23 March 2023

# Arrow Global Group
# Results for the year ended 31 December 2022

## Group highlights

Trading for the year remained strong, and the Group continues to strengthen its integrated fund management proposition with further capital committed to Arrow Credit Opportunities (ACO) 2 and the divestment of non-core UK platforms.

### Strong collections performance with continued de-levering of the balance sheet

- 2022 collections were up 3.5% to £380.1 million (2021: £367.4 million), and despite macroeconomic uncertainty, collections represented 109% of ERC during the 2022 and 114% for Q4 2022
- Adjusted EBITDA for the year was £315.4 million, a year-on-year increase of 20.9% (2021: £260.8 million)
- Leverage decreased by 0.7 times during 2022 to 4.1 times as at 31 December 2022 (30 September 2022: 4.4 times, 31 December 2021: 4.8 times) with healthy liquidity headroom of £248 million as at 31 December 2022 (31 December 2021: £304 million) and no bond maturities until 2026
- Non-cash portfolio write-downs in 2022 in the statement of profit or loss of £15 million (2021: £33 million write-up), due to macroeconomic assumptions affecting the IFRS 9 collective provision and risk-free rates used within FVTPL valuations of £10 million and underlying changes in the ERC, representing less than 0.5% of the total portfolio investments, of £5 million

### Accelerating our transformation to the leading integrated fund manager with ACO 2 fund raising complete

- ACO 2 fund capital raise completed in Q1 2023 to the hard cap of €2.75 billion, including Arrow's participation of 10%, above the original target of €2.5 billion
- Deployment of €274 million in Q4 2022 (including commitments and deferred consideration) across ACO 1 and 2, bringing total deployment for 2022 up 6% to €839 million (2021: €789 million)
- Delivering above target returns into both funds with ACO 1 Deal IRR (after servicing costs) of 18.3% and ACO 2 Q4 Deal IRR of 20.0%
- First distribution of €76 million to ACO 1 investors in Q4 2022
- Expanding our origination and asset management capabilities through bolt-on acquisitions of Details, a Portuguese hospitality asset manager, for an initial €2.8 million in Q3 2022 and agreement in principle to acquire Eagle Street, a pan-European real estate investment and asset manager focused on the UK, Ireland and other select European markets, for total consideration of circa £8 million
- Opportunities to grow our capital-light fee model in adjacent asset classes including real estate and direct lending

### Divestment of non-core UK platforms and creating an efficient integrated fund manager to drive capital-light income

- Integrated Fund Management segment delivered EBITDA of £39.7 million for the year (2021: £19.6 million), a rise of 102.1%, with strong quarterly increases building to an EBITDA of £15.1 million in Q4 2022 (Q4 2021: £3.4 million)
- As announced in November 2022 and following a strategic review, we are on track with our divestment during H1 2023 of our non-core Capquest and Mars UK platforms to Intrum UK, subject to customary closing conditions including regulatory approval, along with 50% of the UK wholly owned unsecured back book for gross sale proceeds at lockbox date of £157.8 million, representing 105%[1] of the book value. The high levels of competition and overcapacity in the UK unsecured debt management sector have driven lower risk-adjusted returns with only 0.5% of total ACO investments deployed in this asset class
- Third-party integrated fund and asset management income up 39.4% to £162.3 million (2021: £116.5 million) with growth in fund management income and continued third-party asset and servicing mandate wins across our territories
- Maintained our strong regulatory and customer franchise, supporting our customers and many colleagues through the cost-of-living crisis, including support payments, as part of our broader Environmental, Social and Governance (ESG) commitments

**Zach Lewy, Group chief executive officer at Arrow, commented:**

"Arrow has made significant progress as it transitions to being a leading vertically integrated European fund manager. Building on the strong performance of ACO 1, which has delivered above target returns, we have closed ACO 2 with total commitments of €2.75 billion attracting capital from a wide range of investors, both geographically and by institutional type. We would like to thank our investors for their support, which reflects the strength of our local asset management and servicing platforms. Our exclusive propriety access to investment opportunities is further strengthened with new investment in local servicing platforms, most notably in real estate.

"Continued strong collections, reduced leverage, and increased capital deployment underpin the strategic shift to become a leading integrated fund manager and we look forward to delivering sustainable long-term growth and returns."

| **Group financial highlights** | **31 December 2022** | **31 December 2021** | **Change %** |
|---|---|---|---|
| Balance sheet collections (£m) | 380.1 | 367.4 | 3.5 |
| Adjusted EBITDA (£m) | 315.4 | 260.8 | 20.9 |
| Free cash flow (£m) | 213.7 | 182.1 | 17.4 |
| Total income (£m) | 295.8 | 331.3 | (10.7) |
| Third-party integrated fund and asset management income (£m) | 162.3 | 116.5 | 39.4 |
| (Loss)/profit before tax and adjusting items (£m) [2] | (33.4) | 29.0 | (215.2) |
| Loss before tax and after adjusting items (£m) | (83.7) | (84.7) | (1.2) |

| | **31 December 2022** | **31 December 2021** | **Change %** |
|---|---|---|---|
| Leverage (x) | 4.1 | 4.8 | (0.7) |
| 84-month ERC (£m) [3] | 1,545.9 | 1,530.3 | 1.0 |
| 120-month ERC (£m) [3] | 1,714.3 | 1,685.0 | 1.7 |
| Net debt (£m) | 1,365.7 | 1,298.1 | 5.2 |

*[1] Represents the gross sale proceeds as at March 2022, being the effective date for the lockbox arrangement, compared with the investment carrying value (50% being divested) and the net assets of the platforms being divested.*

*[2] The results presented exclude adjusting items. For the reconciliation between these results and the condensed consolidated profit and loss, please see the reconciliation on pages 19 and 20.*

*[3] ERC for FVTPL assets, such as Arrow's share of ACO 1, is typically measured on a 'net of servicing and collection costs' basis, as opposed to amortised cost assets which are typically measured gross. As the percentage of FVTPL assets has grown from 14.6% to 32.3%, since ACO 1 was launched in December 2019, a growing proportion of the Group's ERC is reported on a net basis.*

**Overview of group results and segmental commentary**

The Group is highly focused on the cash performance and this has been excellent during the year. The Group has delivered strong free cash flow, increasing year-on-year by £31.6 million to £213.7 million (2021: £182.1 million), with expectation that this will further improve with the reduced co-investment in the fund, down from 25% to 10%. ACO 1 has limited follow-on investments and therefore capital intensity is expected to reduce in 2023. Adjusted EBITDA for the year of £315.4 million represents a year-on-year increase of 20.9% primarily driven by the strong collections performance and growth in third-party capital light income. 2022 collections were up 3.5% to £380.1 million, representing 109% of ERC during 2022 and 114% for Q4 2022. Despite the current macro-economic backdrop our collections continue to prove resilient with solid performance against our ERC assumptions. The strong cash generation has resulted in a decrease in leverage over the year by 0.7 times to 4.1 times as at 31 December 2022.

The Integrated Fund Management segment EBITDA increased £20.1 million to £39.7 million (2021: £19.6 million), the Balance Sheet segment EBITDA decreased £60.5 million to £54.0 million (2021: £114.5 million) and Group segment EBITDA improved by £4.6 million to £(24.6) million (2021: £(29.3) million). The strong growth in capital-light revenue within our Integrated Fund Management segment and strong cost control in the Group segment were offset by several factors affecting the Balance Sheet segment; (1) overall there was a non-cash impairment of portfolio investments (including FV assets) of £15 million compared to £33 million write-ups in the prior year. During 2022, the £15 million impairment can be broadly classified as £10 million due to the adjustment of macro-economic assumptions within our models, such as adjustments to assumptions driving the collective IFRS 9 collective provision and adjustments to the risk free rates required for portfolios measured at FVTPL and £5 million relating to adjustments to the underlying ERC, which represents a write-down of less than 0.5% of the total portfolio investments as at 31 December 2022; and (2) the income and associated collection costs for the wholly owned UK portfolios subject to the divestment to Intrum UK, amounting to £7 million during Q4 2022. Income and associated costs are removed from the underlying result on 100% of the portfolios from the end of September 2022, when the portfolios were moved to held for sale, and the completion date, expected in Q2 2023. The income and associated costs on the 50% retained by Arrow from September 2022 to completion are not reported within our underlying results, but will reduce the acquisition price when the portfolios are re-recognised upon completion of the divestment.

In addition, the result was impacted by £10.8 million foreign exchange re-translation loss (2021: £2.8 million gain), representing the non-cash revaluation of our Euro net liability position and higher interest costs of £19.5 million, which are explained further in the Group segmental analysis.

Overall, the Group is making significant progress on its transition to being a leading integrated fund manager. Funds Under Management (FUM) have grown €1.7 billion from €4.5 billion as at 31 December 2021 to €6.2 billion as at 31 December 2022. Including the additional capital to €2.75 billion for ACO 2, committed since the year end, the FUM is €7.0 billion.

The Group continues to invest in our integrated fund manager proposition to ensure continued growth in deployment at attractive returns. The performance of ACO 1 and ACO 2 have continued above target with a Deal IRR (after servicing costs) of 18.3% for ACO 1 and a Q4 Deal IRR of 20.0% for ACO 2. Deployment across ACO 1 and 2 increased by 6% to €839 million in 2022, compared to €789 million in 2021.

**Divestment of non-core UK platforms, Capquest and Mars UK**

Following a strategic review, in Q3 2022, Arrow agreed to divest our non-core UK platforms, Capquest and Mars UK, to Intrum UK, subject to customary closing conditions including regulatory approval, for gross sale proceeds at lockbox date of up to £157.8 million, with an expected 800 of our employees transferring to Intrum UK on completion. In addition, the majority of the UK unsecured back book, which represents £249.0 million of carrying value, £408.9 million of 84-month ERC and £510.0 million of 120-month ERC at 31 December 2022, will be subject to a 50:50 profit sharing arrangement with Intrum UK.

The high levels of competition and overcapacity in the UK unsecured debt management sector have driven lower risk-adjusted returns and Arrow has invested just 0.5% or €9 million in UK unsecured versus total ACO investments of €2.0 billion as at 31 December 2022. Real estate, secured and small and medium enterprise lending represent the significantly larger portion of the market and our platforms remain highly relevant to our existing clients with significant market opportunities. Focusing on these high-return segments, through our off-market origination strategy, Arrow expects to continue to deliver strong risk-adjusted returns for our investors, enabling us to scale and accelerate our transition to the leading vertically integrated European fund manager, with lower net debt and leverage.

Arrow platforms central to its integrated fund management strategy, including Bergen Finance, Drydensfairfax, and Maslow Capital are not included in the sale. They will continue to service Arrow-owned portfolios and accelerate the deployment of capital on behalf of Arrow's ACO fund vehicles.

In agreeing terms, we were careful to ensure that our purpose of building better financial futures and company values were closely aligned with Intrum UK. We are confident this close alignment will help Capquest and Mars UK optimise their long-term potential and future success to the benefit of colleagues, customers and clients. Arrow will continue to have Group and UK operations in Manchester, Leeds and London.

Of the portfolios subject to sale, their valuation at March 2022 was £271.7 million (50% share: £135.9 million). Intrum UK have agreed gross sales proceeds of £157.8 million at lockbox date for both the portfolios and platforms, representing 105%[1] of the book value as at that date. The actual cash proceeds from the sale will depend upon the timing of completion, as well as the completion accounts of the platforms. It is expected that the platform net assets will amount to circa £15 million at completion. For illustrative purposes only, if completion had occurred as at 31 December 2022, then the cash proceeds would be £139.6 million. Post completion, the divestment is not expected to have a material impact on underlying leverage.

In line with applicable accounting standards, the assets and liabilities subject to the agreement, including 100% of the UK unsecured assets, have been reclassified to 'assets held for sale' and 'liabilities held for sale' and remeasured at their expected proceeds less costs to sell. As a result, an impairment of £21.3 million has been recognised in adjusting items. Of the £21.3 million impairment, £8.5 million represents the difference between the carrying value of the portfolios as at December versus proceeds post lock-box date, together with proceeds for the platforms less the short-term working capital requirements, £6.0 million represents transaction and separation costs and £6.8 million arises due to write-off of intangible and sundry assets in connections with the platforms.

**Segmental commentary**

More detail around our reportable operating segments, can be found on pages 12 to 14, with the highlights for each segment being Integrated Fund Management (previously names Platforms), Balance Sheet and Group discussed below:

**Integrated Fund Management**

The Integrated Fund Management segment (previously named Platforms) includes the results of our asset management and servicing and fund management activity, through our various platforms, providing capital-light returns.

Integrated Fund Management total income grew 13.7% to £207.3 million (2021: £182.3 million), driven by 39.4% or £45.8 million growth in third-party integrated fund and asset management income on the back of continued strong growth in overall investment volumes. Overall Integrated Fund Management EBITDA increased by 102.1%, from £19.6 million in 2021 to £39.7 million in 2022, reflecting the increase in revenue, partially offset by the increased costs of delivering the servicing contracts and increased investment in fund activities, such as the build-out of real estate capabilities.

The Group continues to build broader investment capabilities as our integrated fund manager proposition is scaled. There has been strong deployment into ACO 1 and ACO 2, with total capital invested of €1.7 billion in ACO 1 and €0.2 billion into ACO 2, with Group FUM of €6.2 billion at 31 December 2022. €274 million of capital was deployed in Q4 2022 (including commitments and deferred consideration) in ACO 1 and ACO 2, bringing deployment for 2022 to €839 million (2021: €789 million).

Given the uncertain macro-economic outlook, the Fund Manager has continued to focus on off-market acquisitions, with over 80% of ACO 1 investments being off-market and increased investments in performing, real estate and cash in court portfolios. Over 90% of the Fund is secured on real estate, cash in court and other mixed security and is built from highly granular deployment, with circa 350 individual investments. There has been strong performance versus underwrite, with continuous strong cash performance with over 35% of investments funded by recycled collections. As a result, ACO 1 and ACO 2 are delivering above target returns with a Deal IRR (after servicing costs) of 18.3% for ACO 1 and a Q4 Deal IRR of 20.0% for ACO 2, with a strong investment pipeline.

*[1] Represents the gross sale proceeds as at March 2022, being the effective date for the lockbox arrangement, compared with the investment carrying value (50% being divested) and the net assets of the platforms being divested.*

The Group has expanded our origination and asset management capabilities through the bolt-on acquisitions of Details, a Portuguese hospitality asset manager, for an initial €2.8 million in Q3 2022 and agreement in principle to acquire Eagle Street in Q1 2023, a pan-European real estate investment and asset manager focused on the UK, Ireland and other select European markets, for total consideration of circa £8 million.

The ongoing investment will enable the Group to take advantage of opportunities to grow our capital-light fee model in adjacent asset classes including real estate and direct lending.

**Balance Sheet**

This business includes all the portfolio investments that the Group owns, and the associated income and costs.

The cash performance has been strong with 2022 collections up 3.5% to £380.1 million (2021: £367.4 million). Whilst 2022 has seen macro-economic pressures build, the collections proved resilient, representing 109% of ERC during 2022 and 114% during Q4 2022. Net collections (balance sheet cash collections less collection activity costs) were £298.4 million, 12.1% higher than the prior year (2021: £266.1 million) and £117.4 million more than portfolio purchases and investments awaiting deployment.

Purchases of £175.7 million were made in 2022 (2021: £189.7 million) with a strong investment pipeline, primarily through ACO 2, continuing into 2023. Going forward, a greater proportion of portfolio investments will be made through ACO 2, with a 10% co-investment level rather than the 25% level through ACO 1.

Segmental Balance Sheet EBITDA decreased by 52.8%, from £114.5 million in 2021 to £54.0 million in 2022. The decrease was primarily due to (1) the non-cash impairment write-down of portfolio investments (including FV assets) of £15 million compared to £33 million write-ups in the prior year. During 2022, the £15 million impairment can be broadly classified as £10 million due to the adjustment of macro-economic assumptions within our models, such as adjustments to assumptions driving the collective IFRS 9 collective provision and adjustments to the risk free rates required for portfolios measured at FVTPL and £5 million relating to adjustments to the underlying ERC, which represents a write-down of less than 0.5% of the total portfolio investments as at 31 December 2022; and (2) the income and associated collection costs for the wholly owned UK portfolios subject to the divestment to Intrum UK, amounting to £7 million during Q4 2022. Income and associated costs are removed from the underlying result on 100% of the portfolios from the end of September 2022, when the portfolios were moved to held for sale, and the completion date, expected in Q2 2023. The income and associated costs on the 50% retained by Arrow from September 2022 to completion are not reported within our underlying results, but will reduce the acquisition price when the portfolios are re-recognised upon completion of the divestment.

**Group**

The Group segment consists of costs not directly associated with the other segments, but relevant to overall oversight and control of the Group's activities.

Segmental Group operating expenses, excluding foreign exchange, decreased by £7.2 million to £26.8 million (2021: £33.9 million), driven by strong cost control, a higher proportion of staff servicing the fund and recovering their costs, offset by increased investment, in particular, in fund raising and real estate capabilities. As previously announced during 2022, management actions delivered annualised cost savings of £20 million, following the transaction from public to private ownership in late 2021, which were completed during Q1 2022.

In addition, there was a £10.8 million foreign exchange loss arising in the year (2021: £2.8 million gain) on the non-cash retranslation of our Euro assets and liabilities. The Group has an increasing level of Euro income, primarily arising from fund management income, and in the future, carried interest. As such, the Group is maintaining an excess Euro liability as a natural hedge, which gives rise to short-term non-cash profit and loss volatility.

Interest costs of £82.4 million were £19.5 million higher year-on-year (2021: £63.0 million), primarily driven by the refinancing following the take private transaction and rising interest rates. The Group has substantially mitigated the exposure to interest rate fluctuations with circa 80% of the bonds either fixed or hedged at 31 December 2022.

**Results Presentation – Conference call details**

A presentation is available on the Company's website https://bit.ly/3Co0rvO from 07.00am (UK time).

There will be a conference call for bondholders at 10.00am (UK time) with Arrow Global's management team.

To join, register your details using the registration link below. Once registered, you'll receive a separate email containing your dial in number and PIN.

**Registration** Register for the call here

**For further information:**

| | |
|---|---|
| Debt investor contact | **treasury@arrowglobal.net** |
| Media contact | **mediaenquires@arrowglobal.net** |

**Notes:**

*For the purposes of this document, the comparative results are made up of the consolidated results of the Arrow Global Group Limited (formerly plc), prior to the acquisition by TDR, combined with the consolidated results of Sherwood Parentco Limited for the year to 31 December 2021. This enables the full year consolidated results for Arrow Global Group to be presented for the comparative period. This excludes the impact of non-cash adjustments to asset and liability valuations that have been recognised directly in the Sherwood Parentco Limited Consolidated Statement of Financial Position, as required for Sherwood Parentco Limited's acquisition of the Arrow Global Group under IFRS 3 Business Combinations.*

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

**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. All statements other than statements of historical fact included in this document may be forward looking statements. These statements may be identified by words such as "expectation", "belief", "estimate", "plan", "target", or "forecast" and similar expressions or the negative thereof; or by the forward-looking nature of discussions of strategy, plans or intentions; or by their context. All statements regarding the future are subject to inherent risks and uncertainties and various factors could cause actual future results, performance or events to differ materially from those described or implied in these statements. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. Further, certain forward-looking statements are based upon assumptions of future events which may not prove to be accurate and neither the Company, the Group nor any other person accepts any responsibility for the accuracy of the opinions expressed in this document or the underlying assumptions. The forward-looking statements in this document speak only as at the date of this presentation and the Company and the Group assume no obligation to update or provide any additional information in relation to such forward-looking statements, except as required pursuant to applicable law or regulation.*

*No statement in this report is intended as a profit forecast or estimate for any period. No statement in this report should be interpreted to indicate a particular level of profit and, as a consequence, it should not be possible to derive a profit figure for any future period from this report.*

*This report is intended solely to provide information to bondholders to assess the group's strategies and neither the company nor its directors accept liability to any other person, save as would arise under English law. The report should not be relied on by any other party or for any other purpose.*

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

### For the year ended 31 December 2022

| Continuing operations | Year to 31 December 2022 £000 | As re-presented year to 31 December 2021 £000 | 3 months to 31 December 2022 £000 | As re-presented 3 months to 31 December 2021 £000 |
|---|---|---|---|---|
| Income from portfolio investments at amortised cost | 97,812 | 132,758 | 14,250 | 30,828 |
| Fair value gains/(losses) on portfolio investments at FVTPL | 21,351 | 62,451 | (9,226) | 27,874 |
| Impairment gains/(losses) on portfolio investments | 9,130 | 17,508 | (3,979) | (4,717) |
| Income from portfolio investments - real estate inventories | 2,072 | 1,963 | 306 | 378 |
| **Total income from portfolio investments** | **130,365** | **214,680** | **1,351** | **54,363** |
| Integrated fund and asset management income | 162,323 | 116,477 | 49,605 | 32,064 |
| Gain on disposal of subsidiary | 2,121 | – | (599) | – |
| Other income | 963 | 98 | 270 | 62 |
| **Total income** | **295,772** | **331,255** | **50,627** | **86,489** |
| **Operating expenses:** | | | | |
| Collection activity costs and fund management costs | (129,507) | (139,148) | (34,660) | (37,594) |
| (Loss)/profit on reclassification to held for sale | (21,342) | – | 4,617 | – |
| Other operating expenses | (142,314) | (190,997) | (39,122) | (75,610) |
| **Total operating expenses** | **(293,163)** | **(330,145)** | **(69,165)** | **(113,204)** |
| **Operating profit/(loss)** | **2,609** | **1,110** | **(18,538)** | **(26,715)** |
| Derivative fair value movements | (4,834) | – | (4,834) | – |
| Net finance costs | (83,149) | (85,840) | (24,026) | (40,906) |
| Share of profit in associate | 1,684 | – | – | – |
| **Loss before tax**[1] | **(83,690)** | **(84,730)** | **(47,398)** | **(67,621)** |
| Taxation charge on ordinary activities | (1,417) | (2,932) | (3,527) | (3,778) |
| **Loss after tax** | **(85,107)** | **(87,662)** | **(50,925)** | **(71,399)** |
| | | | | |
| **Other comprehensive income/(loss):** | | | | |
| Items that are or may be reclassified subsequently to profit or loss: | | | | |
| Foreign exchange translation difference arising on revaluation of foreign operations | 1,877 | N/a | 878 | N/a |
| Movement on the hedging reserve | 556 | N/a | 556 | N/a |
| **Total comprehensive loss** | **(82,674)** | N/a | **(49,491)** | N/a |
| | | | | |
| **(Loss)/profit attributable to:** | | | | |
| Owners of the Company | (84,756) | (87,816) | (50,105) | (71,405) |
| Non-controlling interest | (351) | 154 | (820) | 6 |
| | **(85,107)** | **(87,662)** | **(50,925)** | **(71,399)** |

*[1] The loss before tax of £83,690,000 for the year to 31 December 2022 (2021: £84,730,000), includes £50,280,000 of net adjusting costs (2021: £113,741,000), with an underlying loss before tax of £33,410,000 (2021: £29,011,000 underlying profit). For the reconciliation to the condensed consolidated profit and loss, please see the reconciliations on pages 19 and 20.*

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(continued)*

*For the purposes of this document, the comparative results are made up of the consolidated results of the Arrow Global Group Limited (formerly plc), prior to the acquisition by TDR, combined with the consolidated results of Sherwood Parentco Limited for the year to 31 December 2021. This enables the full year consolidated results for Arrow Global Group to be presented for the comparative period. This excludes the impact of non-cash adjustments to asset and liability valuations that have been recognised directly in the Sherwood Parentco Limited Consolidated Statement of Financial Position, as required for Sherwood Parentco Limited's acquisition of the Arrow Global Group under IFRS 3 Business Combinations.*

*Given the change in the consolidating parent in the prior year, it is not appropriate to show a comparative condensed consolidated statement of changes in equity on such a basis. As such, no comparative other comprehensive income/(loss) figures have been provided.*

*There has been a reclassification between the two operating expenses rows 'collection activity and fund management costs' and 'other operating expenses' in the prior year. This change was made to better reflect the evolved nature of the Group's business model and presenting direct costs of the Group's business lines is deemed to provide more relevant information. As such, we have reclassified £1,979,000 from 'other operating expenses' to 'collection activity and fund management costs' in the prior year. The total operating expenses impact is £nil. Further information can be found in note 2.*

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### As at 31 December 2022

| Assets | Note | 31 December 2022 £000 | 31 December 2021 £000 |
|---|---|---|---|
| Cash and cash equivalents | | 143,603 | 198,911 |
| Derivative asset | | 808 | – |
| Trade and other receivables | | 65,041 | 52,360 |
| Portfolio investments – amortised cost | 3 | 392,182 | 704,944 |
| Portfolio investments – FVTPL | 3 | 331,199 | 302,808 |
| Portfolio investments – real estate inventories | 3 | 51,463 | 41,029 |
| Property, plant and equipment | | 27,614 | 16,634 |
| Intangible assets | | 104,890 | 128,429 |
| Deferred tax asset | | 4,815 | 3,212 |
| Investment in associate | | 64,150 | 62,184 |
| Goodwill | | 698,879 | 688,063 |
| Assets held for sale | | 270,986[1] | 5,655[2] |
| **Total assets** | | **2,155,630** | **2,204,229** |
| **Liabilities** | | | |
| Bank overdrafts | 4 | 8,423 | 9,630 |
| Revolving credit facility | 4 | 169,104 | 167,373 |
| Derivative liability | | 30,335 | 25,607 |
| Trade and other payables | | 173,446 | 190,604 |
| Current tax liability | | 1,902 | 1,837 |
| Other borrowings | 4 | 13,590 | 2,241 |
| Asset-backed loans | 4 | 8,246 | 55,158 |
| Senior secured notes | 4 | 1,258,358 | 1,211,416 |
| Deferred tax liability | | 27,851 | 24,286 |
| Liabilities held for sale[1] | | 36,927[1] | 5,655[2] |
| **Total liabilities** | | **1,728,182** | **1,693,807** |
| **Equity** | | | |
| Share capital | | 166,813 | 166,813 |
| Share premium | | 410,859 | 410,859 |
| Retained deficit | | (156,428) | (71,672) |
| Hedging reserve | | 556 | – |
| Other reserves | | 2,829 | 952 |
| **Total equity attributable to shareholders** | | **424,629** | **506,952** |
| Non-controlling interest | | 2,819 | 3,470 |
| **Total equity** | | **427,448** | **510,422** |
| **Total equity and liabilities** | | **2,155,630** | **2,204,229** |

[1] *As at 31 December 2022, we expected to dispose of the Capquest and Mars UK platforms, as well as disposing of the UK unsecured back book into a profit sharing arrangement. As a result, the balance sheet items of £234,059,000, following impairment of £21,342,000, were moved to 'Assets held for sale' and 'liabilities held for sale' on the condensed consolidated statement of financial position.*

[2] *As at 31 December 2021, we expected to dispose of the Whitestar Italy platform. As a result, the balance sheet items of £5,655,000 in respect of the Whitestar Italy platform, for disclosure purposes were moved to 'Assets held for sale' and 'liabilities held for sale' on the condensed consolidated statement of financial position. This platform has been subsequently disposed of and therefore not included in the 31 December 2022 position.*

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### For the year ended 31 December 2022

| | Share capital £000 | Other equity reserves £000 | Total equity attributable to shareholders £000 | Non-controlling interest £000 | Total equity £000 |
|---|---|---|---|---|---|
| **Balance at 1 January 2022** | 166,813 | 340,139 | **506,952** | 3,470 | **510,422** |
| Loss after tax | – | (84,756) | **(84,756)** | (351) | **(85,107)** |
| Exchange differences | – | 1,877 | **1,877** | – | **1,877** |
| Net fair value gains – cash flow | – | 741 | **741** | – | **741** |
| Tax on hedged items | – | (185) | **(185)** | – | **(185)** |
| Total comprehensive loss for the year | – | (82,323) | **(82,323)** | (351) | **(82,674)** |
| Distributions paid to non-controlling interest | – | – | **–** | (1,818) | **(1,818)** |
| Minority interest on acquisition | – | – | **–** | 1,518 | **1,518** |
| **Balance at 31 December 2022** | **166,813** | **257,816** | **424,629** | **2,819** | **427,448** |

*For the purposes of this document, Arrow Global Group has sought to present the full year results for Arrow Global Group in the prior year. For the comparatives the consolidated results of Arrow Global Group Limited (formerly plc), prior to the acquisition by TDR, have therefore been combined with the consolidated results of Sherwood Parentco Limited for the year to 31 December 2021. Given the change in the consolidating parent in the prior year, it is not appropriate to show a comparative condensed consolidated statement of changes in equity on such a basis. As such, no comparative condensed consolidated statement of changes in equity has been provided.*

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

### For the year ended 31 December 2022

| | Year ended 31 December 2022 £000 | Year ended 31 December 2021 £000 |
|---|---|---|
| **Net cash flows from operating activities before purchases of portfolio investments** | **242,262** | **196,880** |
| Portfolio purchases and investments awaiting deployment | (181,019) | (189,663) |
| **Net cash generated by operating activities** | **61,243** | **7,217** |
| **Net cash used in investing activities** | **(21,692)** | **(568,702)** |
| **Net cash flows (used in)/generated by financing activities** | **(106,127)** | **580,406** |
| **Net (decrease)/increase in cash and cash equivalents** | **(66,576)** | **18,921** |
| Cash and cash equivalents at beginning of year | 202,263[1] | 182,892 |
| Effect of exchange rates on cash and cash equivalents | 7,916 | 450 |
| **Cash and cash equivalents at end of year including held for sale** | **143,603** | **202,263** |
| Cash and cash equivalents moved to assets held for sale[1] | – | **(3,352)** |
| **Cash and cash equivalents at end of year excluding held for sale** | **143,603** | **198,911** |

*[1] Cash and cash equivalents at the 31 December 2021, included £3,352,000 of cash and cash equivalents in respect of the Whitestar Italy platform, which for disclosure purposes was moved to 'Assets held for sale' on the condensed consolidated statement of financial position.*

Included within cash and cash equivalents is £8,021,000 (2021: £11,513,000) of cash which may be subject to constraints regarding when the balance can be remitted, such as cash in a consolidated structure awaiting a payment date

*For the purposes of this document, the comparative results are made up of the condensed consolidated statement of cashflows of the Arrow Global Group Limited (formerly plc), prior to the acquisition by TDR, combined with the condensed consolidated statement of cashflows of Sherwood Parentco Limited for the year to 31 December 2021. This enables the full year condensed consolidated statement of cashflows for Arrow Global Group to be presented for the comparative period.*

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 1. Significant accounting policy updates

These financial statements are unaudited and do not include all the information required for annual reporting. For the purposes of this document, the comparative results have been made up of the consolidated results of the Arrow Global Group Limited (formerly plc), prior to the acquisition by TDR, combined with the consolidated results of Sherwood Parentco Limited for the year to 31 December 2021. This enables the full year consolidated results for Arrow Global Group to be presented for the comparative period. These results should be read in conjunction with the Sherwood Parentco Limited Group's consolidated statutory report and accounts for the year to 31 December 2022. The audited consolidated results of Sherwood Parentco Limited are available on our website at https://bit.ly/3Co0rvO.

The Group's consolidated report and accounts are prepared in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006 ('Adopted IFRS') and also in accordance with IFRS adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the EU. These financial statements have been prepared by applying the accounting policies and presentation that were applied in the preparation of the Sherwood Parentco Limited Group's consolidated report and accounts for the year ended 31 December 2022.

### 2. Segmental reporting

In October 2021, the Arrow Group was acquired by Sherwood Acquisitions Limited and the shares of Arrow Global Group plc were delisted from the London Stock Exchange. Sherwood Acquisitions Limited, the acquisition vehicle of TDR, is wholly owned by Sherwood Parentco Limited. Post-acquisition, the Group strategically re-positioned itself as a platform led vertically aligned business, with our internal reporting and performance management aligned to this structure. This has resulted in a change to our reportable operating segments and the segmental information that is provided and reviewed on a regular basis by the chief operating decision maker (CODM), which is the Group's Exco members collectively, as defined in IFRS 8.

In the 2021 results, the Group reported under the separate reportable segments Asset Management and Servicing business, Fund and Investment Management business, Balance Sheet business and Group functions. Under the new segmental disclosure, the Group now reports under three separate reportable segments, being Integrated Fund Management , Balance Sheet and Group. Details of the new principal business categories are as follows:

| | |
|---|---|
| Integrated Fund Management | Income and costs associated with managing debt portfolios on behalf of the Group, our discretionary funds and other third parties, the income and costs associated with providing other servicing and collection activities to third parties and income and costs associated with investment and asset management.<br>The combined income from this segment represents the capital-light income of the Group. |
| Balance Sheet | All portfolio investments that the Group owns, including investments held directly on our balance sheet together with our co-investment made through our discretionary funds, such as ACO 1 and ACO 2, and the associated income and direct costs of such investments. |
| Group | Costs not directly associated with the other two segments, but relevant to overall oversight and control of the Group's activities. |

These segments represent how the Group manages the wider business, and the organisational structure is aligned to these segments. Therefore, this has been deemed to be the appropriate level of disaggregation to provide information to the CODM.

There has been a reclassification between the two operating expenses rows 'collection activity and fund management costs' and 'other operating expenses' in the prior year. This change was made to better reflect the evolved nature of the Group's business model and presenting direct costs of the Group's business lines is deemed to provide more relevant information. As such, we have reclassified £1,979,000 from 'other operating expenses' to 'collection activity and fund management costs' in the prior year. The total operating expenses impact is £nil.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (*continued*)

## 2. Segmental reporting *(continued)*

The Integrated Fund Management segment charges the Balance Sheet segment for servicing and collection of the Group portfolio investments and management and servicing fees in relation to fund management in respect to its investments. This intra-segment charge is calculated on equivalent commercial terms to charging third parties. The intra-segment elimination column below removes such charges.

### Year ended 31 December 2022

| | Integrated Fund Management £000 | Balance Sheet £000 | Group £000 | Intra-segment elimination £000 | Adjusting items £000 | Total exc. adjusting items 31 December 2022 £000 | Total inc. adjusting items 31 December 2022 £000 |
|---|---|---|---|---|---|---|---|
| **Total income** | 207,274 | 135,723 | 6 | (50,831) | 3,600 | 292,172 | 295,772 |
| Collection activity costs | (89,806) | (81,726) | (283) | 50,831 | (8,523) | (120,984) | (129,507) |
| Gross margin | **117,468** | **53,997** | **(277)** | **–** | **(4,923)** | **171,188** | **166,265** |
| *Gross margin %* | *56.7%* | *39.8%* | | | | *58.6%* | *56.2%* |
| Loss on reclassification to held for sale | – | – | – | – | (21,342) | – | (21,342) |
| Other operating expenses excluding depreciation, amortisation and forex | (77,763) | – | (24,366) | – | (6,261) | (102,129) | (108,390) |
| **EBITDA** | **39,705** | **53,997** | **(24,643)** | **–** | **(32,526)** | **69,059** | **36,533** |
| *EBITDA margin %* | *19.2%* | *39.8%* | | | | *23.6%* | *12.4%* |
| Depreciation and amortisation | (8,814) | – | (2,113) | – | (12,203) | (10,927) | (23,130) |
| Foreign exchange translation loss | – | – | (10,794) | – | – | (10,794) | (10,794) |
| **Operating profit/(loss)** | **30,891** | **53,997** | **(37,550)** | **–** | **(44,729)** | **47,338** | **2,609** |
| | – | – | – | – | (4,834) | – | (4,834) |
| Net finance costs | – | – | (82,432) | – | (717) | (82,432) | (83,149) |
| Share of profit in associate | 1,684 | – | – | – | – | 1,684 | 1,684 |
| **Profit/(loss) before tax** | **32,575** | **53,997** | **(119,982)** | **–** | **(50,280)** | **(33,410)** | **(83,690)** |
| | | | | | *Allocate adjusting items* | *(50,280)* | *–* |
| | | | | | *Profit/(loss) before tax including adjusting items* | *(83,690)* | *(83,690)* |

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (*continued*)

## 2. Segmental reporting *(continued)*

### Year ended 31 December 2021

| | As re-presented Integrated Fund Management[1] £000 | As re-presented Balance Sheet [1] £000 | As re-presented Group[1] £000 | As re-presented Intra-segment elimination[1] £000 | As re-presented Adjusting items[1] £000 | As re-presented Total exc. adjusting items 31 December 2021 £000 | As re-presented Total inc. adjusting items 31 December 2021 £000 |
|---|---|---|---|---|---|---|---|
| **Total income** | 182,339 | 215,783 | 9 | (65,533) | (1,343) | 332,598 | 331,255 |
| Collection activity costs[2] | (100,289) | (101,294) | (3,098) | 65,533 | – | (139,148) | (139,148) |
| Gross margin | **82,050** | **114,489** | **(3,089)** | **–** | **(1,343)** | **193,450** | **192,107** |
| *Gross margin %* | *45.0%* | *53.1%* | | | | *58.2%* | *58.0%* |
| Other operating expenses excluding depreciation, amortisation and forex[2] | (62,401) | **–** | (26,164) | – | (85,326) | (88,565) | (173,891) |
| **EBITDA** | **19,649** | **114,489** | **(29,253)** | **–** | **(86,669)** | **104,885** | **18,216** |
| *EBITDA margin %* | *10.8%* | *53.1%* | | | | *31.5%* | *5.5%* |
| Depreciation and amortisation | (11,040) | – | (4,687) | – | (4,187) | (15,727) | (19,914) |
| Foreign exchange translation gain | – | – | 2,808 | – | – | 2,808 | 2,808 |
| **Operating profit/(loss)** | **8,609** | **114,489** | **(31,132)** | **–** | **(90,856)** | 91,966 | **1,110** |
| Net finance costs | – | – | (62,955) | – | (22,885) | (62,955) | (85,840) |
| **Profit/(loss) before tax** | **8,609** | **114,489** | **(94,087)** | **–** | **(113,741)** | **29,011** | **(84,730)** |
| | | | | | *Allocate adjusting costs* | *(113,741)* | *–* |
| | | | | | *Profit/(loss) before tax including adjusting costs* | *(84,730)* | *(84,730)* |

[1] In line with the requirements of IFRS 8:29, due to the change of the segmental reporting structure aligned to the Group now being Fund mangement led post the TDR acquisition, the corresponding information for 2021 has also been restated.

[2] There has been a reclassification between the two operating expenses rows 'collection activity and fund management costs' and 'other operating expenses' in the prior year. This change was made to better reflect the evolved nature of the Group's business model and presenting direct costs of the Group's business lines is deemed to provide more relevant information. As such, we have reclassified £1,979,000 from 'other operating expenses' to 'collection activity and fund management costs' in the prior year. The total operating expenses impact is £nil. The prior year has been re-presented accordingly on this basis.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (*continued*)

## 3. Portfolio investments

The movement in portfolios investments were as follows:

### Year ended 31 December 2022

| | Amortised cost £000 | FVTPL £000 | Real estate inventories £000 | Total £000 |
|---|---|---|---|---|
| As at 1 January 2022 | 704,944 | 302,808 | 41,029 | 1,048,781 |
| Portfolios purchased during the year | 37,007 | 129,500 | 9,207 | 175,714 |
| Investments awaiting deployment[1] | – | 5,305 | – | 5,305 |
| Collections in the year | (233,657) | (134,608) | (11,858) | (380,123) |
| Income from portfolio investments at amortised cost | 97,812 | – | – | 97,812 |
| Fair value gains on portfolio investments at FVTPL | – | 21,351 | – | 21,351 |
| Income from portfolio investments - real estate inventories | – | – | 2,072 | 2,072 |
| Net impairment gains | 8,992 | – | 138 | 9,130 |
| Exchange and other movements | 26,096 | 6,843 | 10,875 | 43,814 |
| **As at 31 December 2022 including held for sale** | **641,194** | **331,199** | **51,463** | **1,023,856** |
| Portfolios moved to liabilities held for sale[2] | (249,012) | – | – | (249,012) |
| **As at 31 December 2022 excluding held for sale** | **392,182** | **331,199** | **51,463** | **774,844** |

[1] Investments awaiting deployment relates to cash held in an investment vehicle, in anticipation of purchasing portfolio investments, which have not yet completed at the year end

*[2] Portfolio investments include £249,012,000 in respect of the Capquest and Mars UK platforms as at 31 December 2022, which for disclosure purposes has been moved to 'Assets held for sale' on the condensed consolidated statement of financial position. Therefore, there is £392,182,000 of 'portfolio investments – amortised cost' on the consolidated statement of financial position.*

### Year ended 31 December 2021

| | Amortised cost £000 | FVTPL £000 | Real estate inventories £000 | Total £000 |
|---|---|---|---|---|
| As at 1 January 2021 | 793,554 | 187,421 | 61,240 | 1,042,215 |
| Portfolios purchased during the year | 35,518 | 154,145 | – | 189,663 |
| Collections in the year | (280,999) | (73,923) | (12,464) | (367,386) |
| Income from portfolio investments at amortised cost | 132,758 | – | – | 132,758 |
| Fair value gains on portfolio investments at FVTPL | – | 62,451 | – | 62,451 |
| Income from portfolio investments - real estate inventories | – | – | 1,963 | 1,963 |
| Net impairment gains/(losses) | 18,535 | – | (1,027) | 17,508 |
| Fair value adjustments on acquisition | 13,694 | – | (8,328) | 5,366 |
| Exchange and other movements | (8,116) | (27,286) | (355) | (35,757) |
| As at 31 December 2021 | **704,944** | **302,808** | **41,029** | **1,048,781** |

## 4. Borrowings and facilities

| Secured borrowing at amortised cost | 31 December 2022 £000 | 31 December 2021 £000 |
|---|---|---|
| Senior secured notes (net of transaction fees of £21,745,000, 31 December 2021: £20,538,000) | 1,258,358 | 1,211,416 |
| Revolving credit facility (net of transaction fees of £3,109,000, 31 December 2021: £4,042,000) | 169,104 | 167,373 |
| Asset backed loan (net of transaction fees of £73,000, 31 December 2021: £636,000) | 8,246 | 55,158 |
| Bank overdrafts | 8,423 | 9,559[1] |
| Other borrowings – non-recourse facility | 13,590 | 2,241 |
| **Total borrowing including held for sale** | **1,457,721** | **1,445,747** |
| Bank overdraft moved to liabilities held for sale | – | 71[1] |
| **Total borrowings excluding held for sale** | **1,457,721** | **1,445,818** |

| **Total borrowings including held for sale** | | |
|---|---|---|
| Amount due for settlement within 12 months | 186,771 | 220,813 |
| Amount due for settlement after 12 months | 1,270,950 | 1,224,934 |
| | **1,457,721** | **1,445,747** |

[1] *Bank overdraft includes £71,000 in respect of the Whitestar Italy platform as at 31 December 2021, which for disclosure purposes has been moved to 'Liabilities held for sale' on the condensed consolidated statement of financial position. Therefore, there is £9,630,000 of bank overdrafts respectively on the consolidated statement of financial position.*

### Senior secured notes

On 27 October 2021, the Group successfully placed €400 million 4.5% Euro fixed rated bonds due 2026, €640 million 4.625% over three months EURIBOR floating rate notes due 2027, and £350 million 6% fixed rate bonds due 2026, with the proceeds being used to prepay all the outstanding bonds at that time and certain drawings under the revolving credit facility. The bonds were issued by Sherwood Financing plc and the floating rate notes are subject to a zero percent EURIBOR floor. The bonds are secured on the majority of the Group's assets and subject to market conditions, the Group may repurchase.

### Revolving credit facility

On 6 October 2021, the Group entered into a new £285 million revolving credit facility with a margin of 325bps, maturing in April 2026. The margin is subject to a ratchet downwards based upon decreasing leverage levels. The facility ranks senior secured and therefore has a similar security package to the cancelled facility and the bonds issued during 2021. Under the terms of an intercreditor agreement, the facility ranks super senior to the bonds as any obligations under the facility will be settled in advance of any obligations under the bonds.

The facility has one financial covenant, being a leverage test. On 11 October 2021, the existing revolving credit facility, also for £285 million, was cancelled and this revolving credit facility had three financial covenants, being leverage, liquidity and SSLTV tests.

### Asset Backed Securitisation

The Group has one (2021: two) non-recourse committed asset-backed securitisation term loan.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (*continued*)

### 4. Borrowings and facilities *(continued)*

The loan outstanding amounts to £8.3 million as at 31 December 2022 and is secured on UK unsecured assets, pays SONIA plus 3.1% and has a spread adjustment cost of 0.0325%. The Group initially established a £100 million asset-backed facility in April 2019 with £137 million of ERC being sold to a wholly owned subsidiary, AGL Fleetwood Limited, and further ERC has been sold to AGL Fleetwood Limited at various times since the initial set up allowing further borrowings to be drawn. During 2020, the AGG Group entered into further arrangements in connection with the non-recourse facility and an additional £33 million of 84-month ERC was sold into the structure with no additional borrowings made.

The Group previously had a loan secured on Portuguese assets, which was fully repaid in January 2022. The Group entered into this second non-recourse amortising loan of €104.7 million during 2020, which was fully drawn at that time. This loan was secured against €356 million of Portuguese 84-month ERC at a margin of 4.25%.

As at 31 December 2022, £104.9 million of the portfolio investments, set out in note 3, are pledged as collateral for the asset-backed securitisation. [1]

## ADDITIONAL INFORMATION

The Adjusted EBITDA reconciliations for the years ended 31 December 2022 and 31 December 2021 respectively are shown below:

| Reconciliation of net cash flow to EBITDA | 31 December 2022 £000 | 31 December 2021 £000 |
|---|---|---|
| Net cash flow generated by operating activities | 61,243 | 7,217 |
| Portfolio purchases and investments awaiting deployment | 181,019 | 189,663 |
| Income taxes (received)/paid | (270) | 8,408 |
| Working capital and other adjustments[1] | 63,289 | (16,633) |
| Share of profit in associate | 1,684 | – |
| Operating cash adjusting items | 8,420 | 72,108 |
| **Adjusted EBITDA** | **315,385** | **260,763** |
| **Reconciliation of balance sheet cash collections to EBITDA** | | |
| Income from portfolio investments including fair value and impairment losses and gains | 130,365 | 214,680 |
| Portfolio amortisation | 249,758 | 152,706 |
| **Balance sheet cash collections** (includes proceeds from disposal of portfolio investments) | **380,123** | **367,386** |
| Integrated fund and asset management income, gain on disposal of subsidiary and other income | 165,407 | 116,575 |
| Operating expenses | (293,163) | (330,145) |
| Depreciation and amortisation | 23,130 | 19,914 |
| Foreign exchange losses/(gains) | 10,794 | (2,808) |
| Net (profit)/loss on disposal and write off intangible assets and property, plant and equipment | (231) | 3,091 |
| Share-based payments (excluding adjusting items) | – | 1,424 |
| Share of profit in associate | 1,684 | – |
| Profit on disposal of subsidiary | (2,121) | – |
| Loss on reclassification to held for sale | 21,342 | – |
| Operating adjusting items | 8,420 | 85,326 |
| **Adjusted EBITDA** | **315,385** | **260,763** |
| **Reconciliation operating profit to EBITDA** | | |
| Loss after tax | (85,107) | (87,662) |
| Net finance costs | 83,149 | 85,840 |
| Share of profit in associate | (1,684) | – |
| Tax charge on ordinary activities | 1,417 | 2,932 |
| Derivative fair value movements | 4,834 | – |
| **Operating profit** | **2,609** | **1,110** |
| Portfolio amortisation | 249,758 | 152,706 |
| Depreciation and amortisation | 23,130 | 19,914 |
| Foreign exchange losses/(gains) | 10,794 | (2,808) |
| Net (profit)/loss on disposal of intangible assets and property, plant and equipment | (231) | 3,091 |
| Share-based payments (excluding adjusting items) | – | 1,424 |
| Share of profit in associate | 1,684 | – |
| Profit on disposal of subsidiary | (2,121) | – |
| Loss on reclassification to held for sale | 21,342 | – |
| Operating adjusting items | 8,420 | 85,326 |
| **Adjusted EBITDA** | **315,385** | **260,763** |

[1] *Working capital and other adjustments includes operational working capital outflow of £39 million, strategic review costs of £14 million, working capital impact of corporate activity of £4 million and the impact of foreign exchange on working capital balances of £6 million.*

For details on adjusted items see pages 19 and 20.

## ADDITIONAL INFORMATION *(continued)*

### Profit/(loss) before adjusting items

| | Year ended 31 December 2022 £000 | As re-presented year ended 31 December 2021 £000 |
|---|---|---|
| **Total income** | **292,172** | **332,598** |
| Collection activity and fund management costs | (120,984) | (139,148) |
| Other operating expenses | (123,850) | (101,484) |
| **Total operating expenses** | **(244,834)** | **(240,632)** |
| **Operating profit** | **47,338** | **91,966** |
| Net finance costs | (82,432) | (62,955) |
| Share of profit in associate | 1,684 | – |
| **(Loss)/profit before tax and adjusting items** | **(33,410)** | **29,011** |
| Taxation charge on underlying activities | (4,026) | (5,741) |
| **(Loss)/profit after tax before adjusting items** | **(37,436)** | **23,270** |
| **Non-controlling interest** | 351 | (154) |
| **(Loss)/profit before adjusting items attributable to owners of the company** | **(37,085)** | **23,116** |
| | | |
| **Tax rate on results before adjusting items** | **(12.1%)** | **19.8%** |

Reconciliation between IFRS profit and profit before adjusting items:

| | Year ended 31 Dec 2022 profit before tax £000 | Year ended 31 Dec 2022 tax £000 | Year ended 31 Dec 2022 profit after tax £000 | Year ended 31 Dec 2021 profit before tax £000 | Year ended 31 Dec 2021 tax £000 | Year ended 31 Dec 2021 profit after tax £000 |
|---|---|---|---|---|---|---|
| **IFRS reported loss** | **(83,690)** | **(1,417)** | **(85,107)** | **(84,730)** | **(2,932)** | **(87,662)** |
| Adjusting items: | | | | | | |
| Gain on disposal of subsidiary | (2,121) | – | (2,121) | – | – | – |
| Takeover costs | – | – | – | 82,967 | – | 82,967 |
| Organisational restructure costs | – | – | – | 16,063 | – | 16,063 |
| Non-cash write-down | – | – | – | 8,014 | – | 8,014 |
| Other acquisition costs (including amortisation of acquisition intangible assets) | 17,397 | – | 17,397 | 6,697 | – | 6,697 |
| Loss on reclassification to held for sale | 21,342 | – | 21,342 | – | – | – |
| Operations held for sale result | 8,828 | – | 8,828 | – | – | – |
| Non-cash derivative fair value movements | 4,834 | – | 4,834 | – | – | – |
| Tax associated with adjusting items | – | (2,609) | (2,609) | – | (2,809) | (2,809) |
| **(Loss)/profit before adjusting items** | **(33,410)** | **(4,026)** | **(37,436)** | **29,011** | **(5,741)** | **23,270** |

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 to get to the profit before adjusted items.

Following a strategic review, in Q3 2022, the Group agreed to divest our non-core UK platforms, Capquest and Mars UK, to Intrum UK, subject to customary closing conditions including regulatory approval, and the UK unsecured back book, which will be subject to a 50:50 profit share arrangement with Intrum UK. Of the portfolios subject to sale, their valuation at March 2022 was £271.7 million (50% share: £135.9 million). Intrum UK have agreed gross sales proceeds of £157.8 million at lockbox date for both the portfolios and platforms, representing 105%[1] of the book value as at that date.

*[1] Represents the gross sale proceeds as at March 2022, being the effective date for the lockbox arrangement, compared with the investment carrying value (50% being divested) and the net assets of the platforms being divested.*

## ADDITIONAL INFORMATION *(continued)*

### Profit/(loss) before adjusting items *(continued)*

The actual cash proceeds from the sale will depend upon the timing of completion, as well as the completion accounts of the platforms. It is expected that the platform net assets will amount to circa £15 million at completion. If completion had occurred as at 31 December 2022, then the cash proceeds would be £139.6 million. Post completion, the divestment is not expected to have a material impact on underlying leverage.

In line with applicable accounting standards, the assets and liabilities subject to the agreement, including 100% of the UK unsecured assets, have been reclassified to 'assets held for sale and 'liabilities held for sale' and remeasured at their expected proceeds less costs to sell. An impairment of £21.3 million has been recognised in adjusting items in relation to this.

Of the £21.3 million impairment, £8.5 million represents the difference between the carrying value of the portfolios as at December versus proceeds post lock-box mechanics at that date, together with proceeds for the platforms less the short-term working capital requirements, £6.0 million represents transaction and separation costs and £6.8 million arises from write-off of intangible and sundry assets in connections with the platforms. There was also a £8.8 million trading result included in the adjusting items for operations that are held for sale.

The Group agreed the sale of subsidiaries Whitestar Italia S.r.l, New Call S.r.l and PARR S.H.P.K (together "Whitestar Italy") on 11 March 2022. The disposal concerned business process outsourcing of Italian utility collections, which was considered non-core to the Group's operations. The secured and unsecured investment portfolios and their collections activity previously undertaken by Whitestar Italy were moved to other Arrow subsidiaries pre-disposal. £2.1 million of net profit has been recognised in adjusting items in relation to this.

There was a reduction in the share option in Maslow with a non-cash derivative liability expense of £4.8 million adjusted out of the results.

The transaction in the prior year, described in the following paragraph, created ongoing non-cash acquisition intangible and fair value accounting unwinds in 2022, which are adjusted out of the results, being £17.4 million.

In 2021, Arrow Global Group Limited (formerly plc) was purchased by Sherwood Acquisitions Limited, a newly formed company owned by certain investment funds managed by TDR. As part of the transaction, there were a number of one-off costs, including but not limited to, advisor and legal fees for both TDR and Arrow Global Group Limited (formerly plc), fees and other costs associated with the arrangement of committed bridge financing secured by TDR in advance of their bid for the Group and certain advisory and legal fees in connection with the refinancing of the bonds and revolving credit facilities that existed at the time of the acquisition. The total costs incurred by Sherwood Parentco Limited and its subsidiaries, including Arrow Global Group Limited (formerly plc), both before and after the transaction completed was £83.0 million. Following the completion of the takeover by TDR, the Group undertook a review of its organisational structure. The realignment from a horizontal matrix structure to a vertical structure to enable greater accountability and empowerment of our local servicing platforms enabled the Group to remove several roles and a layer of management. In addition to the removal of certain costs reflecting the private rather than public ownership of the Group, annualised cost savings of £20 million were delivered. The majority of the savings were delivered through people savings effective 1 January 2022 and the costs of the reorganisation, primarily redundancy costs, incurred during 2021 were £16.1 million. Furthermore, the Group undertook a review of previously capitalised costs, primarily relating to the IT infrastructure and systems, and concluded that, under the new organisational structure, certain assets had no further economic value to the Group and, as such, were impaired. The total of such non-cash costs incurred during 2021 was £8.0 million. A further £6.7 million of one-off costs were incurred in 2021, primarily relating to £5.4 million unwind of non-cash TDR acquisition intangible and fair value adjustments and £1.0 million in respect of the acquisition of a 49% stake in Maslow Global Limited, with the Group having the option to purchase the remaining 51%.

## ADDITIONAL INFORMATION *(continued)*

### Reconciliation of profit after tax to the free cash flow result

The table below reconciles the reported profit after tax for the year to the free cash flow result.

**Year ended 31 December 2022**

| **Income** | **Reported profit £000** | **Other items £000** | **Free cash flow £000** | |
|---|---|---|---|---|
| Total income from portfolio investments | 130,365 | 249,758 | 380,123 | Balance sheet cash collections in the year |
| Income from integrated fund and asset management income | 162,323 | – | 162,323 | Income from integrated fund and asset management income |
| Gain on disposal of subsidiary | 2,121 | (2,121) | – | |
| Other income | 963 | – | 963 | Other income |
| **Total income**[1] | **295,772** | **247,637** | **543,409** | Cash income |
| **Total operating expenses** | (293,163) | 65,139[2] | (228,024) | Cash operating expenses |
| **Operating profit** | **2,609** | **312,776** | **315,385** | Adjusted EBITDA[4] |
| Derivative fair value movements | (4,834) | 4,834 | – | |
| Net financing costs | (83,149) | 3,210[3] | (79,939) | Cash financing costs |
| Share of profit in associate | 1,684 | (1,684) | – | |
| **(Loss)/profit before tax** | **(83,690)** | **319,136** | **235,446** | |
| Taxation credit on ordinary activities | (1,417) | 1,687 | 270 | Cash taxation |
| **(Loss)/profit after tax** | **(85,107)** | **320,823** | **235,716** | |
| | | | (22,022) | Capital expenditure |
| | | | **213,694** | **Free cash flow**[5] |

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

*[2] Includes non-cash items including depreciation and amortisation, foreign exchange gains and losses and adjusting items.*

*[3] Non-cash amortisation of fees and interest and non-recurring refinancing costs.*

*[4] Adjusted EBITDA is a key driver to free cash flow. This measure allows us to monitor the operating performance of the Group. See additional information provided on page 18 for detailed reconciliations of Adjusted EBITDA.*

*[5] Free cash flow is the Adjusted EBITDA after the effect of capital expenditure and working capital movements.*

## GLOSSARY OF ALTERNATIVE PERFORMANCE MEASURES

| APM | Definition | Why is the measure used? |
|---|---|---|
| Adjusted EBITDA | The Adjusted EBITDA figure represents the Group's earnings before interest, tax, depreciation and amortisation (including investment portfolio amortisation), adjusted for any non-cash income or expense items and adjusting items. The comparative results are for Arrow Global Group Limited (formerly plc), being the consolidated results of the Group prior to the acquisition by TDR. | Adjusted EBITDA is an approximate measure of the underlying cash EBITDA of the Group. In addition, the leverage ratio of the Group is calculated as the ratio of secured net debt to Adjusted EBITDA. This makes the Adjusted EBITDA figure a key component of this metric, which also features in the Group's banking covenant measures. |
| Free cash flow | The free cash flow 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 and purchase of intangible assets. The comparative results are for Arrow Global Group Limited (formerly plc), being the consolidated results of the Group prior to the acquisition by TDR. | Free cash flow provides a measure of how much cash the Group generates across the reporting period which it can utilise on a discretionary basis. |
| Balance sheet cash collections | Balance sheet cash collections represent cash collections on the Group's existing portfolio investments including portfolio sales and put-backs. | Balance sheet cash 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 calculate the Group's leverage position. |
| 84-month ERC | The 84-month ERC means the Group's estimated remaining balance sheet cash collections on portfolio investments (of all classifications) over the next 84-months, representing the expected future balance sheet cash collections on portfolio investments during this period. The expected future balance sheet cash collections are calculated at the end of each month, based on the Group's proprietary ERC forecasting model, as amended from time to time. | The 84-month ERC is particularly important for the Group as it shows the forecast cash inflows over the same period that is used to calculate the future cash flows of the Group's amortised cost portfolio investments. |
| 120-month ERC | The 120-month ERC means the Group's estimated remaining balance sheet cash collections on portfolio investments (of all classifications) over the next 120-months, representing the expected future balance sheet cash collections on portfolio investments during this period. The expected future balance sheet cash collections are calculated at the end of each month, based on the Group's proprietary ERC forecasting model, as amended from time to time. | The 120-month ERC is an important metric for the Group as in some cases the collection profile of a particular portfolio can extend beyond 84-months, and as such, the 120-month ERC gives a more holistic view of potential remaining balance sheet cash collections from the Group's portfolio investments. |
| Leverage | Leverage is calculated as secured net debt over Adjusted EBITDA. | The leverage metric provides an indication of the level of indebtedness of the Group, relative to its underlying cash earnings. |

## GLOSSARY OF OTHER ITEMS

**'ACO 1'** is Arrow Credit Opportunities SCSp SICAV-RAIF and related investment vehicles, our first closed fund.

**'ACO 2'** is our second closed fund, Arrow Credit Opportunities II SCSp, SICAV-RAIF, and related investment vehicles.

**'Adjusted EBITDA'**. See the glossary of alternative performance measures on page 22 for the definition.

**'APM'** means alternative performance measure.

**'Capital-light income'** income and costs associated with managing debt portfolios on behalf of the Group, our discretionary funds and other third parties, the income and costs associated with providing other servicing activities to third parties and income and costs associated with investment and asset management.

'**Deal IRR (after servicing costs)**' means the internal rate of return adjusted for actual collections and the latest ERCs. This is post-servicing fee, but pre-management fees, carry/performance fees and other fund level costs.

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

**'ERC'** means Estimated Remaining Collections. See the glossary of alternative performance measures on page 22 for the definition of 84-month ERC and 120-month ERC.

**'Free cashflow'** or **'FCF'** means Adjusted EBITDA after the effects of capital expenditure, financing and tax cash impacts.

**'Funds under management (FUM)'** means the value of all fund management assets managed by Arrow Global Group Limited, including ACO 1 and ACO 2, Norfin Investimentos, Europa Investimenti, Saggita and any of Arrow's own capital which it has committed to invest alongside third-parties committed capital. FUM is an important metric used to understand the scale of the Group's fund management activities and how this compares to others in the market.

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

**'FY'** means full year being the 12 months to 31 December.

**'IFRS'** means EU adopted international financial reporting standards.

**'Leverage'** is secured net debt to Adjusted EBITDA. See the glossary of alternative performance measures on page 22 for more detail.

**'Liquidity headroom'** is cash on balance sheet, excluding the reclassified cash as detailed in the unaudited consolidated statement of cash flows, together with headroom on committed facilities.

**'NCI'** means non-controlling interest.

## GLOSSARY OF OTHER ITEMS *(continued)*

**'Net debt'** means the sum of the outstanding principal amount of the senior secured notes and asset-backed loans, interest thereon, amounts outstanding under the revolving credit facility and deferred consideration payable in relation to the acquisition of portfolio investment, less cash and cash equivalents. Net debt is presented because it indicates the level of debt after removing the Group's assets that can be used to pay down outstanding borrowings, and because it is a component of the maintenance covenants in the revolving credit facility. The breakdown of net debt as at 31 December 2022 is as follows:

| | 31 December 2022 £000 | 31 December 2021 £000 |
|---|---|---|
| Cash and cash equivalents | (143,603) | (202,263)[2] |
| Senior secured notes (pre-transaction fees net off) | 1,270,761 | 1,223,080 |
| Revolving credit facility (pre-transaction fees net off) | 172,213 | 171,415 |
| Asset-backed loans (pre-transaction fees net off) | 8,296 | 55,613 |
| **Secured net debt** | **1,307,667** | **1,247,845** |
| Deferred consideration – portfolio investments | 23,433[1] | 27,854 |
| Deferred and contingent consideration – business acquisitions | 3,197 | 1,503[2] |
| Senior secured loan notes interest | 9,342 | 8,874 |
| Asset backed loan interest | 23 | 181 |
| Bank overdrafts | 8,423 | 9,559[2] |
| Other borrowings | 13,590 | 2,241 |
| **Net debt** | **1,365,675** | **1,298,057** |

[1] *Deferred consideration – portfolio investments at 31 December 2022 includes £17,123,000 in respect of the Capquest and Mars UK platforms, which for disclosure purposes has been moved to 'Liabilities held for sale' on the condensed consolidated statement of financial position.*

[2] *Cash and cash equivalents at 31 December 2021 included £3,352,000 of cash in respect of the Whitestar Italy platform, which for disclosure purposes has been moved to 'Assets held for sale'. Deferred consideration – business acquisitions and bank overdrafts at 31 December 2021 included £182,000 and £71,000 respectively in respect of the Whitestar Italy platform, which for disclosure purposes has been moved to 'Liabilities held for sale' on the condensed consolidated statement of financial position.*

**'Portfolio amortisation'** represents total balance sheet cash collections plus income from portfolio investments.

**'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. Example portfolios comprise of groups of customer accounts or real estate, purchased in a single transaction.

**'Secured net debt'** see table in 'net debt' definition.