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# Q2 2013 Results

Investor Presentation

26 April 2013

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Q2 2013 RESULTS  
INVESTORS PRESENTATION

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# Overview and Highlights

James Cornell  
CEO

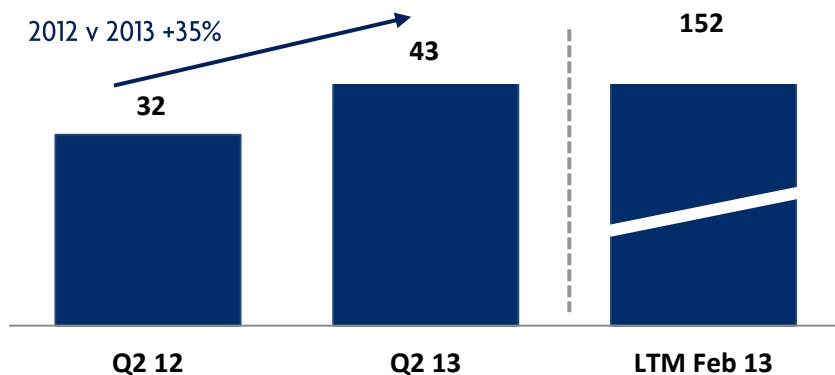
# Summary of Performance

## Significant Year on Year Increases Across Key Metrics

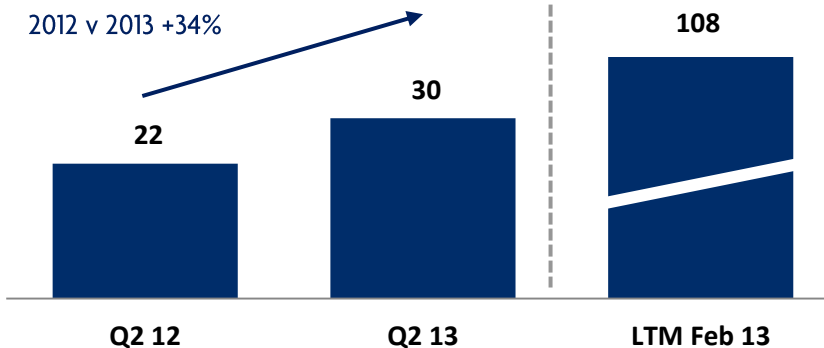
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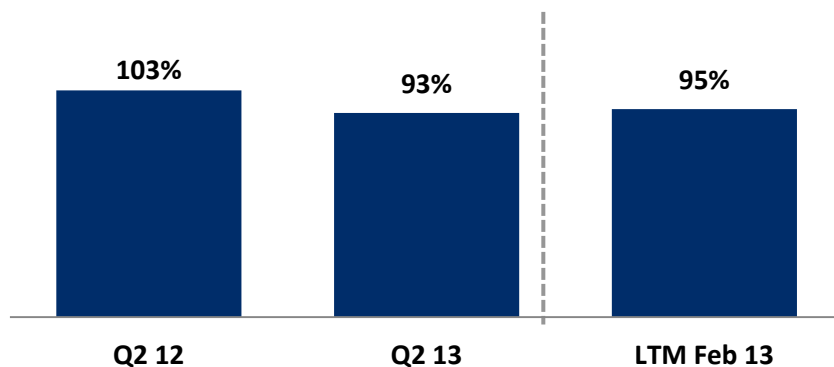
### Collections (£m)



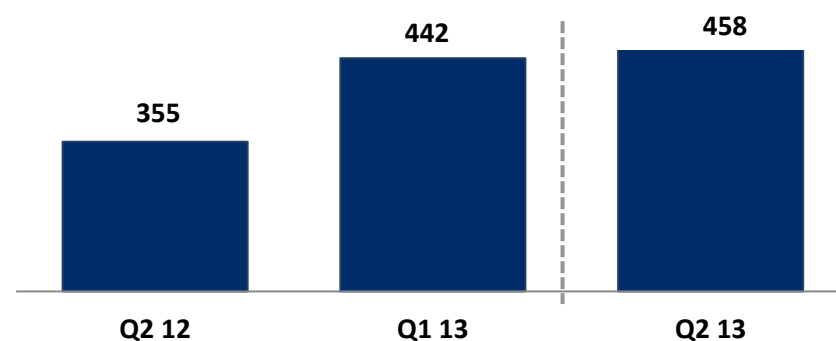
### Adjusted EBITDA (£m)



### Cash conversion (Operating Cash Flow<sup>1</sup>/Adj. EBITDA)



### ERC (£m)



<sup>1</sup> Represents Adjusted EBITDA less capital expenditures and working capital movement but excluding portfolio purchases

# Summary of The Quarter

## Sustained Financial Strength Once Again Evident

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- **Building scale with strong underlying performance**
  - ERC of £458.3 million at February 2013, a 29% year-on-year increase
  - Adjusted EBITDA of £30.0 million, a 34% year-on-year increase
  - Adjusted EBITDA converting at 93% into cash flow before debt and tax service
  - £42.7 million of collections in the quarter, a 35% year-on-year increase
- **Continued strong returns on capital**
  - Net IRRs on portfolios owned at 28 February 13 of 22.4% after total costs; Net IRRs of 35.7% after collection activity costs<sup>1</sup>
  - Cash asset return (LTM Adjusted EBITDA/Average Gross ERC) of 25.9%<sup>2</sup>
- **Continued deleveraging facilitating ever greater balance sheet strength**
  - LTV reduced from 57% at bond issuance to 44% as of February 2013
  - Net debt/Adjusted EBITDA reduced from 2.3x at bond issuance to 1.9x as of February 2013
  - Fixed charge cover decreased from 3.9x at bond issuance to 3.6x as of February 2013 (excluding the effect of the recent Bond issue the fixed charge cover would have increased to 4.7x)
- **£75m additional bond placement successfully completed on 11th February, positioning the Group to capitalise on a strong acquisition pipeline**
  - £41.5 million of portfolio purchases in Q2 2013, 95% up on Q2 2012
  - 30 portfolios purchased in the quarter bringing the total purchased since inception to 641 with 10.8 million customer accounts and an aggregate face value of c. £9.8 billion

<sup>1</sup> Net IRR after direct cost of collections on our purchased loan portfolios only. Metric is sometimes presented by industry peers and shown for comparability purposes.

<sup>2</sup> Shown to illustrate the speed of cash conversion and underlying return of our purchased portfolio assets (ERC).

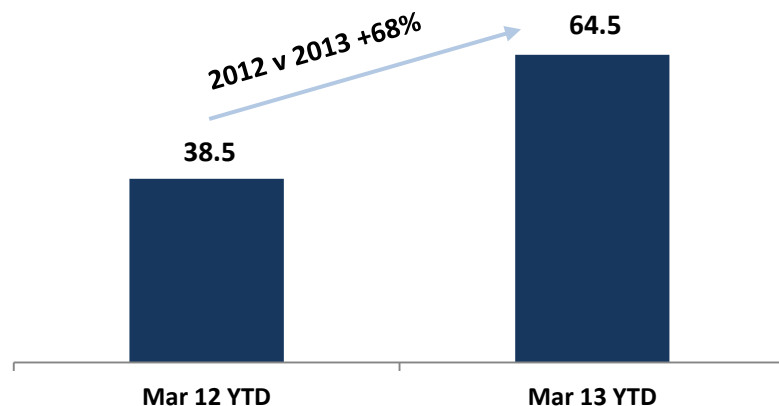
# Recent Financial Performance

## March Continues The Positive Trend Seen in Q2 2013

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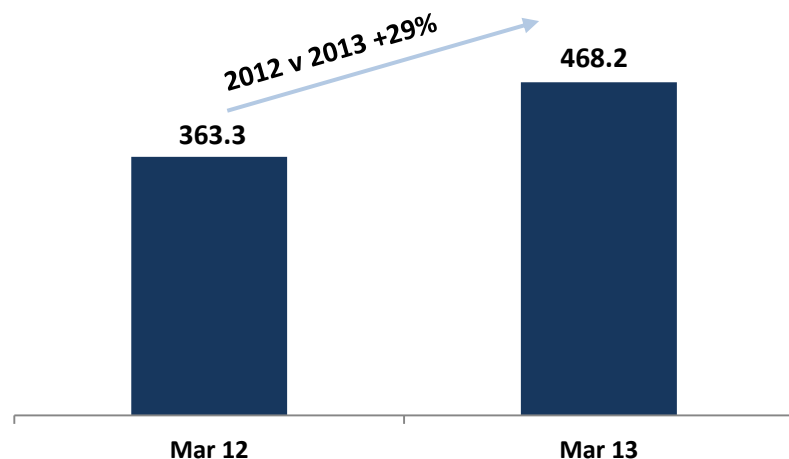
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### YTD Portfolio Purchases As At 31 March (£m)



- £8.3 million in purchases in March bringing portfolio purchases YTD to £64.5 million
  - 68% above prior year
  - purchases continue to enhance sector diversification

### ERC as at 31 March (£m)



- Trend of strong sustainable growth in ERC continuing subsequent to quarter end
  - 29% up on prior year position
  - Continued growth in ERC with figure rising by a further £9.9 million in the month of March

# Behind The Numbers

## Continued Focus In Core Areas Of Strength – People, Practices And Technology

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- **New CFO Colin Storrar commenced employment on 11<sup>th</sup> February**

Colin has made an immediate impact and has further strengthened our organisational design, augmenting the already considerable talent within the Finance, Risk and MI team by:

- Creating and filling the role of Director of Financial Planning & Analysis; and,
- Further building our Risk Analytics and Pricing expertise through a focus upon the individual functions and successfully recruiting a new Director of Pricing

- **Investor in People gold standard has led to selection as IIP ‘Investors in People Champion’**

There are only 200 Champion organisations in the UK and we are proud our commitment to team member communication, development and engagement has resulted in such recognition. Achieving Investors In People Champion status is compelling evidence of our team members being fully engaged in our vision, values and ethical behaviours

- **Ongoing leverage of scale and technology**

New deal with print out-source company has driven down our cost per letter by 9.5%, while increased focus upon email as a preferred method of communication for some customers reduces costs through developing what is a lower cost communication channel



# Financial Performance

Colin Storrar  
CFO

# Key Financial And Operating Data

## Strong Liquidity And Profitability

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### Key Financial and Operating Data (£m)

	Q2 12	Q2 13	LTM Feb 12
<b>Cash generative asset backing:</b>			
<b>ERC</b>	<b>355.4</b>	<b>458.3</b>	<b>458.3</b>
Reported portfolio purchases	21.3	41.5	115.3
PF Net Debt*	191.0	203.8	203.8
<b>Cash generation:</b>			
Collections/income on owned portfolios	31.7	42.7	152.5
Other income	0.0	0.0	0.4
Servicing costs	(9.4)	(12.7)	(45.2)
<b>Adjusted EBITDA</b>	<b>22.3</b>	<b>30.0</b>	<b>107.7</b>
Capital Expenditure	(0.4)	(0.8)	(2.7)
Working Capital Movement	1.2	(1.2)	(2.7)
Cash flow before debt and tax servicing	23.1	28.0	102.3
Conversion of Adjusted EBITDA to Cash Flow	103%	93%	95%
Cash asset return	N/A	N/A	25.9%
<b>Return on capital</b>			
<b>Unlevered Net IRR of owned portfolios (total costs)</b>	<b>25.1%</b>	<b>22.4%</b>	<b>22.4%</b>
<b>Unlevered Net IRR of owned portfolios (collection activity costs)</b>	<b>38.1%</b>	<b>35.7%</b>	<b>35.7%</b>

\*Based on proforma basis, reflecting bond issue on 30 March 12

- Cash collections for the quarter of £42.7 million were 35% (£11.0 million) higher than Q2 2012
- Cash flow conversion of 93% for the quarter
- Cash asset return (LTM Adjusted EBITDA / average ERC) performing strongly. Metric added to show the speed with which Lowell converts ERC into cash flow and strength of return on purchased assets
- Adjusted EBITDA of £30.0 million for the quarter, 34% up on Q2 2012
- Net IRR on portfolios owned at 28 February 13 of 22.4% (35.7% based on collection activity costs only)
- Slight reduction in unlevered IRR the result of the successful acquisition of higher quality paying debt portfolios in the most recent quarter

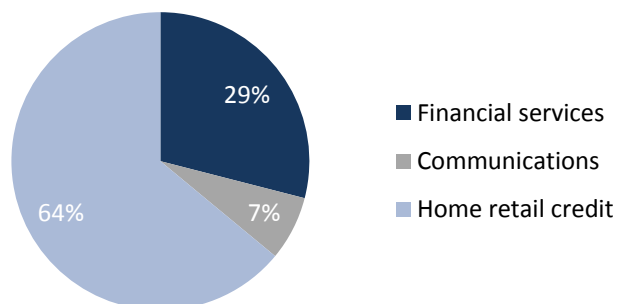
# Portfolio Purchases

## Significant Purchase Growth Adding To ERC Diversification

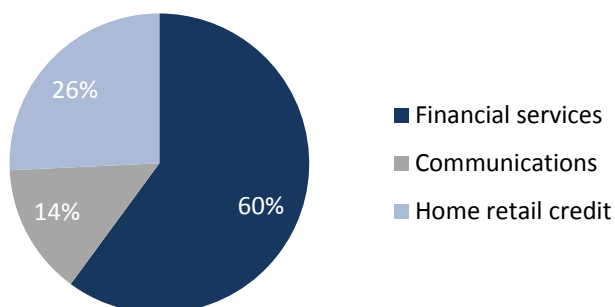
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### Portfolios purchased in the quarter



### Portfolios purchased since inception



- Portfolio purchases in the quarter were £20.2 million (95%) up on Q2 2012
- Debt purchase activity remains subject to quarter on quarter volatility; purchases of £41.5 million in the quarter helped drive ERC to £458.3 million
- Lowell continues to benefit from a strong pipeline
- £75m additional bond tap positions us well going forward
- Continue to benefit from strong client relationships which result in significant proportion of purchases coming from forward flows on an ongoing basis - current pipeline well above FY13 budgeted purchases

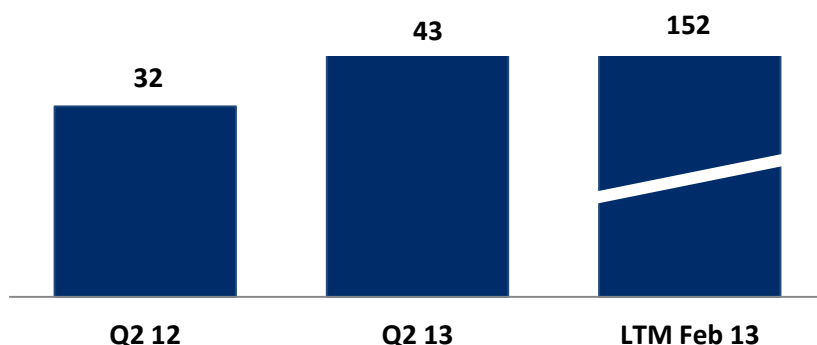
# Collections

## Rising Collections And Continued Low Default Rate

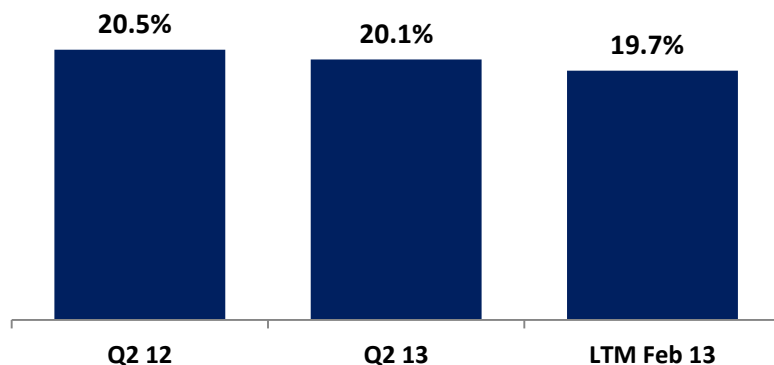
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Gross Cash Collections (£m)



Default Rate (%)



- 35% growth in cash collections on prior year driven through disciplined purchasing decisions and continued investment in technology and people
  - Collections in the quarter on portfolios owned at August 31, 2012 performing at 100% of ERC projections from August 31, 2012
  - Collections on portfolios purchased in the last 6 months performing at 101% of collection forecast assumptions of pricing models
  - Outperformance against forecast collection impacted in the quarter as in prior year by December seasonality (shorter month and historically low collection month). Historically reverses later in the financial year.
- Continued default performance in line with expectation and the result of sustained focus upon fair customer outcomes and tailored individual solutions

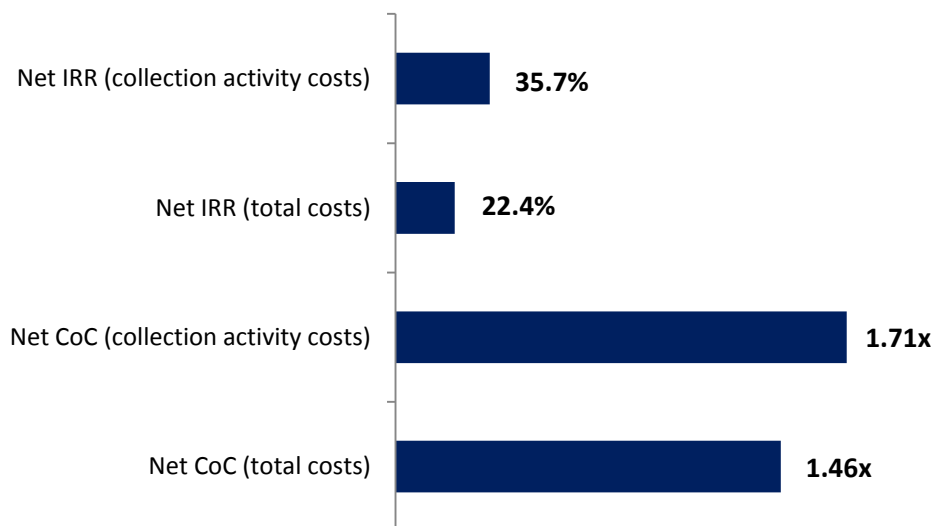
# Portfolio Returns

## Strong IRR In Line With Pricing Expectations

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### Unlevered returns of portfolios owned at 28 February 13



Note: Returns calculated based on actual performance since portfolio acquisitions and balance sheet valuation as of February 2013

- Collections in the year to date on portfolios owned as of August 31, 2012 were 100% of the ERC projections from August 31, 2012
- Performance on portfolios acquired in the last six months are running at 101% of the collection assumptions used in pricing
- Continued track record of generating strong and consistent unlevered returns
  - Net CoC and Net IRR were 1.71x and 35.7% after collection activity costs
  - Net CoC and Net IRR were 1.46x and 22.4% after total costs

# Asset Coverage

## Continued Deleveraging As Balance Sheet Grows

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### Key B/S and coverage ratios as of February 13

	Q2 12*	Q2 13
<b>Key Financial Metrics</b>		
ERC	355.4	458.3
Gross Debt	200.0	275.0
Cash	(9.0)	(71.2)
Net Debt	191.0	203.8
Annual Interest payable	22.0	30.3
Adjusted EBITDA (12 months to quarter end)	85.0	107.7
<b>Leverage and Coverage Ratios</b>		
Loan to value ratio	53.8%	44.5%
Net debt / Adjusted EBITDA	2.2	1.9
EBITDA / total interest payable	3.9	3.6

#### Notes

\* Q2 12 numbers for gross debt, net debt, cash, annual interest payable and the resulting ratios are on a proforma basis

Leverage and Coverage ratios calculated on same basis as presented in the Offering Memorandum "Summary Consolidated Financial Data"

Gross Debt, Cash and Net Debt are presented on a pro forma basis relating to the issuance included within the Offering memorandum

- Portfolios forecast to generate £458.3 million in cash collections (ERC) in the next 84 months
  - 49% of cash collections expected to be generated in the next 24 months
  - 77% of cash collections expected to be generated in the next 48 months
- Quarterly performance reinforces our ability to deliver sustained leverage and coverage improvement
- Fixed charge cover 3.6x; excluding the effect of the recent Bond issue the cover would have increased to 4.7x

**LTV ratio at 44% at Q2 2013 end (down from 57% at bond issuance)**  
**Net debt/adjusted EBITDA at 1.9x at Q2 2013 (down from reduced from 2.3x at bond issuance)**  
**PF fixed charge cover at 3.6x at Q2 2013 (down from 3.9x at bond issuance)**

# Outlook

James Cornell  
CEO

# Outlook

## Market View And Lowell Focus

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### Debt Purchase Market

- Very strong pipeline in terms of financial services - significant debt sales from UK clearing banks beginning to come to market as the trend towards sales of scale continues
- Communications and Home Retail expected to maintain regular portfolio sales
- Market consolidation evident in terms of both DP and DCA participants

### Lowell Acquisition Focus

- We remain committed to ongoing pricing discipline and leveraging areas of competitive advantage
- We continue to explore opportunities to diversify into “un-tapped” opportunities in the sectors of government, utilities and insurance

### Operations

- Business commitment to ethical behaviour continues with the launch of the Fair Customer Outcome Initiative
- Business is working hard towards achieving ISO27001 accreditation

### Other

- The Government is very active in increasing the use of the private sector to reduce the amounts owed to the public purse
- Lowell is well positioned to harness our skills and experience to deliver Value Added Services that develop our strategic relationships and facilitate further growth opportunities



# Questions?

# Financial Results Presentation

(Three months ending 28<sup>th</sup> February 2013)