10 August 2022

Arrow Global Group
Interim results for the period ended 30 June 2022

Group highlights

Trading for the half year remained strong, with the Group making good progress on its transition to a capital-light integrated fund manager.

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

- H1 2022 collections were up 7.0% to £192.1 million (H1 2021: £179.6 million)
- Collections represented 110% of ERC during H1 2022 and 118% for Q2 2022
- Adjusted EBITDA generation for the period of £153.8 million, a year-on-year increase of 17.2% (H1 2021: £131.2 million)
- Leverage decreased by 0.3 times to 4.5 times as at 30 June 2022 (31 December 2021: 4.8 times) with healthy liquidity headroom of £262 million as at 30 June 2022 (31 December 2021: £304 million)
- Weighted average cost of debt for the Group of 5.0%, with no bond maturities until 2026

Scaling our fund management proposition with first close of ACO 2

- Arrow completed the first close of our ACO 2 fund, raising capital commitments of €1.1 billion, including Arrow's participation of 10%. We remain on track to meet our €2.5 billion target
- Deployment of €204 million capital in Q2 2022 (including commitments and deferred consideration) in ACO 1, bringing deployment for H1 2022 to €372 million (H1 2021: €359 million) as origination capabilities are scaled
- ACO 1 continues to outperform our target returns with a Deal IRR (after servicing costs) of 19%[1]

Creating efficient platforms to further drive capital-light income

- Record asset management servicing with third-party mandates won during the quarter in the UK, Ireland, Italy and Portugal
- Third-party capital-light income up 30.2% to £72.5 million (H1 2021: £55.6 million)

Group financial highlights	30 June 2022	30 June 2021	Change %
Balance sheet collections (£m)	192.1	179.6	7.0
Adjusted EBITDA (£m)	153.8	131.2	17.2
Free cash flow (£m)	107.6	90.7	18.6
Total income (£m)	162.5	166.3	(2.3)
Third-party capital-light income (£m)	72.5	55.6	30.2
Profit before tax and adjusting items (£m)[2]	1.9	22.9	(91.5)
Profit before tax and after adjusting items (£m)	(2.9)	0.5	n/a

	30 June 2022	31 December 2021	Change %
Leverage (x)	4.5	4.8	(0.3x)
84-month ERC (£m)[3]	1,437.0	1,530.3	(6.1)
120-month ERC (£m)[3]	1,611.5	1,685.0	(4.4)
Net debt (£m)	1,338.9	1,298.1	3.1

[1] The gross performance return to external LP investors is 24%, which reflects the impact of recycling and subscription finance

[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 page 16.

[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 31.5% since ACO 1 was launched in December 2019, a growing proportion of the Group's ERC is reported on a net basis.

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

"Collections have continued to perform strongly and were ahead of our expectations despite the economic uncertainty. This strong performance drove a reduction in leverage in the first half and was aided by our continued focus on tight cost control and increased platform efficiency. Underpinning the strong performance, our asset management servicing platforms enjoyed their best-ever quarter winning important third-party mandates across the Group.

In addition, we are delighted to have completed a further significant milestone for the Group with the first close of our ACO 2 Fund, raising €1.1 billion from a wide range of institutional investors and we remain on track to raise our target of €2.5 billion. We have continued to deploy our ACO 1 Fund at above target returns with assets predominately backed by real estate or cash in court. We have a strong investment pipeline as we continue to develop our off-market origination capabilities."

Overview of group results and segmental commentary

The Group delivered Adjusted EBITDA for the period of £153.8 million, a year-on-year increase of 17.2% primarily driven by the strong collections performance. H1 2022 collections were up 7.0% to £192.1 million, representing 110% of ERC during H1 2022 and 118% for Q2 2022. This over-performance was in part due to an acceleration of collections, but given the current macro-economic backdrop demonstrates our collections resilience and prudent ERC assumptions. The strong cash generation has resulted in a decrease in leverage over the period by 0.3 times to 4.5 times as at 30 June 2022.

The profit before tax and adjusting items was £1.9 million for the period, compared with £22.9 million in H1 2021. The decrease is primarily due to the £25 million non-cash impairment write-up of balance sheet investments (including FV assets) in H1 2021 compared with £7 million in H1 2022. In addition to this £18 million non-cash impairment write-up movement, the Group also incurred a £4.3 million FX re-translation loss in H1 2022 representing the non-cash revaluation of our Euro net liability position. 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. This gives rise to short-term non-cash profit and loss volatility.

Interest costs were £8.8 million higher in the period compared with H1 2021, primarily driven by the refinancing following the take private transaction.

The Group completed a further significant milestone with the first close of our ACO 2 Fund, raising capital commitments of €1.1 billion including Arrow's participation of 10%, and we remain on track to meet our €2.5 billion target. The performance of ACO 1 has continued above target with a Deal IRR (after servicing costs) of 19%[1] and deployment increased to €372 million from €359 million in H1 2021. Overall, the Group is making good progress on its transition to a capital-light integrated fund manager.

Segmental commentary

Post the acquisition by TDR, we strategically positioned the business as a platform led vertically aligned business, with our internal reporting and performance management aligned to this structure. This has led to a change in our reportable operating segments, more detail of which can be found on pages 9 to 11. The highlights from our new segments, being Platforms, Balance Sheet and Group, are discussed below:

Platforms

The platform segment includes the results of our asset management and servicing and fund management activity, through our various platforms, providing capital-light returns.

Overall Platform EBITDA increased by 16.0%, from £12.7 million in H1 2021 to £14.7 million in H1 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.

Arrow completed the first close of our ACO 2 fund, raising capital commitments of €1.1 billion, including Arrow's participation of 10%. We remain on track to meet our €2.5 billion target.

[1] The gross performance return to external LP investors is 24%, which reflects the impact of recycling and subscription finance

There has been strong deployment into ACO1, total capital invested of €1.5 billion, with proforma Group Funds Under Management (FUM) of €5.3 billion at 30 June 2022 (inclusive of ACO 2 first close). Considering future commitments and net of recycled collections, total net capital commitments were circa €1.2 billion (representing over 80% of ACO1 commitments excluding co-invest). €204 million of capital was deployed in Q2 2022 (including commitments and deferred consideration) in ACO 1, bringing deployment for H1 2022 to €372 million (H1 2021 :€359 million), as the Group continues to invest in scaling our origination capabilities. Given the uncertain macro-economic outlook, the Group has continued to focus on off-market acquisitions, with over 80% of ACO 1 investments being off-market and increased investments in paying, real estate and cash in court portfolios. Over 90% of the portfolio is secured on real estate, cash in court and other mixed security and is built from highly granular deployment, with 586 deals acquired in ACO 1. As a result, ACO 1 is delivering above target returns with a Deal IRR (after servicing costs) of 19%[1], with a strong investment pipeline.

Third-party capital-light income increased by 30.2% or £16.8 million to £72.5 million from H1 2021 to H1 2022. Arrow had its strongest quarter in our history with third-party asset and servicing mandates won in the UK, Ireland, Italy and Portugal, including our largest single party mandate ever in Ireland, mandate extensions from UK challenger banks, a number of attractive secured UK servicing mandates, a large Irish non-performing residential mortgage loan-backed securitisation mandate and a number of NPL and REO mandates for Whitestar in Portugal.

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. H1 2022 collections were up 7.0% to £192.1 million (H1 2021: £179.6 million). Purchases of £75.3 million were made in H1 2022 (H1 2021: £94.8 million) with a strong investment pipeline continuing into H2 2022.

Overall Balance Sheet EBITDA decreased by 26.2%, from £61.8 million in H1 2021 to £45.6 million in H1 2022, primarily as a result of lower non-cash impairment gains in H1 2022, totalling £7.0 million (H1 2021: £24.8 million).

Whilst the first half of 2022 has seen macro-economic pressures build, the forecast has proven resilient, with collections represented 110% of ERC during H1 2022 and 118% during Q2 2022.

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. There was a continued focus on cost control during the period, whilst ensuring that the Group continues to invest for the future. Underlying segmental Group operating expenses, excluding FX, decreased by £2.4 million to £13.4 million (H1 2021: £15.8 million), driven by a higher utilisation of staff servicing the fund and recovering their costs, offset by increased investment, in particular, in fund raising capabilities.

In addition, there was a £4.3 million FX loss arising in the period (H1 2021: £0.4 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. This gives rise to short-term non-cash profit and loss volatility.

There is a strong focus on cost control, with management actions delivering annualised cost savings of £20 million, following the transaction from public to private ownership, completed during Q1 2022.

[1] The gross performance return to external LP investors is 24%, which reflects the impact of recycling and subscription finance

Results Presentation – Conference call details

A presentation is available on the Company's website https://bit.ly/3Co0rvO.

There will be a conference call for bondholders at 2.00pm (UK time) with Arrow Global's management team.

Please join the event 10-15 minutes prior to scheduled start time. You will be required to enter your name and registration details.

Conference ID: 4603127
Connect at: **https://bit.ly/3P2YMB6**

Provided dial-in list of access numbers is also available if needed.

For further information:

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

Notes:

For the purposes of this document, the comparative results are for Arrow Global Group Limited (formerly plc), being the consolidated results of the Group prior to the acquisition by TDR.

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.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the period ended 30 June 2022

	6 months to 30 June 2022 £000	As re-presented 6 months to 30 June 2021 £000	3 months to 30 June 2022 £000	As re-presented 3 months to 30 June 2021 £000
Continuing operations				
Income from portfolio investments at amortised cost	55,802	68,570	27,583	33,873
Fair value gains on portfolio investments at FVTPL	20,465	23,419	9,608	14,364
Impairment gains on portfolio investments	8,796	17,655	6,677	9,162
Income from portfolio investments - real estate inventories	1,511	1,033	832	626
Total income from portfolio investments	**86,574**	**110,677**	**44,700**	**58,025**
Capital-light income	72,467	55,646	37,138	30,066
Gain on disposal of subsidiary	2,720	–	–	–
Other income	780	9	302	2
Total income	**162,541**	**166,332**	**82,140**	**88,093**
Operating expenses:				
Collection activity costs and fund management costs	(63,298)	(67,718)	(32,447)	(34,550)
Other operating expenses	(64,802)	(67,867)	(33,697)	(45,503)
Total operating expenses	**(128,100)**	**(135,585)**	**(66,144)**	**(80,053)**
Operating profit	**34,441**	**30,747**	**15,996**	**8,040**
Net finance costs	(39,017)	(30,237)	(19,790)	(15,475)
Share of profit in associate	1,684	–	606	–
(Loss)/profit before tax[1]	**(2,892)**	**510**	**(3,188)**	**(7,435)**
Taxation credit/(charge) on ordinary activities	501	(1,375)	585	532
Loss after tax	**(2,391)**	**(865)**	**(2,603)**	**(6,903)**
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	296	(6,466)	530	1,141
Movement on the hedging reserve	–	35	–	16
Total comprehensive loss	**(2,095)**	**(7,296)**	**(2,073)**	**(5,746)**
(Loss)/profit attributable to:				
Owners of the Company	(2,264)	(938)	(2,538)	(7,006)
Non-controlling interest	(127)	73	(65)	103
	(2,391)	**(865)**	**(2,603)**	**(6,903)**

[1] *The loss before tax of £2,892,000 for the 6-month period to 30 June 2022, includes £4,829,000 of net adjusting costs, with an underlying profit before tax of £1,937,000. For the reconciliation to the condensed consolidated profit and loss, please see the reconciliation on page 16.*

For the purposes of this document, the comparative results are for Arrow Global Group Limited (formerly plc), being the consolidated results of the Group prior to the acquisition by TDR.

There has been a reclassification between the two operating expenses rows 'collection activity and fund management costs' and 'other operating expenses' in the prior period. 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 £1,318,000 from 'other operating expenses' to 'collection activity and fund management costs' in the prior period. The total operating expenses impact is £nil. Further information can be found in note 2.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

Assets	Note	30 June 2022 £000	31 December 2021 £000	30 June 2021 £000
Cash and cash equivalents		134,803	198,911	117,978
Trade and other receivables		62,795	52,360	68,635
Portfolio investments – amortised cost	3	681,007	704,944	735,353
Portfolio investments – FVTPL	3	332,539	302,808	239,322
Portfolio investments – real estate inventories	3	43,527	41,029	53,351
Property, plant and equipment		21,191	16,634	17,444
Intangible assets		124,405	128,429	38,890
Deferred tax asset		3,983	3,212	31,480
Investment in associate		64,031	62,184	–
Goodwill		688,061	688,063	269,464
Assets held for sale[1]		–	5,655	–
Total assets		**2,156,342**	**2,204,229**	**1,571,917**
Liabilities				
Bank overdrafts	4	8,613	9,630	3,094
Revolving credit facility	4	145,564	167,373	201,504
Derivative liability		26,159	25,607	40
Trade and other payables		188,761	190,604	172,227
Current tax liability		3,185	1,837	1,065
Other borrowings	4	1,952	2,241	2,487
Asset-backed loans	4	22,811	55,158	93,856
Senior secured notes	4	1,230,339	1,211,416	967,059
Deferred tax liability		22,449	24,286	17,593
Liabilities held for sale[1]		–	5,655	–
Total liabilities		**1,649,833**	**1,693,807**	**1,458,925**
Equity				
Share capital		166,813	166,813	1,796
Share premium		410,859	410,859	347,436
Retained earnings		(73,937)	(71,672)	41,140
Hedging reserve		–	–	(32)
Other reserves		1,249	952	(280,922)
Total equity attributable to shareholders		**504,984**	**506,952**	**109,418**
Non-controlling interest		1,525	3,470	3,574
Total equity		**506,509**	**510,422**	**112,992**
Total equity and liabilities		**2,156,342**	**2,204,229**	**1,571,917**

[1] 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 30 June 2022 position.

For the purposes of this document, the 30 June 2021 condensed consolidated statement of financial position is that of Arrow Global Group Limited (formerly plc), being the condensed consolidated statement of financial position of the Group prior to the acquisition by TDR.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 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	–	(2,264)	**(2,264)**	(127)	**(2,391)**
Exchange differences	–	296	**296**	–	**296**
Total comprehensive loss for the period	–	(1,968)	**(1,968)**	(127)	**(2,095)**
Dividends paid to non-controlling interest	–	–	**–**	(1,818)	**(1,818)**
Balance at 30 June 2022	**166,813**	**338,171**	**504,984**	**1,525**	**506,509**

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 period ended 30 June 2022

	Period ended 30 June 2022 £000	Period ended 30 June 2021 £000
Net cash flows from operating activities before purchases of portfolio investments	**116,546**	**136,475**
Portfolio purchases and investments awaiting deployment	(83,023)	(94,775)
Net cash generated by operating activities	**33,523**	**41,700**
Net cash used in investing activities	**(12,375)**	**(17,621)**
Net cash flows used in by financing activities	**(94,192)**	**(86,374)**
Net decrease in cash and cash equivalents	**(73,044)**	**(62,295)**
Cash and cash equivalents at beginning of period	202,263[1]	182,892
Effect of exchange rates on cash and cash equivalents	5,584	(2,619)
Cash and cash equivalents at end of period	**134,803**	**117,978**

[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.

For the purposes of this document, the comparative results are for Arrow Global Group Limited (formerly plc), being the consolidated results of the Group prior to the acquisition by TDR.

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 or interim financial statements and therefore are not fully compliant with IAS 34 – Interim financial reporting. These quarterly results should be read in conjunction with the Group's consolidated report and accounts for the year ended 31 December 2021. The comparative results are for Arrow Global Group Limited (formerly plc), being the consolidated results of the Group prior to the acquisition by TDR.

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 period ended 31 December 2021, which can be found on the website at https://bit.ly/3Co0rvO.

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 is wholly owned by Sherwood Parentco Limited, the acquisition vehicle of TDR. 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 board of directors of Sherwood Parentco Limited 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 will now report under three separate reportable segments, being Platforms, Balance Sheet and Group. Details of the new principal business categories are as follows:

Platforms	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. 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 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 period. 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 £1,318,000 from 'other operating expenses' to 'collection activity and fund management costs' in the prior period. The total operating expenses impact is £nil.

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

2. Segmental reporting *(continued)*

The Platform 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.

Period ended 30 June 2022

	Platforms £000	Balance Sheet £000	Group £000	Intra-segment elimination £000	Adjusting items £000	Total exc. adjusting items 30 June 2022 £000	Total inc. adjusting items 30 June 2022 £000
Total income	98,778	89,716	1,069	(27,022)	(157)	162,384	162,541
Collection activity costs	(45,480)	(44,118)	(722)	27,022	–	(63,298)	(63,298)
Gross margin	**53,298**	**45,598**	**347**	**–**	(157)	**99,086**	**99,243**
Gross margin %	*54.0%*	*50.8%*				*61.0%*	*61.1%*
Other operating expenses excluding depreciation, amortisation and forex	(38,579)	–	(11,355)	–	50	(49,884)	(49,934)
EBITDA	**14,719**	**45,598**	**(11,008)**	**–**	**(107)**	**49,202**	**49,309**
EBITDA margin %	*14.9%*	*50.8%*				*30.3%*	*30.3%*
Depreciation and amortisation	(4,216)	–	(6,336)	–	5,010	(5,542)	(10,552)
Forex	–	–	(4,316)	–	–	(4,316)	(4,316)
Operating profit/(loss)	**10,503**	**45,598**	**(21,660)**	**–**	**4,903**	**39,344**	**34,441**
Net finance costs	–	–	(39,017)	–	(74)	(39,091)	(39,017)
Share of profit in associate	–	–	1,684	–	–	1,684	1,684
Profit/(loss) before tax	**10,503**	**45,598**	**(58,993)**	**–**	**4,829**	**1,937**	**(2,892)**
Adjusting items	–	–	–	–	*(4,829)*	*(4,829)*	–
Profit/(loss) before tax including adjusting items	*10,503*	*45,598*	*(58,993)*	**–**	–	*(2,892)*	*(2,892)*

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

2. Segmental reporting *(continued)*

Period ended 30 June 2021

	Platforms [1] £000	**Balance Sheet [1] £000**	**Group[1] £000**	**Intra-segment elimination[1] £000**	**Adjusting items[1] £000**	**Total exc. adjusting items 30 June 2021 £000**	**As re-presented Total inc. adjusting items 30 June 2021 £000**
Total income	85,477	110,675	9	(29,829)	–	166,332	166,332
Collection activity costs[2]	(46,552)	(48,878)	(2,117)	29,829	–	(67,718)	(67,718)
Gross margin	**38,925**	**61,797**	**(2,108)**	**–**	**–**	**98,614**	**98,614**
Gross margin %	*45.5%*	*55.8%*				*59.3%*	*59.3%*
Other operating expenses excluding depreciation, amortisation and forex[2]	(26,232)	**–**	(33,461)	–	22,356	(37,337)	(59,693)
EBITDA	**12,693**	**61,797**	**(35,569)**	**–**	**22,356**	**61,277**	**38,921**
EBITDA margin %	*14.8%*	*55.8%*				*36.8%*	*23.4%*
Depreciation and amortisation	(6,046)	3	(2,538)	–	–	(8,581)	(8,581)
Forex	–	–	407	–	–	407	407
Operating profit/(loss)	**6,647**	**61,800**	**(37,700)**	**–**	**22,356**	**53,103**	**30,747**
Net finance costs	–	–	(30,237)	–	–	(30,237)	(30,237)
Profit/(loss) before tax	**6,647**	**61,800**	**(67,937)**	**–**	**22,356**	**22,866**	**510**
Takeover costs	–	–	–	–	*(22,356)*	*(22,356)*	–
Profit/(loss) before tax including takeover costs	*6,647*	*61,800*	*(67,937)*	**–**	–	*510*	*510*

[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 platform 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 period. 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 £1,318,000 from 'other operating expenses' to 'collection activity and fund management costs' in the prior period. 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:

Period ended 30 June 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 period	12,787	62,470	–	75,257
Investments awaiting deployment*	–	7,766	–	7,766
Collections in the period	(116,350)	(68,272)	(7,519)	(192,141)
Income from portfolio investments at amortised cost	55,802	–	–	55,802
Fair value gains on portfolio investments at FVTPL	–	20,465	–	20,465
Income from portfolio investments - real estate inventories	–	–	1,511	1,511
Net impairment gains	8,686	–	110	8,796
Exchange and other movements	15,138	7,302	8,396	30,836
As at 30 June 2022	**681,007**	**332,539**	**43,527**	**1,057,073**

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

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**

3. Portfolio investments *(continued)*

Period ended 30 June 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 period	18,997	75,778	–	94,775
Collections in the period	(141,249)	(30,930)	(7,430)	(179,609)
Income from portfolio investments at amortised cost	68,570	–	–	68,570
Fair value gain on portfolio investments at FVTPL	–	23,419	–	23,419
Income from portfolio investments - real estate inventories	–	–	1,033	1,033
Net impairment gains/(losses)	17,752	–	(97)	17,655
Exchange and other movements	(22,271)	(16,366)	(1,395)	(40,032)
As at 30 June 2021	**735,353**	**239,322**	**53,351**	**1,028,026**

4. Borrowings and facilities

Secured borrowing at amortised cost	30 June 2022 £000	31 December 2021 £000	30 June 2021 £000
Senior secured notes (net of transaction fees of £22,719,000, 31 December 2021: £20,538,000, 30 June 2021: £10,535,000)	1,230,339	1,211,416	967,059
Revolving credit facility (net of transaction fees of £3,576,000, 31 December 2021: £4,042,000, 30 June 2021: £2,392,000)	145,564	167,373	201,504
Asset backed loan (net of transaction fees of £292,000, 31 December 2021: £636,000, 30 June 2021: £2,470,000)	22,811	55,158	93,856
Bank overdrafts	8,613	9,559[1]	3,094
Other borrowings – non-recourse facility	1,952	2,241	2,487
Total borrowing including held for sale	**1,409,279**	**1,445,747**	**1,268,000**
Bank overdraft moved to liabilities held for sale	–	71	–
Total borrowings excluding held for sale	**1,409,279**	**1,445,818**	**1,268,000**
Total borrowings including held for sale			
Amount due for settlement within 12 months	176,988	220,813	272,736
Amount due for settlement after 12 months	1,232,291	1,224,934	995,264
	1,409,279	**1,445,747**	**1,268,000**

[1] Bank overdraft includes £71,000 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. Therefore, there is £9,630,000 of bank overdrafts on the consolidated statement of financial position.

4. Borrowings and facilities *(continued)*

Senior secured notes

On 27 October 2021, Group successfully priced €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 initiate a 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.

The loan outstanding amounts to £23.1 million as at 30 June 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 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 30 June 2022, £101.6 million of the portfolio investments, set out in note 3, are pledged as collateral for the asset-backed securitisations.

ADDITIONAL INFORMATION

The Adjusted EBITDA reconciliations for the periods ended 30 June 2022 and 30 June 2021 respectively are shown below:

Reconciliation of net cash flow to EBITDA	**30 June 2022 £000**	**30 June 2021 £000**
Net cash flow generated by operating activities	33,523	41,700
Portfolio purchases and investments awaiting deployment	83,023	94,775
Income taxes paid	434	1,147
Working capital adjustments	35,059	(26,156)
Share of profit in associate	1,684	–
Operating cash adjusting items	50	19,733
Adjusted EBITDA	**153,773**	**131,199**
Reconciliation of balance sheet cash collections to EBITDA		
Income from portfolio investments including fair value and impairment losses and gains	86,574	110,677
Portfolio amortisation	105,567	68,932
Balance sheet cash collections (includes proceeds from disposal of portfolio investments)	**192,141**	**179,609**
Income from asset management and servicing, fund and investment management and other income	75,967	55,655
Operating expenses	(128,100)	(135,585)
Depreciation and amortisation	10,552	8,581
Foreign exchange losses/(gains)	4,316	(407)
Net (profit)/loss on disposal and write off intangible assets and property, plant and equipment	(117)	41
Share-based payments (excluding adjusting items)	–	949
Share of profit in associate	1,684	–
Profit on disposal of subsidiary	(2,720)	–
Operating cash adjusting items	50	22,356
Adjusted EBITDA	**153,773**	**131,199**
Reconciliation operating profit to EBITDA		
Loss after tax	(2,391)	(865)
Net finance costs	39,017	30,237
Share of profit in associate	(1,684)	–
Tax (charge)/credit on ordinary activities	(501)	1,375
Operating profit	**34,441**	**30,747**
Portfolio amortisation	105,567	68,932
Depreciation and amortisation	10,552	8,581
Foreign exchange losses/(gains)	4,316	(407)
Net (profit)/loss on disposal of intangible assets and property, plant and equipment	(117)	41
Share-based payments (excluding adjusting items)	–	949
Share of profit in associate	1,684	–
Profit on disposal of subsidiary	(2,720)	–
Finance adjusting items	50	22,356
Adjusted EBITDA	**153,773**	**131,199**

For details on adjusted items see page 16.

ADDITIONAL INFORMATION *(continued)*

Profit before adjusting items

	Period ended 30 June 2022 £000	As re-presented Period ended 30 June 2021 £000
Total income	**162,384**	**166,332**
Collection activity and fund management costs	(63,298)	(67,718)
Other operating expenses	(59,742)	(45,511)
Total operating expenses	**(123,040)**	**(113,229)**
Operating profit	**39,344**	**53,103**
Net finance costs	(39,091)	(30,237)
Share of profit in associate	1,684	–
Profit before tax and adjusting items	**1,937**	**22,866**
Taxation charge on underlying activities	(465)	(2,296)
Profit after tax before adjusting items	**1,472**	**20,570**
Non-controlling interest	**127**	**(73)**
Profit before adjusting items attributable to owners of the company	**1,599**	**20,497**
Tax rate on results before adjusting items	**24.0%**	**10.0%**

Reconciliation between IFRS profit and profit before adjusting items:

	Period ended 30 June 2022 profit before tax £000	Period ended 30 June 2022 tax £000	Period ended 30 June 2022 profit after tax £000	Period ended 30 June 2021 profit before tax £000	Period ended 30 June 2021 tax £000	Period ended 30 June 2021 profit after tax £000
IFRS reported (loss)/profit	**(2,892)**	**501**	**(2,391)**	**510**	**(1,375)**	**(865)**
Adjusting items:						
Gain on disposal of subsidiary	(2,720)	–	(2,720)	–	–	–
Other acquisition costs (including amortisation of acquisition intangible assets)	7,549	–	7,549	–	–	–
Share-based payment, retention arrangements and deal costs acceleration	–	–	–	22,356		22,356
Tax associated with adjusting items	–	(966)	(966)	–	(921)	(921)
Profit before adjusting items	**1,937**	**(465)**	**1,472**	**22,866**	**(2,296)**	**20,570**

Adjusting items are those items that by virtue of their size, nature or incidence (ie 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.

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. The transaction created ongoing non-cash acquisition intangible and fair value accounting unwinds, which are adjusted out of the results, being £7.5 million in the H1 2022.

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 is 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. £2.7 million of net profit has been recognised in adjusting items in relation to this.

ADDITIONAL INFORMATION *(continued)*

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

Reconciliation of profit after tax to the free cash flow result
Period ended 30 June 2021

Income	**Reported profit £000**	**Other items £000**	**Free cash flow £000**	
Income from portfolio investments at amortised cost	55,802	136,339	192,141	Balance sheet cash collections in the period
Fair value gain on portfolio investments at FVTPL	20,465	(20,465)	–	
Impairment gains on portfolio investments at amortised cost	8,796	(8,796)	–	
Income from portfolio investments – real estate inventories	1,511	(1,511)	–	
Income from capital-light income	72,467	–	72467	Income from capital-light income
Gain on disposal of subsidiary	2,720	(2,720)	–	
Other income	780	–	780	Other income
Total income[1]	**162,541**	**102,847**	**265,388**	Cash income
Total operating expenses	(128,100)	16,485[2]	(111,615)	Cash operating expenses
Operating profit	**34,441**	**119,332**	**153,773**	Adjusted EBITDA[4]
Net financing costs	(39,017)	3,864[3]	(35,153)	Cash financing costs
Share of profit in associate	1,684	(1,684)	–	
(Loss)/profit before tax	**(2,892)**	**121,512**	**118,620**	
Taxation credit/(charge) on ordinary activities	501	(935)	(434)	Cash taxation
(Loss)/profit after tax	**(2,391)**	**120,577**	**118,186**	
			(10,586)	Capital expenditure
			107,600	**Free cash flow [5]**

[1] Total income is largely derived from income from portfolio investments plus 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 15 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 LTM 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 ordinary course 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 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 encompassing a number of fund and related investment vehicles based in Luxembourg.

'Adjusted EBITDA'. See the glossary of alternative performance measures on page 18 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 18 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, 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 and Investment Management business 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 LTM Adjusted EBITDA. See the glossary of alternative performance measures on page 18 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.

'LTM' means last twelve months, calculated by the addition of the consolidated financial data for the year ended 31 December 2021 and the consolidated financial data for the six months to 30 June 2022, and the subtraction of the consolidated financial data for the six months to 30 June 2021.

'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 30 June 2022 is as follows:

	30 June 2022 £000	**31 December 2021 £000**
Cash and cash equivalents[1]	(134,803)	(202,263)
Senior secured notes (pre-transaction fees net off)	1,245,240	1,223,080
Revolving credit facility (pre-transaction fees net off)	149,140	171,415
Asset-backed loans (pre-transaction fees net off)	23,074	55,613
Secured net debt	**1,282,651**	**1,247,845**
Deferred consideration – portfolio investments	37,818	27,854
Deferred consideration – business acquisitions[1]	–	1,503
Senior secured loan notes interest	7,818	8,874
Asset backed loan interest	29	181
Bank overdrafts	8,613	9,559[1]
Other borrowings	1,952	2,241
Net debt	**1,338,881**	**1,298,057**

[1] Cash and cash equivalents at 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 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.