13,011
Deferred consideration	4,106
Contingent consideration	4,054
	21,171
Cash reduction at acquisition date:	
Cash consideration	13,011
Offset by cash and cash equivalents acquired	(21)
	12,990

Goodwill of €25,624,000 (£22,533,000) was created as a result of this acquisition. The primary reason for the acquisition was to create scale and servicing capabilities across multiple asset classes in the Italian market following the purchase of Zenith in 2017.

In the period from acquisition to 31 December 2018, Parr Credit contributed income of £13,900,000 and a loss after tax contribution of £2,100,000 to the consolidated results for the year. If the acquisition had occurred on 1 January 2018, Group total income would have been higher by an estimated £2,600,000 and profit after tax would have been lower by an estimated £400,000.

b. Europa Investimenti S.p.A (EI)

On 13 September 2018, the Group acquired 100% of the share capital of EI. EI originates and manages Italian distressed debt investments. The acquisition builds on the 2017 acquisition of Zenith, and subsequent acquisition of Parr Credit in 2018, providing a platform to drive returns from corporate and SME assets. The total undiscounted consideration for the acquisition is €69,500,000 (£62,092,000) including deferred and contingent consideration.

Contingent consideration is payable in one tranche. It is included at its fair value, at the maximum amount contractually agreed. The contingent consideration is based on the business meeting certain cumulative income targets by the end of 2022.

Effect of the acquisition

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below:

	Total £000
Deferred tax asset	1,066
Other non-current assets	248
Portfolio investments	11,853
Cash and cash equivalents	5,280
Trade and other receivables	2,171
Tax receivables	382
Trade and other payables	(6,191)
Provisions	(3,636)
Tax payable	(212)
Total identifiable net assets	**10,961**
Goodwill on acquisition	48,219
	59,180
Fair values of consideration:	
Cash	31,716
Deferred consideration	13,304
Contingent consideration	14,160
	59,180
Cash reduction at acquisition date:	
Cash consideration	31,716
Offset by cash and cash equivalents acquired	(5,280)
	26,436

Goodwill of €53,972,000 (£48,219,000) was created as a result of this acquisition. The primary reason for the acquisition was to create scale and servicing capabilities across multiple asset classes in the Italian market following the purchase of Zenith in 2017 and Parr in 2018.

In the period from acquisition to 31 December 2018, EI contributed income of £13,600,000 and profit after tax contribution of £6,500,000 to the consolidated results for the year. If the acquisition had occurred on 1 January 2018, Group total income and profit after tax would not have been materially different at £361,796,000 and £29,969,000 respectively, due to the majority of EI's 2018 deals closing in the period since acquisition.

c. Norfin Investimentos S.A. (Norfin)

On 21 December 2018, the Group acquired 100% of the share capital of Norfin. Norfin manages real estate investments in Portugal. The acquisition allows the Group to offer a comprehensive set of servicing solutions to investors in Portugal. The total undiscounted consideration for the acquisition is €43,100,000 (£38,731,000) including expected contingent consideration.

Contingent consideration is split into two tranches and is based upon the assets under management (AUM) growth and margins achieved in the business by the end of 2020. If such targets are met, a share of the AUM over the performance threshold will be paid as contingent consideration in the first half of 2021. There is an upper limit to contingent consideration payable of €33,000,000.

Effect of the acquisition

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below:

	Total
	£000
Property, plant and equipment	262
Customer intangible	2,068
Fee receivables	1,209
Cash and cash equivalents	2,471
Trade and other receivables	1,745
Trade and other payables	(1,992)
Total identifiable net assets	**5,763**
Goodwill on acquisition	31,335
	37,098
Fair values of consideration:	
Cash	16,445
Contingent consideration	20,653
	37,098
Cash reduction at acquisition date:	
Cash consideration	16,445
Offset by cash and cash equivalents acquired	(2,471)
	13,974

An intangible asset of €2,301,000 (£2,068,000) has been recognised at acquisition, being the fair value after appropriate discounting, of expected cash flows arising from existing customer relationships. Goodwill of €34,644,000 (£31,335,000) was created as a result of this acquisition. The primary reason for the acquisition was to expand the offering of servicing solutions from the Group to investors in Portugal.

In the period from acquisition to 31 December 2018, Norfin did not contribute any material income or profit after tax to the 2018 Group result. If the acquisition had occurred on 1 January 2018, Group total income would have been higher by an estimated £5,900,000 and profit after tax would have been an estimated £500,000 higher.

d. Bergen Capital Management Limited (Bergen)

On 1 July 2018, the Group acquired 100% of the share capital of Bergen. Bergen manages corporate real estate secured loans. The acquisition provides the Group with additional servicing capabilities in this asset class in the UK. The total undiscounted consideration for the acquisition is £5,200,000.

Effect of the acquisition

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are shown in the table below:

	Total
	£000
Property, plant and equipment	13
Cash and cash equivalents	92
Trade and other receivables	34
Trade and other payables	(83)
Current tax liability	(20)
Total identifiable net assets	**36**
Goodwill on acquisition	5,164
	5,200
Fair values of consideration:	
Cash	4,200
Deferred consideration	1,000
	5,200
Cash reduction at acquisition date:	
Cash consideration	4,200
Offset by cash and cash equivalents acquired	(92)

Goodwill of £5,164,000 was created as a result of this acquisition. The primary reason for the acquisition was to enable the Group to take advantage of opportunities in the small ticket UK commercial real estate secured loan market.

In the period from acquisition to 31 December 2018, Bergen contributed no material income or profit after tax contribution to the consolidated results for the year.

15. Notes to the cash flow statement

	Year ended 31 December 2018 £000	Year ended 31 December 2017 £000
Profit before tax	39,991	50,559
Adjusted for:		
Collections in the year	411,588	342,210
Income from portfolio investments	(193,932)	(179,538)
Share in profit in associate	–	(1,578)
Fair value gain on portfolios	(24,745)	(5,298)
Net impairment gain	(50,727)	(63,081)
Gain on sale of associate	–	(14,697)
Depreciation and amortisation	14,235	11,729
Profit on sale of property	(731)	–
Loss on disposal of intangible assets	508	–
Net interest payable	66,792	71,660
Foreign exchange gains	(2)	(611)
Equity settled share-based payment expenses	3,267	3,334
Operating cash flows before movement in working capital	266,244	214,689
Increase in other receivables	(28,132)	(13,224)
Increase/(decrease) in trade and other payables	15,645	5,915
Cash generated by operations	253,757	207,380
Income taxes and overseas taxation (paid)/received	(9,428)	(9,598)
Net cash flow from operating activities before purchases of portfolio investments	244,329	197,782
Purchase of portfolio investments	(263,350)	(225,734)
Purchase price adjustment relating to prior year	–	474
Net cash (used in)/generated by operating activities	(19,021)	(27,478)

16. Events occurring after the reporting period

On 26 February 2019, the revolving credit facility was extended to 2024, with the margin unchanged.

Additional information(unaudited)

'Underlying profit after tax' is considered to be a key measure in understanding the Group's ongoing financial performance.

Adjusting items are those items that by virtue of their size, nature or incidence (i.e. outside the normal operating activities of the Group) are not considered to be representative of the ongoing performance of the Group and these items are excluded from underlying profit after tax.

	31 December 2018 £000	31 December 2017 £000
Continuing operations		
Income	361,796	319,015
Operating expenses		
Collection activity costs	(117,961)	(117,638)
Other operating expenses	(113,296)	(88,344)
Total operating expenses	(231,257)	(205,982)
Operating profit	130,539	113,033
Finance income	76	9
Finance costs	(48,210)	(44,317)
Share of profit in associates	–	1,578
Underlying profit before tax	82,405	70,303
Taxation charge on underlying activities	(18,297)	(13,697)
Underlying profit after tax before non-controlling interest	64,108	56,606
Non-controlling interest	–	(44)
Underlying profit after tax	64,108	56,562
Underlying Basic EPS (£)	0.37	0.32
Underlying tax rate	22.2%	19.5%

Reconciliation of reported to underlying costs

	Reported £000	Adjustments £000	Underlying £000	Reported £000	Adjustments £000	Underlying £000
Collection activity costs	(119,041)	1,080	(117,961)	(118,468)	830	(117,638)
Other operating expenses	(135,972)	22,676	(113,296)	(94,603)	6,259	(88,344)
Finance costs	(66,868)	18,658	(48,210)	(71,669)	27,352	(44,317)

Collection activity cost adjusting items relate to One Arrow costs incurred during the current and prior year.

Of the £42,414,000 (2017: £34,441,000) adjusting items total, £18,658,000 (2017: £27,352,000) related to bond refinancing costs, £14,717,000 were acquisition related costs, and £9,039,000 related to 'One Arrow' costs. Bond refinancing costs consisted of a £13,623,000 cost related to the call premium, along with £5,035,000 due to a non-cash write-off of related transaction fees, in connection with the 2023 Notes.

Of the £14,717,000 (2017: £2,444,000) acquisition related costs, £3,068,000 related to acquisitions in the current year, and £11,649,000 related to contingent consideration payments on previous periods' acquisitions.

The remaining £9,039,000 (2017: £4,645,000) related to 'One Arrow', which was a Group-wide programme which began in 2017 and came to an end in 2018, and included the development of a revised governance structure, office consolidations and IT/change investment across the Group. Given the aggregate size and nature of this Group-wide transformation programme, these costs have been presented as profit adjusting items as they are considered to warrant separate presentation. The Group expects this will drive longer term benefits into future periods.

'Adjusted EBITDA' means profit before interest, tax, depreciation, amortisation, foreign exchange gains or losses and other adjusting items. The Adjusted EBITDA reconciliations for the year to 31 December are shown below:

Reconciliation of net cash flow to adjusted EBITDA	31 December 2018 £000	31 December 2017 £000
Net cash flow used in operating activities	(19,021)	(27,478)
Purchases of portfolio investments	263,350	225,734
Purchase price adjustment relating to prior year	-	(474)
Income taxes paid	9,428	9,598
Working capital adjustments	12,487	7,309
Amortisation of acquisition and bank facility fee	273	273
Proceeds from sale of property	3,759	-
Dividends and interest from associate	-	7,233
Disposal of intangible asset	-	1,332
Acquisition costs	14,717	2,444
One Arrow costs	9,039	4,645
Adjusted EBITDA	294,032	230,616
Reconciliation of core collections to adjusted EBITDA		
Income from portfolio investments including fair value and impairment gains	269,404	247,917
Portfolio amortisation	142,184	94,293
Core collections (includes proceeds from disposal of portfolio investments)	411,588	342,210
Other income	91,661	71,098
Operating expenses	(255,013)	(213,071)
Depreciation and amortisation	14,235	11,729
Foreign exchange gains	(2)	(611)
Amortisation of acquisition and bank facility fees	273	273
Proceeds from sale of property	3,759	–
Dividends and interest from associate	–	7,233
Disposal of intangible asset	508	1,332
Share-based payments	3,267	3,334
Acquisition costs	14,717	2,444
One Arrow costs	9,039	4,645
Adjusted EBITDA	294,032	230,616
Reconciliation of operating profit to adjusted EBITDA		
Profit for the year	29,969	39,915
Underlying finance income and costs	48,134	44,308
Taxation charge on ordinary activities	10,022	10,644
Share of profit on associate	–	(1,578)
Gain on sale of associate	–	(14,697)
Adjusting finance costs	18,658	27,352
Operating profit	106,783	105,944
Portfolio amortisation	142,184	94,293
Depreciation and amortisation	14,235	11,729
Foreign exchange gains	(2)	(611)
Profit on sale of property	(731)	–
Amortisation of acquisition and bank facility fees	273	273
Proceeds from sale of property	3,759	–
Share-based payments	3,267	3,334
Disposal of intangible asset	508	1,332
Dividends and interest from associate	–	7,233
Acquisition costs	14,717	2,444
One Arrow costs	9,039	4,645
Adjusted EBITDA	294,032	230,616

Glossary

’Adjusted EBITDA ratio’ represents the ratio of Adjusted EBITDA to core collections. See page 18 for a reconciliation of the movement in portfolio investments under IFRS reconciled to cash ERC.

‘Adjusting items’ are those items that by virtue of their size, nature or incidence (i.e. outside the normal operating activities of the Group) are not considered by the Board to be representative of the ongoing performance of the Group and are therefore excluded from underlying profit after tax.

'APM' means alternative performance measures.

‘Average net assets’ is calculated as the average quarterly net assets from 2017 to 2018 as shown in the quarterly and half yearly statements. In comparative periods this was calculated as the average annual net assets.

‘Cash interest cover’ represents interest on senior secured notes, utilisation and non-utilisation revolving credit facility fees and bank interest to Adjusted EBITDA.

‘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.

‘CGU’ means cash-generating unit.

‘Collection activity costs’ represent the direct costs of collections related to the Group’s portfolio investments, such as salaries, commissions paid to third-party outsourced providers, credit bureau data costs and legal costs associated with collections.

‘Core collections’ or ‘collections’ means cash collections on the Group’s existing portfolio investments including ordinary course portfolio sales and put backs. Core 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 monitor the Group’s leverage position.

'Cost-income-ratio' see ‘total cost-to-income ratio’.

‘Cost-to-collect ratio’ is collection activity costs over total income.

‘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.

‘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).

‘ERC Rollover’ 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.

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

'Gross money multiple’ means core 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.

‘IB’ means the Investment Business.

‘IFRS’ means EU adopted international financial reporting standards.

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

	2018 £000
Third party AMS Business income	91,661
Intra-Group AMS income	40,645
AMS Business income	132,306

‘IPO’ means initial public offering.

'Leverage' is secured net debt over Adjusted EBITDA.

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

‘Merger reserve’ represents the reserve generated upon consolidation of the Group following the Group reconstruction as part of the IPO where Arrow Global became the parent company.

‘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 2018 is as follows:

	2018 £000	2017 £000
Cash and cash equivalents	(92,001)	(35,943)
Senior secured notes (pre-transaction fees net off)	935,567	779,347
Revolving credit facility (pre-transaction fees net off)	245,587	155,757
Secured net debt	1,089,153	899,161
Deferred consideration - portfolio investments	12,031	15,309
Deferred consideration - business acquisitions	59,922	15,200
Senior secured loan notes interest	5,542	6,670
Bank overdrafts	2,696	1,332
Other borrowings	11,635	10,724
Net debt	1,180,979	948,396

‘Net IRR’ means the internal rate of return net of cost to collect.

’NPL’ means non-performing loan.

‘Off market’ means those loan portfolios that were not acquired through a process involving a competitive bid or an auction like process.

‘Own share reserve’ comprises the cost of the Company’s ordinary shares held by the Group. At 31 December 2018, the Company held 1,030,766 ordinary shares of 1p each, held in an employee benefit trust. This represents 0.6% of the Company share capital at 31 December 2018.

‘Pay-out ratio’ represents the total amount of dividends paid out divided by the underlying profit after tax.

‘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.

‘Replacement rate’ means the level of purchases needed during the subsequent year to maintain the current level of ERC.

‘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 2017 to 2018 as shown in the quarterly and half yearly statements. In the comparative period this is calculated as the average annual equity attributable.

‘Secured loan to value ratio’ represents the drawn revolving credit facility, senior secured notes and bank overdrafts (all pre-transaction fees net off), less cash to 84-month ERC.

‘Secured loan to value’ or ‘secured LTV ratio’ represents the ratio of 84-month ERC to secured debt (net debt as defined above excluding deferred consideration and interest on the senior secured notes and including the fair value of foreign currency contracts and interest rate swaps).

‘Secured net debt’ see table in ‘net debt’ definition.

‘SME’ means small and medium-sized enterprises.

‘Total cost-to-income ratio’ is total operating expenses over total income.

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

‘Underlying basic EPS’ represents earnings per share based on underlying profit after tax, excluding any dilution of shares.

‘Underlying profit after tax’ means profit for the period after tax adjusted for the post-tax effect of certain adjusting items. The Group presents underlying profit after tax because it excludes the effect of items (and the related tax on such items) which are not considered representative of the Group’s ongoing performance, on the Group’s profit or loss for a period and forms the basis of its dividend policy.

‘Underlying return on equity’ represents the ratio of underlying profit after tax attributable to equity shareholders, to average shareholder equity.