

Arrow Global Group PLC

Results for the three months ended
31 March 2017

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Arrow Global Group PLC (the “Company”) and its subsidiaries (together the “Group”), a leading European credit management services provider, is pleased to announce its results for the three months ended 31 March 2017 (“Q1 2017”).

Commenting on today’s results, Lee Rochford, Group chief executive officer of Arrow Global, said:

“In Q1 Arrow Global delivered another impressive quarter of profitable growth. Revenues grew 45% and underlying profit after tax was up 37%.

“It was a strong start to the year for origination activity, with organic purchases of £77.4 million reflecting the strength of our European franchise where we have built leading positions in our chosen markets. Approximately two-thirds of this came from off-market trades, demonstrating the unique aspects of our business model.

“We continued to make progress on our strategic drive to diversify our revenue, with capital-light asset management revenues accounting for 24% of total revenues. These high quality revenue streams add further visibility to our earnings and are accretive to ROE.

“A robust pipeline across our geographic footprint gives us confidence in our ability to meet earnings expectations for the year. We also retain confidence in our medium-term objectives of an underlying ROE percentage in the mid-twenties, high teen EPS growth and a progressive dividend policy.”

Highlights

- Growth in underlying profit after tax up 37% to £10.3 million (Q1 2016: £7.6 million)
- Loss after tax of £11.7 million (Q1 2016: £7.6 million profit). This includes post tax one-off costs associated with the re-financing in March 2017 of £22.0 million
- Growth in underlying basic earnings per share (EPS) increased 37% to 5.9p (Q1 2016: 4.3p)
- Underlying LTM Return on Equity (ROE) of 30.8% (Q1 2016: 26.2%)
- Growth in total revenues, which increased by 45% to £64.5 million (Q1 2016: £44.5 million), driven by an increase in core collections to £77.1 million (Q1 2016: £67.0 million) and asset management income to £15.7 million (Q1 2016: £7.2 million), resulting in an increase in Adjusted EBITDA of 9% to £56.5 million (Q1 2016: £51.7 million)
- Capital-light asset management revenues now constitute 24% of total revenues (Q1 2016: 16%)
- Strong organic portfolio purchases of £77.4 million (Q1 2016: £49.1 million), with the investment spread geographically: UK 56%; Portugal 17%; Netherlands 22%; Italy 5%
- Our purchased loan portfolio asset base and loan notes increased by 6% taking total balance sheet value to £855 million (31 December 2016: £804 million), which is reflected in the increased value of the 84-month ERC from £1,339 million to £1,404 million, up 5%
- Issued €400 million senior secured notes due 2025, at a coupon of E+2.875% which is a record low rate for financing in our industry. The proceeds were used to redeem our existing E+5.25% €335 million 2021 notes, pay the early redemption fee and transaction costs and repay drawings under our revolving credit facility

- Group's weighted average cost of debt is now 4.0% and average debt facility maturity 6.8 years
- Commenced group-wide projects to further enhance the group's risk, capital allocation and portfolio management capabilities, together with investment in new operating and IT platforms in Portugal and the Netherlands
- On 28 April, we completed the acquisition of Zenith Service S.p.A., ("Zenith"), marking our formal entry into the highly active Italian market and further enhancing our mainland European capabilities. In addition, we completed our first portfolio acquisition in Italy with a €4.8 million investment in a portfolio of unsecured receivables.

11 May 2017

Notes:

A glossary of terms can be found on pages 16 to 18

More details explaining the business can be found in the Annual Report & Accounts 2016 which can be found on the Company website at www.arrowglobalir.net

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There will be a conference call for investors today at 2pm (UK time). Details of how to register for the call can be found at:

<http://emea.directeventreg.com>

Using the code: 7543772

About Arrow Global – for further information please visit the company website:

www.arrowglobalir.net

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. 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 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 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 assumes no obligation to update or provide any additional information in relation to such forward-looking statements.

Business and financial review of the three months to 31 March 2017

The Group has built on the strong momentum from 2016 and has continued to expand its European footprint and client offering across its attractive markets. This coupled with our continued drive to deliver high quality and diversified income has enabled us to deliver a strong first quarter financial performance.

Key results

As of and period to	31-Mar-17	31-Mar-16	31-Dec-16
	£m	£m	£m
Purchases of loan portfolios	77.4	49.1	223.0
Total purchased loan portfolios and loan notes	855.4	619.8	804.1
Core collections	77.1	67.0	286.0
Total revenue	64.5	44.5	235.9
Adjusted EBITDA	56.5	51.7	209.2
Loss (profit) after tax	(11.7)	7.6	26.3
Underlying profit after tax	10.3	7.6	45.6
84-month ERC	1,403.5	1,082.2	1,339.1
120-month ERC	1,618.3	1,285.8	1,544.5
Net debt	879.0	620.8	816.0
Net assets	156.2	157.8	167.4

A glossary of terms can be found on pages 16 to 18

Our business model provides a compelling position in four distinct ways:

- **High growth** – a highly visible runway of significant long-term growth
- **Operational excellence** – drives competitive advantage and is the foundation of our financial performance
- **Financial excellence** – a highly predictable cash generative business, prudently funded
- **Strong returns** – a sustainably-high return business model, allowing self-funded growth and capital distribution.

High growth

With European banks still needing to divest non-performing loans and non-core assets, as a result of both capital and regulatory reasons, we continue to see long-term opportunities for Arrow Global.

Purchased loan portfolios

We acquired debt portfolios with a face value of £468.2 million for a purchase price of £77.4 million. Of the purchase price invested, 17% related to secured portfolios and the spread by geography was: UK 56%, Portugal 17%, Netherlands 22%, Italy 5%. With 67% of these trades coming from off-market purchases, it highlights the strength of the key relationships we hold in each of our core markets.

The statement of financial position value of our purchased loan portfolios and loan notes increased by 6% to £855 million as at 31 March 2017 (31 December 2016: £804 million). Significant drivers for this were total portfolios acquired of £77.4 million. See note 2 for the full reconciliation.

Core collections

Core collections increased to £77.1 million (Q1 2016: £67.0 million), reflecting the increase in our portfolio asset base. Core collections in Q1 2017 are in line with our ERC forecast. In Q1 2016, we experienced a high proportion of collections from recently acquired better performing portfolios.

As at 31 March 2017, we have cumulatively collected 103% of our original underwriting forecast on a constant exchange rate basis, reflecting the success of our data driven approach to origination and underwriting.

Revenue

Total revenue for the period was £64.5 million, an increase of 45% from Q1 2016 (£44.5 million). £8.6 million of the increase was attributable to income from asset management.

Adjusted EBITDA

Adjusted EBITDA increased by 9% to £55.6 million (Q1 2016: £51.7 million). Growth in Adjusted EBITDA was impacted as expected by elevated collections in Q1 2016, where we received a high proportion of collections from recently acquired portfolios with low cost to collect, and a higher cost income ratio reflecting the expansion of the asset management business, the Vesting acquisition in 2016 and investment in operational excellence.

Completion of the Zenith Service acquisition in Italy

On 28 April we completed the acquisition of Zenith Service, a leading master servicing business with operations in Milan and Rome, having received all necessary regulatory approvals from the Bank of Italy.

The acquisition was announced on 6 December 2016 with Arrow Global acquiring Zenith for an enterprise value of €17 million. It is expected to be earnings neutral after taking into account amortisation of the acquisition intangible assets and is funded from cash resources, with 60% paid on closing and 40% payable 12 months after closing.

The acquisition offers the Group valuable insight into the Italian market, while further diversifying its income streams and increasing the weighting of asset management revenues. Arrow Global and Zenith already share some common clients, and as such, Zenith provides a low risk, robust platform and important servicing capabilities.

Zenith was established in 1999 and has approximately €14.2 billion of assets under management. It manages around 120 special purpose vehicles for securitisation and covered bond transactions, and offers a range of services, including: servicer, master servicer, corporate servicer, calculation agent, cash manager, special servicer, European central bank / investor reporting, representative of the noteholders and back-up servicer. The business has over 80 staff and typical clients include Italian and international banks, leasing companies, hedge funds and other financial entities.

On 11 April 2017, Zenith's rating was upgraded by Standard & Poor's to strong, the highest level of ranking as a master servicer in Italy, with a stable outlook.

Portfolio acquisition in Italy

Separately, during March, Arrow Global made its first portfolio purchase in Italy. We acquired a small portfolio of unsecured receivables for a purchase price of €4.8 million, which is master serviced by Zenith. This offered a low risk and attractive opportunity to make our first investment in a portfolio well known to the Zenith management team and in an asset class well understood by Arrow Global.

Operational excellence

Our focus on operational excellence is built around three themes: our expertise in data and analytics; our strong track record of underwriting discipline; and a continual improvement in the customer journey.

In each of our core markets we are investing in our IT, people and systems. This will enable us to share best practice, to extend the richness of our database, maximise the use of portfolio performance data, improve our digital capabilities and enhance the customer experience in each country. This will be a focus throughout 2017 and 2018.

We have started a number of Group-wide projects, which will further embed our Group risk framework and develop our capital allocation and portfolio management capabilities. Progress in Q1 includes investment in a new operating platform in the Netherlands, improvement in our digital offer for student loans in the UK, while in Portugal we are combining our IT and business systems onto a single platform that will service secured and unsecured loans.

As indicated at the full year 2016 results, the delivery of these projects and the investment required will incur additional cost, but will help drive sustainable earnings growth into the future.

Financial excellence

ERC overview

Our 84-month ERC – the expected collections from portfolios already acquired – after taking into account movement in foreign exchange rates, has increased by 4.8% from £1,339.1 million as at 31 December 2016 to £1,403.5 million. The 120-month ERC increased 4.8% to £1,618.3 million (31 December 2016: £1,544.5 million).

The ERC is underpinned by approximately 600,000 customer accounts that have paid the Group in the last three months.

These accounts have a current face value of £1.7 billion meaning the Group has 1.2 times coverage of the ERC from existing customers. As at 31 March 2017, we estimate the amount we would need to invest over the next 12 months to maintain our current 120-month ERC level is approximately £120 million.

Capital-light asset management

By developing our servicing and asset management proposition as part of our origination strategy, we have increased the level of capital-light revenues and cash flows.

Our asset management contracts are long-term in nature and the revenues we generate are typically fee income, based upon collections performance of similar assets to those that we own in the ERC. These assets, therefore, have similar long-term collection forecasts that support earnings visibility.

We have grown asset management revenues from 16% in Q1 2016 to 24% of Group revenue in Q1 2017.

Net assets

Net assets decreased to £156.2 million during the period, mostly reflecting the impact of the non-recurring costs associated with the refinancing completed in the quarter.

Net debt

Net debt at 31 March 2017 increased by £63.0 million to £879.0 million (31 December 2016: £816.0 million), driven by organic portfolio purchases and the impact of the costs associated with the refinancing of the €335 million senior secured notes.

The ratio of secured net debt to LTM Adjusted EBITDA has increased from 3.6 times to 3.8 times due to a strong first quarter of organic portfolio purchases and the refinancing costs. For the same reasons total net debt to LTM adjusted EBITDA increased from 3.9 to 4.1 times, we expect this ratio to reduce over the course of 2017.

Cash interest cover has remained at 5.2 times (31 December 2016: 5.2 times) and will improve following the refinancing. Net debt/84-month ERC loan to value ratio is 62.3% (31 December 2016: 60.0%) and the secured loan to value ratio is 59.5% (31 December 2016: 57.0%), which is significantly below our financial covenants of 75%.

Funding

On 30 March, the Group issued €400 million senior secured notes due 2025, at a floating rate of E+2.875% (the '2025 Euro Senior Notes').

The proceeds were used to redeem the existing E+5.25% €335 million 2021 bonds, pay the early redemption fee and transaction costs and repay drawings under our revolving credit facility. The maturity of the revolving credit facility has been extended to 31 March, 2022.

The early redemption of the 2021 Notes resulted in non-recurring finance costs of £27.2 million, of which £17.6 million related to the cash call premium and cancellation of interest rate hedging related to the 2021 Notes and £9.6 million related to a non-cash write-off of transaction fees in relation to the 2021 Notes.

The weighted average cost of debt has been reduced to 4.0% (31 December 2016: 4.9%) and the weighted average maturity of the Group's debt is now 6.8 years (31 December 2016: 5.9 years) with no facility maturing before March 2022.

As at 31 March 2017, we had cash and RCF resources of £150.0 million available.

Strong returns

Loss (profit) attributable to shareholders

The loss attributable to equity shareholders for the period to 31 March 2017 was £11.7 million due to post tax non-recurring items of £22.0 million, following the issuance of €400 million 2025 Euro Senior Notes.

After taking account of the non-recurring items above, underlying net income increased 37% from £7.6 million for Q1 2016 to £10.3 million for Q1 2017.

We continue to exceed our key financial targets:

- High teen underlying basic EPS growth rate of 37%: Q1 2017: 5.9p (Q1 2016: 4.3p)
- Mid twenties underlying ROE: LTM Q1 2017: 30.8% (Q1 2016: 26.2%)

Senior management update

As announced in March 2017, John Calvão, previously country head for Portugal, has now assumed responsibility as country head for Italy and is responsible for all of Arrow Global's operations, including Zenith Service. John is replaced in Portugal by João Bugalho, previously chief executive officer of Whitestar.

In May, we appointed Clodagh Gunnigle as Group Chief Risk Officer, having received the necessary approval and authorisation from the FCA. Clodagh joins us from GE Capital, where she has spent over 15 years in various global risk and compliance roles. She is a qualified accountant and her experience in managing risk across Europe, but in particular in the UK, Portugal and the Netherlands, will be valuable. It strengthens our risk and compliance area and reflects the successful growth of the group across geographies and different asset classes, and our commitment to maintaining high standards in the management of all types of risk. Clodagh will report to Lee Rochford and will join the Group Executive Committee.

Outlook

We had a strong first quarter for portfolio purchases which leaves us well positioned to invest approximately £200 million in 2017.

We continue to maintain a strong financial profile with significant liquidity, which has been further strengthened by the recent bond issuance at a record low coupon for our sector. We have strong market positions which will be supportive of the Group's ability to execute on its growth opportunities. This combined with the value we can add from our expanded Group, supports continued strong earnings growth.

A robust pipeline across our geographic footprint gives us confidence in our ability to meet earnings expectations for the year. We remain confident of our ability to deliver a medium-term underlying ROE percentage in the mid-twenties, high-teen EPS growth and a progressive dividend policy.

Unaudited consolidated statement of profit or loss and other comprehensive income
For the three months ended 31 March 2017

	<i>Notes</i>	Unaudited Three months ended 31 Mar 2017 £000	Unaudited Three months ended 31 Mar 2016 £000
Revenue	1	64,528	44,479
Operating expenses			
Collection activity costs		(21,360)	(13,603)
Other operating expenses		(19,020)	(11,298)
Total operating expenses		(40,380)	(24,901)
Operating profit		24,148	19,578
Finance income		-	89
Recurring finance costs		(12,234)	(10,566)
Non-recurring finance costs			
Bond refinancing costs		(27,226)	-
Total finance costs		(39,460)	(10,566)
Share of profit in associate		840	591
(Loss) / profit before tax		(14,472)	9,692
Recurring taxation charge on ordinary activities		(2,423)	(2,141)
Tax on non-recurring items		5,241	-
Taxation charge on ordinary activities		2,818	(2,141)
(Loss) / profit after tax		(11,654)	7,551
Other comprehensive income:			
FX translation difference arising on revaluation of foreign operations		402	1,872
Hedging movement		613	2,352
Total comprehensive income for the period attributable		(10,639)	11,775
Underlying profit after tax		10,331	7,551

Unaudited consolidated statement of financial position
As at 31 March 2017

		31 March 2017 £000	31 December 2016 £000	31 March 2016 £000
Assets	Notes			
Non-current assets				
Goodwill		128,353	128,081	84,739
Intangible assets		38,610	39,144	21,313
Property, plant & equipment		3,911	3,584	3,558
Investments in associates		11,264	10,371	14,072
Deferred tax asset		3,581	3,692	534
Total non-current assets		185,719	184,872	124,216
Current assets				
Cash and cash equivalents		57,458	23,203	73,097
Other receivables		39,336	35,484	35,435
Derivative asset		-	-	4,309
Purchased loan portfolios	2	834,806	782,792	619,800
Loan notes		20,623	21,315	-
Total current assets		952,223	862,794	732,641
Total assets		1,137,942	1,047,666	856,857
Equity				
Share capital		1,753	1,744	1,744
Share premium		347,436	347,436	347,436
Retained earnings		81,448	92,327	85,130
Hedging reserve		(19)	(632)	1,050
Other reserves		(274,438)	(273,484)	(277,566)
Total equity attributable to shareholders		156,180	167,391	157,794
Liabilities				
Non-current liabilities				
Senior secured notes	3	741,937	681,158	466,221
Trade and other payables		1,393	-	8,019
Deferred tax liability		14,442	14,859	4,297
Defined benefit liability		1,838	1,721	-
Total non-current liabilities		759,610	697,738	478,537
Current liabilities				
Trade and other payables		83,803	76,261	69,814
Current tax liability		622	5,469	5,122
Derivative liability		1,792	1,433	-
Revolving credit facility	3	118,038	74,169	139,619
Bank overdrafts		1,283	7,698	-
Other borrowings	3	15,347	12,077	-
Senior secured notes	3	1,267	5,430	5,971
Total current liabilities		222,152	182,537	220,526
Total liabilities		981,762	880,275	699,063
Total equity and liabilities		1,137,942	1,047,666	856,857

Unaudited consolidated statement of changes in equity
For the three months ended 31 March 2017

	Ordinary shares £000	Share premium £000	Retained earnings £000	Hedging reserve £000	Own share reserve* £000	Translation reserve* £000	Merger reserve* £000	Total £000	Non- controlling interest £000	Total £000
Balance at 1 January 2016	1,744	347,436	76,916	(1,302)	(1,936)	(541)	(276,961)	145,356	-	145,356
Profit for the period	-	-	7,551	-	-	-	-	7,551	-	7,551
Exchange differences	-	-	-	-	-	1,872	-	1,872	-	1,872
Net fair value gains - cash flow	-	-	-	2,868	-	-	-	2,868	-	2,868
Tax on hedged items	-	-	-	(516)	-	-	-	(516)	-	(516)
Total comprehensive income for the period	-	-	7,551	2,352	-	1,872	-	11,775	-	11,775
Share-based payments	-	-	663	-	-	-	-	663	-	663
Balance at 31 March 2016	1,744	347,436	85,130	1,050	(1,936)	1,331	(276,961)	157,794	-	157,794
Profit for the period	-	-	18,754	-	-	-	-	18,754	1	18,755
Exchange differences	-	-	-	-	-	4,082	-	4,082	20	4,102
Net fair value gains - cash flow	-	-	-	(2,041)	-	-	-	(2,041)	-	(2,041)
Tax on hedged items	-	-	-	359	-	-	-	359	-	359
Remeasurement of defined benefit liability	-	-	(10)	-	-	-	-	(10)	-	(10)
Total comprehensive income for the period	-	-	18,744	(1,682)	-	4,082	-	21,144	21	21,165
Share-based payments	-	-	2,576	-	-	-	-	2,576	-	2,576
Dividends paid	-	-	(14,123)	-	-	-	-	(14,123)	-	(14,123)
Non-controlling interest on acquisition	-	-	-	-	-	-	-	-	394	394
Settlement of non-controlling interest	-	-	-	-	-	-	-	-	(415)	(415)
Balance at 31 December 2016	1,744	347,436	92,327	(632)	(1,936)	5,413	(276,961)	167,391	-	167,391
Profit for the period	-	-	(11,654)	-	-	-	-	(11,654)	-	(11,654)
Exchange differences	-	-	-	-	-	402	-	402	-	402
Net fair value gains - cash flow	-	-	-	739	-	-	-	739	-	739
Tax on hedged items	-	-	-	(126)	-	-	-	(126)	-	(126)
Total comprehensive income for the period	-	-	(11,654)	613	-	402	-	(10,639)	-	(10,639)
Shares issued in period	9	-	-	-	-	-	-	9	-	9
Repurchase of own shares	-	-	-	-	(1,356)	-	-	(1,356)	-	(1,356)
Share-based payments	-	-	775	-	-	-	-	775	-	775
Balance at 31 March 2017	1,753	347,436	81,448	(19)	(3,292)	5,815	(276,961)	156,180	-	156,180

*Other reserves total £274,438,000 deficit (December 2016: £273,484,000; March 2016: £277,566,000)

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Merger reserve

The merger reserve represents the reserve generated upon consolidation of the Group following the Group reconstruction as part of the IPO where Arrow Global became the parent Company.

Own share reserve

The own share reserve comprises the cost of the Company's ordinary shares held by the Group.

Unaudited Consolidated Statement of Cash Flows
For the three months ended 31 March 2017

	Three months ended 31 March 2017 £000	Three months ended 31 March 2016 £000
Net cash flows from operating activities before purchases of loan portfolios and loan notes	66,108	59,337
Purchase of purchased loan portfolios	(78,342)	(49,731)
Purchase of loan notes	(146)	-
Net cash (used in)/generated by operating activities	(12,380)	9,606
Net cash used in investing activities	(10,782)	(5,741)
Net cash flows generated by financing activities	57,411	58,150
Net increase in cash and cash equivalents	34,249	62,015
Cash and cash equivalents at beginning of period	23,203	10,183
Effect of exchange rates on cash and cash equivalents	6	899
Cash and cash equivalents at end of period	57,458	73,097

Notes

1. Revenue

	Three months ended 31 Mar 2017 £000	Three months ended 31 Mar 2016 £000
Income from purchased loan portfolios	47,780	37,303
Income from loan notes	732	-
Profit on portfolio sales	284	-
Total revenue from portfolios	48,796	37,303
Income from asset management	15,732	7,176
Revenue	64,528	44,479

2. Financial assets

Purchased loan portfolios

The Group recognises income from purchased loan portfolios in accordance with IAS 39. At 31 March 2017, the carrying amount of the purchased loan portfolio asset was £834,806,000 (31 December 2016: £782,792,000; 31 March 2016: £619,800,000).

The movements in purchased loan portfolio assets were as follows:

	Three months ended 31 March 2017 £000	Year Ended 31 December 2016 £000	Three months ended 31 March 2016 £000
As at the period brought forward	782,792	609,793	609,793
Portfolios acquired during the period *	78,342	224,640	49,731
Purchased loan portfolios to be resold	-	(23,519)	(23,519)
Portfolios acquired through acquisition of a subsidiary	-	35,343	-
Collections in the period	(75,418)	(285,960)	(66,962)
Income from purchased loan portfolios	47,780	188,914	37,303
Exchange gain on purchased loan portfolios	1,026	32,880	13,454
Profit on disposal of purchased loan portfolios	284	701	-
As at the period end	834,806	782,792	619,800

* inclusive of portfolio expenditure and recoverable litigation expenditure of £981,000 (31 December 2016: £22,940,000, 31 March 2016: £652,000)

3. Borrowings

	31 March 2017 £000	31 December 2016 £000	31 March 2016 £000
Secured borrowing at amortised cost			
Senior secured notes (net of transaction fees of £16,985,000 31 December 2016: £20,562,000; 31 March 2016: £18,507,000)	741,937	681,158	466,221
Revolving credit facility (net of transaction fees of £3,101,000, 31 December 2016 £2,756,000; 31 March 2016: £3,381,000)	118,038	74,169	139,619
Senior secured notes interest	1,267	5,430	5,971
Bank overdrafts	1,283	7,698	-
Other borrowings – non-recourse debt	15,347	12,077	-
	877,872	780,532	611,811
Total borrowings			
Amount due for settlement within 12 months	125,978	87,297	145,590
Amount due for settlement after 12 months	751,894	693,235	466,221

4. Non-recurring items

Non-recurring items include items that, by virtue of their size and nature (i.e. outside of the normal operating activities of the Group), are not considered to be representative of the on-going performance of the Group.

In the period to 31 March 2017, £27.2 million of non-recurring finance costs were incurred in relation to the early redemption of the 2021 Notes, of which £17.6 million related to the cash call premium on repayment of the Notes and cancellation of interest rate hedging related to the 2021 Notes, and £9.6 million related to the non-cash write-off of capitalised transaction fees in relation to the 2021 Notes.

There was an associated tax impact of £5.2 million in relation to the costs detailed above.

Glossary

“Adjusted EBITDA” means profit for the year attributable to equity shareholders before interest, tax, depreciation, amortisation, foreign exchange gains or losses and non-recurring items. The Adjusted EBITDA reconciliations for the periods ended 31 March 2017 and 31 March 2016 are shown below:

	Three months ended 31 March 2017 £000	Three months ended 31 March 2016 £000
Reconciliation of Net Cash Flow to EBITDA		
Net cash (used in)/generated by operating activities	(12,380)	9,606
Purchases of loan portfolios	78,342	49,731
Purchase of loan notes	146	-
Income taxes paid	2,177	769
Working capital adjustments	(12,746)	(10,000)
Amortisation of acquisition and bank facility fees	81	74
Effect of exchange rates on cash and cash equivalents	6	899
Share of profit in associates	840	591
Adjusted EBITDA	56,466	51,670
Reconciliation of Core Collections to EBITDA	£000	£000
Income from loan portfolios and loan notes	48,512	37,303
Portfolio amortisation	28,546	29,659
Core collections (includes proceeds from disposal of purchased loan portfolios)	77,058	66,962
Other income	15,732	7,176
Operating expenses	(40,380)	(24,901)
Depreciation and amortisation	2,630	1,152
Foreign exchange gains	(270)	(47)
Amortisation of acquisition and bank facility fees	81	74
Share-based payments	775	663
Share of profit in associate	840	591
Adjusted EBITDA	56,466	51,670
Reconciliation of Operating Profit to EBITDA	£000	£000
(Loss)/profit for the period	(11,654)	7,551
Recurring finance income and costs	12,234	10,477
Taxation charge on ordinary activities	(2,818)	2,141
Share of profit on associate	(840)	(591)
Non-recurring items	27,226	-
Operating profit	24,148	19,578
Portfolio amortisation	28,546	29,659
Depreciation and amortisation	2,630	1,152
Foreign exchange gains	(270)	(47)
Profit on disposal of purchased loan portfolios	(284)	-
Amortisation of acquisition and bank facility fees	81	74
Share-based payments	775	663
Share of profit in associate	840	591
Adjusted EBITDA	56,466	51,670

Glossary (Continued)

“Collection activity costs” represents the direct costs of external collections related to the Group’s purchased loan portfolios, such as commissions paid to third party outsourced providers, credit bureau data costs and legal costs associated with collections

“Core collections” or “core cash collections” mean cash collections on the Group’s existing portfolios and loan notes including ordinary course portfolio sales and put backs. The breakdown of core collections for the period ended 31 March 2017 and 31 March 2016 is as follows: -

	Three months ended 31 Mar 2017 £000	Three months ended 31 Mar 2016 £000
Collections from purchased loan portfolios	75,418	66,962
Collections from loan notes	1,640	-
Core collections	77,058	66,962

“EBITDA” means earnings before interest, taxation, depreciation and amortisation

“84-month ERC” and **“120-month ERC”** (together **“gross ERC”**), mean the Group’s estimated remaining collections on purchased loan portfolios over an 84-month or 120-month period, respectively, representing the expected future core collections on purchased loan portfolios over an 84-month or 120-month period (calculated at the end of each month, based on the Group’s proprietary ERC forecasting model, as amended from time to time)

“Existing portfolios” or **“purchased loan portfolios”** are on the Group’s balance sheet and represent all debt portfolios that the Group owns at the relevant point in time

“Gross cash-on-cash multiple” means core collections to date plus the 84-month gross ERC or 120-month gross ERC, as applicable, all divided by the purchase price for each portfolio

“Last Twelve Months (LTM)” is calculated by the addition of the consolidated financial data for the year ended 31 December 2016 and the consolidated financial data for the three months to March 2017, and the subtraction of the consolidated financial data for the three months to March 2016

“Net debt” means the sum of the senior secured notes excluding transaction fees, interest thereon, and amounts outstanding under the RCF, less cash and cash equivalents. Net debt is presented because it indicates the level of debt after taking out of 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 RCF. The breakdown of net debt for 31 March 2017 and 31 March 2016 is as follows:

Glossary (Continued)

	31 March 2017	31 December 2016
	£000	£000
Cash and cash equivalents	(57,458)	(23,203)
Senior secured notes (pre transaction fees net off)	758,922	701,720
Senior secured notes interest	1,267	5,430
Revolving credit facility (pre transaction fees net off)	121,139	76,925
Bank overdrafts	1,283	7,698
Deferred consideration	38,535	35,401
Other borrowings	15,347	12,077
Net debt	879,035	816,048

“PCB” means the Proprietary Collections Bureau, a data matching tool designed by Arrow Global and Experian

“Purchased loan portfolios” see **“existing portfolios”**

“Purchased loan portfolios to be resold” relates to a portfolio of assets, which has been acquired at the year end, and will shortly be re sold to an investment partner. These are separately disclosed from other loan portfolios, as an investment partner is intending to complete their acquisition from us

“RCF” means revolving credit facility

“Underlying profit after tax” means profit for the year attributable to equity shareholders adjusted for the post-tax effect of non-recurring items. The Group presents underlying net income because it excludes the effect of non-recurring items (and the related tax on such items) on the Group’s profit or loss for a year and forms the basis of its dividend policy

“Underlying return on equity (ROE)” means the return on equity as calculated by taking underlying profit after tax divided by the average equity attributable to shareholders.