

Lowell Group

Q2 2014

Investor Presentation

22nd May 2014



Lowell.

a better way forward **Lowell.**
GROUP

Introduction To Today's Speakers



James Cornell

CEO

- **16 years of relevant experience**
- Founder and CEO of Lowell since 2004
- Previous roles: Head of Risk at Caudwell Group; Commercial Director of the B2B Division at Equifax Plc



Colin Storrar

CFO

- **20 years of relevant experience**
- Joined Lowell in early 2013
- Previous roles: CFO at HSBC First Direct and Head of HSBC contact Centres; Senior finance roles at GE Capital Bank and GE Money post 10 years with Arthur Andersen



Dicky Davies

Director of Business Development

- **24 years of relevant experience**
- Joined Lowell in 2010
- Previous roles: Head of New Business at Visa Europe; Managing Director of Barclaycard Partnerships; Associate Director at Barclays de Zoete Wedd Merchant Bank

Overview of Current Position

Particularly Strong Purchases In the Quarter

Overview of Current Position

Q2 FY14 sees record portfolio purchases

- Highly diversified origination strategy the key to a strong quarter of acquisition spend
- Well funded to achieve further growth; reinforced by the recent successful £115m bond offering
- Strong financials continue
 - 12% collections growth LTM March 2014 v LTM March 2013
 - March 2014 84 month ERC stands at £623m, £155m (33%) up on March 2013, with 49% of this to be delivered within the next 24 months
 - Record quarter acquisitions spend of £54m, 157% up on prior year
- Successfully moved to new head office in Leeds

Differentiated Portfolio Origination

Diversification & entrenched client relationships facilitating successful spend

Purchase growth continues

- Spend of £54m in the quarter, £33m (157%) ahead of same period in 2013
- Spread of acquisition across key, profitable sectors with some small spend on test and learn in emerging markets
- Q3 pipeline strong with particular emphasis on areas Lowell has an inherent advantage

Forward Flow a key driver

- 11 clients in FF arrangements representing £55m purchase value for the full year
- Other clients actively considering Forward Flow arrangements due to certainty and transparency provided
- Strength of collaborative relationships is key

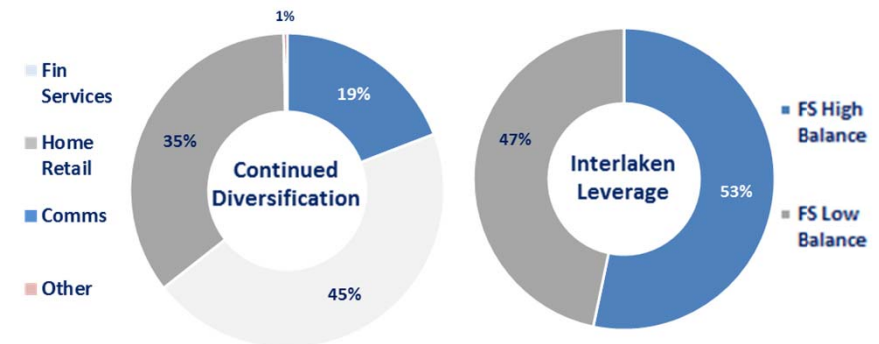
Leading to Significant Embedded Portfolio Purchase Growth...



- 92% of 2013 spend already committed for 2014 in the first half
- 13.9m accounts now owned with typical crossover on new purchases over 50%
- 76 individual portfolios acquired in H1 across 26 clients (95% of purchase spend with repeat clients)

...With Balance Size and Sector Diversification

H1 Purchase spend:



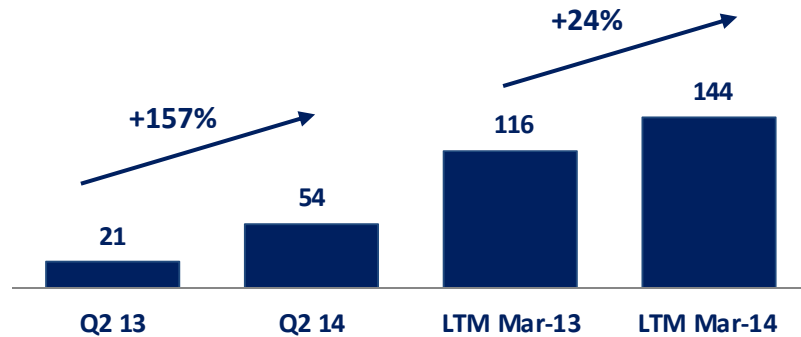
Financial Performance Deep Dive

Ongoing financial prudence, strong growth, high returns & predictable earnings

Balance Sheet

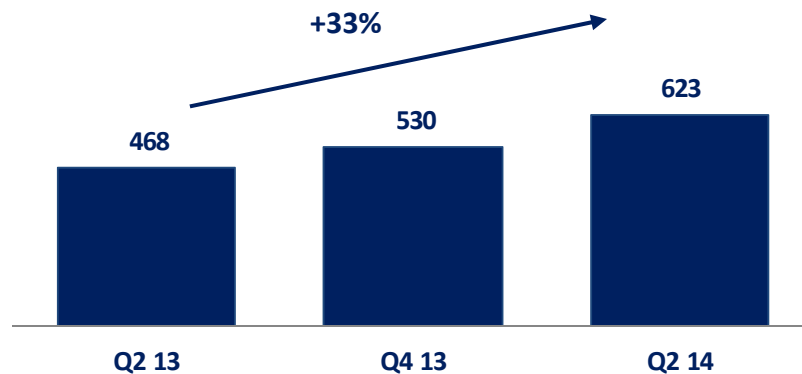
Another quarter of impressive growth

Portfolio Purchases (£m)



- +24% YOY LTM March 2014
- Significant key paying purchases in March Q2 2014 driving year-on-year growth
- H1 2014 includes £27m (32%) of forward flow purchases

84M Gross ERC (£m)

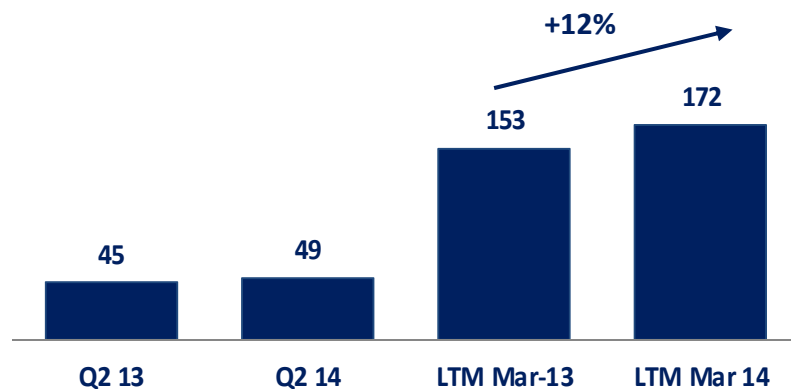


- +33% YOY March 2014
- 120M ERC grows to £699m from £525m a year earlier

Collections & Returns

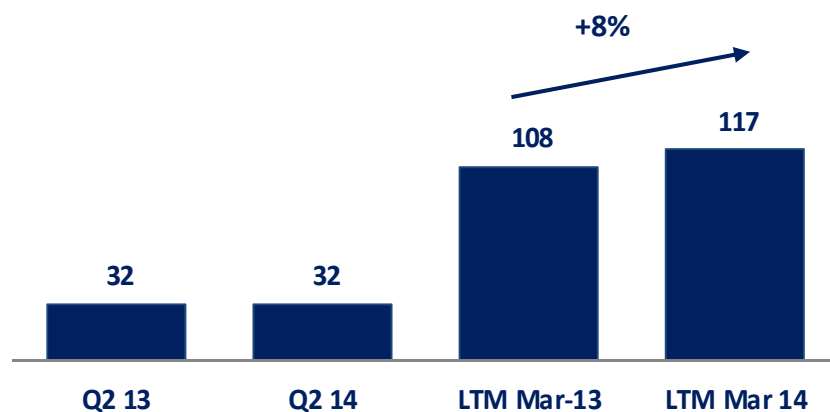
Continued Growth With Strong Returns Continuing

Gross Cash Collections (£m)



- LTM March 2014 collections growth year-on-year of 12%
- Q2-13 v Q2-14 growth of 9%

Adjusted EBITDA* (£m)



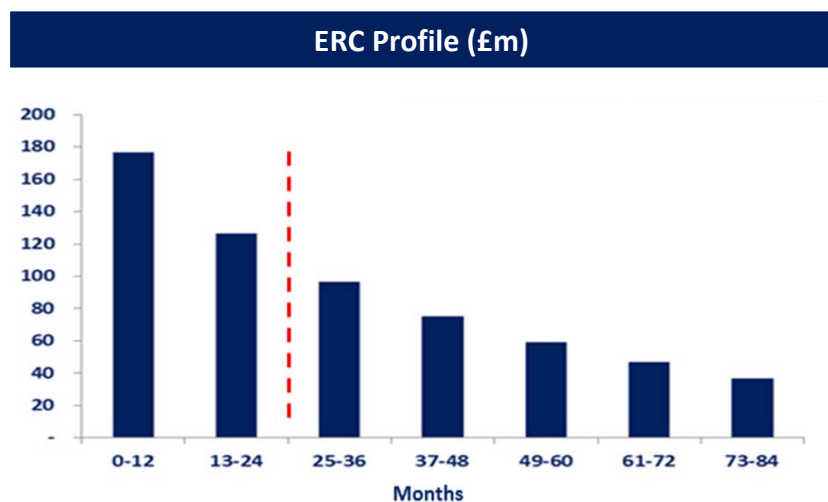
- LTM March 2014 adjusted EBITDA growth of 8%
- Q2-13 v Q2-14 flat due to;
 - Higher purchase volumes with associated higher front collections cost
 - Investment in IT, Change Management and Compliance to drive continuous improvement and provide a platform for further growth

*Excludes exceptional items

Liquidity

Strong underlying cashflow

Cashflow (£m)			
	Q2 13	Q2 14	LTM Mar 14
ERC	468.2	623.1	623.1
Reported portfolio purchases	21.1	53.7	143.8
PF Net Debt	218.2	316.6	316.6
Cash generation:			
Collections/income on owned portfolios	44.8	48.8	172.6
Other income	0.0	0.0	0.3
Servicing costs	(13.2)	(17.1)	(56.9)
Adjusted EBITDA (incl exceptionals)	31.6	31.7	116.0
Capital Expenditure	0.6	2.7	4.1
Working Capital Movement	(1.2)	(13.4)	(25.1)
Cash flow before debt and tax servicing	31.0	21.0	94.9
Cash asset return			21.8%



- Cash asset return of 21.8% represents a significant and rapid conversion of ERC into cashflow, thereby reducing risk and providing substantial liquidity for new purchases
- Working capital movement in Q2-14 driven by :
 - Bond fees associated with £115m secured notes
 - Increase in litigation activity on the Lowell backbook, leveraging the Interlaken infrastructure (resulting in up front capitalised cost)
 - Up front payment for new credit bureau contract
- 49% of £623m 84 month ERC to be collected in the first 24 months

New Bond Issuance

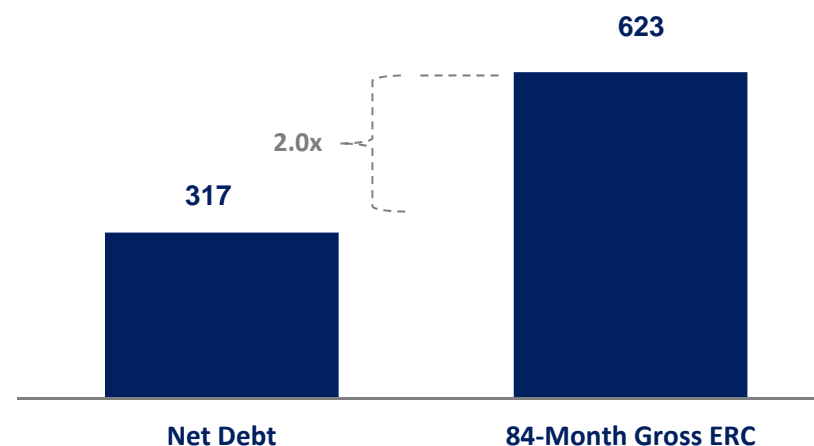
£115M Successfully Raised

Sources & Uses			
Sources	£m	Uses	£m
New Senior Secured Notes	115	Repayment of RCF	10
		Cash for general corporate purposes	102
		Fees and expenses	3
Total Sources	115	Total Uses	115

Pro forma Capitalisation Table as at March 31 2014

£m	Amount	x PF EBITDA ¹	% of 84m ERC ²
Cash	(89)	(0.8x)	(14.3%)
Super Senior RCF (£83m) ³	15	0.1x	2.4%
New Senior Secured Notes	115	1.0x	18.4%
10.75% Senior Secured Notes	275	2.3x	44.1%
Net Debt	317	2.7x	50.8%

ERC and pro-forma net debt comparison (£m)



1. Based on the 12 months period ended March 31, 2014 Adjusted EBITDA (excluding exceptional items) of £118m
2. Based on the Mar-14 Gross undiscounted ERC of £623m.
3. Full £83 million amount is available subject to the satisfaction of certain conditions. £15m above was repaid in full on 7th April 2014.

Asset Coverage

Covenants well within requirements

Key Coverage Measures

	Q4 13	Q1 14	Q2 14
Key Financial Metrics			
ERC	530.3	548.5	623.1
PF Gross Debt	285.0	285.0	405.0
Cash	14.2	3.5	88.4
Net Debt	270.8	281.5	316.6
Annual Interest payable	32.5	33.2	40.4
Adjusted EBITDA (12 months to quarter end)	112.5	117.0	117.5
Leverage and Coverage Ratios			
Loan to value ratio	51.0%	51.3%	50.8%
Net debt / Adjusted EBITDA	2.4	2.4	2.7

- 84 month ERC from existing portfolios of £623m (33% year-on-year increase):
 - 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
- 120 Month ERC £699m
- Moodys and S&P hold ratings at B1 and BB- respectively as part of £115m bond issue process

Notes

All 3 quarters numbers for gross debt, net debt, cash, annual interest payable and the resulting ratios are on a pro forma 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

The company continues to explore growth / funding opportunities including M&A and IPO

Looking Forward

Strategy unchanged with further growth opportunities in areas we know well

Market Outlook

Strong growth opportunities

Financial Services

- Economic growth rates
- Increased propensity to sell by banks
- Increasing consumer confidence & disposable incomes

Home Retail Credit

- Growth in retail spending
- Debt sale increasingly used for cash-flow management

Communications

- Revenue growth, continued shift to contract from prepay
- Higher balances (i.e. 4G) & earlier debt sale
- Penetration of fixed line contract market

Emerging Sectors

Utilities

- Debt sale becoming more common across the industry

Government

- Pressure to cut budget deficit and recent Government DMI initiative to work more closely with the private sector

Market Outlook

Lowell well placed to benefit as we increasingly leverage Interlaken

Financial Services

- Strong standing and proven originator relationships
- Industry leading customer cross-over
- £16bn of residual backlog is with existing Lowell customers (£11bn unsecured)
- Litigation capability improves competitiveness in FS High Balance sales

Home Retail Credit

- High existing purchase share, acquisition at all placement stages
- Longevity of relationships
- Value Added Services (VAS) at all stages of the customer life cycle

Communications

- High existing purchase share, acquisition at all placement stages
- Longevity of relationship with largest market participant under f/flow
- Value Added Services (VAS) at all stages of the customer life cycle

Emerging Sectors

Utilities

- Industry leading servicing cost positions us well due to low balance profile
- Extensive data/trace skills and very high customer crossover

Government

- Interlaken hold leading position on HMRC and DWP DCA frameworks

Intention To Convert To IFRS

Principle Changes To Ongoing Reporting

Key change is that loan portfolio accounting moves from Fair Value to Amortised Cost

Other changes are far less impactful:

- Goodwill no longer amortised
- Intangible assets upon previous acquisitions will instead be identified and amortised
- Reclassification of software and development costs
- Deferred tax assets henceforth classified as non current assets
- Historic fair value adjustments on acquisition of Lowell Group by Metis Bidco to be released to the P&L over 7 years in keeping with our generic collections curve

Conclusion

Strong performance continues in a growing marketplace

- Strong Financials - growth, high returns and predictable earnings
- Well positioned in a market that continues to deliver growth
- Ongoing focus on compliance and FCA transition

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