23 August 2023

Arrow Global Group
Interim results for the period ended 30 June 2023

Group highlights

Development of our integrated fund manager proposition across credit, real estate and direct lending has continued at pace. Launched a real estate equity investment strategy, with first close of Arrow Real Estate Opportunities (AREO) in H1 2023 complementing our ACO discretionary credit opportunity funds, as we seek to build the leading European integrated fund manager.

Building a multi-strategy vertically integrated fund management model

- Development of three investment strategies, credit, real estate equity and direct lending, all utilising our local platforms and vertically integrated model
- Initial close of our discretionary real estate equity fund (AREO) of €100 million (€110 million including Arrow co-invest), with additional fundraising progressing as planned and further closing expected during 2023
- Acquisition of the remaining 51% of Maslow, completed in Q3 2023. Maslow has continued to build its lending franchise and originated over £400 million in H1 2023, sourced 100% from external LPs
- ACO 2 fundraising completed in H1 2023, recognised as largest distressed debt fund and fourth largest debt fund overall globally closed in Q1 2023 and reaching hard cap of €2.75 billion
- Continued scaling of investment activity with €758 million deployed in H1 2023 up 103.8% on prior year (H1 2022: €372 million)
- Delivering strong returns in both our ACO funds with Deal IRR (after servicing costs) of 18% and 20% in ACO 1 and ACO 2 respectively

Significant reduction in leverage, representing strong progress to our medium-term strategic target

- Leverage reduced by 0.7 times to 3.4 times as at 30 June 2023 (31 December 2022: 4.1 times, 30 June 2022: 4.5 times), representing strong progress towards the medium-term strategic target of 3.0 times
- Collections were £230.9 million in H1 2023 (H1 2022: £192.1 million), representing 162% of ERC
- Adjusted EBITDA for the period was £211.4 million, up £57.6 million on H1 2022, facilitating net debt reduction of £67.8 million during H1 2023
- Maintained a healthy liquidity headroom of £264 million as at 30 June 2023 (31 December 2022: £248 million, 30 June 2022: £262 million) with no bond maturities until 2026

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

- Completed the divestment of our non-core Capquest and Mars UK platforms to Intrum UK in Q2 2023, along with 50% of the UK wholly owned unsecured back book, with net proceeds of £129 million
- Third-party capital light income increased by 27.5% to £92.4 million (H1 2022 £72.5 million)
- Integrated Fund Management segment delivering EBITDA of £19.8 million for the period (H1 2022: £14.7 million), a rise of 34.6%. EBITDA for the year to June 2023 for the segment was £44.8 million, a rise of 107% on the year to June 2022
- Continued third-party asset and servicing mandate wins across all our territories, including a significant contract for servicing of circa €5 billion residential mortgages in Ireland, and a strong pipeline of opportunities

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

"Arrow has made strong progress towards our strategic goal of becoming the leading European vertically integrated asset manager. The launch of a real estate equity investment strategy, with the successful first close of the Arrow Real Estate Opportunities (AREO) discretionary fund, complements our flagship Arrow Credit Opportunities (ACO) funds, and the acquisition of Maslow and Eagle Street, all leave us well placed to develop our integrated fund management proposition across credit, real estate and direct lending.

We have grown investment activity with deployment of €758 million in the first half of the year, a substantial increase from €372 million in H1 2022. Despite the uncertain macro-economic backdrop, our ACO funds continue to deliver strong returns, re-enforcing our unique proposition combining our local platforms and off-market origination.

With a growing investor landscape, I'm confident our business is advantageously positioned to deliver responsible growth and diversified returns across our European markets."

Group financial highlights	**30 June 2023**	**30 June 2022**	**Change %**
Balance sheet collections (£m)	230.9	192.1	20.2
Adjusted EBITDA (£m)	211.4	153.8	37.5
Free cash flow (£m)	151.5	107.6	40.8
Total income (£m)	146.3	162.5	(10.0)
Third-party integrated fund and asset management income (£m)	92.4	72.5	27.5
Third-party integrated fund and asset management income before adjusting items (£m)	80.6	72.5	11.2
(Loss)/profit before tax and adjusting items (£m)[1]	(24.3)	1.9	(1,355.4)
(Loss)/profit before tax and after adjusting items (£m)	(36.8)	(2.9)	1,171.1

	30 June 2023	**31 December 2022**	**Change %**
Funds Under Management (FUM) (€bn)	7.8	6.2	25.8
Leverage (x)	3.4	4.1	(0.7)x
84-month ERC (£m)[2]	1,210.2	1,545.9	(21.7)
120-month ERC (£m)[2]	1,290.8	1,714.3	(24.7)
Net debt (£m)	1,297.0	1,365.7	(5.0)

[1] 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 18 and 19.

[2] ERC for FVTPL assets, such as Arrow's share of ACO 1 and 2, 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 41.4%, 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 continues to make strong progress towards becoming the leading European integrated fund manager. The Group completed €2.75 billion ACO 2 fundraise, which Private Debt Investor has reported as the largest distressed debt fund and fourth largest debt fund closed globally in Q1 2023, and launched a real estate equity investment strategy with the first close of our discretionary AREO Fund raising €100 million (€110 million including Arrow co-invest) in H1 2023. The acquisition of the remaining 51% stake in Maslow was completed in Q3 2023, which strengthens our direct lending capabilities, enabling us to expand our capital-light fee model in both real estate and direct lending to deliver sustainable earnings growth.

FUM have grown to €7.8 billion as at 30 June 2023, representing growth of €2.5 billion from €5.3 billion as at 30 June 2022 and €1.6 billion from €6.2 billion at 31 December 2022.

Collections were £230.9 million during the period, 20.2% higher than the prior period (H1 2022: £192.1 million). Collections performance was robust, representing 162% of ERC, which includes £91.5 million in respect of the collection arising from the disposal of 50% of the wholly owned UK portfolios. 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 on completion at 31 May 2023. Despite the current macro-economic backdrop our collections continue to prove resilient with solid performance against our ERC assumptions. Timing impacts of the increasing element of ERC backed by real estate and collateral, which can be "lumpy" in their realisation, were also reflected in the collections performance for the period. The strong collections and increasing capital-light earnings drove free cash flow of £151.5 million (H1 2022: £107.6 million), an increase of 40.8%. Free cash flow after portfolio investments[1] increased to £71.8 million (H1 2022: £24.6 million), with co-investment in ACO 2 and AREO investments at 10%, down from 25% in ACO 1. Adjusted EBITDA for the period was £211.4 million (H1 2022: £153.8 million) and leverage decreased by 0.7 times to 3.4 times (31 December 2022: 4.1 times, 30 June 2022: 4.5 times), representing strong progress towards the medium-term strategic commitment of 3.0 times. The strong cash performance facilitated net debt reduction of £68.7 million during H1 2023.

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 to be strong with a Deal IRR (after servicing costs) of 18% and 20% for ACO 1 and ACO 2 respectively. The investment enabled deployment to grow to €758 million (H1 2022: €372 million), which included the first investments into AREO. The Group continues to scale our fundraising, investing and servicing capabilities and has commenced the expansion of our proposition in adjacent asset classes, such as real estate and direct lending. Building the vertically integrated fund manager across multiple strategies drives capital-light revenue streams and facilitates de-leveraging.

Overall, the underlying loss before tax was £24.3 million (H1 2022: £1.9 million profit), primarily driven by the higher underlying interest costs of £11.5 million and the divestment of the non-core UK platforms and 50% of the wholly owned UK investment portfolios. The Integrated Fund Management segment EBITDA increased by 34.6% to £19.8 million (H1 2022: £14.7 million), the Balance Sheet segment EBITDA decreased £29.0 million to £16.6 million (H1 2022: £45.6 million) and the Group segment EBITDA decreased by £4.3 million to £(15.4) million (H1 2022: £(11.1) million). The Balance Sheet segment performance has been impacted by year-on-year impairment variance of £17.4 million and the divestment of the non-core platforms, Capquest and Mars UK, to Intrum UK. The income and associated costs on 100% of the wholly owned UK portfolio investments subject to the profit share relationship with Intrum UK, from September 2022 to completion at the end of May 2023, are not reported within our underlying results. The results are explained further in the segmental commentary and analysis below.

Segmental commentary

Our reportable operating segments are Integrated Fund Management, Balance Sheet and Group, as discussed below:

Integrated Fund Management

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

[1] *Including investments awaiting deployment but excluding joint venture sale purchases.*

The Integrated Fund Management segment EBITDA increased by 34.6% to £19.8 million (H1 2022: £14.7 million) with the segment revenue increasing marginally to £99.6 million (H1 2022: £98.8 million). Increased management fees from the discretionary funds deployed continuing to grow, strong asset management and servicing driven by continued third party contract wins across all territories, including a landmark deal in Ireland of circa €5 billion have driven revenue growth. This growth has been offset by the impact of the divestment of the non-core platforms, Capquest and Mars UK, to Intrum UK, with the platforms trading result from September 2022 through to deal completion of £18.1 million shown in adjusting items, and not reported within our underlying results.

The Integrated Fund Management EBITDA margin expanded by 5.0 percentage points from 14.9% in H1 2022 to 19.9% in H1 2023, reflecting the growth in the discretionary funds deployed, operational leverage and efficiency in scaling of our operations.

The Group has continued to scale the investment capabilities, with deployment growing to €758 million in H1 2023 (H1 2022: €372 million). Deployment includes a significant Portuguese hospitality investment, part-funded by LP co-investment. The Fund Manager has continued to focus on off-market acquisitions, with over 80% of ACO 2 investments being off-market with a continued focus on performing, real estate and cash in court portfolios. Over 90% of ACO 1 and ACO 2 is secured on real estate, cash in court and other mixed security and is built from highly granular deployment, with circa 350 individual investments. ACO funds continue to deliver strong returns with a Deal IRR (after servicing costs) of 18% and 20% for ACO 1 and ACO 2 respectively.

The Group has expanded its origination and asset management capabilities through the acquisition of Eagle Street in Q1 2023 and the remaining 51% of Maslow not previously owned by the Group during Q3 2023 for £64 million (£40 million cash, £15 million deferred consideration and £9 million in equity). Maslow has continued to build its franchise and originated over £400 million in H1 2023, sourced 100% from external LPs. In addition, the Group is organically building a bridge lending proposition across our geographies, which is complementary to the activities of Maslow. The Group continues to develop our integrated fund management proposition across credit, real estate and direct lending. Initial investments have been made within our real estate equity investment strategy, following on from the first close of the discretionary AREO Fund with capital raised of €100 million (€110 million including Arrow co-invest) in Q1 2023, with additional fundraising expected during 2023.

We have completed the divestment of our non-core Capquest and Mars UK platforms to Intrum in Q2 2023 along with 50% of the UK wholly owned unsecured back book, as announced in November 2022. The results of these platforms have been removed from our underlying results, which can be seen on pages 18 to 19. Aligning our asset management and servicing platforms with our investment strategies is important to maximise the potential of the integrated fund manager model.

Balance Sheet

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

Collections were £230.9 million during the period, 20.2% higher than the prior period (H1 2022: £192.1 million). Collections performance was robust, representing 162% of ERC, which includes £91.5 million in respect of the collection arising from the disposal of 50% of the wholly owned UK portfolios. Performance excluding the divestment represents 101% of ERC year-to-date. 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 on completion at 31 May 2023. Net collections (balance sheet cash collections less collection activity costs) were £203.4 million, £123.7 million higher than portfolio purchases (including investments awaiting deployment).

Investment purchases were £79.7[1] million in H1 2023 (H1 2022: £83.0 million) with a strong investment pipeline. Portfolio investments typically represent a 10% co-investment in ACO 2 and AREO rather than the 25% level through ACO 1.

[1] *Including investments awaiting deployment but excluding joint venture sale purchases.*

Segmental Balance Sheet EBITDA decreased by £29.0 million from £45.6 million in H1 2022 to £16.6 million in H1 2023. The reduction was largely driven by the divestment of the non-core platforms, Capquest and Mars UK, to Intrum UK and year-on-year impairment variances. In respect of the divestment, the income and associated costs on 100% of the wholly owned UK portfolio investments subject to the profit share relationship with Intrum UK, from September 2022 to completion, are not reported within our underlying results, with the period-on-period impact of this on the Balance Sheet EBITDA being circa £10 million. In H1 2023, impairment losses were £12.6 million (H1 2022: £4.8 million impairment gains), resulting in a year-on-year impairment variance of £17.4 million. The impairment loss during the period relates to non-cash adjustments and represents less than 1.5% of total NPV.

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 EBITDA for H1 2023 was £(15.4) million (H1 2022: £(11.1) million). Despite the continued increase in Group overheads absorbed by the fund as the scale of ACO and AREO increases, strong cost control focus and the impact of the £20 million annualised cost savings delivered during 2022, the acceleration of our proposition into adjacent strategies, such as real estate and direct lending, has led to increased investment as we scale our operations. This investment leaves the business well placed to grow our capital-light fee model, increase FUM and de-lever.

Underlying net interest costs of £50.6 million were £11.5 million higher period-on-period (H1 2022: £39.1 million), primarily driven by 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 30 June 2023.

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:

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Notes:

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 period ended 30 June 2023

Continuing operations	6 months to 30 June 2023 £000	6 months to 30 June 2022 £000	3 months to 30 June 2023 £000	3 months to 30 June 2022 £000
Income from portfolio investments at amortised cost	28,246	55,802	13,130	27,583
Fair value gains on portfolio investments at FVTPL	17,403	20,465	9,238	9,608
Impairment (losses)/gains on portfolio investments	(5,310)	8,796	(6,511)	6,677
Income from portfolio investments - real estate inventories	147	1,511	147	832
Share of profit in portfolio joint venture	909	–	909	–
Total income from portfolio investments	**41,395**	**86,574**	**16,913**	**44,700**
Integrated fund and asset management income	92,388	72,467	51,054	37,138
Profit on disposal of held for sale assets and liabilities[1]	11,944	–	2,263	–
Gain on disposal of subsidiary	–	2,720	–	–
Other income	594	780	452	302
Total income	**146,321**	**162,541**	**70,682**	**82,140**
Operating expenses:				
Collection activity costs and fund management costs	(68,936)	(63,298)	(35,089)	(32,447)
Other operating expenses	(65,888)	(64,802)	(33,246)	(33,697)
Total operating expenses	**(134,824)**	**(128,100)**	**(68,335)**	**(66,144)**
Operating profit	**11,497**	**34,441**	**2,347**	**15,996**
Net finance costs	(51,345)	(39,017)	(25,614)	(19,790)
Share of profit in associate	3,089	1,684	1,028	606
(Loss)/profit before tax[2]	**(36,759)**	**(2,892)**	**(22,239)**	**(3,188)**
Taxation credit/(charge) on ordinary activities	6,689	501	3,905	585
(Loss)/profit after tax	**(30,070)**	**(2,391)**	**(18,334)**	**(2,603)**
Other comprehensive (loss)/income:				
Items that are or may be reclassified subsequently to profit or loss:				
Foreign exchange translation difference arising on revaluation of foreign operations	(2,222)	296	(1,452)	530
Movement on the hedging reserve	2,005	–	2,019	–
Total comprehensive loss	**(30,287)**	**(2,095)**	**(17,767)**	**(2,073)**
(Loss)/profit attributable to:				
Owners of the Company	(30,028)	(2,264)	(18,759)	(2,538)
Non-controlling interest	(42)	(127)	425	(65)
	(30,070)	**(2,391)**	**(18,334)**	**(2,603)**

[1] In the 3-month period to June 2023 this includes the previously captioned 'Remeasurement of held for sale assets and liabilities as well as the 'profit on disposal of held for sale assets and liabilities, now that the disposal of the Capquest and Mars UK platforms, as well as disposing of the UK unsecured back book into a profit sharing arrangement, has taken place.

[2] The loss before tax of £36,759,000 for the 6-month period to 30 June 2023 (H1 2022: £2,892,000), includes £12,441,000 of net adjusting costs (H1 2022: £4,829,000), with an underlying loss before tax of £24,318,000 (H1 2022: £1,937,000 underlying profit). For the reconciliation to the condensed consolidated profit and loss, please see the reconciliations on pages 18 and 19.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

Assets	Note	30 June 2023 £000	31 December 2022 £000	30 June 2022 £000
Cash and cash equivalents		98,962	143,603	134,803
Derivative asset		3,414	808	–
Trade and other receivables		88,157	65,041	62,795
Portfolio investments – amortised cost	3	357,679	392,182	681,007
Portfolio investments – FVTPL	3	357,909	331,199	332,539
Portfolio investments – real estate inventories	3	58,135	51,463	43,527
Portfolio investments – joint venture	3	90,632	–	–
Property, plant and equipment		26,378	27,614	21,191
Intangible assets		100,327	104,890	124,405
Deferred tax asset		13,829	4,815	3,983
Current tax asset		2,342	–	–
Investment in associate		67,782	64,150	64,031
Goodwill		705,901	698,879	688,061
Assets held for sale		–	270,986[1]	–
Total assets		**1,971,447**	**2,155,630**	**2,156,342**
Liabilities				
Bank overdrafts	4	7,639	8,423	8,613
Revolving credit facility	4	108,506	169,104	145,564
Derivative liability		30,270	30,335	26,159
Trade and other payables		145,621	173,446	188,761
Current tax liability		–	1,902	3,185
Other borrowings	4	18,575	13,590	1,952
Asset-backed loans	4	–	8,246	22,811
Senior secured notes	4	1,235,069	1,258,358	1,230,339
Deferred tax liability		28,606	27,851	22,449
Liabilities held for sale[1]		–	36,927[1]	–
Total liabilities		**1,574,286**	**1,728,182**	**1,649,833**
Equity				
Share capital		166,813	166,813	166,813
Share premium		410,859	410,859	410,859
Retained deficit		(186,456)	(156,428)	(73,937)
Hedging reserve		2,560	556	–
Other reserves		608	2,829	1,249
Total equity attributable to shareholders		**394,384**	**424,629**	**504,984**
Non-controlling interest		2,777	2,819	1,525
Total equity		**397,161**	**427,448**	**506,509**
Total equity and liabilities		**1,971,447**	**2,155,630**	**2,156,342**

[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 31 December 2022: £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. As at 30 June 2023, these platforms have been disposed of.*

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six-month period ended 30 June 2023

	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 year	–	(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**
Loss after tax	–	(82,492)	**(82,492)**	(224)	**(82,716)**
Exchange differences	–	1,581	**1,581**	–	**1,581**
Net fair value gains – cash flow	–	741	**741**	–	**741**
Tax on hedged items	–	(185)	**(185)**	–	**(185)**
Total comprehensive loss for the period	–	(80,355)	**(80,355)**	(224)	**(80,579)**
Distributions paid to non-controlling interest	–	–	**–**	**–**	**–**
Minority interest on acquisition	–	–	**–**	1,518	**1,518**
Balance at 31 December 2022	**166,813**	**257,816**	**424,629**	**2,819**	**427,448**
Loss after tax	–	(30,028)	**(30,028)**	(42)	**(30,070)**
Exchange differences	–	(2,222)	**(2,222)**	–	**(2,222)**
Net fair value losses – cash flow	–	2,673	**2,673**	–	**2,673**
Tax on hedged items	–	(668)	**(668)**	–	**(668)**
Total comprehensive loss for the period	–	(30,245)	**(30,245)**	(42)	**(30,287)**
Balance at 30 June 2023	**166,813**	**227,571**	**394,384**	**2,777**	**397,161**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six-month period ended 30 June 2023

	Period ended 30 June 2023 £000	Period ended 30 June 2022 £000
Net cash flows from operating activities before purchases of portfolio investments	**32,850**	**116,546**
Portfolio purchases and movement in investments awaiting deployment[1]	(171,182)	(83,023)
Proceeds from sale of UK non-core portfolios[2]	183,023	–
Net cash generated by operating activities	**44,691**	**33,523**
Net cash generated by/(used in) investing activities	**22,777**[2]	**(12,375)**
Net cash flows used in financing activities	**(112,395)**	**(94,192)**
Net decrease in cash and cash equivalents	**(44,927)**	**(73,044)**
Cash and cash equivalents at beginning of period	143,603	202,263
Effect of exchange rates on cash and cash equivalents	286	5,584
Cash and cash equivalents at end of period	**98,962**	**134,803**

Included within cash and cash equivalents is £9,310,000 (H1 2022: £8,946,000) 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.

[1] Includes 50% of the proceeds in connection with the divestment of non-core Capquest and Mars UK portfolios, which have been immediately repurchased into a new category entitled 'Joint venture'.

[2] The £183,023,000 proceeds reflect 100% derecognition of the portfolios subject to the divestment of non-core Capquest and Mars UK platforms. 50% of these portfolios have been immediately repurchased into a new category entitled 'Joint venture'. This treatment is required by IFRS. However, the other 50% portfolio net proceeds of £91,511,000, have been reported in the underlying collections figure of £230,929,000. The net proceeds from the sale of the platforms of £37,651,000 is included within the caption 'Net cash generated by/(used in) investing activities'.

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 interim results should be read in conjunction with the Group's consolidated report and accounts for the year ended 31 December 2022.

The Group's consolidated report and accounts are prepared in accordance with UK-adopted international accounting standards and in accordance with the requirements of the Companies Act 2006. 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 2022, which can be found on the Arrow Global website.

2. Segmental reporting

In line with IFRS 8 Operating Segments, the Group reports under three separate reportable segments, being Integrated Fund Management, Balance Sheet and Group. Details of the 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. 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, ACO 2 and AREO, 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 Chief Operating Decision Maker.

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.

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

2. Segmental reporting *(continued)*

Six-month period ended 30 June 2023

	Integrated Fund Management £000	Balance Sheet £000	Group £000	Intra-segment elimination £000	Adjusting items £000	Total exc. adjusting items 30 June 2023 £000	Total inc. adjusting items 30 June 2023 £000
Total income	99,578	44,093	18	(18,883)	21,515	124,806	146,321
Collection activity costs	(44,519)	(27,531)	(76)	18,883	(15,693)	(53,243)	(68,936)
Gross margin	**55,059**	**16,562**	**(58)**	**–**	**5,822**	**71,563**	**77,385**
Gross margin %	*55.3%*	*37.6%*				*57.3%*	*52.9%*
Other operating expenses excluding depreciation, amortisation and forex	(35,249)	–	(15,361)	–	(10,058)	(50,610)	(60,668)
EBITDA	**19,810**	**16,562**	**(15,419)**	**–**	**(4,236)**	**20,953**	**16,717**
EBITDA margin %	*19.9%*	*37.6%*				*16.8%*	*11.4%*
Depreciation and amortisation	(4,182)	–	(879)	–	(7,436)	(5,061)	(12,497)
Foreign exchange translation gain	–	–	7,277	–	–	7,277	7,277
Operating profit/(loss)	**15,628**	**16,562**	**(9,021)**	**–**	**(11,672)**	**23,169**	**11,497**
Net finance costs	–	–	(50,576)	–	(769)	(50,576)	(51,345)
Share of profit in associate	3,089	–	–	–	–	3,089	3,089
Profit/(loss) before tax	**18,717**	**16,562**	**(59,597)**	**–**	**(12,441)**	**(24,318)**	**(36,759)**
					Allocate adjusting items	*(12,441)*	*–*
					Loss before tax including adjusting items	*(36,759)*	*(36,759)*

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

2. Segmental reporting *(continued)*

Six-month period ended 30 June 2022

	Integrated Fund Management £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	912	(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**	**190**	**–**	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)	–	(11,305)	–	(50)	(49,884)	(49,934)
EBITDA	**14,719**	**45,598**	**(11,115)**	**–**	**107**	**49,202**	**49,309**
EBITDA margin %	*14.9%*	*50.8%*				*30.3%*	*30.3%*
Depreciation and amortisation	(4,216)	–	(1,326)	–	(5,010)	(5,542)	(10,552)
Foreign exchange translation loss	–	–	(4,316)	–	–	(4,316)	(4,316)
Operating profit/(loss)	**10,503**	**45,598**	**(16,757)**	**–**	**(4,903)**	**39,344**	**34,441**
Net finance costs	–	–	(39,091)	–	74	(39,091)	(39,017)
Share of profit in associate	1,684	–	–	–	–	1,684	1,684
Profit/(loss) before tax	**12,187**	**45,598**	**(55,848)**	**–**	**(4,829)**	**1,937**	**(2,892)**
					Adjusting items	*(4,829)*	*–*
					Profit/(loss) before tax including adjusting items	*(2,892)*	*(2,892)*

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

3. Portfolio investments

The movement in portfolios investments were as follows:

As at 30 June 2023

	Amortised cost £000	FVTPL £000	Real estate inventories £000	Joint venture £000	Total £000
As at 1 January 2023 including held for sale	641,194	331,199	51,463	–	1,023,856
Portfolios purchased during the period	22,825	60,959	–	91,511[2]	175,295
Movement in investments awaiting deployment[1]	–	(4,113)	–	–	(4,113)
Collections in the period	(96,001)	(38,648)	(2,981)	(1,788)	(139,418)
Proceeds on sale of non-core UK portfolios[2]	(183,023)	–	–	–	(183,023)
Income from portfolio investments at amortised cost	28,246	–	–	–	28,246
Fair value gains on portfolio investments at FVTPL	–	17,403	–	–	17,403
Income from portfolio investments - real estate inventories	–	–	147	–	147
Share in profit in portfolio joint venture	–	–	–	909	909
Net impairment (losses)/gains	(5,630)	–	320	–	(5,310)
Loss on sale of UK non-core portfolios	(16,773)	–	–	–	(16,773)
Exchange and other movements	(33,159)	(8,891)	9,186	–	(32,864)
As at 30 June 2023	357,679	357,909	58,135	90,632	864,355

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

[2] *The £183,023,000 proceeds reflect 100% derecognition of the portfolios subject to the divestment of non-core Capquest and Mars UK platforms. 50% of these portfolios have been immediately repurchased into a new category entitled 'Joint venture'. This treatment is required by IFRS. However, the other 50% portfolio net proceeds of £91,511,000, have been reported in the underlying collections figure of £230,929,000.*

As at 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.

As at 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[1]	–	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 31 June 2022 including held for sale	**681,007**	**332,539**	**43,527**	**1,057,073**

[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 period end.

4. Borrowings and facilities

Secured borrowing at amortised cost	30 June 2023 £000	31 December 2022 £000	30 June 2022 £000
Senior secured notes (net of transaction fees of £18,897,000, 31 December 2022: £21,745,000, 30 June 2022: £22,719,000)	1,235,069	1,258,358	1,230,339
Revolving credit facility (net of transaction fees of £2,643,000, 31 December 2022: £3,109,000, 30 June 2022: £3,576,000)	108,506	169,104	145,564
Asset backed loan (net of transaction fees of £nil, 31 December 2022: £73,000, 30 June 2022: £292,000)	–	8,246	22,811
Bank overdrafts	7,639	8,423	8,613
Other borrowings	18,575	13,590	1,952
Total borrowings	**1,369,789**	**1,457,721**	**1,409,279**
Total borrowings including held for sale			
Amount due for settlement within 12 months	117,218	186,771	176,988
Amount due for settlement after 12 months	1,252,571	1,270,950	1,232,291
	1,369,789	**1,457,721**	**1,409,279**

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 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.

Asset Backed Securitisation

The Group has repaid in full (31 December 2022 balance: £8.3 million) the non-recourse committed asset-backed securitisation term loan during the period (H1 2022: the Group had one ABS loan).

The loan was secured on UK unsecured assets, paid SONIA plus 3.1% and had 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%.

ADDITIONAL INFORMATION

The Adjusted EBITDA reconciliations for the periods ended 30 June 2023 and 30 June 2022 respectively are shown below:

	30 June 2023 £000	30 June 2022 £000
Reconciliation of net cash flow to EBITDA		
Net cash flow generated by operating activities	44,691	33,523
Portfolio purchases and movement investments awaiting deployment[1]	171,182	83,023
Proceeds from sale of UK non-core portfolios[2]	(91,511)	–
Income taxes paid	5,781	434
Working capital and other adjustments	64,209	35,059
Share of profit in associate	3,089	1,684
Operating cash adjusting items	13,933	50
Adjusted EBITDA	**211,374**	**153,773**
Reconciliation of balance sheet cash collections to EBITDA		
Income from portfolio investments including fair value and impairment losses and gains	41,395	86,574
Portfolio amortisation	189,534	105,567
Balance sheet cash collections (includes proceeds from disposal of portfolio investments)[2]	**230,929**	**192,141**
Integrated fund and asset management income, gain on disposal of subsidiary and other income	92,982	75,967
Operating expenses	(134,824)	(128,100)
Depreciation and amortisation	12,497	10,552
Foreign exchange (gains)/losses	(7,277)	4,316
Net loss/(profit) on disposal and write off intangible assets and property, plant and equipment	45	(117)
Share of profit in associate	3,089	1,684
Profit on disposal of subsidiary	–	(2,720)
Operating adjusting items	13,933	50
Adjusted EBITDA	**211,374**	**153,773**
Reconciliation operating profit to EBITDA		
Loss after tax	(30,070)	(2,391)
Net finance costs	51,345	39,017
Share of profit in associate	(3,089)	(1,684)
Tax credit on ordinary activities	(6,689)	(501)
Operating profit	**11,497**	**34,441**
Portfolio amortisation	189,534	105,567
Depreciation and amortisation	12,497	10,552
Foreign exchange (gains)/losses	(7,277)	4,316
Net loss/(profit) on disposal and write off of intangible assets and property, plant and equipment	45	(117)
Share of profit in associate	3,089	1,684
Profit on disposal of subsidiary	–	(2,720)
Profit on disposal of held for sale assets and liabilities	(11,944)	–
Operating adjusting items	13,933	50
Adjusted EBITDA	**211,374**	**153,773**

[1] *Includes 50% of the proceeds in connection with the divestment of non-core Capquest and Mars UK portfolios, which have been immediately repurchased into a new category entitled 'Joint venture'.*

[2] *The £91,511,000 relates to proceeds received from the divestment of non-core Capquest and Mars UK portfolios, which were not subject to immediate repurchase into a new category entitled 'Joint venture'. The other 50% portfolio net proceeds of £91,511,000, have been reported in the underlying collections figure of £230,929,000.*

For details on adjusted items see pages 18 and 19.

ADDITIONAL INFORMATION *(continued)*

(Loss)/profit before adjusting items

	Six-month period ended 30 June 2023 £000	Six-month period ended 30 June 2022 £000
Total income	**124,806**	**162,384**
Collection activity and fund management costs	(53,243)	(63,298)
Other operating expenses	(48,394)	(59,742)
Total operating expenses	**(101,637)**	**(123,040)**
Operating profit	**23,169**	**39,344**
Net finance costs	(50,576)	(39,091)
Share of profit in associate	3,089	1,684
(Loss)/profit before tax and adjusting items	**(24,318)**	**1,937**
Taxation charge on underlying activities	4,864	(465)
(Loss)/profit after tax before adjusting items	**(19,454)**	**1,472**
Non-controlling interest	**42**	**127**
(Loss)/profit before adjusting items attributable to owners of the company	**(19,412)**	**1,599**
Tax rate on results before adjusting items	**20.0%**	**24.0%**

Reconciliation between IFRS profit and profit before adjusting items for the six-month periods:

	Period ended 30 Jun 2023 profit before tax £000	Period ended 30 Jun 2023 tax £000	Period ended 30 Jun 2023 profit after tax £000	Period ended 30 Jun 2022 profit before tax £000	Period ended 30 Jun 2022 tax £000	Period ended 30 Jun 2022 profit after tax £000
IFRS reported (loss)/profit	**(36,759)**	**6,689**	**(30,070)**	**(2,892)**	**501**	**(2,391)**
Adjusting items:						
Gain on disposal of subsidiary	–	–	–	(2,720)	–	(2,720)
Other acquisition costs (including amortisation of acquisition intangible assets)	9,609	–	9,609	7,549	–	7,549
Profit on disposal of held for sale assets and liabilities	(11,944)	–	(11,944)	–	–	–
Operations held for sale result	14,776	–	14,776	–	–	–
Tax associated with adjusting items	–	(1,825)	(1,825)	–	(966)	(966)
(Loss)/profit before adjusting items	**(24,318)**	**4,864**	**(19,454)**	**1,937**	**(465)**	**1,472**

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, and the UK unsecured back book, which will be subject to a 50:50 profit share arrangement with Intrum UK, and this divestment completed in Q2 2023, for net proceeds of £129 million. £91.5 million of the net proceeds were received in respect of 50% of the portfolios, with £37.5 million being received for the platforms. In the period, this resulted in a £2.8 million loss in the statement of comprehensive income (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), which has been moved to adjusting items.

ADDITIONAL INFORMATION *(continued)*

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

The transaction in 2021, of the Arrow Group by TDR, and the acquisition of Details in 2022, created ongoing non-cash acquisition intangible and fair value accounting unwinds in 2023, which are adjusted out of the results, being £9.6 million (H1 2022: £7.5 million).

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

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 period to the free cash flow result.

Six-month period ended 30 June 2023

Income	**Reported profit £000**	**Other items £000**	**Free cash flow £000**	
Total income from portfolio investments	41,395	189,534	230,929	Balance sheet cash collections in the period[6]
Income from integrated fund and asset management income	92,388	–	92,388	Income from integrated fund and asset management income
Profit on disposal of held for sale of assets and liabilities	11,944	(11,944)	–	
Other income	594	–	594	Other income
Total income[1]	**146,321**	**177,590**	**323,911**	Cash income
Total operating expenses	(134,824)	22,287[2]	(112,537)	Cash operating expenses
Operating profit	**11,497**	**199,877**	**211,374**	[4]
Net financing costs	(51,345)	3,798[3]	(47,547)	Cash financing costs
Share of profit in associate	3,089	(3,089)	–	
(Loss)/profit before tax	**(36,759)**	**200,586**	**163,827**	
Taxation credit/(charge) on ordinary activities	6,689	(12,470)	(5,781)	Cash taxation
(Loss)/profit after tax	**(30,070)**	**188,116**	**158,046**	
			(6,551)	Capital expenditure
			151,495	**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 17 for detailed reconciliations of Adjusted EBITDA.

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

[6] Includes £91,511,000 of net proceeds for the 50% portfolios sold in connection with the divestment of non-core Capquest and Mars UK portfolios, which have not been repurchased.

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 21 for the definition.

'APM' means alternative performance measure.

'AREO' is our Real Estate Opportunity discretionary fund, Arrow Real Estate Opportunities I SCSp, SICAV-RAIF.

'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 21 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 21 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 30 June 2023 is as follows:

	30 June 2023 £000	31 December 2022 £000
Cash and cash equivalents	(98,962)	(143,603)
Senior secured notes (pre-transaction fees net off)	1,243,701	1,270,761
Revolving credit facility (pre-transaction fees net off)	111,149	172,213
Asset-backed loans (pre-transaction fees net off)	–	8,296
Secured net debt	**1,255,888**	**1,307,667**
Deferred consideration – portfolio investments	731	23,433[1]
Deferred and contingent consideration – business acquisitions	3,910	3,197
Senior secured loan notes interest	10,265	9,342
Asset backed loan interest	–	23
Bank overdrafts	7,639	8,423
Other borrowings	18,575	13,590
Net debt	**1,297,008**	**1,365,675**

[1] *Deferred consideration – portfolio investments includes £17,123,000 as at 31 December 2022, 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.*

'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.