Lowell Group

Q3 2014 Results

a better way forward Lowell. GROUP

1 Highlights

- 84 Month Estimated Remaining Collections ("ERC") at £654.2 million as of June 30, 2014, up 28% since June 30, 2013.
- Cash asset return (LTM Adjusted EBITDA / Average ERC) of 21.5%, for the 12 months to June 30, 2014.
- Collections of £51.1m million in the quarter, up 30% compared to the three months ended June 30, 2013.
- Adjusted EBITDA (Cash collections less servicing costs) for the quarter up 25% to £32.7 million compared to the quarter ended June 30, 2013.
- Portfolio purchases committed for financial year 2014 have reached £150 million after just nine months to June 30, 2014. These purchases are in sectors Lowell knows well and where it has generated strong returns historically. 83% of committed purchases came from repeat clients.
- Customer account numbers since inception increased to 14.4 million from 13.9 million as at March 31, 2014 and 11.9 million as at June 30, 2013. Aggregate face value of debt purchased since inception totalled £12.4 billion, a 15% increase to June 30, 2013.
- Loan to value ratio (net debt/ERC) reduced from 57% at original bond issuance to 52% as of June 30, 2014. Net debt to Adjusted EBITDA is at 2.8x cover at June 30, 2014 with fixed charge cover ratio at 4.2x cover at the same date.

Colin Storrar, Chief Financial Officer of Lowell Group, commented:

Q3 was a quarter of strong growth and predictable earnings. All of our key financial metrics have continued to show double digit growth.

"Our ERC, the amount we expect to collect over the next 84 months, has increased to £654 million, a 28 per cent increase on the figure a year ago. Of this total, we expect to collect £320 million, almost half, in the next 24 months.

"Collections of £51 million in Q3 were up 30 per cent on the same period last year, while collections over the last 12 months now total £184 million, a 17 per cent year on year increase.

"EBITDA for the quarter was £33 million, 25 per cent up on the same period last year. The trend for the year to date is equally strong showing 14 per cent growth in EBITDA from £107 million to £122 million.

"In August we announced that the Ontario Teachers' Pension Plan (Teachers'), through its Teachers' Private Capital division, has agreed to acquire a significant minority interest in the company, recognising Lowell's potential for further growth. The involvement of Teachers' and the continuing support of TDR Capital means that we now have an even greater opportunity to maximise the potential of our business. In summary, we are very well positioned in a buoyant and consolidating marketplace"

For further information:

Email: Investors@lowellgroup.co.uk

Website: www.lowellgroup.co.uk

Telephone: +44 (0)113 285 6570

Carol Ord – Communications

Lowell Group ("Lowell") is a leading purchaser of non-performing consumer debt portfolios in the United Kingdom, having purchased assets with a face value of £12.4bn. The three main sectors from which the business has primarily purchased debt portfolios are financial services, communications and home retail credit. Lowell typically purchases unsecured, low-balance consumer debt portfolios consisting of a high number of accounts, and is able to purchase these non-performing debt portfolios at a substantial discount to their face value. The business aims to collect the balances owed on these debt portfolios through in-house, technology-driven call centre operations.

We seek to recover outstanding balances by offering customers realistic, affordable and sustainable long-term payment plans with the instalments tailor-made to their individual circumstances. The collection strategy is centred on the ability to assess a customer's ability to pay through data intelligence and analytics. The business places significant importance on the ethical and fair treatment of customers to protect our and the originators' reputations. We aim to collect the balances owed on the debt portfolios purchased through our in-house, technology – driven call centre operations.

Because of the diversification of the debt portfolios on our balance sheet across millions of accounts and our focus on establishing sustainable, long-term payment plans, we believe our purchased assets provide significant, predictable and cash generative asset backing. As of June 30, 2014 and based on our proprietary analytical models, which utilise historical portfolio collection performance data and assumptions about future cash collection rates, the gross cash proceeds which we expect to collect over the subsequent 84 months from our purchased assets (our "Estimated Remaining Collections" or "ERC") amount to £654.2 million. ERC is only a projection and is based on historical and current data, trends and assumptions, and we cannot guarantee that we will achieve such collections.

2 Operating & financial review

The following table summarises key financial data and key performance indicators as of the dates and for the periods indicated.

(£ in millions, except for percentages and ratios or unless otherwise noted)	Three months ended or as of June 30 2013	Three months ended or as of June 30 2014	12 months ended or as of June 30 2014
Purchase of loan portfolios	41.3	36.3	138.8
Number of accounts (in millions)	0.9	0.5	2.5
Cash collections	39.2	51.1	184.5
Adjusted EBITDA	26.2	32.7	122.2
Adjusted EBITDA ratio	66.8%	64.0%	66.3%
Underlying operating profit	2.0	13.2	58.1
84 month ERC	512.7	654.2	654.2
120 month ERC	577.0	724.6	724.6
Net debt	264.7	337.7	337.7

ERC and portfolio Purchases

Portfolio purchases for the three months ended June 30, 2014 were £36.3 million, a reduction of £5.0 million on what had been a record-breaking corresponding period in 2013.

The table below summarises the ERC over the 84 month outlook period, split by the financial year portfolios were purchased. 49% of the 84 month ERC is likely to be recovered in the next 24 months, with almost 77% of these projected collections expected to be recovered in the next four years.

ERC on owned portfolios as of June 30, 2014 by year of purchase

	0 – 12 Months	13 – 24 Months	25 – 36 Months	37 – 48 Months	49 – 60 Months	61 – 72 Months	73 – 84 Months	Total
ERC	184.8	135.2	103.1	79.9	62.5	49.5	39.2	654.2
Cumulative %	28%	49%	65%	77%	86%	94%	100.0%	

Committed portfolio purchases for financial year 2014 have reached £150 million after just the nine months to June 30, 2014. These purchases are in sectors Lowell knows well and where it has generated strong returns historically. 83% of committed purchases came from repeat clients, with a continued focus upon non-performing low balance portfolios across financial services, communications and home retail credit.

The company continues to see good prospects in the market for further growth in portfolio purchases.

Collections

Strong quarterly collections of £51.1 million were achieved by the business in the three months ending June 30, 2014, an increase of 30% on the corresponding three months to June 30, 2013.

Revenue

Total income for the quarter to June 30, 2014 increased to £32.5m, a rise of 100.6% compared to the corresponding three months to June 30, 2013.

Operating Profit

Operating expenses including exceptional costs (excluding depreciation and amortisation) were £18.4 million for the three months ended June 30, 2014, £5.4 million higher than the three months ended June 30, 2013. Included in this number are exceptional costs of £0.5m relating to one off non-recurring corporate expenditure. Collection costs continue to be in line with management expectations and reflect the mix, phasing and volume of portfolio purchases during the period and the back book of the business.

The majority of costs to service a portfolio are incurred at the beginning of the ownership of the portfolio, mainly driven by the cost of printing and postage associated with sending letters to customers and time spent attempting to make contact with customers. The front-loaded nature of the servicing costs combined with the volume of portfolios purchased in both Q2 and Q3 therefore has an impact on the servicing cost ratio of the business in the current period.

Finance Cost

Finance costs were £9.9 million for the three months ended June 30, 2014. These were £2.1 million higher than the three months ended June 30, 2013. The increase was due to interest and fees incurred from the £115m additional bond issued on 11 March 2014 and the additional £28 million RCF agreed on 28 November 2013.

Taxation

A tax credit arose in the quarter following the conversion of accounting standards under which the financial statements are prepared from UK GAAP to IFRS. Under IFRS, revenue and subsequently taxable profits have reduced with revenue now recognised under an EIR method. With the restatement of prior years' financial statements, a significant adjustment accounting for this fall in revenue will be put through the forthcoming tax returns resulting in corporation tax repayable. The current quarter credit therefore recognises a proportion of the tax credit expected.

Cash flow

Net cash outflow from operating activities increased to £20.1 million during the quarter to June 30, 2014 when compared to corresponding period in 2013. This is primarily due to a significant fall in creditors between March and June 2014 because of a deferred payment on a large portfolio purchased in March 2014. This has been partially offset by improved performance during the period.

While returns achieved on an individual portfolio can vary, the company has a track record of generating strong and consistent unlevered returns on its aggregate purchased portfolios. Gross and net cash-on-cash multiple as at June 30, 2014 are shown below:

	As of June 30, 2014		
Segment	Invested (£ millions)	Gross cash-on-cash multiple(i)	Net cash-on-cash multiple(i)
Total..........	717.5	2.01x	1.71x

(i) Gross and Net Cash-On-Cash Multiples presented in this quarterly report only include actual and forecast collections up to 84 months from the date the portfolio was purchased, although collections can extend past that period. ERC shows estimated collections for the 84 months following June 30,2014. As a result, Gross Cash-On-Cash Multiple is lower than the ratio of total estimated collections over purchase price

3 Recent developments & outlook

Recent developments

On 11 August 2014, the Ontario Teachers' Pension Plan ("Teachers'"), through its Teachers' Private Capital division, agreed to acquire a significant minority interest in the group. Each of the current investors in Lowell will remain shareholders, each selling a proportionate amount of their current holding. TDR Capital will continue to be majority shareholders.

Completion of the transaction is subject to customary regulatory clearances and other approvals and consents.

As part of the deal, Iain Kennedy, who joined Teachers' in 2014 and is responsible for making direct equity investments for Teachers' Private Capital in London, will join the board of Lowell Group.

Outlook

The company continues to focus on the segments of the market where it believes it has the greatest operational advantages, and to seek to develop long-term strategic relationships with our clients.

Lowell Finance Holdings Limited

Consolidated statement of comprehensive income
3 months ended 30th June 2014

	Note	3 months to 30th June 2014 £000	3 months to 30th June 2013 £000
Continuing operations			
Revenue			
Income from purchased loan portfolios		27,438	22,016
Portfolio fair value release	1	(1,220)	(1,677)
Portfolio write up/(write down)		6,310	(4,126)
Finance revenue		32,528	16,213
Other revenue		19	86
Total revenue		32,547	16,299
Operating expenses			
Collection activity costs		(8,556)	(5,292)
Other expenses		(10,824)	(9,004)
Total operating expenses		(19,380)	(14,296)
Operating profit		13,167	2,003
Interest income		48	75
Finance costs	2	(9,888)	(7,827)
Profit / (loss) before tax		3,327	(5,749)
Profit/(Loss) from subsidiary undertaking		(1,118)	46
Total profit / (loss) before tax		2,209	(5,703)
Tax		993	1,479
Profit/(loss) for the period attributable to equity shareholders		3,202	(4,225)
Total comprehensive expenditure for the period attributable to equity shareholders		3,202	(4,225)

The notes on pages 10 to 13 form part of the interim financial statements.

Lowell Finance Holdings Limited

Consolidated Statement of Financial Position
As at 30th June 2014

	Note	30th June 2014 £000	30th June 2013 £000
Fixed assets			
Non-current assets			
Goodwill		180,856	180,612
Other intangible assets		6,267	7,908
Property, plant and equipment		3,812	1,949
Purchased loan portfolios		205,965	146,299
Deferred tax asset		4,259	3,309
Total non-current assets		401,159	340,077
Current assets			
Cash and cash equivalents		52,251	10,281
Trade and other receivables	*3*	39,323	18,564
Purchased loan portfolios		137,558	118,218
Total current assets		229,132	147,063
Interlaken net assets		2,064	3,916
Total assets		632,355	491,056
Equity			
Share capital		(182,913)	(182,913)
Retained earnings/(deficit)		(20,668)	(3,826)
Total (deficit) attributable to shareholders		(203,581)	(186,739)
Liabilities			
Non-current liabilities			
Borrowings	*5*	(390,000)	(275,000)
Total non-current liabilities		(390,000)	(275,000)
Current liabilities			
Trade and other payables	*4*	(29,144)	(21,003)
Borrowings	*5*	(9,474)	(7,390)
Current tax liabilities		(156)	(924)
Total current liabilities		(38,774)	(29,317)
Total equity and liabilities		(632,355)	(491,056)

The notes on pages 10 to 13 form part of the interim financial statements.

Lowell Finance Holdings Limited

Consolidated statement of cash flows
3 months ended 30th June 2014

	3 months to 30th June 2014 £000	3 months to 30th June 2013 £000
Net cash (used in)/from operating activities	(20,062)	(17,135)
Investing activities		
Interest received	48	75
Purchases of property, plant and equipment	(1,094)	(398)
Acquisition of subsidiary	-	(29,024)
Net cash (used in)/from investing activities	(1,046)	(29,347)
Financing activities		
New borrowings	-	-
Repayment of borrowings	(15,000)	-
Net cash (used in)/from financing activities	(15,000)	-
Net increase/(decrease) in cash and cash equivalents	(36,108)	(46,482)
Cash and cash equivalents at beginning of period	88,359	56,763
Cash and cash equivalents at end of period	52,251	10,281

Net cash (used in)/from operating activities

	3 months to 30th June 2014 £000	3 months to 30th June 2013 £000
Profit/(loss) for the period	3,202	(4,225)
Adjustments for:		
Depreciation	250	303
Amortisation	778	878
Interest received	(48)	(75)
Tax expense/(credit)	(993)	(1.479)
Interest expense	9,889	7,827
Changes in:		
Trade and other receivables	(4,271)	(5,837)
Loan portfolios	(17,721)	(18,347)
Trade and other payables	(9,391)	4,188
Cash generated from operating activities	(18,305)	(16.767)
Interest paid	(851)	(368)
Income taxes paid	(906)	-
Net cash from operating activities	(20,062)	(17.135)

Lowell Finance Holdings Limited

Notes to the interim financial statements
3 months ended 30th June 2014

1. Accounting policies

General information and basis of accounting

These financial statements are prepared under the historical cost convention and in accordance with applicable International Financial Reporting Standards (IFRS) as adopted for use in the European Union (EU). Those standards have been applied consistently to the historical periods.

Basis of consolidation

The Group financial statements consolidate the financial statements of Lowell Finance Holdings Limited and all its subsidiary undertakings drawn up to 30 June 2014. Control is achieved where the company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Going concern

There are long-term business plans and short-term forecasts in place, which are reviewed and updated on an ongoing regular basis by management. The Group is in a net assets position.

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, they adopt the going concern basis of accounting in preparing these financial statements.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill is not amortised but is reviewed for impairment at least annually.

Revenue recognition and effective interest rate method

Finance revenue on purchased loan portfolios

Income from purchased loan portfolios represents the yield from purchased loan portfolios, net of VAT, all of which arose in the UK. Purchased loan portfolios are financial instruments that are accounted for using IAS 39, and are measured at amortised cost using the effective interest method.

1. Accounting policies *(continued)*

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash receipts through the expected life of the purchased portfolio asset. The EIR is determined at the acquisition of the loan portfolio, and then reassessed up to 12 months after the acquisition to reflect refinements made to estimates of future cash flows based on actual data collected during that time period.

Purchased loan portfolios are purchased at a deep discount and as a result the estimated future cashflows reflect the likely credit losses within each portfolio.

Upward adjustments to carrying values as a result of reassessments to forecasted cashflows are recognised in the portfolio write up line item within revenue, with subsequent reversals also recorded in this line. If these reversals exceed cumulative revenue recognised to date, a provision for impairment is recognised as a separate Statement of Comprehensive Income ("SCI") line item.

When an individual portfolio's carrying value is completely recovered, the Group recognises collections as revenue as they are received.

As part of the acquisition accounting around the purchase of Lowell Group Limited by Metis Bidco Limited on 15 September 2011 and subsequent acquisition of Lowell Group Limited by Lowell Finance Holdings Limited on 19 March 2012 the portfolios were uplifted to their fair value at the date of acquisition. The portfolio fair value release represents the unwinding of this fair value uplift. This uplift is being unwound in line with the profile of gross ERC over an 84 month period.

Other revenue

Other revenue represents commission on collections for third parties, recognised in line with the services provided.

Impairment of purchased loan portfolios

Purchased loan portfolios are reviewed for indications of impairment at the Statement of Financial Position ("SFP") date in accordance with IAS 39. Where portfolios exhibit objective evidence of impairment, an adjustment is recorded to the carrying value of the portfolio. If the forecast portfolio collections exceed initial estimates, a portfolio basis adjustment is recorded as an increase to the carrying value of the portfolio and is included in revenue. If the forecast portfolio collections are lower than previous forecasts the revenue from previous upward revaluations are reversed and this reversal is recognised in revenue, up to the point that the reversals equal the previously recognised cumulative revenue. If these reversals exceed the previously recognised cumulative revenue then a provision for impairment is recognised as a separate SCI line item.

Financial instruments

Financial assets and financial liabilities are recognised in the Group's SFP when the Group becomes a party to the contractual provisions of the instrument.

Loans and receivables

Purchased loan portfolios are purchased from institutions at a substantial discount from their face value. The portfolios are initially recorded at their fair value, being their purchase price, and are subsequently measured at amortised cost using the effective interest method.

1. Accounting policies *(continued)*

The loan portfolio asset is analysed between current and non-current in the SFP. The current asset is determined using the expected cash flows arising in the next twelve months after the SFP date. The residual amount is classified as non-current.

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'Trade and other receivables'. Trade and other receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables (including Trade receivables) when the recognition of interest would be immaterial.

The Group has forward flow agreements in place in relation to the future purchase of debt portfolios. The fair value and subsequent amortised cost of portfolios purchased under these agreements are determined on the same basis as the Company's other purchased debt portfolios.

Impairment of financial assets

Financial assets, other than those held at fair value through profit or loss (FVTPL), are assessed for indicators of impairment at each period end. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. For impairment of loans and receivables please see above under impairment of purchased loan portfolios.

Financial liabilities

All financial liabilities held by the Group are measured at amortised cost using the effective interest method, except for those measured at fair value through profit or loss, e.g. derivative liabilities.

Amounts collected on behalf of third parties

Amounts collected on behalf of third parties are not reported in the financial statements (prior to October 2013 cash collected on behalf of third parties within Tocatto Limited was reported both in cash and cash equivalents and in other payables).

2. Finance costs

	3 months to 30th June 2014 £000	3 months to 30th June 2013 £000
Bond interest & fees	9,335	7,481
RCF interest & fees	553	346
	9,888	7,827

3. Trade and other receivables

	30th June 2014 £000	30th June 2013 £000
Trade receivables	25	17
Other debtors	23,216	6,589
Prepayments and accrued income	15,604	12,020
Amounts owed by Group companies	478	(62)
	39,323	18,564

4. Trade and other payables

	30th June 2014 £000	30th June 2013 £000
Trade payables	1,997	2,407
Other payables	11,182	6,995
Accruals and deferred income	10,566	10,017
Other taxes and social security	620	501
Amounts owing to Parent company's immediate parent for group relief	4,779	1,083
	29,144	21,003

5. Borrowings

	30th June 2014 £000	30th June 2013 £000
Bond principal	390,000	275,000
Bond interest	9,474	7,390

Reconciliations

Operating Profit to Adjusted EBITDA

(£ in millions)	Three months to 30th June 2013	2014
Profit for the period attributable to equity shareholders	(4.2)	3.2
Net finance costs	7.7	9.9
Taxation charge on ordinary activities	(1.5)	(1.0)
Loss from subsidiary undertaking	-	1.1
Operating profit	2.0	13.2
Portfolio amortisation	17.2	23.6
Portfolio write up	4.1	(6.3)
Portfolio fair value adjustment	1.7	1.2
Depreciation and amortisation	1.2	1.0
Adjusted EBITDA	26.2	32.7

Increase in Cash in the Period to Cash-flow before Debt Service and Adjusted EBITDA

(£ in millions)	Three months to 30th June 2013	2014
Increase/(decrease) in cash in the period	(46.5)	(36.1)
Movement in debt	-	15.0
Portfolio purchases	41.3	47.4
Debt servicing	0.3	0.9
Tax servicing	-	0.9
Acquisition of Interlaken	29.0	-
Cash flow before debt and tax servicing	**24.1**	**28.0**
Capital expenditure	04	1.1
Working capital	1.7	3.5
Adjusted EBITDA	**26.2**	**32.7**

Cash Collections to Adjusted EBITDA

(£ in millions)	Three months ended June 30, 2013	2014
Cash collections	39.2	51.1
Other income	0.1	-
Operating expenses	(14.3)	(19.4)
Depreciation and amortisation	1.2	1.0
Adjusted EBITDA	26.2	32.7