ARROW GLOBAL GROUP PLC

Preliminary results 2019

12 March, 2020

Lee Rochford
Group CEO

FY 2019 Highlights

Fund Management Business launched, record free cashflow generation and continuing leverage reduction

1	**Fund management business launched**	**€838.0 million** in total initial capital commitments
2	**Record investment volumes at consistently high returns**	Portfolio purchases up 15.3% to £303.7m – **consistent net IRRs** of 17.0%
3	**Gross AMS income up 5.9% to £140.1 million**	AMS towards 50% of Group revenues (36.4%) and increasing to mid-20s% margins (23.9%)
4	**Free cashflow up 13.3%**	£261.4 million FCF generated (2018: £230.7m)
5	**Profit before tax up 28.3%**	Statutory PBT £51.3m (2018: £40.0m)
6	**Underlying ROE of 29.5%**	Continues to remain above mid-20s% target
7	**Leverage reduced 0.3x to 3.4x**	Inside target 3.0x-3.5x range – **no bond maturities until 2024**
8	**Full year dividend up 3.1%**	13.1p (2018: 12.7p)

Strategic Highlights

Fund Management growth to accelerate the shift to a more capital light model

1	**Built the Fund Management Business**	Goal to transform into a fully integrated alternative asset manager with significant FUM
2	**Targeting Fund Management FUM growth**	On track to **manage €2.0bn in total FUM** by the end of 2020
3	**Restructured and simplified the business**	Implemented simplification programme and new reporting and governance structures
4	**Launched our ESG and Culture Steering Committees**	Integration of ESG practices into all operations alongside launch of our aspirational culture statement
5	**Strengthened the management team and retained key talent**	Zach Lewy and key team members participating in the new fund structure. Matt Hotson joined the Board as Group CFO.

Progress against 2023 targets

Delivery comfortably on track

	2023 target	2019 progress	On track?
ROE	Mid-20s % through-the cycle	➢ 29.5%	✔
Asset management & servicing	50% of Group Revenue Mid-20s % margin	➢ 36.4% of Group revenue ➢ 23.9% margin	✔
Leverage	3.0x to 3.5x	➢ 3.4x	✔
Dividend Policy	≥ 35% of underlying net income	➢ 40.0%	✔
Cost income ratio	Trend towards 60%	➢ 60.9%	✔
Free cashflow generation	£750m cumulative FY 2019 – FY 2021	➢ £261.4m in year 1	✔

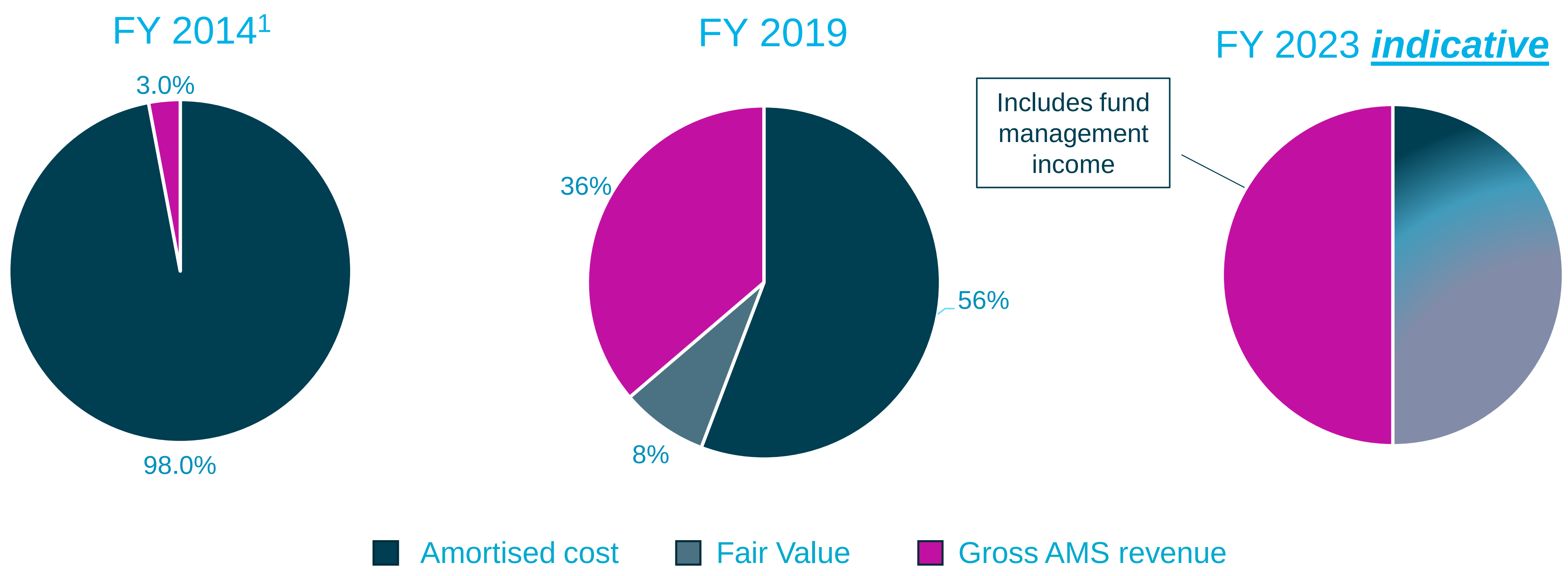
Matt Hotson

Group CFO

Significant evolution in business mix continues

Shift to Fund Management fees and Fair Value accounting will continue to simplify the P&L

Split of Gross Revenue by Classification/Division 2014-2023



Arrow's accounting will simplify significantly

[1]The Group did not disclose on a fully segmental basis in 2014. In order to form a proxy for the internal AMS charge that equals gross AMS revenue, the proportion of 2019's internal AMS revenue as percentage of gross total gross revenue was applied to 2014's total revenue and then added to third party AMS revenue

Investment Business

Strong collections performance, revenue reduced due to lower levels of non-cash impairment gains

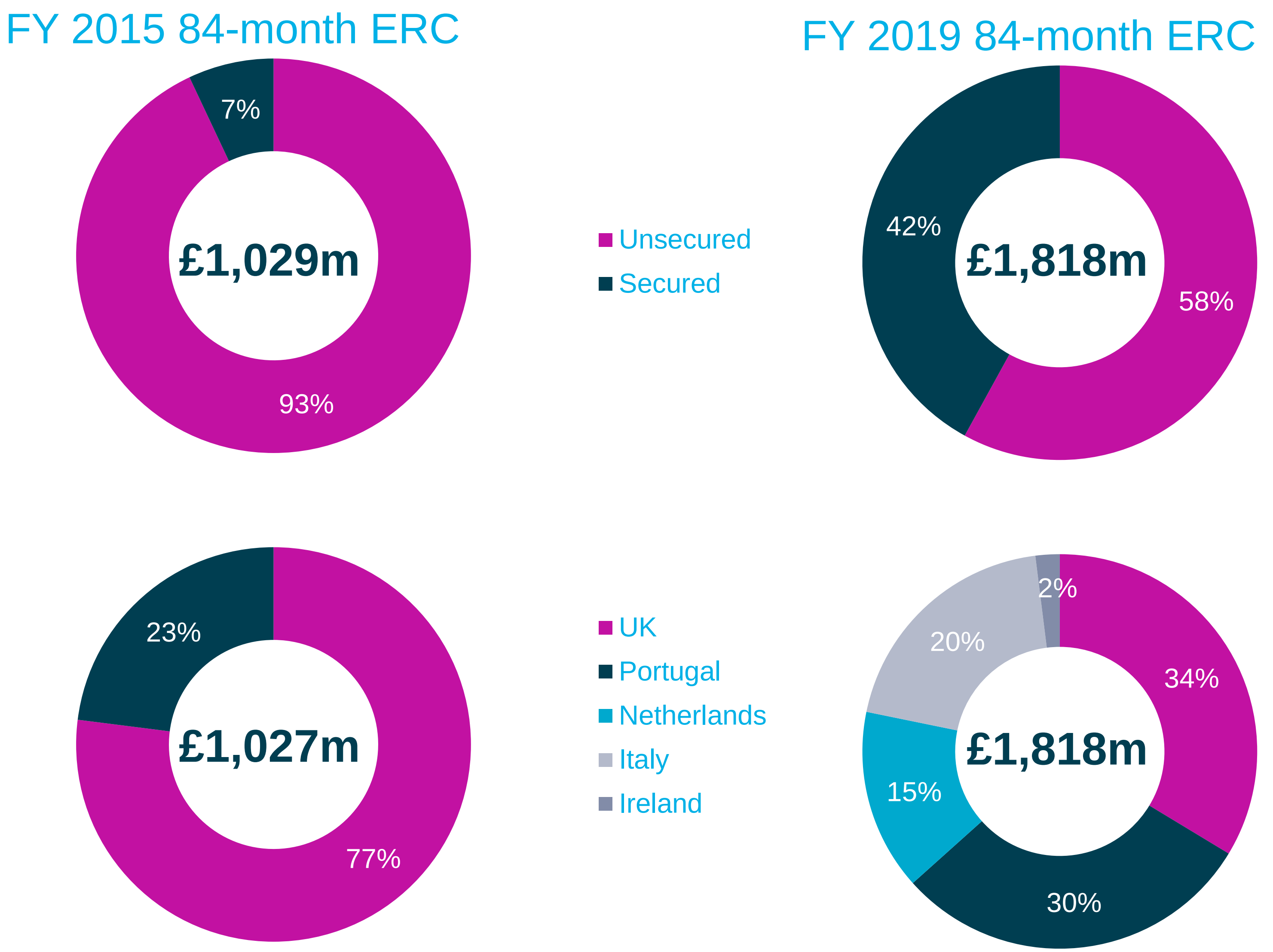
Investment Business

	2019	2018	Change
Cash collections	442.3	411.6	+7.5%
Revenue	244.8	269.4	-9.1%
Collections Costs	92.7	94.6	-2.0%
Overheads	24.3	20.7	+17.4%
EBITDA	127.7	154.1	-17.1%
Adjusted Cash EBITDA	325.2	296.3	+9.8%
Portfolio purchases	303.7	263.4	+15.3%
Net IRRs	17.0%	17.0%	-

Returns remained consistent on record investment volumes

Investment business mix

Increasing diversification of ERC into more secured and more euro-denominated assets



Trend towards secured, euro denominated assets will continue

Asset Management & Servicing

Revenues, margins and EBITDA all grew strongly

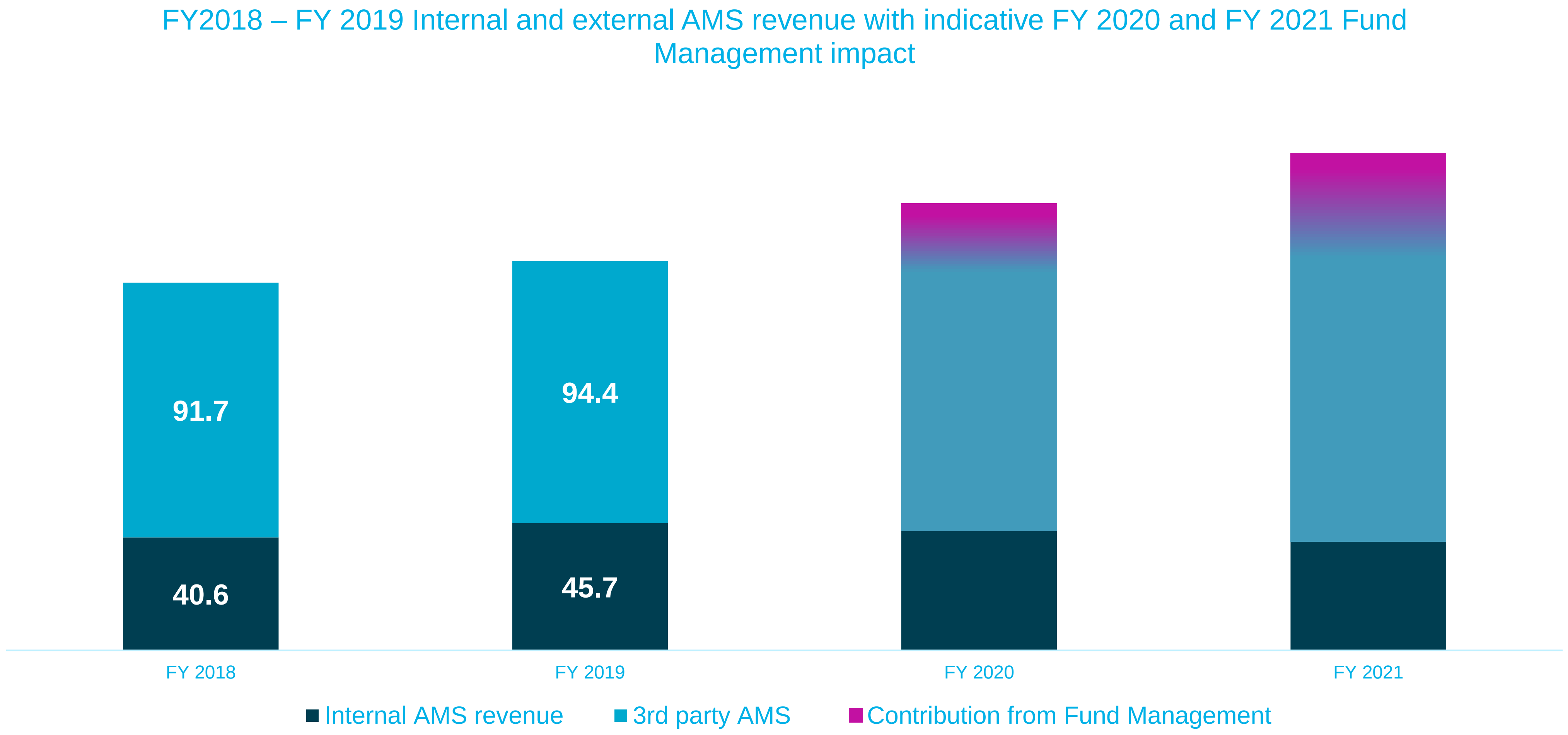
Asset Management & Servicing

	2019	2018	Change
Gross revenue	140.1	132.3	+5.9%
% of gross Group revenue	36.4%	32.9%	+3.5ppts.
Collections Costs	62.5	64.0	-2.3%
Overheads	44.2	41.6	+6.3%
Cash EBITDA	33.4	26.7	+25.1%
EBITDA Margin (%)	23.9	20.2	+3.7ppts.

EBITDA margins are already at mid-20s% target – further margin growth expected

AMS Revenue

Fund management will drive capital light third-party AMS servicing fees and Fund Management fees



Arrow will charge a management fee and asset servicing fee to the Fund, driving AMS revenues

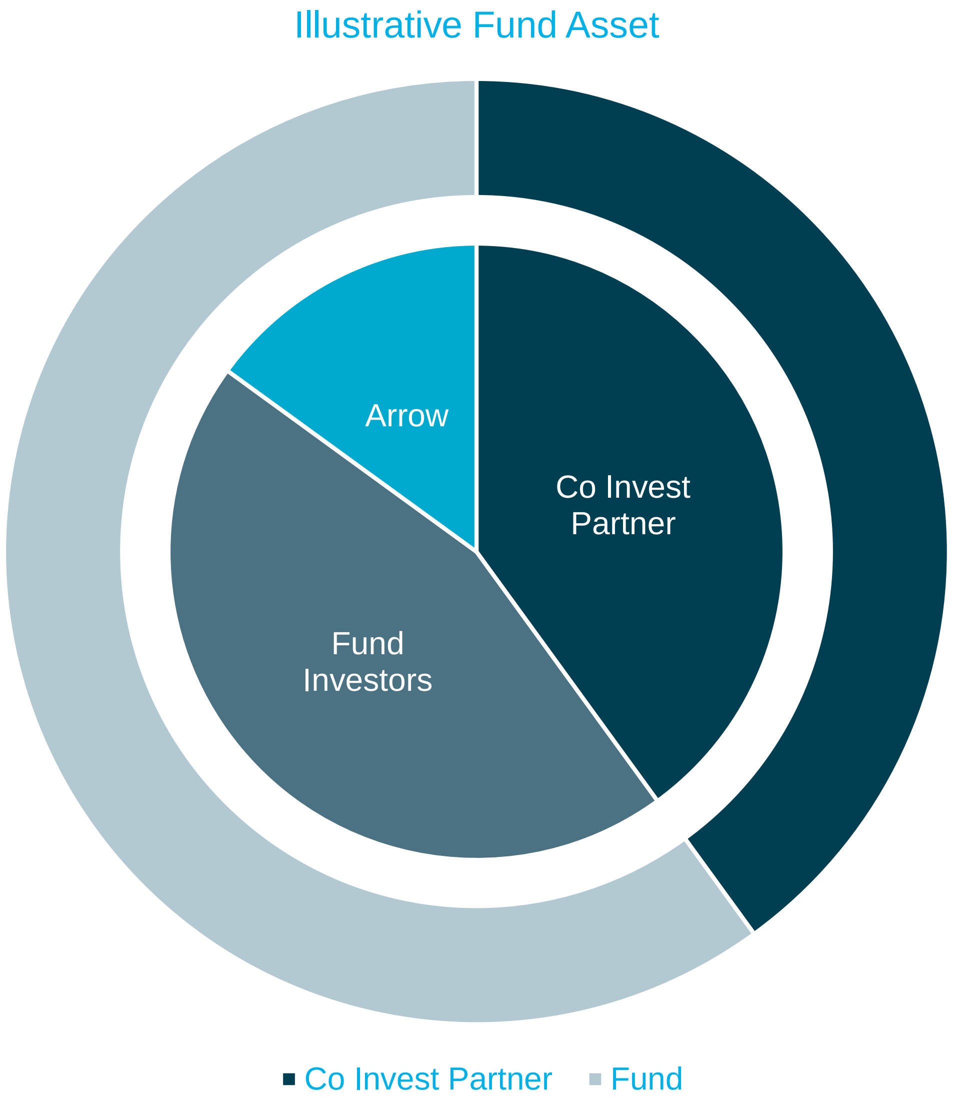
Fund Management co-invest model

Arrow will originate assets and co-invest alongside the fund investors. Existing co-invest will continue

Arrow earns IB revenue from own investment

Fund investment split 25% Arrow, 75% LPs

Arrow earns AMS fees **and** Fund Management fees from Fund investors

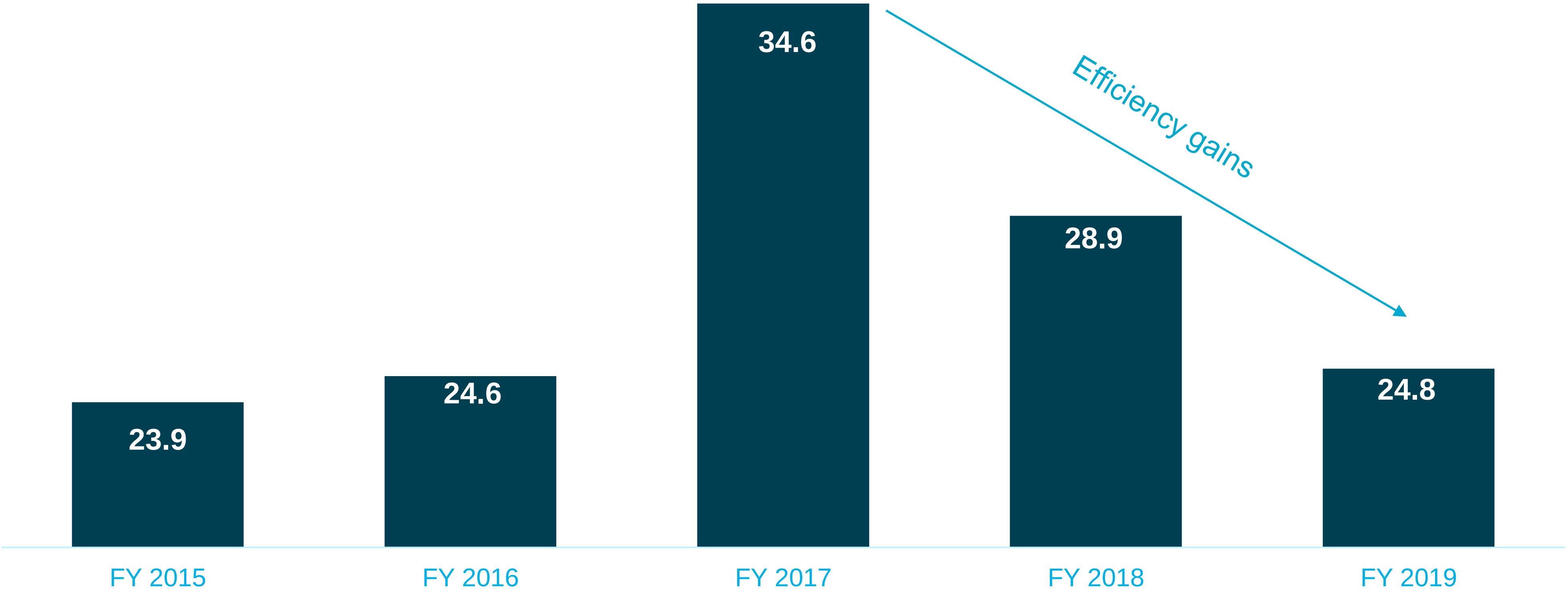


Arrow earns AMS fees from Co-investment partners

Arrow earns AMS fees from co-investment partners if fund chooses not to take 100% of asset

Collection costs
Efficiency continuing to improve

Collection activity cost ratio[1] (%) 2015-2019



AMS margins continue to widen despite the shift to higher cost to collect secured assets

[1] Reported collection costs as a percentage of collections

Group P&L

Statutory PBT up 28.3%, Underlying PBT reduced 5.2% due to lower non-cash impairment gains within the Investment Business revenues

£m	2019	2018	Change
Business Unit EBITDA	161.1	180.8	-10.9%
Central Costs	(49.5)	(50.2)	-1.4%
Provision release	*21.0*	-	-
Adjusting items	*(26.8)*	*(42.4)*	*-36.8%*
Interest Costs	(54.5)	(48.1)	+13.3%
Statutory PBT	**51.3**	**40.0**	**+28.3%**
Underlying PBT	**78.1**	**82.4**	**-5.2%**

Focus on pivoting to Fund Management meant short-term earnings were sacrificed in pursuit of long-term benefits

Group P&L

Tax and underlying PAT

£m	2019	2018	Change
Statutory PBT	51.3	40.0	+28.3%
Effective tax rate	*27.3%*	*25.1%*	*+2.2ppts.*
Statutory PAT	**37.3**	**30.0**	**+24.3%**
Underlying PBT	78.1	82.4	-5.2%
Underlying tax rate	*23.2%*	*22.2%*	*+1.0ppts.*
Underlying PAT	**58.0**	**64.1**	**-9.5%**

Tax rate continuing to increase due to increased European diversification

Adjusting items

One-off costs incurred to extract run rate cost benefits and launch the Fund Management Business

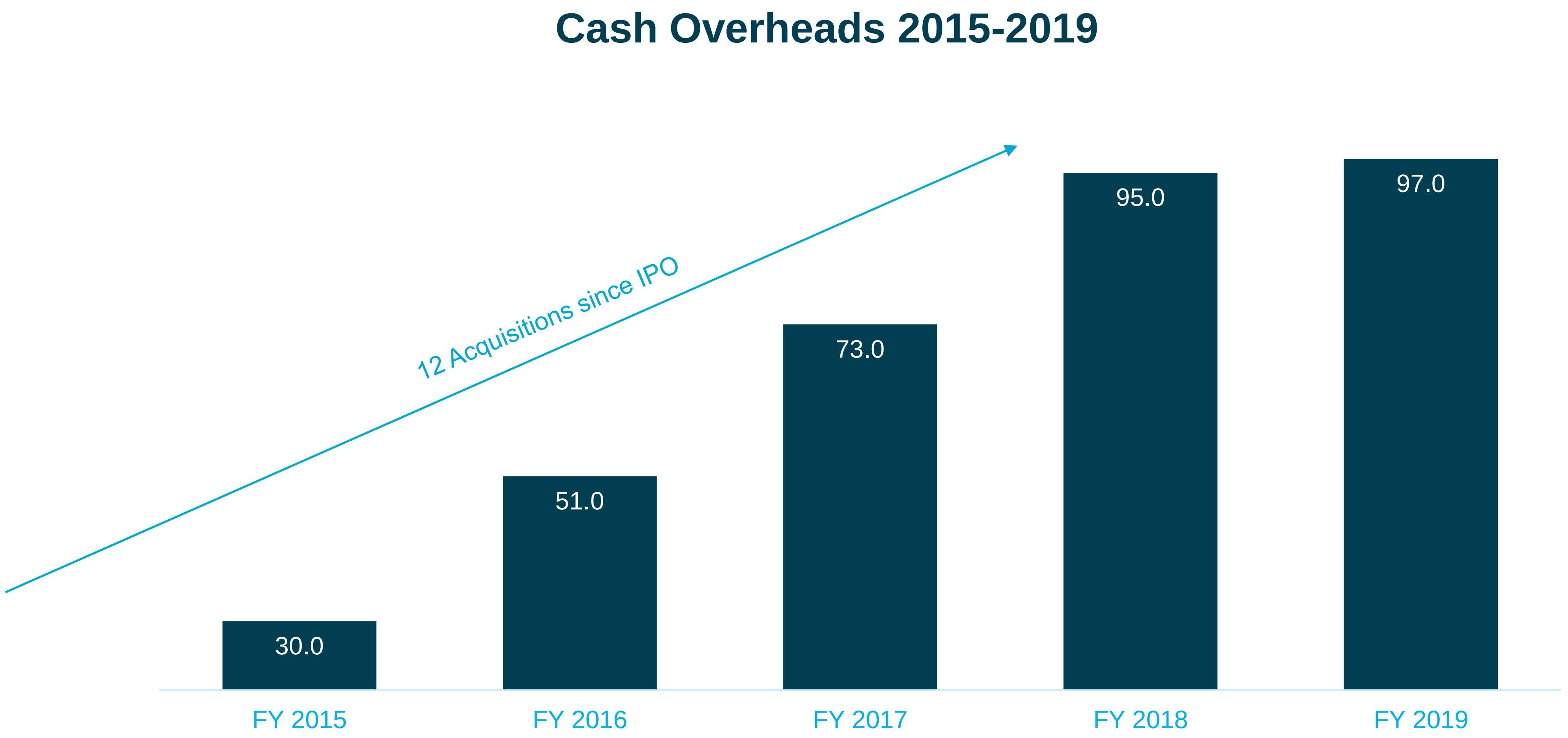
£m	H1	H2	Total	Rationale
Acquisition of Drydens	1.5		**1.5**	Capture profit from current outsource of legal spend
Cost efficiency programme	1.1	14.1	**15.2**	Forecast £16.7m of run rate benefit
Fund Management start-up costs	0.4	9.7	**10.1**	Enable fundamental pivot to capital light model. Open up new revenue streams
Total	**3**	**23.8**	**26.8**	

- Additional 2020 cost reduction spend will be absorbed into BAU budget – no impact on expected earnings in 2020

No exceptional charges expected in 2020

Cash overheads

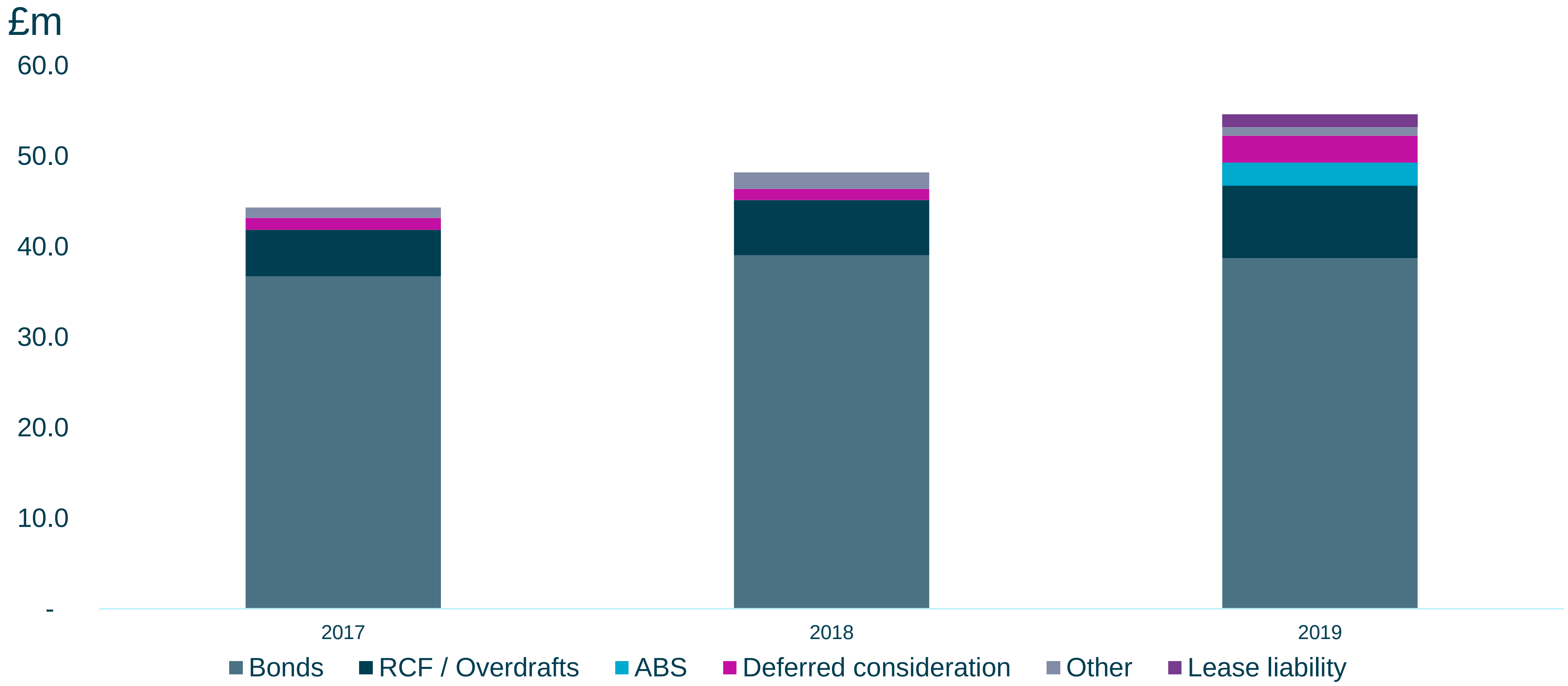
Up 2.1% as Drydens acquisition partially offset by efficiency gains



Efficiency gains to offset overhead increase from Fund Management launch in 2020

Interest costs

Increase driven by IFRS lease accounting, deferred consideration and ABS funding

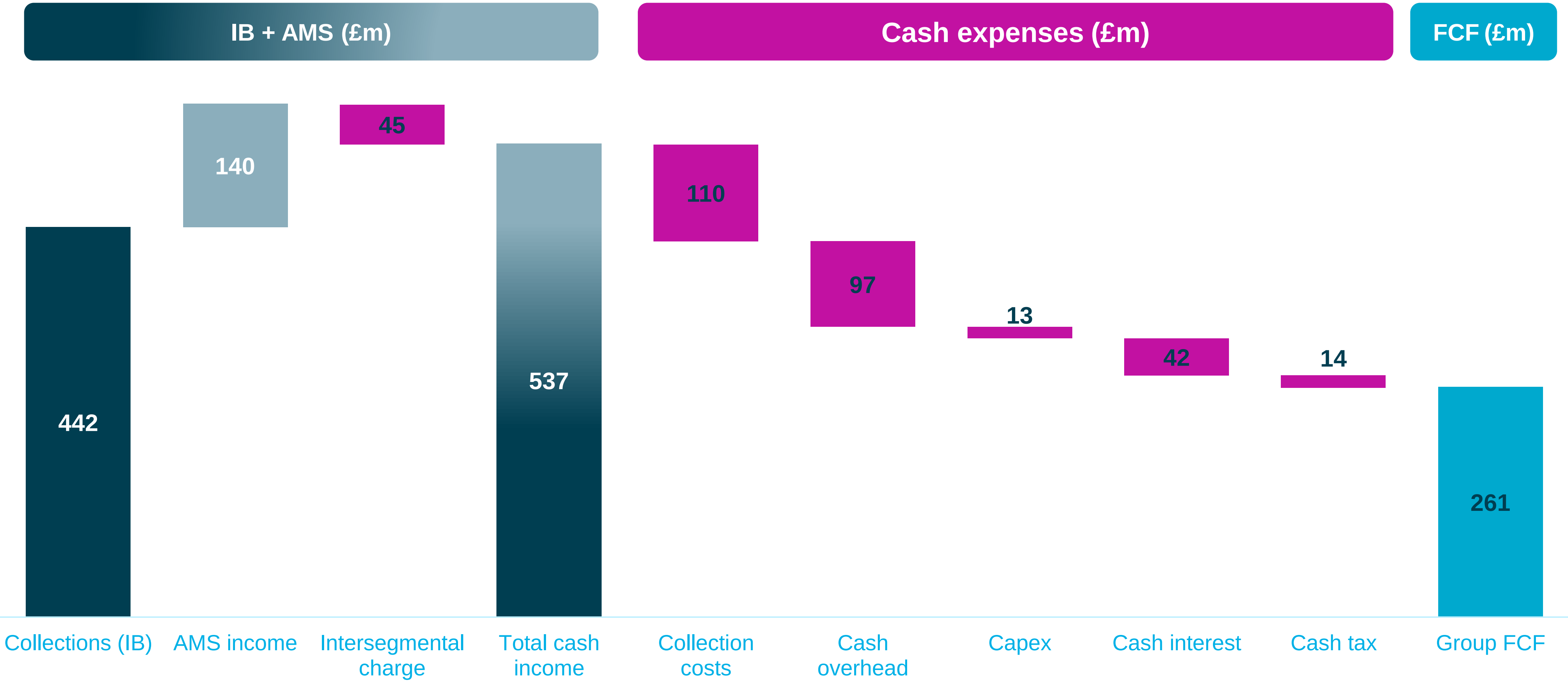


Weighted average cost of debt reduced 2ppts. to 3.7%

Segmental cashflow

Collections up over 7%, cash income up nearly 7%, free cashflow up over 13%

2019 Segmental Free Cashflow[1]



2018 (£m):	412	132	(41)	503	(118)	(96)	(7)	(43)	(9)	231

Free cash flow is a key metric for Arrow

[1] Free cashflow = Cash generated after the effects of capital expenditure, financing and tax cash impacts and before reinvestment

Cash generation and capital allocation

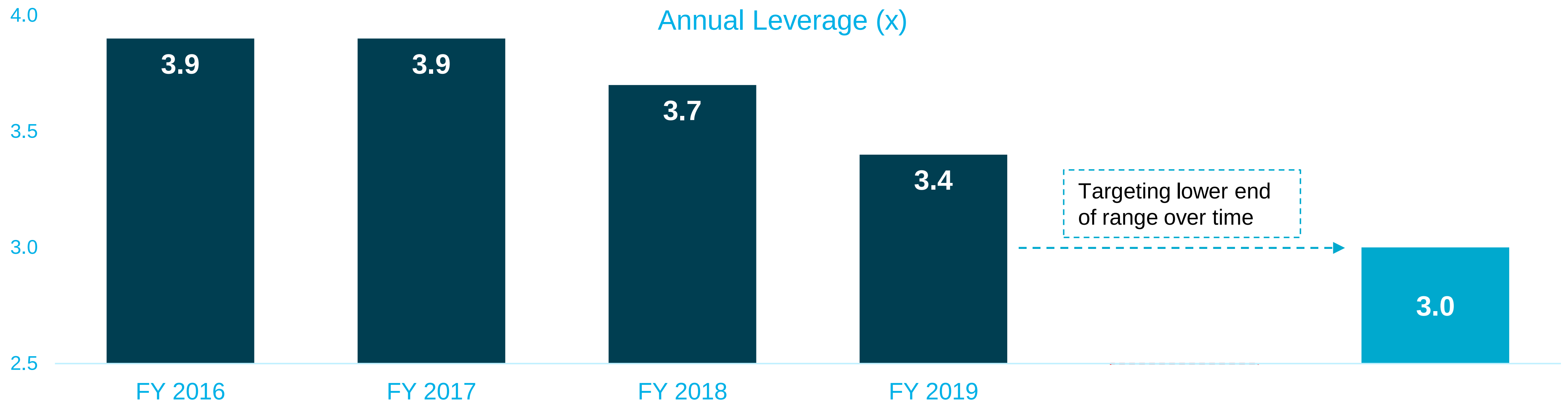
Arrow’s FCF growth will increase capital allocation optionality

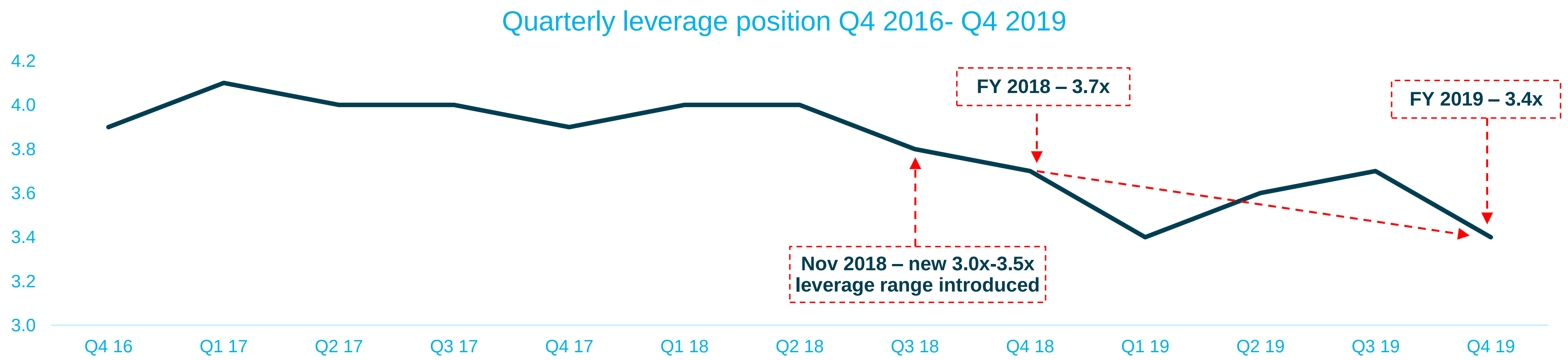
	2017	2018	2019	2020
FCF	**£173m**	**£231m**	**£261m**	
Reported cash portfolio purchases	**(£224m)**	**(£263m)**	**(£304m)**	**c. (£150m)**
Deferred portfolio purchases to following year	£15m	£12m	£63m	
Deferred purchases from prior year	(£26m)	(£15m)	(£12m)	(£63m)
Total cash purchases in year	**(£236m)**	**(£267m)**	**(£253m)**	
M&A costs in current year/prior year deferred	(£23m)	(£114m)	(£5m)	<£10m
Dividends Paid	(£17m)	(£21m)	(£23m)	>35% of earnings
Other	£3m	(£24m)	(£9m)	
Movement in net debt	**(£132m)**	**(£233m)**	**(£60m)**	

Increased FCF supports deleveraging and returns to shareholders

Year-end leverage of 3.4x

Within new lower target range – expected to continue to reduce





Leverage reduction targeted on an annual basis and is not linear

Financial summary and outlook

Fund Management growth to accelerate the shift to a more capital light model

1	**2019 was a pivotal year for Arrow**	Launch of Fund Management Business is **transformational** for the Group
2	**Core business performed robustly**	Key operating metrics improved – increased collections, increased FCF, consistent IB returns, increased AMS revenues and margins
3	**Fund Management launch consumed resources**	Anticipated new strategies that were more short-term earnings accretive were deferred to focus on fundraising
4	**2019's financials reflect this sacrifice but fundamentals of the business remain strong:**	➢ Record cash generation – on track for positive cash in 2020 ➢ Leverage within target range – continuing to fall ➢ Fund launch removes **exclusive reliance** on bond market ➢ Foundations laid for a strong, **increasingly capital light** 2020 ➢ New revenue streams from Fund unlikely to have an earnings impact in 2020 but will do into 2021

Targeting growth in capital light earnings and close alignment of statutory and underlying profit

Lee Rochford
Group CEO

No impact from coronavirus to date

Continuing to actively monitor the situation

1	**No current impact on operations**	Collections were running ahead of target in Italy in February
2	**Too soon to gauge long-term impact**	Prior experience implies any impact would be timing of cashflows, not ultimate losses
3	**Clear immediate focus**	The health and welfare of our colleagues The continuity of service for our customers and clients
4	**Prudent approach to investments**	Not locked into large forward flow deals – timing advantage Cautious view of capital deployment and risk-adjusted pricing in the short term
5	**Low concentration risk**	Small average deal size onto our own balance sheet of £3.9m Back book well diversified by geography and asset class
6	**Resilient balance sheet with increased funding flexibility**	Long duration debt – no bond refinancing due until 2024 Nearly €1 billion of new capital committed to our Fund Management Business and ready to deploy

Arrow's ambition is to become a fully integrated alternative asset manager

Originate well and invest prudently

- Continue to leverage our **unique local origination platform** to source specialist, higher return deals
- Invest selectively in our 5 target markets
- Target **consistently strong unlevered returns** in the mid-teens

Grow Fund Management FUM

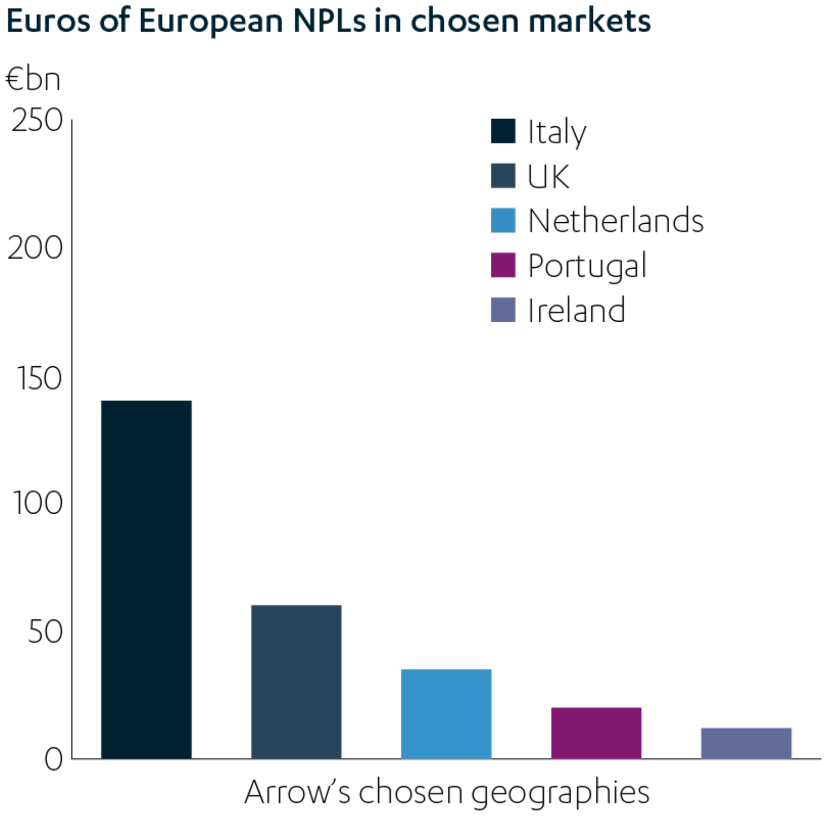
- Increase the proportion of Group revenues that come from **recurring, capital light** management fees
- Generate capital light performance fees over time – Arrow portfolios **significantly less concentrated** than traditional PE funds

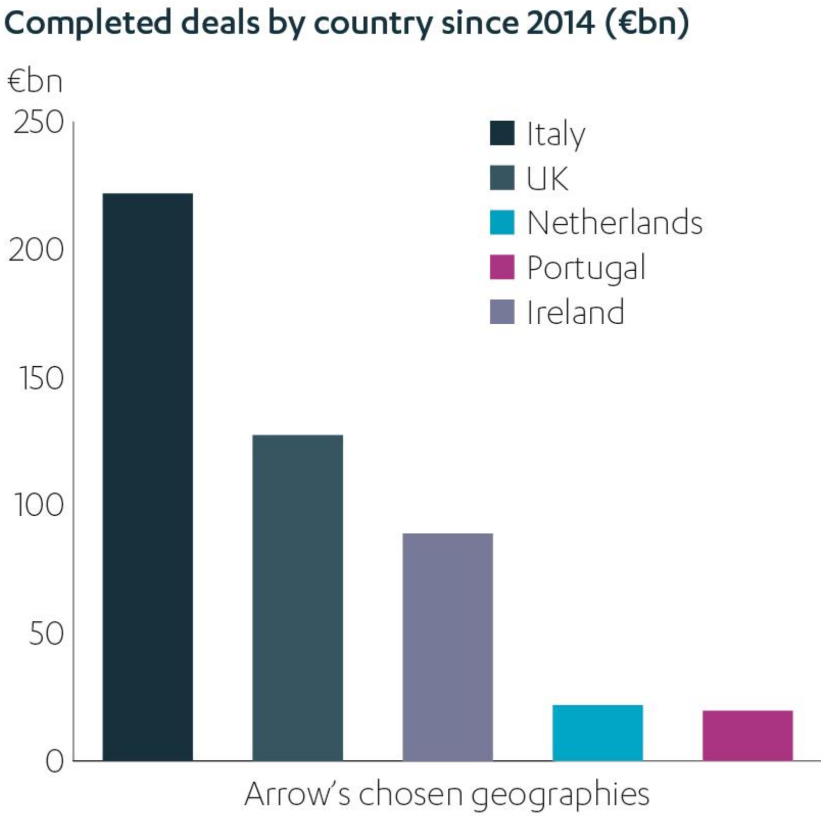
Grow servicing revenues

- Charge servicing fees on the Fund Management investments
- Servicing revenues continue to be significant **even after** management fees begin to reduce as NAV reduces

Increased quality and visibility of earnings and free cashflow generation

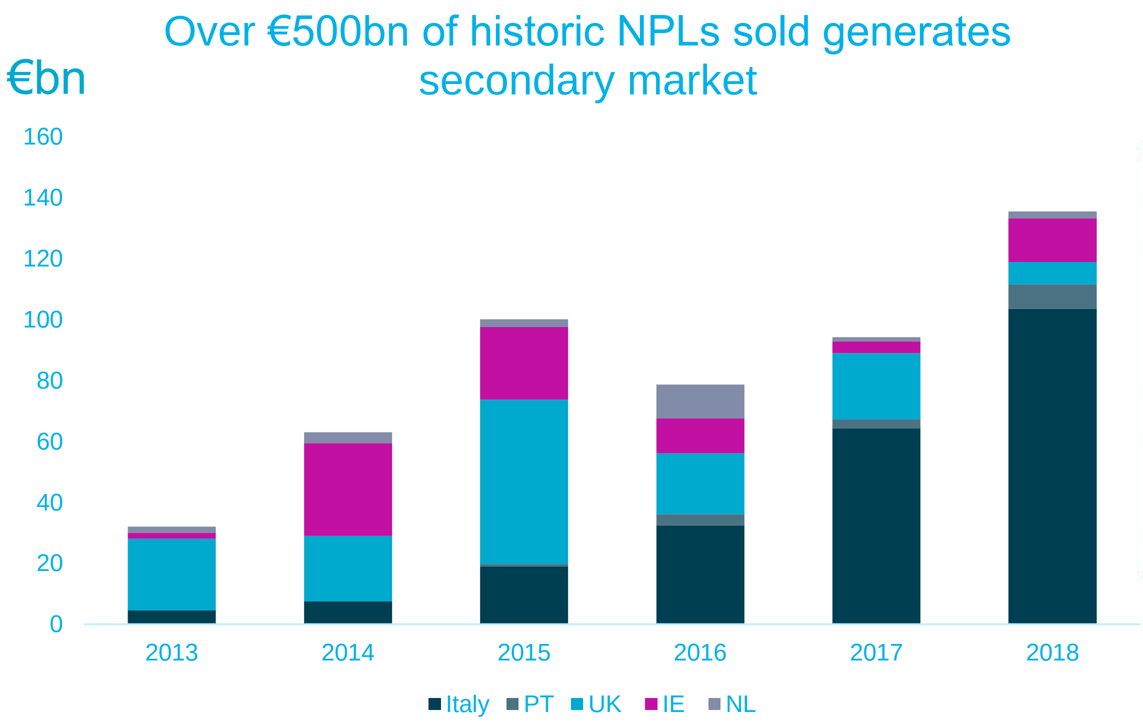
The volume of assets in Arrow’s primary markets is enormous

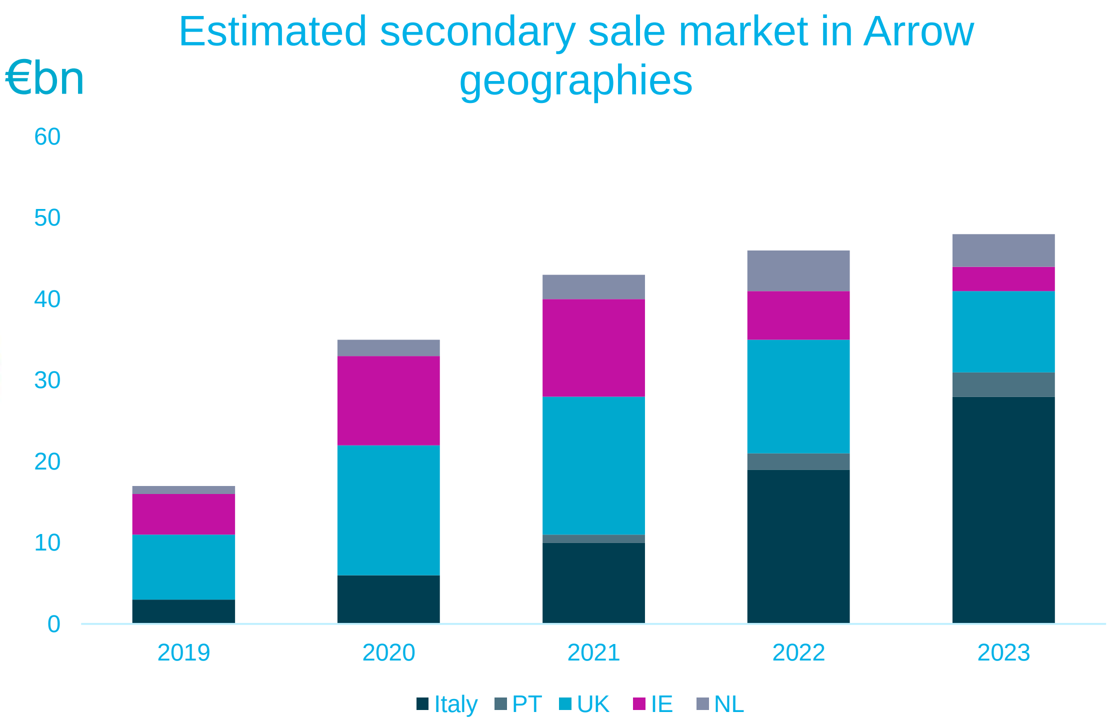




Arrow is well positioned to capture the flow

There is also a rapidly growing secondary market





Arrow is highly active in the growing secondary market – including purchasing off our own servicing platform

We continue to see more investment opportunities than ever

Deal Volume and Win/Bid Ratios

	Volume of deals evaluated	Bid Ratio	Win Ratio
2013	60	60%	47%
2014	86	59%	45%
2015	95	45%	53%
2016	129	42%	43%
2017	147	43%	49%
2018	194	39%	53%
2019	284	54%	55%

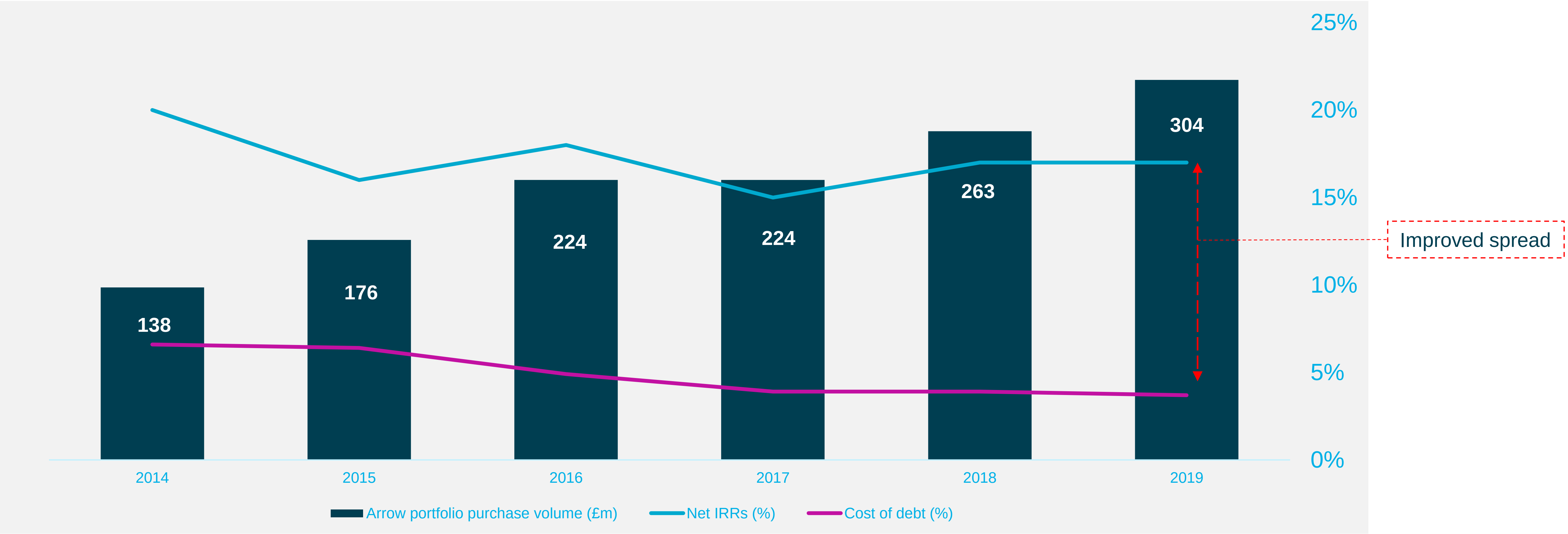
Bid ratio increase driven by Europa Investimenti – deals nearly 100% off-market with near 100% bid ratio

- **Record 46% increase** in deal volume reviewed
- Net IRRs maintained at **17.0% despite higher volume**
- **Over 70%** of deals in off-market transactions (FY 2018: 78%)
- Average deal size (on own balance sheet) of £3.9m (FY 2018: £6.7m) = **lower concentration risk**

Arrow can maintain returns at higher investment volumes

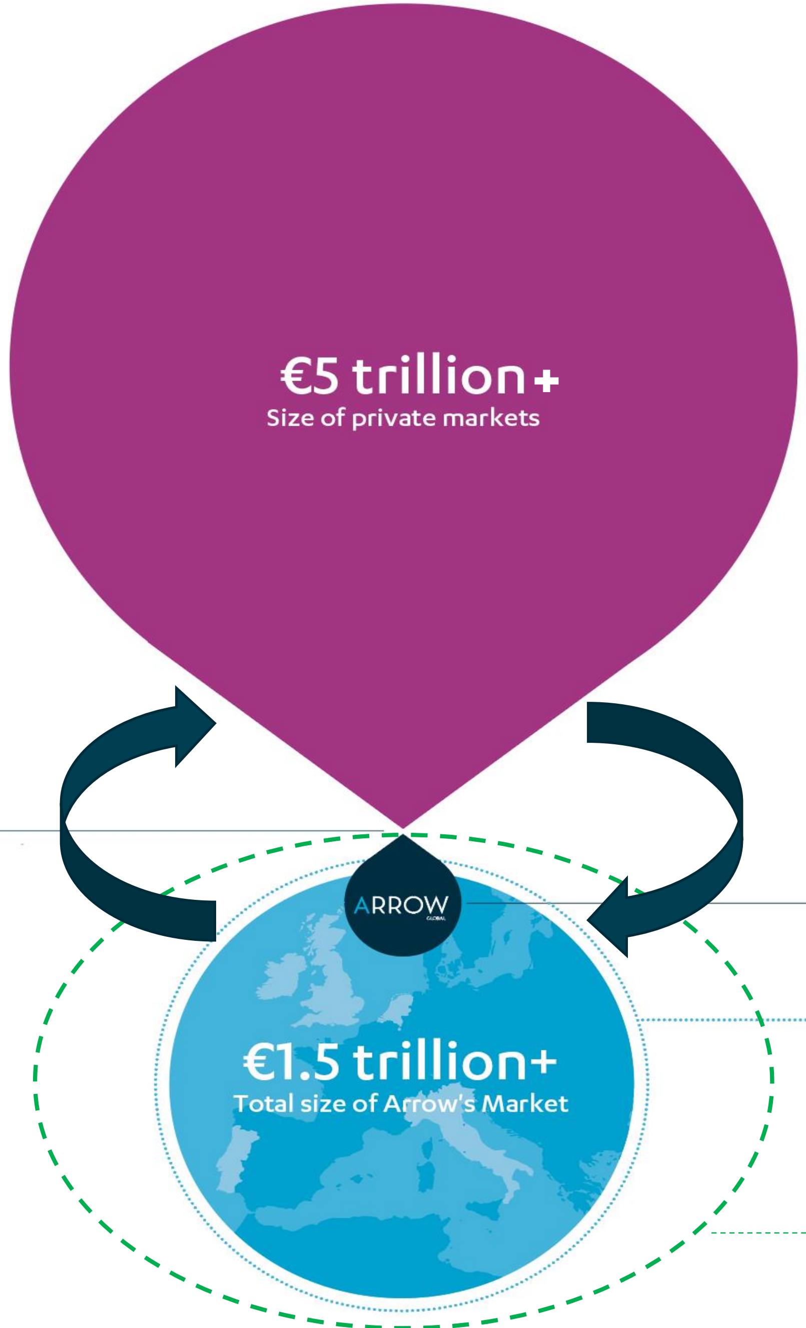
Arrow has an enviable track record of strong returns

Origination for Arrow's balance sheet in 2019 more than double the volume in 2014



Fund Management will enable Arrow to <u>capture more of the market opportunity</u>

Arrow can provide yield-seeking alternative investors access to this attractive market



Fund Management connects private markets to Arrow's high-return market

Arrow's current €58bn market share across pan-European platform[1]

Enormous primary market of NPL and non-core assets on bank balance sheets

Growing secondary market – €58bn of assets already on Arrow's platform provide advantage

[1] On a GBV basis

Strategic outlook

Continued fund management FUM growth

- Targeting **€2bn of FUM** by the end of 2020
- Potential for significant growth in future years

Confident in ability to deploy the fund at scale

- Expect to deploy c. £150m of Arrow balance sheet
- Deployment will typically form part of a **co-invest** with the fund **at 25%**
- Strong track record of origination volumes above Arrow's participation

Returns expected to remain stable

- Market backdrop continues to be attractive
- Origination platform continuing to source **record number of deals**
- Maintenance of prudent approach to underwriting

Capital allocation choices between growth, deleveraging and shareholder returns

- Future balance sheet investment will support fund management growth
- Lower balance sheet purchases will lead to reduction in leverage and net debt over time
- Dividend policy to return minimum of 35% of earnings to shareholders

Appendix

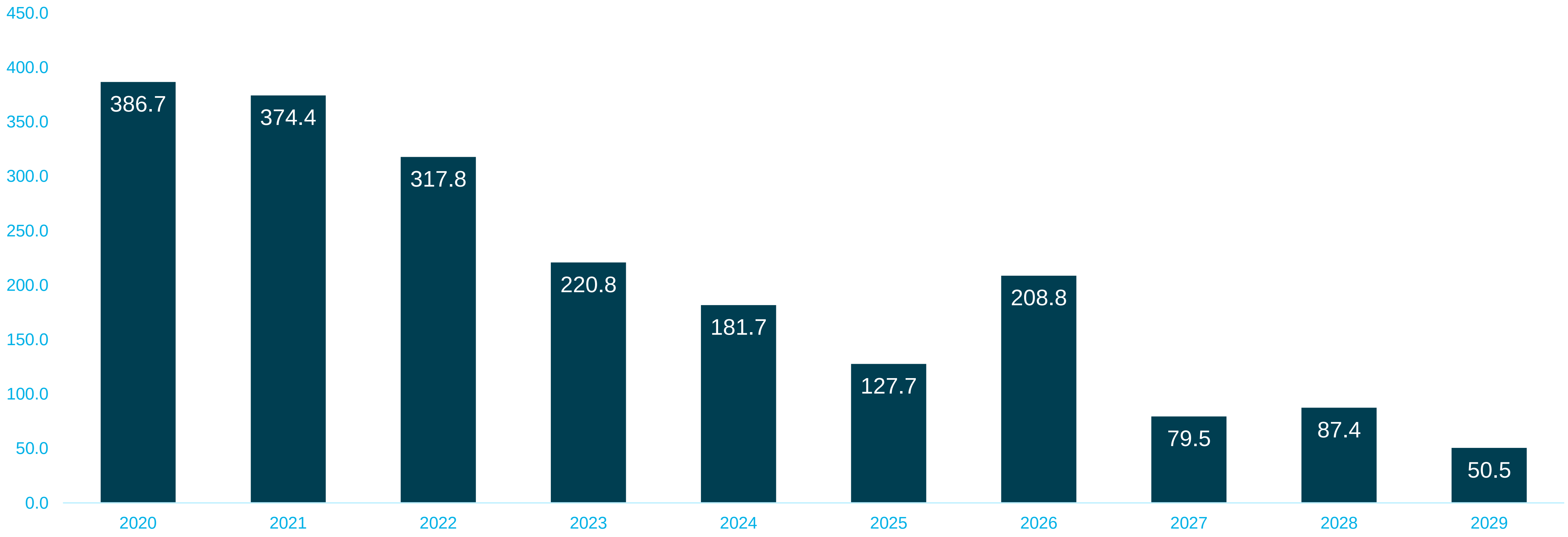
Pan-European platform

Arrow's platform services high return niches in our chosen markets

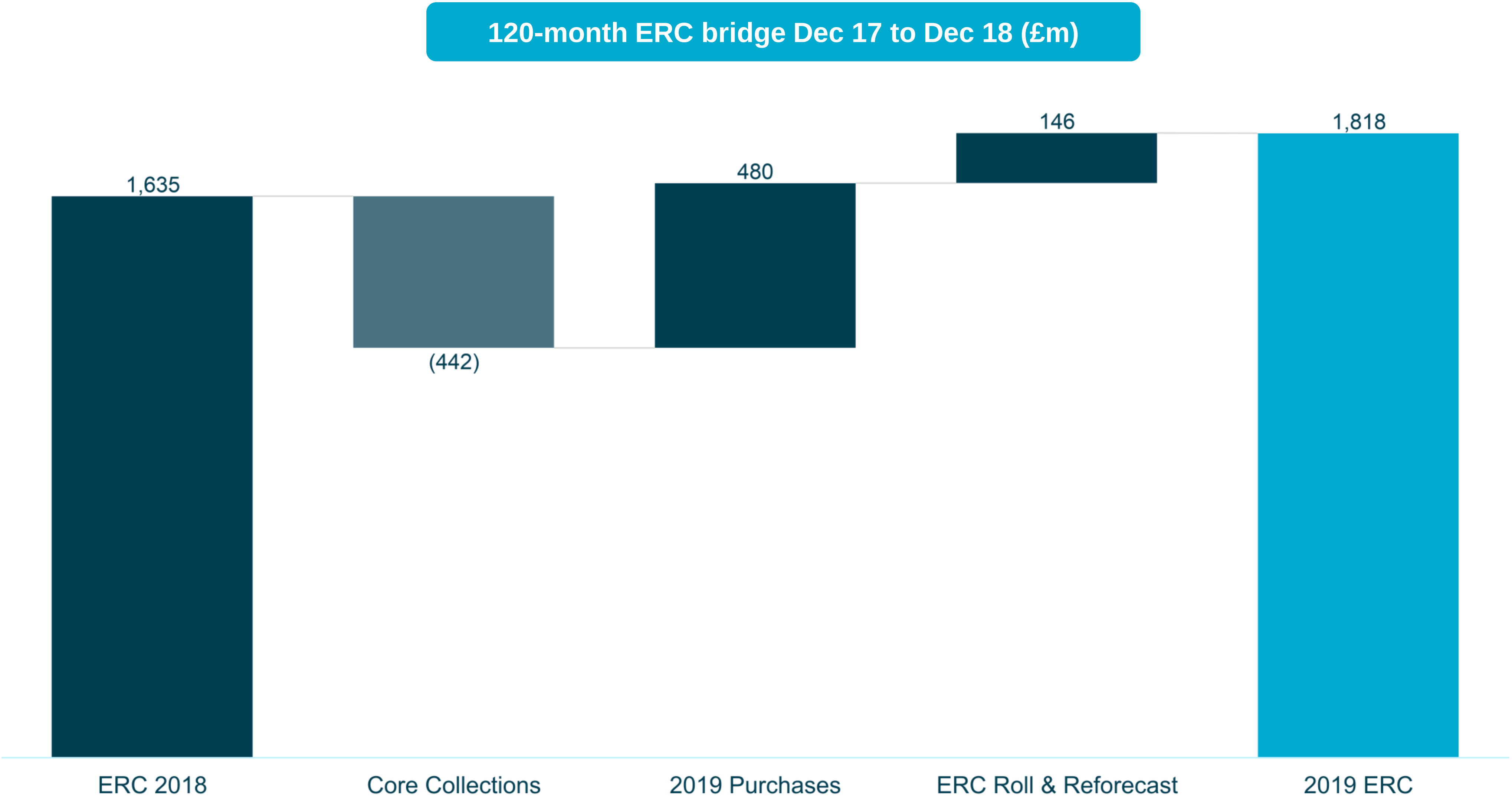
Niches by asset class	UK	Portugal	Italy	Netherlands	Ireland
Consumer	Capquest	Gesphone	Parr Credit	Vesting	Small market
SME	Mars Capital	Whitestar	Europa Investimenti	RNHB	Mars Capital
Mortgage	Mars Capital	Whitestar	Expanding Parr	Vesting	Mars Capital
Real Estate	Mars Capital	Norfin	Europa Investimenti (Sagitta)	M7	Mars Capital
Master servicing/ Securitisation/ Credit bureau	Mars Capital	Hefesto	Zenith	Focum	Mars Capital
Fund management	Arrow UK	Norfin	Sagitta	Arrow Netherlands	Arrow Ireland

Quality platform for originating and servicing assets in our selected niches

Estimated remaining collections

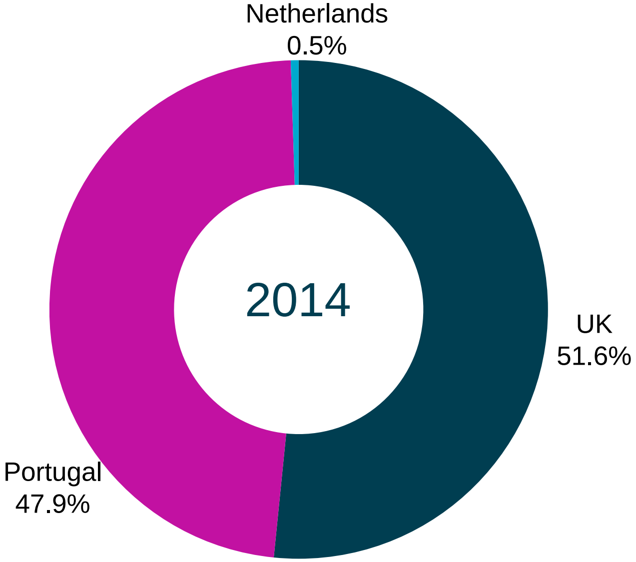


84-MONTH ERC BRIDGE



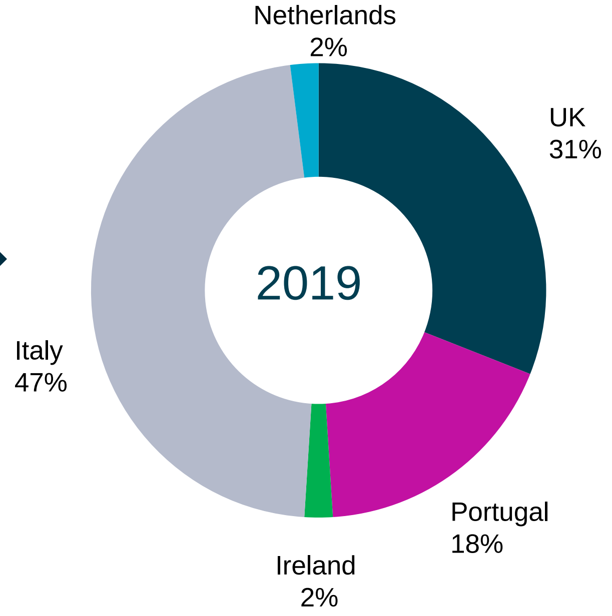
Investment split in 2019 compared to 2014

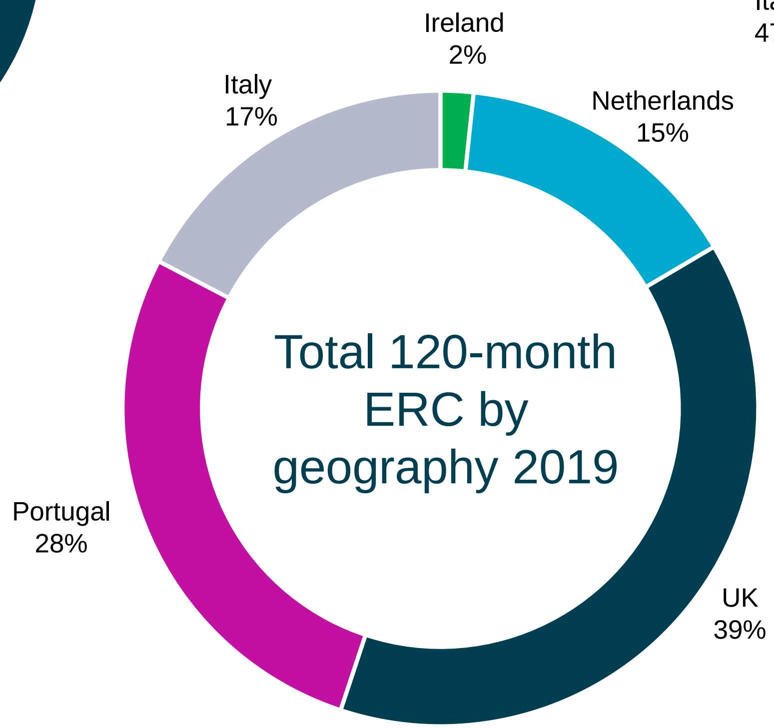
Investment split by geography FY 2014



Significant geographic expansion

Investment split by geography FY 2018



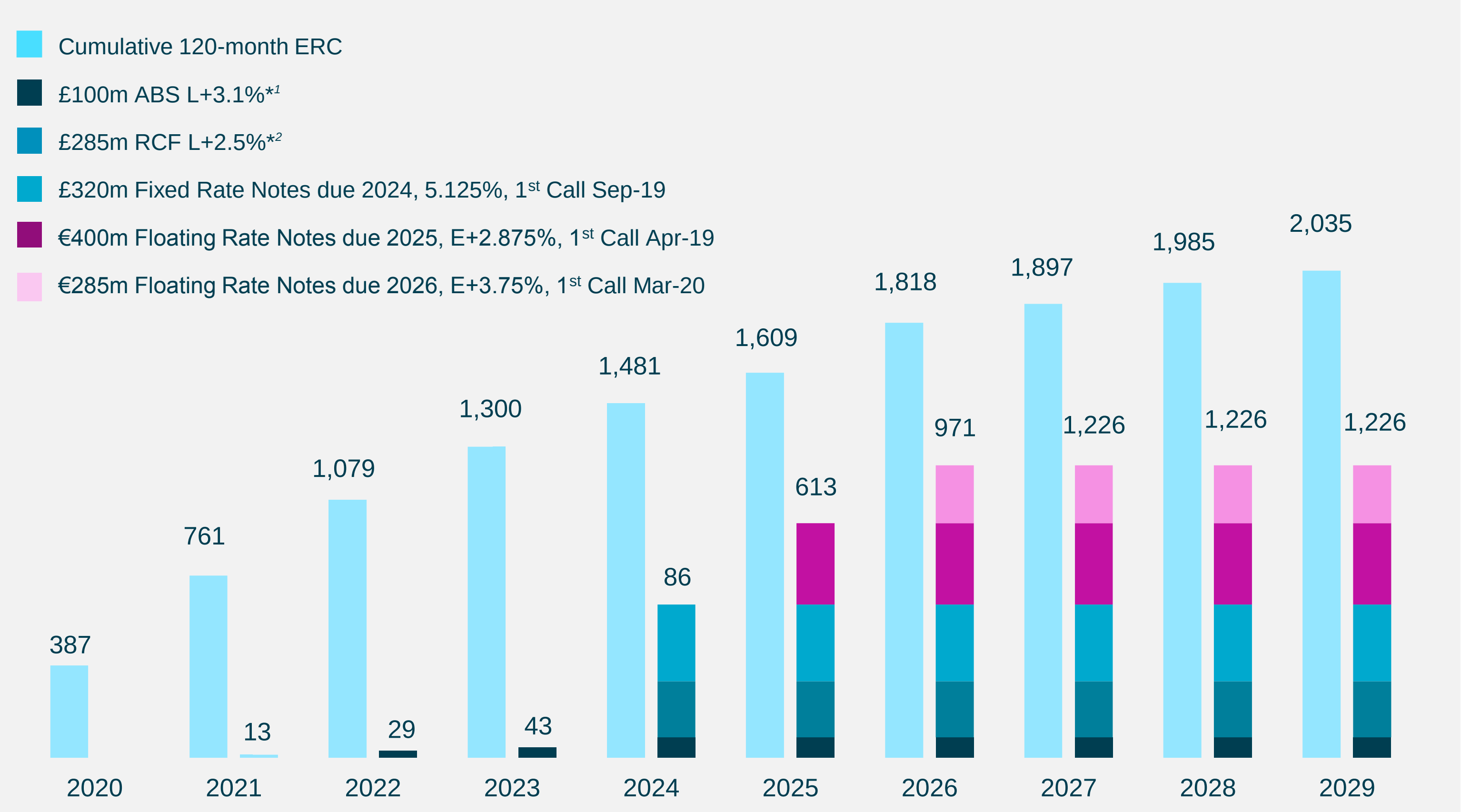


Arrow has built a strong multi-asset class track record across all core geographies

Prudently managed balance sheet with long term funding

- The group maintains a prudent funding structure:_
  1. **Target leverage of 3.0-3.5 times** – During 2019, de-levered further by 0.3x to 3.4x (FY 2018: 3.7x) and within the target range
  2. **Maintain long duration debt**
     – no maturities **until 2024** (except for amortisation under the ABS)
     – weighted average debt duration of 4.8 years, which compares favorably to shorter weighted average life assets
  3. **Significant liquidity headroom maintained –** At year end, headroom was £153m
  4. **Funding diversification** – continued access to high yield bond and bank markets. During 2019, diversification strengthened with execution of ABS facility, providing a third source of funding
- Weighted average cost of debt **3.7%**
- The launch of the fund management business provides access to third party capital
  - increases flexibility regarding investment levels going forward
  - Maintaining servicing, origination and fund management franchises not reliant on the Arrow balance sheet

Long term debt profile compared with 120-month ERC (£m)



*[1] *Drawn ABS revolver as at December 2019 was £85m. 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 £85m debt amortising based upon forecast collections at the end of the revolving period.*

*[2] *Drawn RCF balance as at December 2019 was £234m.*

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