

ARROW GLOBAL GROUP

Results for nine months ended 30 September 2022

22 November 2022

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INTRODUCTION

Zach Lewy
Group Chief Executive Officer

Significant milestones achieved in the pivot towards capital-light leading integrated asset manager



De-leveraging - a strategic priority

- **Strong collections performance** - £276 million YTD (2021: £257 million), representing 108% of ERC YTD and 104% for Q3
- Adjusted EBITDA increased by 19% to £218 million (2021: £183 million)
- **Continued reduction in leverage** - reducing from 4.8 times to 4.4 times during 2022 YTD.



Continue to scale our fund management proposition

- **Additional commitments to ACO 2 with total fund closings now of €1.4 billion and further closings to come this year** – expect to equal or exceed initial €2.5 billion target (capped at €2.75 billion) by early 2023
- **ACO 1 has continued to deliver above target returns, with a deal IRR (after servicing costs) of 19.1%¹ as of Sept 22**
- **Origination volumes continuing to scale** up 11% to €564 million YTD (2021: €508 million)
- With Arrow Co-investment reducing to 10% for ACO 2, **proforma return on capital invested rises to circa 40%² and expected to accelerate de-leveraging**



Efficient local platforms create a differentiated proposition

- Divestment of non-core platforms, Capquest and Mars UK, together with 50% of the UK unsecured back book, subject to customary closing conditions including regulatory approval, for gross sales proceeds at lockbox date of £157.8 million (representing 105%³ of book value)
- Platform segment delivering EBITDA up 51% to £24.6 million and third-party **capital-light income** up 33.5% to £112.7 million
- Maintaining our **strong regulatory and customer franchise**, as part of our broader ESG commitments

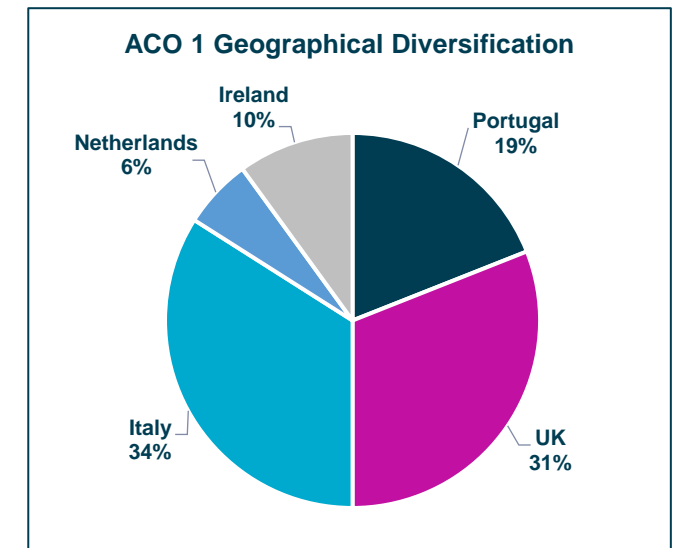
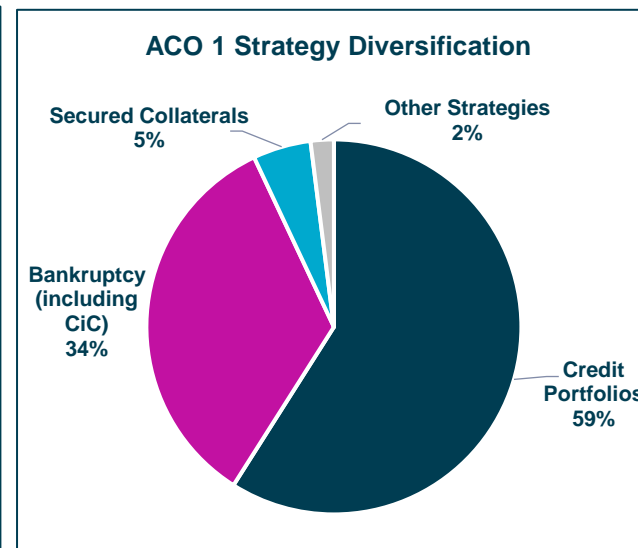
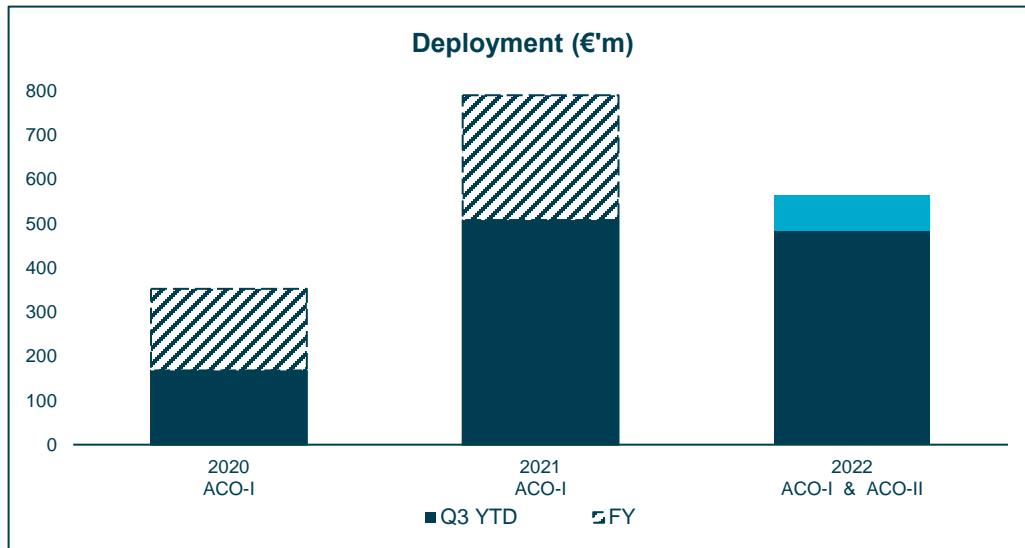
1. Deal IRR (after servicing costs) represents the returns on investments, post servicing (including the servicer margin) and 3rd Party Costs. The gross performance return to external LP investors is 22%, which reflects the impact of recycling and subscription finance

2. Indicative proforma return based upon 10% co-investment level.

3. 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

Strong cash generation and further ACO 2 commitments secured

- ACO 1 has continued to deliver above target returns, with a deal IRR (after servicing costs) of 19.1%¹ as of September 22
 - The collections profile for ACO 1 remains strong, having collected 148% of underwrite as at September 22
 - Collection in October enabled first distribution to LP investors under ACO 1
- Deployment of €198 million in Q3 2022 (including commitments and deferred consideration) across ACO 1 and 2, bringing deployment for Q3 YTD 2022, up 11% to €564 million (Q3 YTD 2021: €508 million) as origination capabilities are scaled
- Additional capital committed to ACO 2 with €1.4 billion secured to date, including Arrow's participation
- Strong momentum to complete the capital raise above the original target of €2.5 billion by early 2023, with hard cap at €2.7 billion



1. Deal IRR (after servicing costs) represents the returns on investments, post servicing (including the servicer margin) and 3rd Party Costs. The gross performance return to external LP investors is 22%, which reflects the impact of recycling and subscription finance

Divestment of non-core UK unsecured platforms

- Divestment of non-core Capquest and Mars UK platforms to Intrum UK represents a significant milestone for the business
 - Divestment includes 50% of Arrow's UK wholly-owned unsecured back book portfolio
 - Gross sales proceeds of £157.8 million at lockbox date, representing 105%¹ of book value
 - Completion is subject to customary closing conditions including regulatory approval
 - Accelerates Arrow's transition to vertically integrated fund manager
 - Provides a strategic 50:50 profit share arrangement going forward on the back book portfolios with a scaled player in the sector
- High competition and overcapacity in the UK unsecured asset class has driven lower risk-adjusted returns
 - Only 0.5% or €9 million out of €1.7 billion of ACO invested in UK unsecured
- ACO will continue to focus on achieving high risk-adjusted returns, particularly at this stage in the economic cycle
 - Real estate, secured and SME lending continue to represent the significantly larger proportion of the market than unsecured lending which represents only circa 5% of bank's balance sheet across Arrow geographies
 - Significant opportunities continue to be delivered via our off-market strategy
 - Current macro economic conditions provide favourable backdrop to ACO 2 investment period
- Strong UK presence maintained with UK platforms, including Bergen Finance, Drydensfairfax and Maslow Capital
- In agreeing terms, careful to ensure that our purpose of building better financial futures and company values were closely aligned with Intrum UK
- Post completion, the divestment is not expected to have a material impact on leverage

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



FINANCIAL REVIEW

Phil Shepherd
Group Chief Commercial Officer

Divestment of non-core platforms : accounting impact

- Divestment of non-core Capquest and Mars UK platforms, with UK wholly-owned unsecured back book subject to a 50:50 profit sharing arrangement
 - 100% of UK wholly-owned unsecured back book represents £265.4 million of carrying value, £416.3 million of 84-month ERC and £518.2 million of 120-month ERC as at 30 September 22
- Gross purchase price of £157.8 million for 50% of the portfolios and 100% of the Capquest and Mars UK platforms agreed at March 22, effective lock box date
 - Represented 105%¹ of book value compared with carrying value as at March 22 of £271.7 million (50%: £135.9 million) and net assets of the platform as at that date
 - The transaction is subject to “lock box” on the portfolios from March and completion accounts for the platforms with circa £10 million of short-term working capital / assets expected to be transferred
 - Actual cash proceeds will depend upon completion date. If completion had occurred as at September 22, then the cash proceeds would have been £144.5 million
- For accounting purposes, assets and liabilities subject to the agreement, including 100% of the portfolios, have been reclassified to ‘assets held for sale’ and ‘liabilities held for sale’ and remeasured at their expected proceeds less costs to sell
- Loss of £26.0 million has been recognised in adjusting items, representing:
 - £14 million represents the difference between the carrying value of the portfolios as at September 22 versus proceeds post lock-box mechanics at that date, together with the proceeds for the platforms less the short-term working capital requirements
 - Essentially comprises the reversal of the income taken to the P&L since March 22 and the accounting loss on the 50% share retained by Arrow
 - £6 million in relation to the write-off of intangibles/sundry assets in connection with the platforms; and
 - £6 million transaction costs
- The combined perimeter net assets will continue to be recognised as held for sale until completion. Post point of sale, the 50% profit arrangement will be accounted for on an amortised cost net revenue 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

Underlying group result and key performance metrics

- The Group delivered a strong cash result with collections performance and servicing revenues driving Adjusted EBITDA to £218 million, up 19% on Q3 2021
- Cash collections continued an upward trend from 2021, with 7% growth YoY and performing at 104% of ERC for Q3
- Loss before tax and adjusting items was £1.1 million Q3 YTD 2022. Whilst growth in our capital light revenues and strong cost control continued, a number of non-cash items affected profitability:-
 - The non-cash impairment write up of balance sheet investments (including FV assets) was £18 million higher in 2021 than 2022
 - £8.1 million FX retranslation loss YTD 2022, representing the non-cash revaluation of our Euro net liability position
- Interest costs were £14.3 million higher driven by the refinancing following the take private transaction

Cash Performance	Q3 2022 £'m	Q3 2021 £'m	Change %
Core cash collections	275.6	257.0	7
Adjusted EBITDA	217.5	182.5	19
Leverage	4.4x	4.8x ¹	(0.4x)

Group Financials	Q3 2022 £'m	Q3 2021 £'m	Change %
Platforms	24.6	16.3	51
Balance Sheet Business	66.3	88.1	(25)
Group	(17.7)	(20.0)	(11)
EBITDA	73.2	84.4	(13)
Depreciation and amortisation	(8.6)	(12.6)	(32)
FX (losses) / gains	(8.1)	0.6	-
Interest costs	(59.2)	(44.9)	32
Share of profit from associate net of tax	1.7	-	-
(Loss) / Profit before tax	(1.1)	27.4	(104)

¹ 2021 comparative as at 31 December 2021

Platforms Segment

- Platform income continued to grow strongly to £153.8 million, representing an increase of £25 million or 19% YoY, driven by:-
 - Continued third-party asset and servicing mandate wins across UK, Ireland and Italy, following a record 2021 and second quarter of 2022
 - Expansion of our real estate footprint in Q3 2022, with the bolt-on acquisition of 75% of Details, a Portuguese hospitality asset manager
 - Increased management fees as the level of discretionary funds deployed continues to grow
- EBITDA for Q3 was £9.9 million (Q3 2021: £3.6 million) and YTD EBITDA was £24.6 million, a 51% YoY increase
- EBITDA margin increasing by 340bps from 12.6% to 16.0%, reflecting the increase in revenue, and increased efficiency
- We expect that EBITDA margins will continue to widen in due course as revenues growth will outpace cost growth, given that limited further investment in scaling out operations is planned

Platforms Segment EBITDA	Q3 2022 £'m	Q3 2021 £'m	Change %
Income	153.8	129.0	19
Business operating costs	(68.8)	(70.9)	(3)
Overheads (excl. D&A and FX)	(60.4)	(41.9)	44
EBITDA	24.6	16.3	51
<i>EBITDA margin (%)</i>	<i>16.0</i>	<i>12.6</i>	<i>27</i>

Balance Sheet Segment

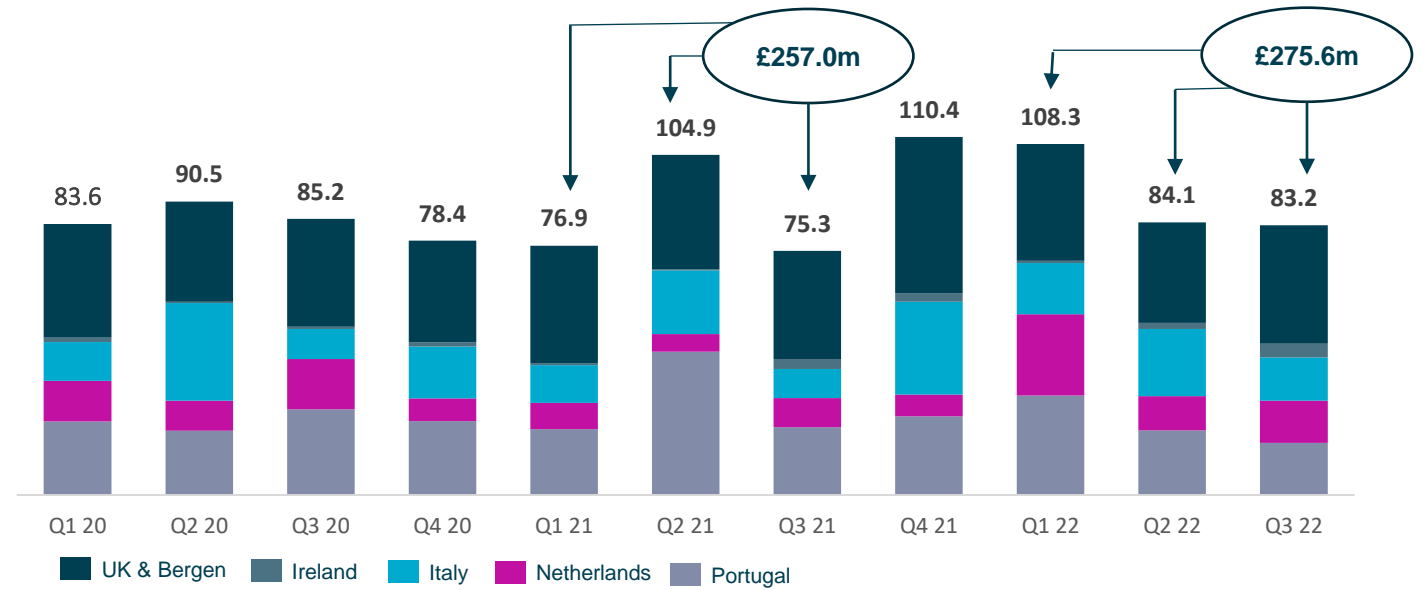
- Collections performance remained strong 2022, totalling 108% of ERC YTD (104% for Q3) and outperforming prior year by 7%
- Purchases were £129.9 million YTD in 2022 (2021: £117.0 million), reflecting the strong deployment
- EBITDA was £22.0 million lower than prior year primarily as a result of the non-cash revaluation gains being £18 million lower in 2022 than 2021, reflecting more conservative macro views given economic backdrop.
- Overall EBITDA was £66.3 million, representing 50% EBITDA margin

Balance Sheet Segment EBITDA	Q3 2022 £'m	Q3 2021 £'m	Change %
Core cash collections	275.6	257.0	7
Income	133.3	160.3	(17)
Business operating costs	(67.0)	(72.2)	(7)
EBITDA	66.3	88.1	(25)
<i>EBITDA margin (%)</i>	<i>49.7</i>	<i>55.0</i>	<i>(10)</i>

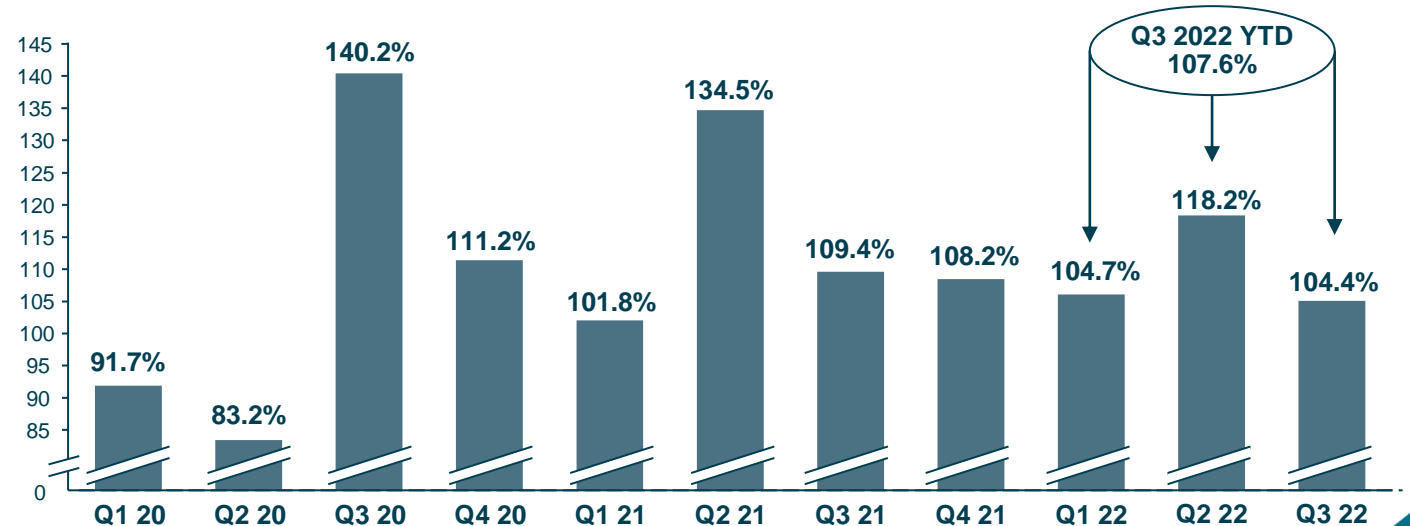
Collections

- Cash collections have remained strong, with 7% growth YoY, representing 108% of ERC YTD
- The collections performance in Q3 was 10% higher than Q3 2021 and represented 104% of ERC
- Despite the macro-economic uncertainty and the cost of living impacts, collections across all territories remains resilient and the Group's ERC continues to reflect assumptions in line with broader economic expectations
- The strong collections performance has contributed to the 19% improvement in Adjusted EBITDA YoY to £217.5 million for the period

Collections by Quarter by Geography £m



Collections as a % of ERC



Group Segment

- Consistent with the position as at H1 2022, EBITDA in the Group segment has improved by £2 million YoY due to:-
 - An increased allocation of group overheads to the fund as ACO 1 and 2 NAV increases
 - The strong cost control focus and the impact of the £20 million annualised cost savings
 - Partially offset by increased investment in areas such as fund raising

Group Segment EBITDA	Q3 2022 £'m	Q3 2021 £'m	Change %
Income	0.3	0.3	-
Business operating costs	(0.3)	(3.3)	(92)
Overheads (excl. D&A and FX)	(17.7)	(17.0)	4
EBITDA	(17.7)	(20.0)	(11)

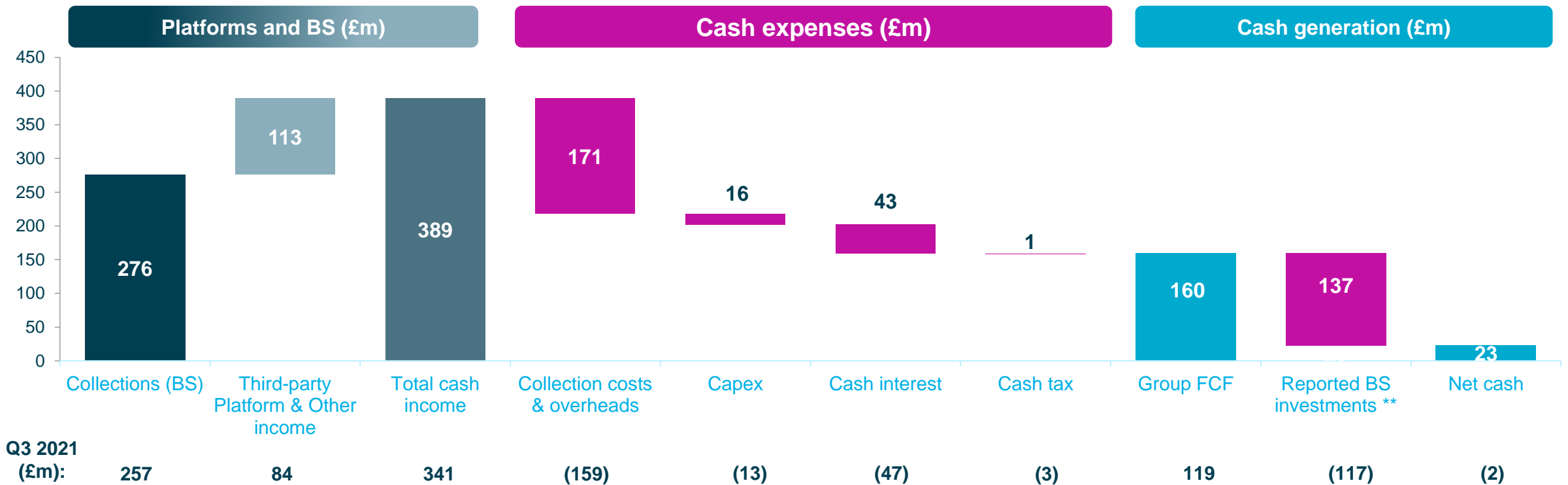
FX and interest costs

- During the period, there was £8.1 million FX translation loss (Q3 2022: £0.6 million gain) on the non-cash retranslation of our Euro assets and liabilities
 - Given the expected increasing level of Euro denominated income, primarily arising from fund management income, and in due course, carried interest
 - The Group is maintaining a net Euro liability position as a natural hedge to the surplus Euro income generation
 - From an accounting perspective, this gives rise to non-cash short-term profit or loss volatility
- Financing costs are £14.3 million higher YoY reflecting:-
 - The new capital structure post the take private transaction
 - Rising interest rates
 - Costs of maintaining high levels of liquidity headroom

Profit before tax and KPIs	Q3 2022 £'m	Q3 2021 £'m	Change %
EBITDA:			
Platforms	24.6	16.3	51
Balance Sheet Business	66.3	88.1	(21)
Group	(17.7)	(20.0)	(11)
EBITDA	73.2	84.4	(13)
Depreciation and amortisation	(8.6)	(12.6)	(32)
FX (losses) / gains	(8.1)	0.6	-
Interest costs	(59.2)	(44.9)	32
Share of profit from associate net of tax	1.7	-	-
(Loss) / Profit before tax	(1.1)	27.4	(104)

Free cash flow generation

- Strong free cash flow* generation YTD to Q3 2022 of £160 million, up 34% on Q3 2021 YTD
- Free cash flow generation exceeded the cash outflow for portfolio investments by £23 million (Q3 2021 YTD: £2 million outflow)
- Unique integrated fund manager model enables revenue/earnings growth with balance sheet de-leveraging as we go forward



Q3 2021

(£m):

* Free cash flow = Cash generated after the effects of capital expenditure, financing and tax cash impacts and before reinvestment and cash impact of adjusting items

** Investments made in 2022 including funding into holding structure, does not include funding deferred purchases from previous years

Cash generation and capital allocation

- Free cash flow (£160 million) exceeded cash purchases (£137 million) by £23 million
- Despite this cash inflow, net debt rose by £79 million YTD primarily as a result of FX and working capital movements
- The YTD FX and other movements totalled £88 million, including £40 million FX and £44 million working capital, predominantly arising in Q1 2022
- The movement on YTD FX and other movements during Q3 was £13 million, comprising £18 million FX on retranslation of our euro bonds
- Going forward (with 10% co-investment in ACO 2), the strong free cash flow is expected to continue to exceed portfolio investment

£'millions	2018	2019	2020	2021	Q3 2022
Free Cash Flow	231	261	157	182	160
Reported Balance Sheet investments ¹	(263)	(304)	(110)	(190)	(137)
Deferred portfolio purchases to following period	12	63	10	40	30
Deferred purchases from prior year	(16)	(12)	(61)	(10)	(29)
Total cash purchases in year	(267)	(253)	(161)	(160)	(136)
Total free cash flow (post purchases)	(36)	8	(4)	22	23
Acquisition-related expenditure	-	-	-	(83)	(12)
M&A costs in current year/prior year deferred	(114)	(5)	-	(25)	-
Dividends Paid	(21)	(23)	-	-	(2)
FX & Other	(62)	(40)	5	14	(88)
Movement in net debt	(233)	(60)	1	(72)	(79)

1. Includes funding into holding structure made in 2022

Liquidity and leverage position

- **Group reduced leverage by 0.4 times** during 2022 from 4.8 times to 4.4 times and by 0.1 times during Q3, driven by strong collections performance and increasing capital light revenues
- **Low cost funding base with long duration funding and significant liquidity headroom**
 - Significant levels of liquidity headroom with no bond maturities until 2026
 - Weighted average duration of debt 4.4 years (FY 2021: 5 years)
 - WACD of 5.2% (FY 2021: 4.9%)
 - Currently circa 80% of total bonds are fixed rate, including the impact of interest rate swaps
- Gross 120-month ERC was £1,699 million in 2022, 0.8% higher than December 21
- Target leverage reducing to circa 3 times in the medium term, with £500 million cumulative cash flow generation (after portfolio investment) over the next 5 year period

£'millions	Sep-22
Cash	(134)
£350m 6% Fixed Rate Notes due 2026	350
€640m Floating Rate Notes due 2027 Euribor + 4.625%	561
€400m 4.5% Fixed Rate Notes due 2026	352
Revolving credit facility - £285m maturing 2026	171
Asset backed loans	15
Total secured net debt	1,315
LTM Adjusted EBITDA	295.8
Leverage	4.4x
Liquidity headroom (cash and RCF headroom)	238
120-month ERC	1,699



STRATEGIC FOCUS

Zach Lewy
Group Chief Executive Officer

Significant milestones achieved in the pivot towards capital-light leading integrated asset 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



Continue to scale our fund management proposition

- Additional commitments to **ACO 2** with €1.4 billion secured and expect to close ACO 2 in early 2023 above target with €2.7 billion hard cap
- A further important milestone in the transition to an integrated fund manager - With Arrow Co-investment reducing to 10% for ACO 2, **proforma return on capital invested rises to circa 40%¹** and **expected to accelerate de-leveraging**
- Ongoing scaling of our origination through **our off-market, local strategy driving higher returns**
- Expansion of our real estate footprint in Q3 2022, with the bolt-on acquisition of 75% of Details, a Portuguese hospitality asset manager



Efficient local platforms create a differentiated proposition

- Divestment of non-core platforms, which have accounted for 0.5% of ACO deployment
- Local platforms provide a **differentiated strategy** (typically smaller, higher return deals) versus other credit funds
- Maintaining our **strong regulatory and customer franchise** and support our customers and colleagues through the cost of living crisis, as part of our broader ESG commitments

1. Indicative proforma return based upon 10% co-investment level.

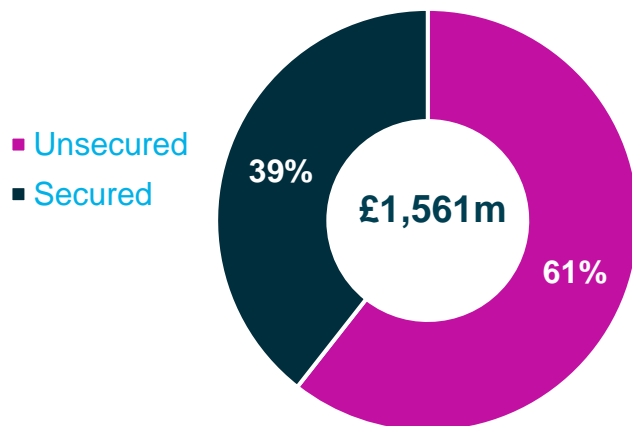
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Appendix

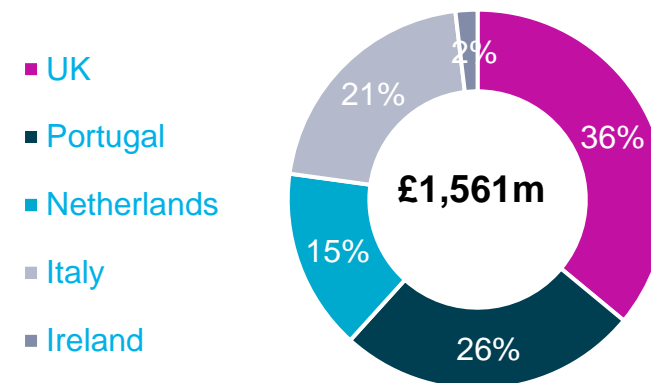
ERC exposure by geography and type

ERC for FVTPL assets is typically measured net of servicing and collection costs and represents 33% of total ERC

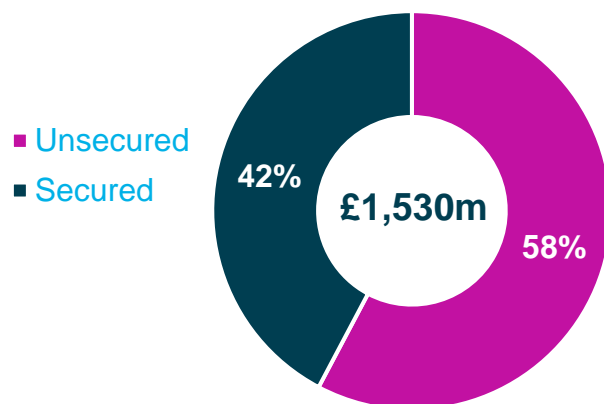
Sep 2021 84-month ERC by asset class



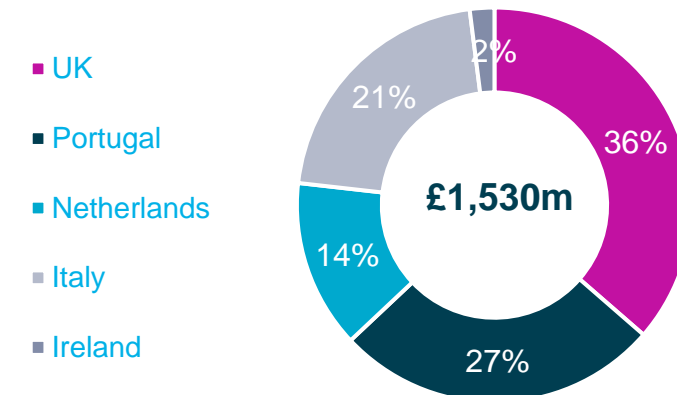
Sep 2021 84-month ERC by geography



Sep 2022 84-month ERC by asset class



Sep 2022 84-month ERC by geography

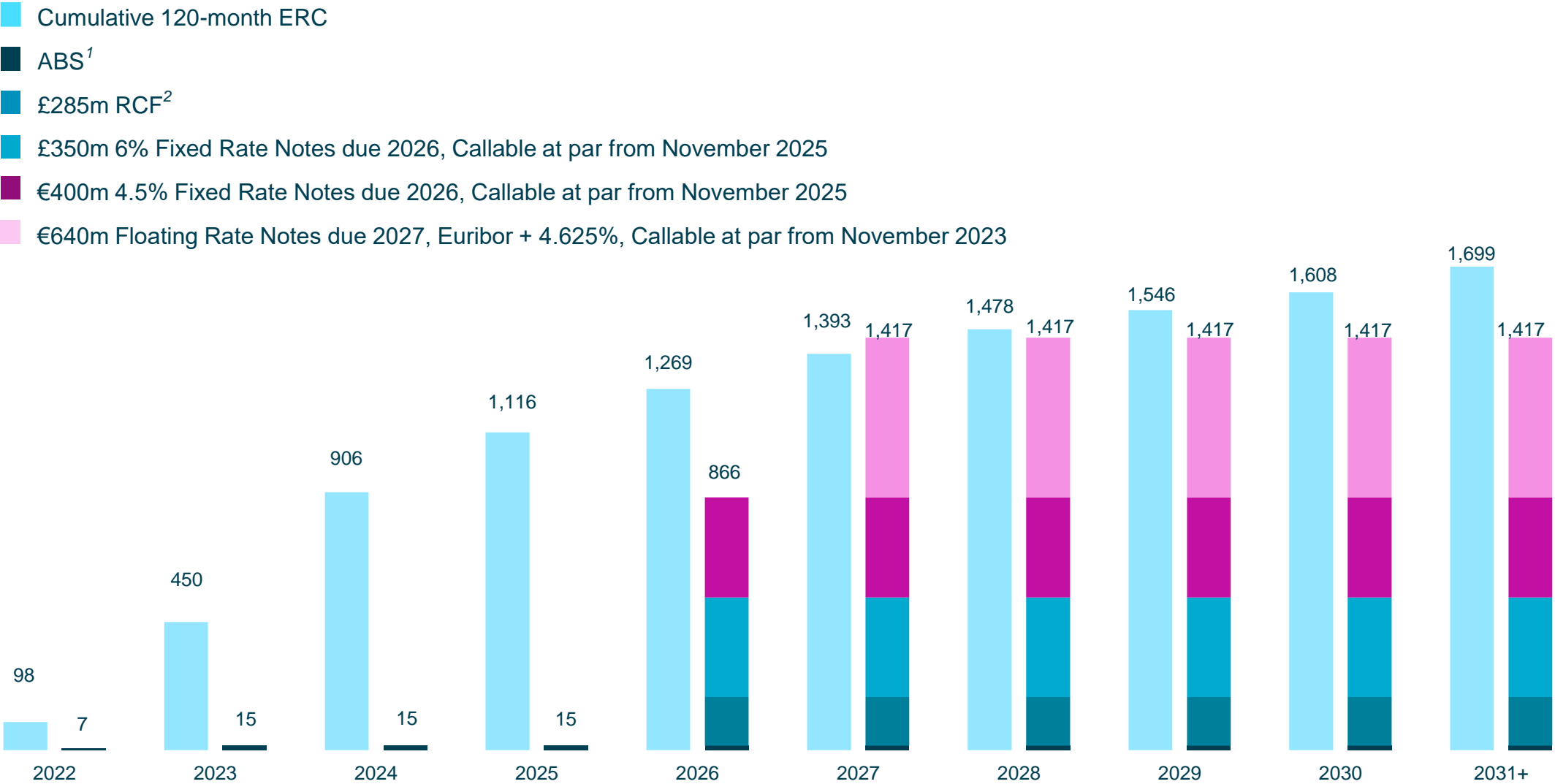


The UK unsecured portfolios subject to the 50:50 profit sharing arrangement going forward on the back book portfolios with Intrum UK represent £416.3 million (27%) of 84-month ERC as at 30 September 2022

Notes

1. ERC includes Arrow's investment in ACO 1 and ACO 2
2. ERC for FVTPL assets, such as Arrow's share of ACO 1 & 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 33.2% since ACO 1 was launched in December 2019, a growing proportion of the Group's ERC is reported on a net basis.

Gross debt maturity profile against 120 month ERC



¹ ABS loan as at September 2022 was £15m and the maturity profile shown in the chart reflects debt amortising based upon forecast collections

² Drawn RCF balance as at September 2022 was £171m

³ All debt maturities are shown gross, not taking into account Group cash balances of £134m which were held as at September 2022

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