



# ARROW GLOBAL GROUP PLC

Q3 Results

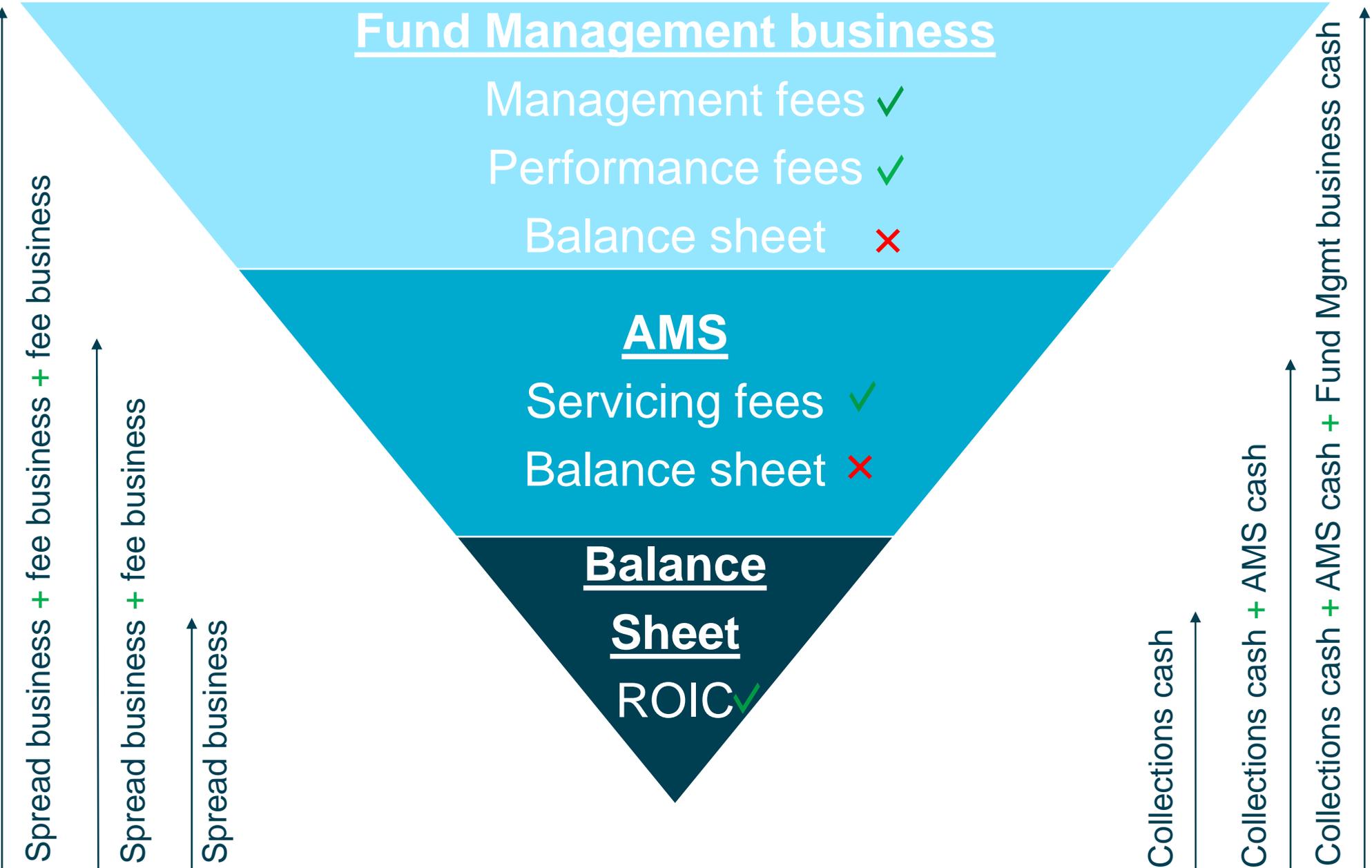
12 November, 2019

# Q3 Highlights

- Core cash collections **increased 8.3%** to £312.5m (Q3 2018: £288.5 million)
- Third-party AMS income **increased 8.5%** to £68.7m (Q3 2018: £63.3 million)
- Free cashflow **grew 14.7%** to £174.4 million (Q3 2018: £152.0 million)
- Leverage **reduced to 3.7x** (Q3 2018: 3.8x)
- Profit before tax **increased by 65.6%** to £42.4 million (Q3 2018: £25.6 million)
- Underlying profit before tax **decreased 5.4%** to £50.4 million (Q3 2018: 53.3 million) – including a **15.1% increase** in finance costs relating to **deferred consideration and IFRS 16**
- Cost efficiency program **on track** – actions to deliver **40% of run rate savings** complete
- Strong focus on the **development of the fund management business** with the build out of AGG Capital Management
- Trading is **in line with market expectations** for the full year

# Continued focus on developing the fund management business

Reducing capital intensity



Increasing cash generation

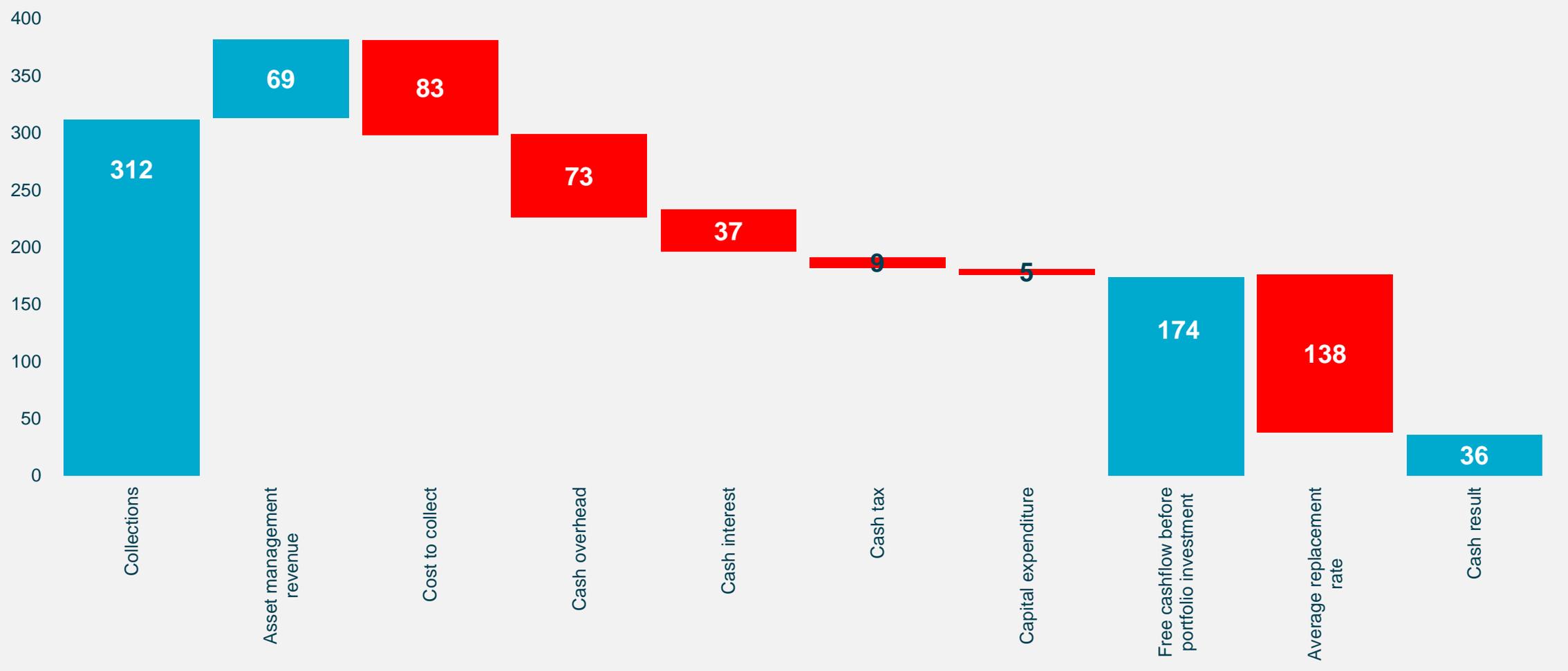
# Continued cash income growth

	Q3 2019	Q3 2018	
Total cash income*	£381.2m	£351.8m	+8.4%
<b>Income from portfolio investments</b>	<b>£142.7m</b>	<b>£149.8m</b>	<b>-4.7%</b>
<i>Impairment gain</i>	£17.4m	£30.8m	
<i>FV gain</i>	£27.6m	£10.6m	
<b>Third-party AMS income</b>	<b>£68.7m</b>	<b>£63.3m</b>	<b>+8.5%</b>
<b>Total income</b>	<b>£256.9m</b>	<b>£255.3m</b>	<b>+0.6%</b>
Collection activity costs	(£83.1m)	(£90.3m)	
Other operating expenses (incl. D&A)	(£91.0m)	(£85.7m)	
<b>Operating profit</b>	<b>£82.8m</b>	<b>£79.3m</b>	<b>+4.4%</b>
<b>Underlying Operating profit</b>	<b>£90.8m</b>	<b>£88.4m</b>	<b>+2.7%</b>
Underlying finance costs	£40.4m	£35.1m	+15.1%
<b>Underlying PBT</b>	<b>£50.4m</b>	<b>£53.3</b>	<b>-5.4%</b>
Effective tax rate	23.6%	19.4%	+4.2ppts.
<b>Underlying PAT before non-controlling interest</b>	<b>£38.5m</b>	<b>£42.9m</b>	<b>-10.3%</b>
<b>Underlying PAT</b>	<b>£36.3m</b>	<b>£42.9m</b>	<b>-15.4%</b>

- ▶ Total cash income **increased 8.4%**
- ▶ Income from portfolio investments marginally reduced due to:
  - Continued investment in assets with **slower initial cash returns**
  - **Lower impairment gains** due to lower levels of revaluations relating to increased litigation expenditure in 2018
- ▶ Increased FV gains due to **proportional growth** of assets categorised as fair value
- ▶ **8.5% increase** in third-party AMS revenue
- ▶ Collection activity costs **reduced** with increased efficiency gains
- ▶ Other operating expenses increased due to M&A
- ▶ Operating profit growth = **faster revenue increase** than **cost growth**
- ▶ Underlying PBT impacted by:
  - ▶ **Higher finance costs** from deferred consideration and IFRS 16
- ▶ Underlying PAT impacted by:
  - ▶ **Higher tax rate** due to increase in non-UK earnings
  - ▶ **Non-controlling interest** related to M&A

\*Core collections plus third-party AMS income

# Strong cash generation



# Attractive investment case – 2019 is a pivot year as Arrow transitions even faster to a capital-light model by developing its fund management business

1	Sophisticated investment platform in a growth market	Unlevered asset level IRRs <b>increasing</b>
2	Increasing quality of earnings	<b>Accelerating move</b> towards larger fund management business model
3	Resilient balance sheet	Leverage target of <b>3.0x-3.5x</b>
4	Consistently strong returns for shareholders	ROE in <b>mid-20s%</b>
5	Reliable through the cycle performance	<b>Consistent cash collections</b> underpins dividend policy of $\geq 35\%$

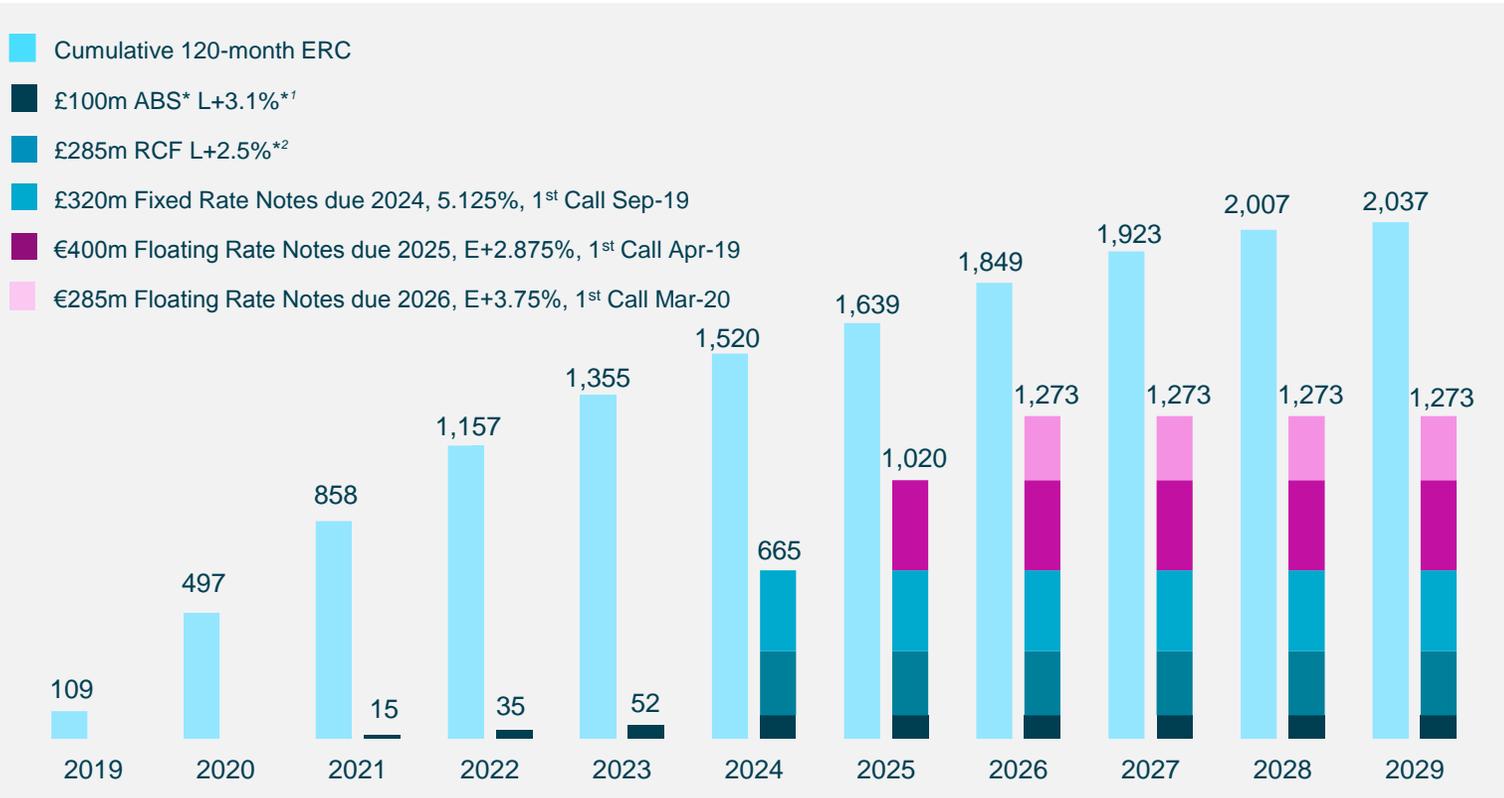
High return, prudently funded investment business – accelerating to increased capital-light model



Appendix

# Long-term funding drives competitive advantage

## Debt Maturity & 120-month ERC (£m)



\*1 Drawn ABS revolver as at September 2019 was £93m. Arrow Global is able to draw up to £100m during the revolving period (ending May 2021) and thereafter, collections are used to repay principal and interest during the amortisation period with full repayment due by May 2024. The maturity profile shown in the chart therefore reflects £93m debt amortising based upon forecast collections at the end of the revolving period.

\*2 Drawn RCF balance as at June 2019 was £252m.

## Key Highlights

- Leverage reduced to **3.7x** (Q3 2018: 3.8x)
- Commitment to reduce leverage ratio by year end to **3.5x or below**
- **Long duration debt** – no maturities **until 2024** (except for amortisation under the ABS)
- Funding diversification **strengthened** with £25m drawn in Q3 2019 under the ABS facility
- **Significant** liquidity headroom of **£131m**
- Weighted average cost of debt **3.7%**
- **Significant** ERC coverage of debt maturities with weighted average debt **duration 5.2 years**
  - Compares favorably to **shorter weighted average asset life**
- **Strong** cash interest cover at **7.1 times**

# Q3 highlights

## Core cash collections

(30 September 2018: £288.5m)

**£312.5m**

8.3%

## Organic portfolio purchases

(30 September 2018: £200.1m)

**£221.9m**

10.9%

## Operating profit

(30 September 2018: £79.3m)

**£82.8m**

4.4%

## Free cashflow<sup>1</sup>

(30 September 2018: £152.0m)

**£174.4m**

14.7%

## Leverage

(30 September 2018: 3.8x)

**3.7x**

0.1x

## Underlying PBT

(30 September 2018: £53.3m)

**£50.4m**

5.4%

## Underwriting performance

(30 September 2018: 104%)

**104%**

-

## Third-party AMS Income

(30 September 2018: £63.3m)

**£68.7m**

8.5%

## Underlying LTM RoE

(30 September 2018: 33.4%)

**29.5%**

3.9 pts.

<sup>1</sup>Adjusted EBITDA after the effects of capital expenditure, financing and tax cash impacts and before the replacement rate

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