

17 May 2022

Arrow Global Group Preliminary results for the period ended 31 March 2022

Group highlights

Trading for the first quarter remained strong, with the Group making good progress on its transition to a capital-light integrated asset manager

Strong collections, performing comfortably ahead of ERC, with origination volumes in line with our expectations

- Q1 2022 collections were up 40.6% to £108.1 million (Q1 2021: £76.9 million)
- Collections represented 105% of ERC during Q1 2022
- During Q1 2022, origination volumes into ACO 1 were €168 million, up from the equivalent €116 million in Q1 2021, as the Group continues to develop our origination capabilities
- Q1 2022 portfolio purchases of £37.3 million (Q1 2021: £28.4 million)

The Group continues to make progress on its de-leveraging goal

- Adjusted EBITDA generation for the period of £88.0 million, a year-on-year increase of 69.5% (Q1 2021: £51.9 million)
- Leverage has reduced by 0.6 times to 4.2 times as at 31 March 2022 (31 December 2021: 4.8 times)
- Liquidity headroom is £272 million as at 31 March 2022 (31 December 2021: £304 million)
- Weighted average cost of debt for the Group of 4.9%, with no bond maturities until 2026

ACO 1 returns remaining above-target and fund raising for ACO 2 remains on track

- The total capital invested by ACO 1 is €1.3 billion, with Group Funds Under Management (FUM) of €4.4 billion at 31 March 2022
- ACO 1 is delivering above target returns with a Deal IRR (after servicing costs) of 20%
- Considering future commitments and net of recycled collections, total net capital commitments were circa €1.1 billion (representing circa 75% of ACO1 commitments excluding co-invest)
- Strong investment pipeline continues into Q2 2022
- High level of interest in our second credit opportunities fund, with investor meetings progressing positively and remain on track for first close in mid-2022

Asset Management and Servicing (AMS) revenues continue to grow, with continued success in winning third-party mandates in the period

- Third-party AMS and FIM revenue increased by 38.1% or £9.7 million to £35.3 million from Q1 2021 to Q1 2022
- Third-party mandates won in the UK, Ireland, Italy and Portugal, including our largest UK bounce-back loans servicing mandate for a challenger bank, a large Irish non-performing loan residential mortgage-backed security for a global investment bank and an office management mandate for Norfin in Portugal
- Q2 2022 has started strongly, with exclusivity secured on a number of performing and non-performing secured servicing mandates in the UK, Ireland and Portugal

Continued focus on cost control, whilst ensuring that the Group continues to invest for the future

- Total underlying costs increased by 8.4% to £60.2 million (Q1 2021: £55.5 million), partly reflecting the record AMS contract wins during 2021 and the associated costs of delivering such services
- Continued investment to ensure that the business can continue to scale and successfully transition to be an integrated asset manager. Additional investment has been made into our fund-raising activity, fund IT infrastructure and our people, as well as increased litigation expenditure
- Strong focus on cost control, with final actions to achieve annualised cost savings of £20 million, following transaction from public to private ownership, completed during the period

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

“Arrow continues to make excellent progress executing its capital-light strategy in a growing European market. Our strong performance in the first quarter of the year saw collections perform ahead of ERC expectations, and we continued to deploy our ACO 1 Fund at above target returns. With ACO 1 more than 70% deployed and a strong investment pipeline, we are seeing excellent engagement with existing and new investors for our ACO 2 fundraise and we expect to announce a significant first close around the middle of the year.

“I’m also pleased that we have continued to de-lever and despite an uncertain macroeconomic environment in Europe, we continue to deliver good collections. We are also maintaining a clear focus on cost control whilst continuing to invest in the growth of the business.”

Group financial highlights	31 March 2022	31 March 2021	Change %
Total income	80.4	78.2	2.8
Free cash flow (£m)	76.8	26.1	194.3
Adjusted EBITDA (£m)	88.0	51.9	69.5
Balance sheet collections (£m)	108.1	76.9	40.6
Profit before tax and adjusting items (£m) ¹	0.6	7.9	(92.3)
Profit before tax and after adjusting items (£m)	0.3	7.9	(96.3)
Third-party AMS and FIM income (£m)	35.3	25.6	38.1

	31 March 2022	31 December 2021	Change %
Leverage (x)	4.2	4.8	(0.6)x
84-month ERC (£m)	1,494.7	1,530.3	(2.3)
120-month ERC (£m)	1,644.4	1,685.0	(2.4)
Net debt (£m)	1,314.6	1,298.1	1.3

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 page 13.



Results Presentation – Conference call details

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

There will be a conference call for bondholders at 10.00am (UK time) with Arrow Global's management team.

Please join the event 5-10 minutes prior to scheduled start time. You will be required to enter your name and registration details.

Conference ID: 2956283

Connect at: <https://bit.ly/3vA7PBe>

Provided dial-in list of [access numbers](#) is also available if needed.

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Notes:

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

A glossary of terms can be found at the end of the document.

Forward looking statements

This document contains statements that constitute forward-looking statements relating to the business, financial performance and results of the Group and the industry in which the Group operates. All statements other than statements of historical fact included in this document may be forward looking statements. These statements may be identified by words such as "expectation", "belief", "estimate", "plan", "target", or "forecast" and similar expressions or the negative thereof; or by the forward-looking nature of discussions of strategy, plans or intentions; or by their context. All statements regarding the future are subject to inherent risks and uncertainties and various factors could cause actual future results, performance or events to differ materially from those described or implied in these statements. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. Further, certain forward-looking statements are based upon assumptions of future events which may not prove to be accurate and neither the Company, the Group nor any other person accepts any responsibility for the accuracy of the opinions expressed in this document or the underlying assumptions. The forward-looking statements in this document speak only as at the date of this presentation and the Company and the Group assume no obligation to update or provide any additional information in relation to such forward-looking statements, except as required pursuant to applicable law or regulation.

No statement in this report is intended as a profit forecast or estimate for any period. No statement in this report should be interpreted to indicate a particular level of profit and, as a consequence, it should not be possible to derive a profit figure for any future period from this report.

This report is intended solely to provide information to bondholders to assess the group's strategies and neither the company nor its directors accept liability to any other person, save as would arise under English law. The report should not be relied on by any other party or for any other purpose.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the period ended 31 March 2022

	Period ended 31 March 2022 £000	Period ended 31 March 2021 £000
Continuing operations		
Income from portfolio investments at amortised cost	28,219	34,697
Fair value gains on portfolio investments at FVTPL	10,857	9,055
Impairment gains on portfolio investments	2,119	8,493
Income from portfolio investments - real estate inventories	679	407
Total income from portfolio investments	41,874	52,652
Income from asset management and servicing and fund and investment management	35,329	25,580
Gain on disposal of subsidiary	2,720	–
Other income	478	7
Total income	80,401	78,239
Operating expenses:		
Collection activity costs and fund management costs	(30,851)	(32,691)
Other operating expenses	(31,105)	(22,841)
Total operating expenses	(61,956)	(55,532)
Operating profit	18,445	22,707
Net finance costs	(19,227)	(14,762)
Share of profit in associate	1,078	–
Profit before tax¹	296	7,945
Taxation charge on ordinary activities	(84)	(1,907)
Profit after tax	212	6,038
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	(234)	(7,607)
Movement on the hedging reserve	–	19
Total comprehensive loss	(22)	(1,550)
Profit/(loss) attributable to:		
Owners of the Company	274	6,068
Non-controlling interest	(62)	(30)
	212	6,038

¹ The profit before tax includes £316,000 of net adjusting gains, with underlying profit before tax of £465,000. For the reconciliation between these results and the condensed consolidated profit and loss, please see the reconciliation on page 13.

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2022

	Note	31 March 2022 £000	31 December 2021 £000	31 March 2021 £000
Assets				
Cash and cash equivalents		155,109	198,911	137,221
Trade and other receivables		72,576	52,360	64,537
Current tax asset		–	–	569
Portfolio investments – amortised cost	3	683,691	704,944	746,294
Portfolio investments – FVTPL	3	312,293	302,808	204,527
Portfolio investments – real estate inventories	3	42,491	41,029	56,835
Property, plant and equipment		16,028	16,634	17,926
Intangible assets		126,656	128,429	37,856
Deferred tax asset		4,290	3,212	29,432
Investment in associate		63,262	62,184	–
Goodwill		688,063	688,063	267,991
Assets held for sale ¹		–	5,655	–
Total assets		2,164,459	2,204,229	1,563,188
Liabilities				
Bank overdrafts	4	6,728	9,630	2,534
Revolving credit facility	4	154,967	167,373	191,283
Derivative liability		25,701	25,607	59
Trade and other payables		187,788	190,604	158,704
Current tax liability		2,483	1,837	–
Other borrowings	4	2,160	2,241	3,086
Asset-backed loans	4	30,433	55,158	117,474
Senior secured notes	4	1,219,812	1,211,416	957,323
Deferred tax liability		23,987	24,286	17,101
Liabilities held for sale ¹		–	5,655	–
Total liabilities		1,654,059	1,693,807	1,447,564
Equity				
Share capital		166,813	166,813	1,774
Share premium		410,859	410,859	347,436
Retained earnings		(71,397)	(71,672)	45,049
Hedging reserve		–	–	(47)
Other reserves		717	952	(282,059)
Total equity attributable to shareholders		506,992	506,952	112,153
Non-controlling interest		3,408	3,470	3,471
Total equity		510,400	510,422	115,624
Total equity and liabilities		2,164,459	2,204,229	1,563,188

¹ As at 31 December 2021, we expected to dispose of the Whitestar Italy platform. As a result, the balance sheet items of £5,655,000 in respect of the Whitestar Italy platform, for disclosure purposes were moved to 'Assets held for sale' and 'liabilities held for sale' on the condensed consolidated statement of financial position. This platform has been subsequently disposed of and therefore not included in the 31 March 2022 results.

For the purposes of this document, the 31 March 2021 condensed consolidated statement of financial position is that of Arrow Global Group Limited (formerly plc), being the consolidated condensed consolidated statement of financial position of the Group prior to the acquisition by TDR.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 31 March 2022

	Share capital	Other equity reserves	Total	Non-controlling interest	Total
	£000	£000	£000	£000	£000
Balance at 1 January 2022	166,813	340,139	506,952	3,470	510,422
Profit after tax	–	274	274	(62)	212
Exchange differences	–	(234)	(234)	–	(234)
Total comprehensive income for the period	–	40	40	(62)	(22)
Balance at 31 March 2022	166,813	340,179	506,992	3,408	510,400

Given the change in the consolidating parent in the prior year, it is not appropriate to show a comparative condensed consolidated statement of changes in equity on such a basis. As such, no comparative condensed consolidated statement of changes in equity has been provided.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 31 March 2022

	Period ended 31 March 2022 £000	Period ended 31 March 2021 £000
Net cash flows from operating activities before purchases of portfolio investments	51,140	51,469
Portfolio purchases and investments awaiting deployment	(50,011)	(28,372)
Net cash generated by operating activities	1,129	23,097
Net cash used in investing activities	(2,508)	(5,733)
Net cash flows used in by financing activities	(49,162)	(59,573)
Net decrease in cash and cash equivalents	(50,541)	(42,209)
Cash and cash equivalents at beginning of period	202,263 ¹	182,892
Effect of exchange rates on cash and cash equivalents	3,387	(3,462)
Cash and cash equivalents at end of period	155,109	137,221

¹ Cash and cash equivalents at the 31 December 2021, included £3,352,000 of cash and cash equivalents in respect of the Whitestar Italy platform, which for disclosure purposes was moved to 'Assets held for sale' on the condensed consolidated statement of financial position.

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Significant accounting policy updates

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

The Group’s consolidated report and accounts are prepared in accordance with UK-adopted international accounting standards in conformity with the requirements of the Companies Act 2006 (‘Adopted IFRS’) and also in accordance with IFRS adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the EU. These financial statements have been prepared by applying the accounting policies and presentation that were applied in the preparation of the Sherwood Parentco Limited Group’s consolidated report and accounts for the period ended 31 December 2021, which can be found on the website at <https://bit.ly/3Co0rvO>.

2. Portfolio investments

The movement in portfolios investments were as follows:

Period ended 31 March 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	5,557	31,709	–	37,266
Investments awaiting deployment*	–	12,745	–	12,745
Collections in the period	(60,094)	(44,306)	(3,730)	(108,130)
Income from portfolio investments at amortised cost	28,219	–	–	28,219
Fair value gains on portfolio investments at FVTPL	–	10,857	–	10,857
Income from portfolio investments - real estate inventories	–	–	679	679
Net impairment gains	2,010	–	109	2,119
Exchange and other movements	3,055	(1,520)	4,404	5,939
As at 31 March 2022	683,691	312,293	42,491	1,038,475

*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

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

Year ended 31 December 2021

	Amortised cost £000	FVTPL £000	Real estate inventories £000	Total £000
As at 1 January 2021	793,554	187,421	61,240	1,042,215
Portfolios purchased during the year	35,518	154,145	–	189,663
Collections in the year	(280,999)	(73,923)	(12,464)	(367,386)
Income from portfolio investments at amortised cost	132,758	–	–	132,758
Fair value gains on portfolio investments at FVTPL	–	62,451	–	62,451
Income from portfolio investments - real estate inventories	–	–	1,963	1,963
Net impairment gains/(losses)	18,535	–	(1,027)	17,508
Fair value adjustments on acquisition	13,694	–	(8,328)	5,366
Exchange and other movements	(8,116)	(27,286)	(355)	(35,757)
As at 31 December 2021	704,944	302,808	41,029	1,048,781

Period ended 31 March 2021

	Amortised cost £000	FVTPL £000	Real estate inventories £000	Total £000
As at 1 January 2021	793,554	187,421	61,240	1,042,215
Portfolios purchased during the period	3,573	24,799	–	28,372
Collections in the period	(68,439)	(5,728)	(2,752)	(76,919)
Income from portfolio investments at amortised cost	34,697	–	–	34,697
Fair value gain on portfolio investments at FVTPL	–	9,055	–	9,055
Income from portfolio investments - real estate inventories	–	–	407	407
Net impairment gains/(losses)	8,530	–	(37)	8,493
Exchange and other movements	(25,621)	(11,020)	(2,023)	(38,664)
As at 31 March 2021	746,294	204,527	56,835	1,007,656

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

3. Borrowings and facilities

	31 March 2022 £000	31 December 2021 £000	31 March 2021 £000
Secured borrowing at amortised cost			
Senior secured notes (net of transaction fees of £23,652,000, 31 December 2021: £20,538,000, 31 March 2021: £11,125,000)	1,219,812	1,211,416	957,323
Revolving credit facility (net of transaction fees of £3,808,000, 31 December 2021: £4,042,000, 31 March 2021: £2,629,000)	154,967	167,373	191,283
Asset backed loan (net of transaction fees of £407,000, 31 December 2021: £636,000, 31 March 2021: £4,014,000)	30,433	55,158	117,474
Bank overdrafts	6,728	9,559 ¹	2,534
Other borrowings – non-recourse facility	2,160	2,241	3,086
Total borrowing including held for sale	1,414,100	1,445,747	1,271,700
Bank overdraft moved to liabilities held for sale	–	71	–
Total borrowings excluding held for sale	1,414,100	1,445,818	1,271,700
Total borrowings including held for sale			
Amount due for settlement within 12 months	187,362	220,813	273,501
Amount due for settlement after 12 months	1,226,738	1,224,934	998,199
	1,414,100	1,445,747	1,271,700

¹ Bank overdraft includes £71,000 in respect of the Whitestar Italy platform, which for disclosure purposes has been moved to 'Liabilities held for sale' on the condensed consolidated statement of financial position. Therefore, there is £9,630,000 of bank overdrafts on the consolidated statement of financial position.

Senior secured notes

On 27 October 2021, Group successfully priced €400 million 4.5% Euro fixed rate 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.

Revolving credit facility

On 6 October 2021, the Group entered into a new £285 million revolving credit facility with a margin of 325bps, maturing in April 2026. The margin is subject to a ratchet downwards based upon decreasing leverage levels. The facility ranks senior secured and therefore has a similar security package to the cancelled facility and the bonds issued during 2021. Under the terms of an intercreditor agreement, the facility ranks super senior to the bonds as any obligations under the facility will be settled in advance of any obligations under the bonds.

The facility has one financial covenant, being a leverage test. On 11 October 2021, the existing revolving credit facility, also for £285 million, was cancelled and this revolving credit facility had three financial covenants, being leverage, liquidity and SSLTV tests.

Asset Backed Securitisation

The Group has two non-recourse committed asset-backed securitisation term loans.

The first loan of £30.8 million as at 31 March 2022, secured on UK unsecured assets, pays SONIA plus 3.1% and 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.

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

4. Borrowings and facilities *(continued)*

During 2020, the Group entered into further arrangements in connection with the non-recourse facility and an additional £33 million of 84-month ERC was sold into the structure with no additional borrowings made. The second loan was secured on Portuguese assets. The Group entered into a second non-recourse amortising loan of €104.7 million during 2020, which was fully drawn during the month. This loan was secured against €356 million of Portuguese 84-month ERC at a margin of 4.25%. The loan was fully repaid in January 2022.

As at 31 March 2022, £105.3 million of the portfolio investments, set out in note 3, are pledged as collateral for the asset-backed securitisations.

ADDITIONAL INFORMATION

The Adjusted EBITDA reconciliations for the periods ended 31 March 2022 and 31 March 2021 respectively are shown below:

	31 March 2022 £000	31 March 2021 £000
Reconciliation of net cash flow to EBITDA		
Net cash flow generated by operating activities	1,129	23,097
Portfolio purchases and investments awaiting deployment	50,011	28,372
Income taxes paid	1,395	1,316
Working capital adjustments	34,401	(889)
Share of profit in associate	1,078	–
Operating cash adjusting items	(37)	–
Adjusted EBITDA	87,977	51,896
Reconciliation of balance sheet cash collections to EBITDA		
Income from portfolio investments including fair value and impairment losses and gains	41,874	52,652
Portfolio amortisation	66,256	24,267
Balance sheet cash collections (includes proceeds from disposal of portfolio investments)	108,130	76,919
Income from asset management and servicing, fund and investment management and other income	38,527	25,587
Operating expenses	(61,956)	(55,532)
Depreciation and amortisation	4,437	4,379
Foreign exchange losses	521	61
Net (profit)/loss on disposal of intangible assets and property, plant and equipment	(3)	7
Share-based payments excluding adjusting items	–	475
Share of profit in associate	1,078	–
Profit on disposal of subsidiary	(2,720)	–
Operating cash adjusting items	(37)	–
Adjusted EBITDA	87,977	51,896
Reconciliation operating profit to EBITDA		
Profit after tax	212	6,038
Net finance costs	19,227	14,762
Share of profit in associate	(1,078)	–
Tax charge on ordinary activities	84	1,907
Operating profit	18,445	22,707
Portfolio amortisation	66,256	24,267
Depreciation and amortisation	4,437	4,379
Foreign exchange losses	521	61
Net (profit)/loss on disposal of intangible assets and property, plant and equipment	(3)	7
Share-based payments excluding adjusting items	–	475
Share of profit in associate	1,078	–
Profit on disposal of subsidiary	(2,720)	–
Finance adjusting items	(37)	–
Adjusted EBITDA	87,977	51,896

For details on adjusted items see page 13.

ADDITIONAL INFORMATION *(continued)*

Profit before adjusting items

	Period ended 31 March 2022 £000	Period ended 31 March 2021 £000
Total income	78,978	78,239
Collection activity and fund management costs	(30,851)	(32,691)
Other operating expenses	(29,327)	(22,841)
Total operating expenses	(60,178)	(55,532)
Operating profit	18,800	22,707
Net finance costs	(19,266)	(14,762)
Share of profit in associate	1,078	–
Profit before tax and adjusting items	612	7,945
Taxation charge on underlying activities	(147)	(1,907)
Profit after tax before adjusting items	465	6,038
Non-controlling interest	62	30
Profit before adjusting items attributable to owners of the company	527	6,068
Tax rate on results before adjusting items	24.0%	24.0%

Reconciliation between IFRS profit and profit before adjusting items:

	Period ended 31 March 2022 £000	Period ended 31 March 2022 tax £000	Period ended 31 March 2022 profit after tax £000
IFRS reported loss	296	(84)	212
Adjusting items:			
Gain on disposal of subsidiary	(2,720)	–	(2,720)
Other acquisition costs (including amortisation of acquisition intangible assets)	3,036	–	3,036
Tax associated with adjusting items	–	(63)	(63)
Profit before adjusting items	612	(147)	465

There were no adjusting items in the 3-month period to 31 March 2021.

Adjusting items are those items that by virtue of their size, nature or incidence (ie outside the normal operating activities of the Group) are not considered to be representative of the ongoing performance of the Group and these items are excluded to get to the profit before adjusted items.

In 2021, Arrow Global Group Limited (formerly plc) was purchased by Sherwood Acquisitions Limited, a newly formed company owned by certain investment funds managed by TDR. The transaction created ongoing non-cash acquisition intangible and fair value accounting unwinds, which are stripped out of the results, being £3.0 million in the Q1 2022.

The Group agreed the sale of subsidiaries Whitestar Italia S.r.l, New Call S.r.l and PARR S.H.P.K (together “Whitestar Italy”) on 11 March 2022. The disposal concerned business process outsourcing of Italian utility collections, which is considered non-core to the Group’s operations. The secured and unsecured investment portfolios and their collections activity previously undertaken by Whitestar Italy were moved to other Arrow subsidiaries pre-disposal. £2.7 million of net profit has been recognised in adjusting items in relation to this.

ADDITIONAL INFORMATION *(continued)*

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

Reconciliation of profit after tax to the free cash flow result

Income	Reported profit £000	Other items £000	Free cash flow £000	
Income from portfolio investments at amortised cost	28,219	79,911	108,130	Balance sheet cash collections in the period
Fair value gain on portfolio investments at FVTPL	10,857	(10,857)	–	
Impairment gains on portfolio investments at amortised cost	2,119	(2,119)	–	
Income from portfolio investments – real estate inventories	679	(679)	–	
Income from asset management and servicing and fund and investment management	35,329	–	35,329	Income from AMS and FIM
Gain on disposal of subsidiary	2,720	(2,720)	–	
Other income	478	–	478	Other income
Total income¹	80,401	63,536	143,937	Cash income
Total operating expenses	(61,956)	5,996²	(55,960)	Cash operating expenses
Operating profit	18,445	69,532	87,977	Adjusted EBITDA ⁴
Net financing costs	(19,227)	10,342 ³	(8,885)	Cash financing costs
Share of profit in associate	1,078	–	1,078	
Profit before tax	296	79,874	80,170	
Taxation charge on ordinary activities	(84)	(1,311)	(1,395)	Cash taxation
Profit after tax	212	78,563	78,775	
			(1,985)	Capital expenditure
			76,790	Free cash flow⁵

¹ Total income is largely derived from income from portfolio investments plus income from asset management and servicing, being commission on balance sheet cash collections for third-parties and fee income received. The other items add back loan portfolio amortisation to get to balance sheet cash collections. Amortisation reflects a reduction in the statement of financial position carrying value of the portfolio investments arising from balance sheet cash collections, which are not allocated to income. Amortisation plus income from portfolio investments equates to balance sheet cash collections.

² Includes non-cash items including depreciation and amortisation, share-based payment charges, 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 12 for detailed reconciliations of Adjusted EBITDA.

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

GLOSSARY OF ALTERNATIVE PERFORMANCE MEASURES

APM	Definition	Why is the measure used?
Adjusted EBITDA	The Adjusted EBITDA figure represents the Group's earnings before interest, tax, depreciation and amortisation, adjusted for any non-cash income or expense items and adjusting items. The comparative results are for Arrow Global Group Limited (formerly plc), being the consolidated results of the Group prior to the acquisition by TDR.	Adjusted EBITDA is an approximate measure of the underlying cash EBITDA of the Group. In addition, the leverage ratio of the Group is calculated as the ratio of secured net debt to LTM Adjusted EBITDA. This makes the Adjusted EBITDA figure a key component of this metric, which also features in the Group's banking covenant measures.
Free cash flow	The free cash flow represents current cash generation on a sustainable basis and is calculated as Adjusted EBITDA less cash interest, income taxes and overseas taxation paid, purchase of property, plant and equipment and purchase of intangible assets. The comparative results are for Arrow Global Group Limited (formerly plc), being the consolidated results of the Group prior to the acquisition by TDR.	Free cash flow provides a measure of how much cash the Group generates across the reporting period which it can utilise on a discretionary basis.
Balance sheet cash collections	Balance sheet cash collections represent cash collections on the Group's existing portfolio investments including ordinary course portfolio sales and put-backs.	Balance sheet cash collections is a key metric as it represents the Group's most significant cash inflow. It is also a key component of Adjusted EBITDA which is used to calculate the Group's leverage position.
84-month ERC	The 84-month ERC means the Group's estimated remaining balance sheet cash collections on portfolio investments (of all classifications) over the next 84-months, representing the expected future balance sheet cash collections on portfolio investments during this period. The expected future balance sheet cash collections are calculated at the end of each month, based on the Group's proprietary ERC forecasting model, as amended from time to time.	The 84-month ERC is particularly important for the Group as it shows the forecast cash inflows over the same period that is used to calculate the future cash flows of the Group's portfolio investments.
120-month ERC	The 120-month ERC means the Group's estimated remaining balance sheet cash collections on portfolio investments (of all classifications) over the next 120-months, representing the expected future balance sheet cash collections on portfolio investments during this period. The expected future balance sheet cash collections are calculated at the end of each month, based on the Group's proprietary ERC forecasting model, as amended from time to time.	The 120-month ERC is an important metric for the Group as in some cases the collection profile of a particular portfolio can extend beyond 84-months, and as such, the 120-month ERC gives a more holistic view of potential remaining balance sheet cash collections from the Group's portfolio investments.
Leverage	Leverage is calculated as secured net debt over Adjusted EBITDA.	The leverage metric provides an indication of the level of indebtedness of the Group, relative to its underlying cash earnings.

GLOSSARY OF OTHER ITEMS

'ACO 1' is Arrow Credit Opportunities SCSp SICAV-RAIF and related investment vehicles, our first closed fund.

'ACO 2' is our second closed fund encompassing all fund vehicles.

'Adjusted EBITDA'. See the glossary of alternative performance measures on page 15 for the definition.

'AMS' Income from Asset Management and Servicing (AMS) contracts. The Group recognises revenue when it satisfies a performance obligation related to a service it has undertaken to provide to a customer.

'APM' means alternative performance measure.

'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 15 for the definition of 84-month ERC and 120-month ERC.

'FIM' means Fund and Investment Management.

'Free cashflow' or **'FCF'** means Adjusted EBITDA after the effects of capital expenditure, financing and tax cash impacts.

'Funds under management (FUM)' means the value of all fund management assets managed by Arrow Global Group Limited, including ACO 1, Norfin Investimentos, Europa Investimenti, Saggita and any of Arrow's own capital which it has committed to invest alongside third-parties committed capital. FUM is an important metric used to understand the scale of the Group's Fund and Investment Management business and how this compares to others in the market.

'FVTPL' – means financial instruments designated at fair value with all gains or losses being recognised in the profit or loss.

'FY' means full year being the 12 months to 31 December.

'IFRS' means EU adopted international financial reporting standards.

'Income from AMS' includes commission income, debt collection, due diligence, real estate management, and advisory fees.

'Leverage' is secured net debt to LTM Adjusted EBITDA. See the glossary of alternative performance measures on page 15 for more detail.

'Liquidity headroom' is cash on balance sheet, excluding the reclassified cash as detailed in the unaudited consolidated statement of cash flows, together with headroom on committed facilities.

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

'NCI' means non-controlling interest.

GLOSSARY OF OTHER ITEMS *(continued)*

‘**Net debt**’ means the sum of the outstanding principal amount of the senior secured notes and asset-backed loans, interest thereon, amounts outstanding under the revolving credit facility and deferred consideration payable in relation to the acquisition of portfolio investment, less cash and cash equivalents. Net debt is presented because it indicates the level of debt after removing the Group’s assets that can be used to pay down outstanding borrowings, and because it is a component of the maintenance covenants in the revolving credit facility. The breakdown of net debt as at 31 March 2022 is as follows:

	31 March 2022 £000	31 December 2021 £000
Cash and cash equivalents ¹	(155,109)	(202,263)
Senior secured notes (pre-transaction fees net off)	1,226,152	1,223,080
Revolving credit facility (pre-transaction fees net off)	158,775	171,415
Asset-backed loans (pre-transaction fees net off)	30,790	55,613
Secured net debt	1,260,608	1,247,845
Deferred consideration – portfolio investments	18,656	27,854
Deferred consideration – business acquisitions ¹	9,086	1,503
Senior secured loan notes interest	17,312	8,874
Asset backed loan interest	50	181
Bank overdrafts	6,728	9,559 ¹
Other borrowings	2,160	2,241
Net debt	1,314,600	1,298,057

¹ Cash and cash equivalents at December 2021 included £3,352,000 of cash in respect of the Whitestar Italy platform, which for disclosure purposes has been moved to ‘Assets held for sale’. Deferred consideration – business acquisitions and bank overdrafts at December 2021 included £182,000 and £71,000 respectively in respect of the Whitestar Italy platform, which for disclosure purposes has been moved to ‘Liabilities held for sale’ on the condensed consolidated statement of financial position.

‘**Portfolio amortisation**’ represents total balance sheet cash collections plus income from portfolio investments.

‘**Portfolio investments**’ are on the Group’s statement of financial position and represent all debt portfolios that the Group owns at the relevant point in time. A portfolio comprises a group of customer accounts purchased in a single transaction.

‘**Secured net debt**’ see table in ‘net debt’ definition.