Interim results for the six months ended 30 June 2023

Arrow Global

23 August 2023

ARROW GLOBAL

Introduction

Zach Lewy

Group Chief Executive Officer

Successful transition to a capital-light integrated fund manager

Development of our FUM growing capital-light revenue……..delivering improved credit metrics

FUM	€7.8bn	*June 2022: €5.3bn*	↑ 47%
Capital-light EBITDA (LTM)	£44.8m	*June 2022: £21.7m*	↑ 107%
Deployment (LTM)	€1,232m	*June 2022: €795m*	↑ 55%
Free cashflow post investment (LTM)	£79.9m	*June 2022: £21.1m*	↑ 279%
Net debt	£1,297m	*Dec 2022: £1,366m*	↓ 5%
Leverage	3.4x	*Dec 2022: 4.1x*	↓ 0.7x

Strong progress on fundraising, two additional discretionary funds raised in the last 12 months, with first close of Arrow Real Estate Opportunities (AREO) to complement our flagship Arrow Credit Opportunities (ACO) funds

Development of our integrated fund manager proposition across credit, real estate and direct lending has continued at pace

De-leveraging - a strategic priority

- Leverage reduced by 0.7x to 3.4x during H1 2023, representing strong progress towards the medium-term target of 3.0x
- Collections were £230.9 million in H1 2023, representing 162% of ERC and 20% above prior year (H1 2022: £192.1 million)
- Net debt reduced by £68.7 million during H1 2023

Continue to scale our fund management proposition

- Development of fund management proposition across three investment strategies, credit, real estate equity and direct lending
- Initial close of our discretionary real estate equity fund (AREO) of €100 million, complements ACO 2 - largest distressed debt fund and fourth largest debt fund overall closed in Q1 2023
- Additional fundraising progressing well with further closings expected during 2023
- Continued scaling of investment activity with €758 million deployed in H1 2023, up 104% on prior year
- Delivering strong returns with Deal IRR (after servicing costs) of 18% and 20% for ACO 1 and ACO 2 respectively
- Continued build of capabilities – acquisitions of Eagle Street in Q1 2023 and remaining 51% of Maslow, which completed in Q3 2023

Efficient local platforms create a differentiated proposition

- Alignment of platforms with fund management activity with completion of divestment of our non-core Capquest and Mars UK platforms
- Integrated Fund Management segment delivering EBITDA of £19.8 million for the period (H1 2022: £14.7 million), a rise of 34.6%
- Continued third-party asset and servicing mandate wins across all our territories, including a significant contract for servicing of circa €5 billion in Ireland
- Maintaining our strong regulatory and customer franchise, as part of our broader ESG commitments

Strategic development to enable investment across three core asset classes

Our local platforms provide a differentiated proposition for investors

- **Unique market access - C.€70 billion AuM**
- Local originators and deal flow - **80%+** investments originated **off-market**
- Local underwriting and expertise
- Local relationships
- Local assets and debt collection data
- Regulated, rated & licensed
- Complemented by central expertise

Building three investment strategies with separate discretionary funds

CREDIT OPPORTUNITY

- Investments across the 5 geographies and multiple asset classes supported by **18 local platforms**
- **€4.5 billion of discretionary third-party capital**
- ACO 1 closed in 2020, deployed €1.9 billion[1], with Deal IRR (after servicing costs) of 18% as of June 2023
- ACO 2 raised with €2.75 billion hard cap in Q1 2023 from a diverse range of respected institutional LPs

LENDING

- Initially focused on secured development finance and bridge lending
- Expanding to cover Arrow's 5 target markets and recruited a team to build bridge lending proposition across our geographies
- **4 lending platforms**: UK, Ireland, NL - including Maslow following acquisition of the remaining 51% completed in Q3 2023
- **c€9 billion servicing AuM by lending platforms**

REAL ESTATE

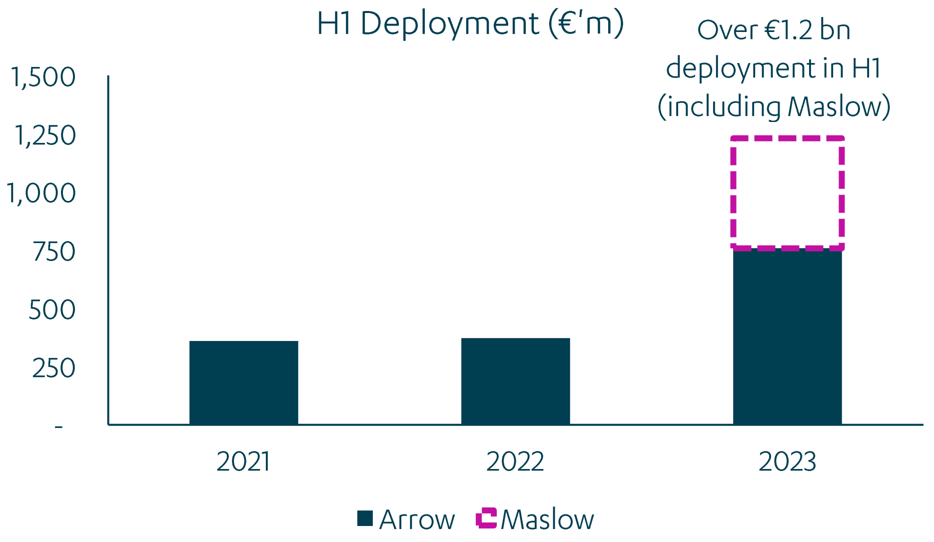
- Sourcing **high quality assets** from complex and distressed situations
- **9 real estate focused platforms in Arrow's 5 target countries** (UK, Ireland, Netherlands, Italy and Portugal)
- **+€14 billion Real Estate AuM**
- First discretionary fund launched and deploying capital in H1 2023

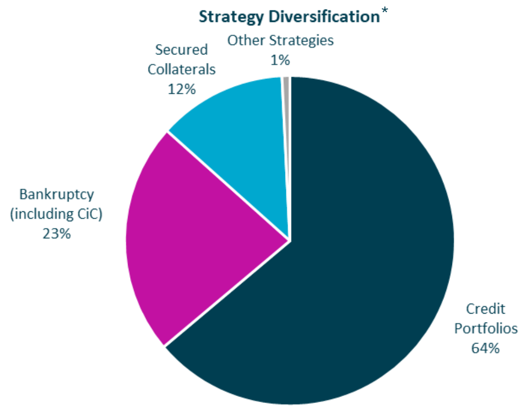
Ability to invest opportunistically across market cycles and asset classes leveraging our local platform footprint

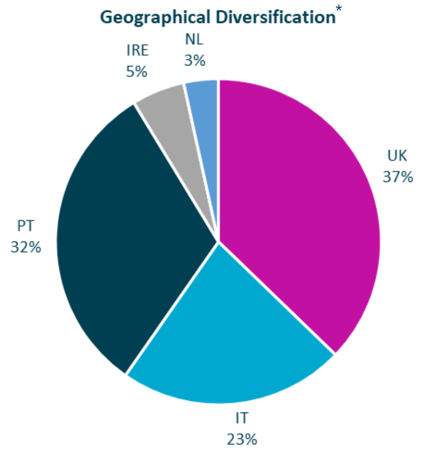
1. Includes committed (not yet cash funded) investments and investments funded through recycled collections

Strong fundraising and origination across our asset classes

- Strong fund-raising progress during H1
  - ACO 2 fund recognised as largest distressed debt fund and fourth largest debt fund overall globally closed in Q1 2023[1], reaching its hard cap of €2.75 billion
  - Fund raising for our discretionary Real Estate Equity Fund (AREO) progressing well, with capital raised to date of €100 million (€110 million including Arrow co-invest)
  - Maslow sourced over £400 million under bi-lateral LP relationships
- Record investment levels up 104% with €758 million deployed in H1 2023 (H1 2022: €372 million) of which, €26 million capital deployed by AREO
  - Deployment includes a significant Portuguese hospitality investment, part-funded by LP co-investment
  - In addition, over £400 million originated by Maslow
- Strong fund performance
  - ACO 1 is delivering strong returns, with a Deal IRR (after servicing costs) of 18% as of June 2023
  - The collections profile remains strong, having collected 113% of underwrite as at June 2023
  - Attractive returns for ACO 2 with Deal IRR (after servicing costs) of 20%
  - Over 90% of ACO 1 is secured on real estate, cash in court and other mixed security and is built from highly granular deployment, with over 350 individual investments







*based on percentage of NAV for ACO 1, ACO 2 and AREO funds at H1 2023

[1] Source: Private Debt Investor

Financial Review

Phil Shepherd
Group Chief Commercial Officer

Group cash performance

- Collections of £230.9 million were 20% above prior year and represented 162% of ERC
- Collections include proceeds of £91.5 million relating to the 50% divestment of the wholly owned UK unsecured back book
- Strong cash performance has delivered Adjusted EBITDA of £211.4 million, a £57.6 million increase on prior year
- Leverage reduced by 0.7x to 3.4x during H1 2023
- The strong collections and increasing capital light earnings drove free cash flow of £151.5 million (H1 2022: £107.6 million), an increase of 41%
- Free cash flow post portfolio investment increased by 192% to £71.8 million (H1 2022: £24.6 million)
  - Portfolio investments were £79.7 million[1] in 2023 (2022: £83.0 million), reflecting co-investment at 10% in ACO 2 rather than 25% in ACO 1
- Facilitated reduction in net debt of £68.7 million during H1 2023
  - In addition to the strong free cashflow, net proceeds from the sale of UK platforms to Intrum of £37.5 million were received in the period

Cash Performance	H1 2023 £'m	H1 2022 £'m	Change %
Core cash collections	230.9	192.1	*20*
Adjusted EBITDA	211.4	153.8	*37*
Leverage[2]	**3.4x**	**4.1x**	***(0.7x)***
Free cash flow generation	151.5	107.6	*41*
Free cash flow post portfolio investment	**71.8**	**24.6**	***192***

1. Includes movement on investments awaiting deployment of £4.1 million
2. 2022 comparative as at 31 December 2022

Integrated Fund Management Segment

- Integrated Fund Management income of £99.6 million was broadly unchanged compared with prior year on a reported basis:
  - 18.1 million decrease in reported revenue due to the divestment of Capquest and Mars UK, which is reported within adjusting items and not in the underlying result in H1 2023
  - £18.9 million growth in underlying capital light revenues
    - Increased management fees from our discretionary funds – three discretionary funds (ACO 1, ACO 2 and AREO 1) compared with one as at June 2022
    - Strong asset management and servicing driven by continued third party contract wins across all territories, with a landmark deal in Ireland of circa €5 billion
- Despite exclusion of divested platforms from the underlying result, **H1 EBITDA increased by 35% to £19.8 million**
  - LTM EBITDA has increased by 107% to £44.8 million compared with LTM to June 2022
- EBITDA margin expanded by 5%pts from 14.9% to 19.9%, reflecting the growth in the discretionary funds deployed, the operational leverage and efficiency from scaling of our operations
- We continue to invest in the growth of our Integrated Fund Management Segment to capture opportunities in real estate and direct lending adjacent asset classes
  - EBITDA and profit margins will continue to grow over the medium term as the business scales FUM and in time recognises carried interest

Integrated Fund Management Segment EBITDA	H1 2023 £'m	H1 2022 £'m	Change %
Income	99.6	98.8	*1*
Business operating costs	(44.5)	(45.5)	*(2)*
Overheads (excl. D&A and FX)	(35.2)	(38.6)	*(9)*
EBITDA	**19.8**	**14.7**	***35***
EBITDA margin (%)	*19.9*	*14.9*	*5 pts*

Note: Results for Capquest and Mars UK excluded in H1 2023 (included in H1 2022)

Balance Sheet Segment

- Collections of £230.9 million were £38.8 million higher than prior year, representing 162% of ERC
  - Includes £91.5 million relating to the 50% divestment of the wholly-owned UK unsecured back book
- Net collections[1] were £203.4 million and exceeded portfolio investments of £79.7[2] million by £123.7 million
- EBITDA was £16.6 million, £29.0 million lower than prior year driven by:
  - No income or associated collection costs on the divested portfolios (both 50% being sold, together with the 50% retained by Arrow) are reported within our underlying results up until deal completion
  - Performance under the lock-box mechanism adjusted the proceeds received from Intrum and the re-recognition value on the 50% retained by Arrow
  - EBITDA on the divested portfolios in H1 2022 was circa £10 million
  - £17.4 million year-on-year impairment variance - £4.8 million write up in H1 2022 versus £12.6 million write down in H1 2023. The impairment loss during the period relates to non-cash adjustments representing less than 1.5% of total NPV and drives the decline in the EBITDA margin

Balance Sheet Segment EBITDA	H1 2023 £'m	H1 2022 £'m	Change %
Core cash collections	230.9	192.1	*20*
Net collections[1]	203.4	148.0	*37*
Income	44.1	89.7	*(51)*
Business operating costs	(27.5)	(44.1)	*(38)*
EBITDA	**16.6**	**45.6**	***(64)***
EBITDA margin (%)	*37.6*	*50.8*	*(26)*

Note: Results for UK unsecured wholly owned portfolios excluded in H1 2023 (included in H1 2022)

1. Net collections is collections less collections activity costs
2. Includes movement in investments awaiting deployment of £4.1 million

Group Segment

- EBITDA in the Group segment reduced by £4.3 million driven by investment as we scale our fund management operations, in particular:
  - Additional on-going costs to continue to build fund-raising capabilities
  - Upfront set-up costs, such as legal and tax, to establish ACO 2 and AREO 1
- Investment leaves the business well placed to continue the expansion of the capital-light fee model in adjacent asset classes, such as real estate and direct lending
- Continued strong cost control focus following the strategic cost reduction programme delivered during 2022

Group Segment EBITDA	H1 2023 £'m	H1 2022 £'m	Change %
Income	0.0	0.9	*(102)*
Business operating costs	(0.1)	(0.7)	*(89)*
Overheads (excl. D&A and FX)	(15.4)	(11.3)	*35*
EBITDA	**(15.4)**	**(11.1)**	***39***

Summary of group performance

- Loss before adjusting items was £24.3 million for the period, with the year-on-year result impacted by the divestment
  - No income / costs on the balance sheet assets subject to divestment are reported in our underlying results up until deal completion (c.£10 million in H1 2022)
  - Capquest / Mars platform results reported through adjusting items £(2.8)m
- Financing costs were £11.5 million higher YoY reflecting:-
  - Rising interest rates
  - Costs of maintaining high levels of liquidity headroom
- During the period, £7.3 million FX gain (2022: £4.3 million loss) on the non-cash retranslation of our net Euro liability position as a natural hedge to the surplus Euro income generation from increasing fund management income and in due course, carried interest

Profit before tax and KPIs	H1 2023 £'m	H1 2022 £'m	Change %
EBITDA:			
Integrated Fund Management	19.8	14.7	*35*
Balance Sheet Business	16.6	45.6	*(64)*
Group	(15.4)	(11.1)	*39*
EBITDA	**21.0**	**49.2**	***(57)***
Depreciation and amortisation	(5.1)	(5.5)	*(8)*
FX (losses) / gains	7.3	(4.3)	*(269)*
Interest costs	(50.6)	(39.1)	*29*
Share of profit from associate net of tax	3.1	1.7	*83*
(Loss) / Profit before tax before adjusting items	**(24.3)**	**1.9**	***n/a***

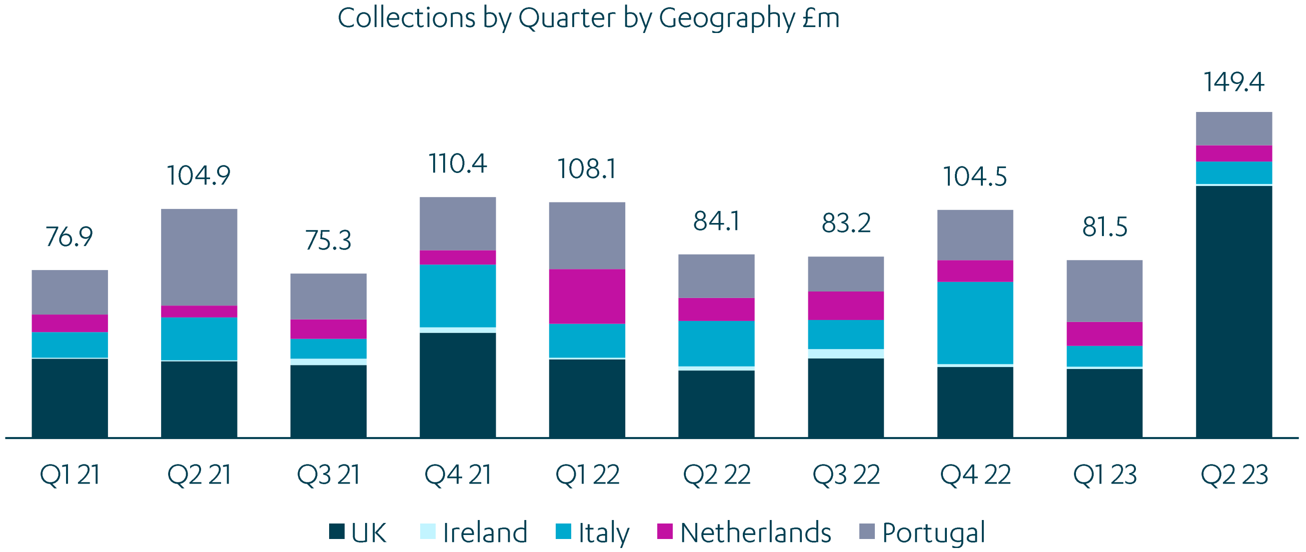
Note: Results for Capquest, Mars UK and UK unsecured wholly owned portfolios excluded in H1 2023 (included in H1 2022)

1. See page 20 for further explanation on adjusting item in respect of the divestment

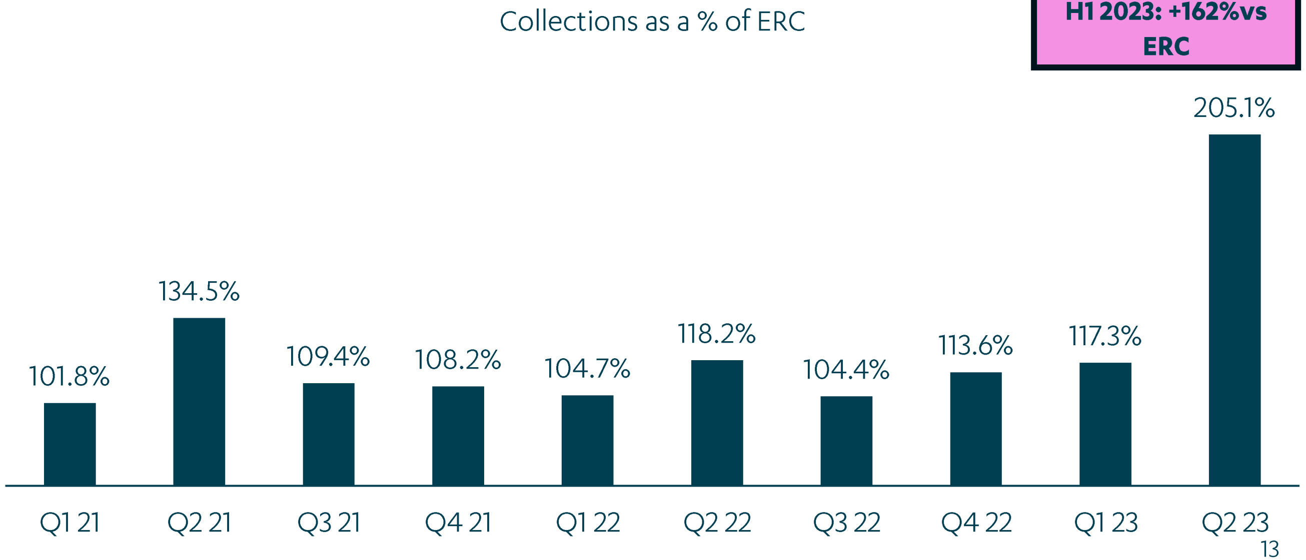
Collections

- ➢ Strong cash collections year to date of £230.9 million were £38.8 million higher than prior year, representing 162% of ERC
  - ➢ Includes proceeds of £91.5 million relating to the 50% divestment of wholly owned UK unsecured back book
  - ➢ Performance excluding the divestment represents 101% of ERC year to date
- ➢ Timing impacts of the increasing element of ERC backed by real estate and collateral, which can be "lumpy" in their realisation
- ➢ Despite the current macro-economic backdrop our collections continue to prove resilient with solid performance against our ERC assumptions

H1 2023: £230.9 m

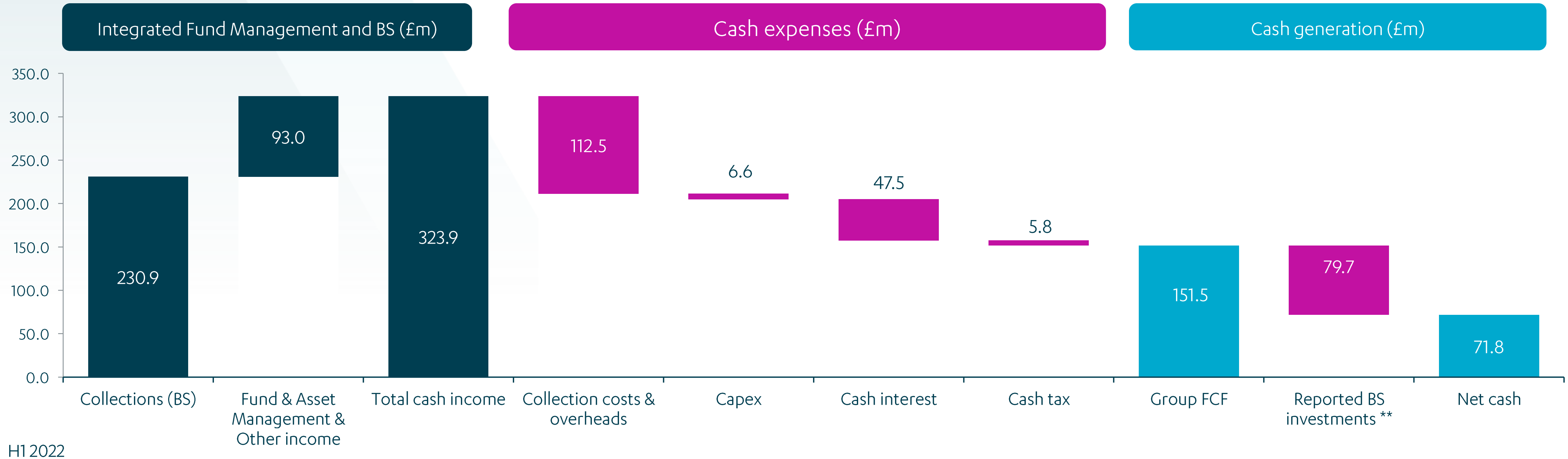


H1 2023: +162%vs ERC



Free cash flow generation

- Strong free cash flow* generation of £151.5 million (H1 2022: £107.6 million)
- Free cash flow generation exceeded the cash outflow for portfolio investments by £71.8 million (H1 2022 £24.6 million)
- Investment levels will benefit from 10% co-invest ratio in ACO 2 versus 25% through ACO 1, therefore capital intensity is expected to continue to reduce across the remainder of 2023
- Unique integrated fund manager model enables revenue/earnings growth with balance sheet de-leveraging as we go forward



H1 2022 (£m):	192.4	73.2	265.4	(111.6)	(10.5)	(35.2)	(0.4)	107.6	(83.0)	24.6

* Free cash flow = Cash generated after the effects of capital expenditure, financing and tax cash impacts & before reinvestment and cash impact of adjusting items
** Investments made includes movements on funding into holding structure, does not include funding deferred portfolio investments from previous years, excludes re-investment in 50% of UK unsecured back book

Cash generation and capital allocation

- Free cash flow (£151.5 million) exceeded portfolio investments (£79.7 million) by £71.8 million
- Net debt reduced by £69 million in H1 2023
- The cash inflow from the divestment of the UK platforms (£37.5 million) is shown as an inflow under M&A and is partly offset by the outflow in respect of the acquisition of Eagle Street
- The £26 million other outflow represents movement associated with UK divestment (£14 million) and £32 million operational working capital outflow, predominantly relating to the payment of year-end bonuses in Q1 2023, Maslow accrued profits and capitalised Fund set-up costs for ACO 2 and AREO
- Going forward (with 10% co-investment in ACO 2), the strong free cash flow is expected to continue to exceed portfolio investment and support de-leveraging

£'millions	2021	2022	H1 2023
Free Cash Flow	**182**	**214**	**152**
Reported Balance Sheet investments[1]	(190)	(181)	(80)
Net Cash Flow post investment	**(8)**	**33**	**72**
Deferred portfolio investment to following periods	40	24	13
Deferred portfolio investment from prior periods	(10)	(18)	(19)
TDR acquisition-related expenditure	(83)	-	
M&A	(25)	(7)	29
Other	14	(100)	(26)
(Increase) / decrease in net debt	**(72)**	**(68)**	**69**

Item	£m
FX	23
Operational working capital	(32)
Movement associated with divestment	(14)
Accrued Interest	(4)
Total	**(26)**

1. Includes movements on funding into holding structure made in 2022 and 2023

Liquidity and leverage position

- Group leverage reduced by 0.7 times during H1 2023 from 4.1x to 3.4x, representing strong progress towards medium term strategic leverage commitment of 3.0 times
- The strong cash performance has facilitated debt repayment of £119 million
- Significant levels of liquidity headroom with no bond maturities until 2026
  - Weighted average duration of debt 3.7 years (FY 2022: 4.2 years)
  - Weighted average cost of debt of 6.7% (FY 2022: 6.3%)
  - Currently circa 80% of total bonds are fixed rate, including the impact of interest rate swaps
- Gross 120-month ERC was £1,290.8 million at H1 2023, 25% lower than December 2022. The reduction predominantly represents the divestment of the wholly-owned UK unsecured backbook
- Commitment to reaching medium term target leverage of circa 3 times

£'millions	Jun-23
Cash	(99)
£350m 6% Fixed Rate Notes due 2026	350
€640m Floating Rate Notes due 2027 Euribor + 4.625%	550
€400m 4.5% Fixed Rate Notes due 2026	344
Revolving credit facility - £285m maturing 2026	111
Total secured net debt	**1,256**
LTM Adjusted EBITDA	373.0
Leverage	***3.4x***
Liquidity headroom (cash and RCF headroom)	264
84-month ERC[1]	1,210.2
120-month ERC[1]	1,290.8

1. Given Arrow now co-invests in ACO 1 & 2 with an increasing proportion of ERC measured on FVTPL basis, approximately 54% of 84-month ERC and 53% of 120-month ERC is stated net of servicing and collections costs. Assuming 15% servicing costs, comparable gross ERC would be £1,326 million 84-month ERC and £1,412 million 120-month ERC respectively

Strategic focus

Zach Lewy
Group Chief Executive Officer

The leading integrated fund manager

De-leveraging - a strategic priority

- Committed to reducing leverage to circa 3 times and repaying net debt over the medium term
- Strong collections focus, augmenting the build of capital light revenue streams
- Co-investment reduced to 10% for ACO 2 will drive increasing free cashflow after portfolio re-investment, supporting de-leveraging and will generate a proforma return on capital invested of circa 40%

Continue to scale our fund management proposition

- Development of three investment strategies, credit, real estate equity and direct lending, all utilising our local platforms and our vertically integrated model as we seek to build the leading European integrated fund manager
- Successful fund raising with strong pipeline of interest from a broad range of LPs
- Ongoing scaling of our origination through our off-market, local strategy driving higher returns
- Broadening our origination capabilities

Efficient local platforms create a differentiated proposition

- Integrated Fund Management segment delivering increased EBITDA and profitability as we scale our business
- Aligned local platforms provide a differentiated strategy (typically smaller, higher return deals) versus other credit funds
- Maintaining our strong regulatory and customer franchise as part of our broader ESG commitments

Appendix

Divestment of non-core platforms : accounting & financial impact

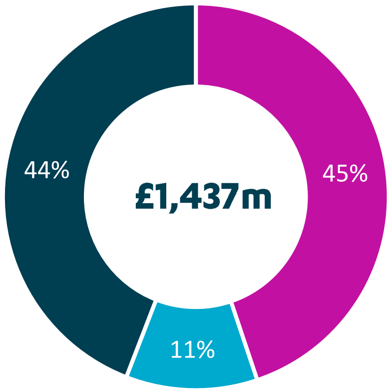
- Following a strategic review, in Q3 2022, Arrow agreed to divest our non-core platforms, Capquest and Mars UK, to Intrum UK, subject to customary closing conditions including regulatory approval, with UK wholly-owned unsecured back book subject to a 50:50 profit sharing arrangement. This divestment completed in Q2 2023
  - net proceeds received of £129 million, representing £91.5 million in respect of 50% of the portfolios, with £37.5 million being received for the platforms
  - 100% of UK wholly-owned unsecured back book represents £225.6 million of carrying value, £395.3 million of 84-month ERC and £482.0 million of 120-month ERC as at 31 May 2023
  - circa £19 million net asset value of the platform transferred
- £2.8 million loss has been recognised in adjusting items for the six months to June 2023, being a £11.9 million profit on disposal of held for sale assets and liabilities offset by £14.8 million of operations held for sale result
- Going forward, the 50% balance sheet investments retained by Arrow will be accounted for on a joint venture basis

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

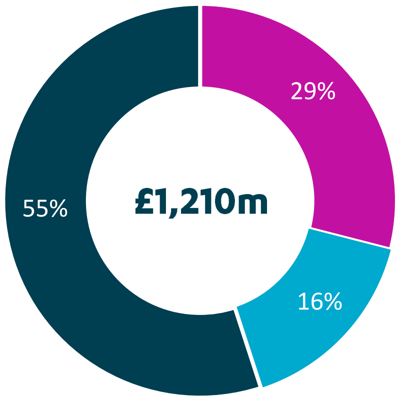
ERC exposure by geography and type

ERC for assets measured net of servicing and collection costs and represents 54% of total ERC

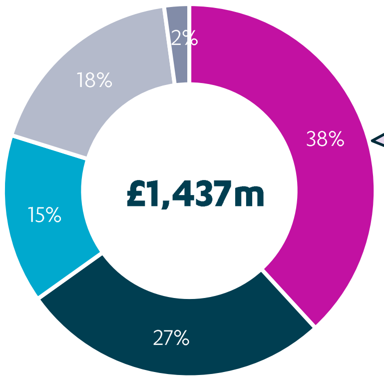
Jun 2022 84-month ERC by asset class



Jun 2023 84-month ERC by asset class

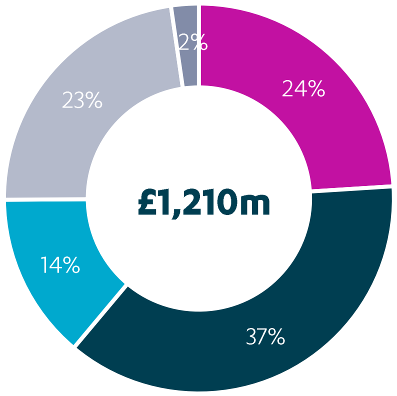


Jun 2022 84-month ERC by geography



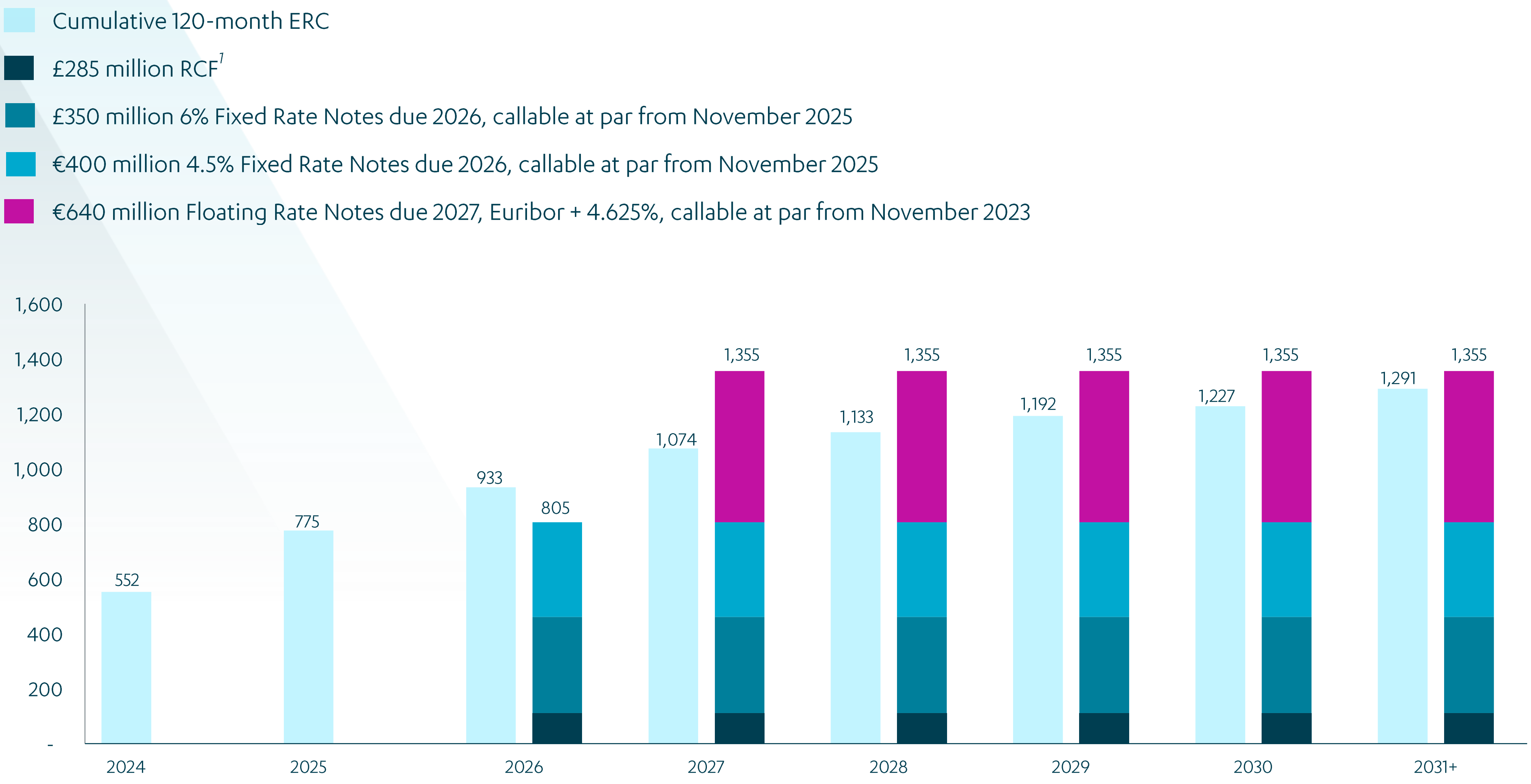
The UK unsecured portfolios that were sold as part of the 50:50 profit sharing arrangement going forward on the back book portfolios with Intrum UK represented £424.2 million of 84-month ERC as at 30 June 2022

Jun 2023 84-month ERC by geography



1. ERC includes Arrow's investment in ACO 1, ACO 2 and AREO 1
2. A growing proportion of the Group's ERC is reported net of servicing and collection costs. The percentage of 84-month ERC for assets measured on a net basis was 54% as at June 2023
3. Collateralised unsecured primarily represents claims in bankruptcy situations originated by Europa Investimenti

Gross debt maturity profile against 120-month ERC



[1] Drawn RCF balance as at June2023 was £111 million

[2] All debt maturities are shown gross, not taking into account Group cash balances of £99 million which were held as at June 2023

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