Lowell Group

Q2 2015 Results

a better way forward

Lowell.
GROUP

1 Highlights

- 120 Month Estimated Remaining Collections ("ERC") at £828.6m as of March 31, 2015, up 18% since March 31, 2014.
- 84 Month ERC at £742.4m as of March 31, 2015, up 19% since March 31, 2014.
- Cash asset return (LTM Adjusted EBITDA / Average ERC) of 19.6%, for the 12 months to March 31, 2015.
- Collections of £55.9m in the quarter, up 14% compared to the quarter ended March 31, 2014.
- Adjusted EBITDA for the quarter up 10% to £34.8m compared to the quarter ended March 31, 2014.
- Customer account numbers since inception increased to 17.0m from 16.2m as at December 31, 2014 and 13.9m as at March 31, 2014. This is an increase of 22% since March 31, 2014.
- As at March 31, 2015, the aggregate face value of debt purchased since inception totalled £13.7bn, a 14% increase from the same period in 2014.
- Loan to value ratio (net debt/ERC) reduced from 57% at original bond issuance to 50% as of March 31, 2015. (March 31, 2014: 51%).
- Net debt to Adjusted EBITDA is at 2.8x cover at March 31, 2015 with fixed charge cover ratio at 3.5x cover at the same date.

1 Highlights (continued)

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

"Compared to Q2 2014, our Q2 2015 collections were up 14% to £56 million and EBITDA was up 10% to £35 million. Our 84 month estimated remaining collections (ERC) were up 19% on the equivalent quarter in 2014, standing at some £742 million. We expect to collect around 48% of this total, (£353 million), within 24 months.

This cash flow visibility means we are well placed to invest in further purchases to satisfy our investment appetite, while the number and volume of our forward flow agreements and the fact we purchase across financial services, home retail credit and telecommunications clearly helps us achieve our purchasing goals.

Our business also continues to focus upon maintaining discipline in pricing new investments, harnessing the significant data asset and analytic capabilities that the business benefits from.

Our application to the FCA for a full licence continues to gather pace, with formal submission on track by the end of August. Customer centricity will be central to our application, something recognised by Investors In Customers who recently awarded us with a 3 star assessment; the highest that is available.

In summary, we continue to report strong financial performance, strong medium term growth prospects and the ongoing support and backing of two major investment houses in TDR Capital and Ontario Teachers' Pension Plan."

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Julia Hudspeth-Lamb

Lowell Group ("Lowell") is a leading acquirer of non-performing portfolio investments in the United Kingdom, having acquired assets with a face value of £13.7bn. The three main sectors from which the business has primarily acquired portfolio investments are financial services, communications and home retail credit. Lowell typically acquires unsecured, low-balance portfolio investments consisting of a high number of accounts, and is able to acquire these at a substantial discount to their face value. The business aims to collect the balances owed on these portfolio investments 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.

Due to the diversification of the portfolio investments on our statement of financial position across millions of accounts and our focus on establishing sustainable, long-term payment plans, we believe our acquired assets provide significant, predictable and cash generative asset backing. As of March 31, 2015 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 £742.4m. 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 March 31 2014	Three months ended or as of March 31 2015	12 months ended or as of March 31 2015
Portfolio investments acquired	53.7	31.2	131.8
Number of owned accounts acquired (in millions)	0.9	0.7	3.1
Number of owned accounts (in millions)	13.9	17.0	17.0
Aggregate face value of debt (in £ billions)	12.0	13.7	13.7
Cash collections	48.9	55.9	213.9
Adjusted EBITDA	31.8	34.8	134.3
Adjusted EBITDA ratio	63.9%	62.3%	62.8%
84 month ERC	624.7	742.4	742.4
120 month ERC	700.9	828.6	828.6
Net debt	315.9	374.2	374.2
LTV ratio	51%	50%	50%

Estimated Remaining Collections (ERC)

The table below summarises the ERC over the 84-month outlook period, split by the financial year in which the portfolios were acquired. 48% of the 84 month ERC is likely to be recovered in the next 24 months, with almost 76% of these projected collections expected to be recovered in the next four years.

ERC on owned portfolios as of March 31, 2015 by year of purchase

£'000	0 – 12 Months	13 – 24 Months	25 – 36 Months	37 – 48 Months	49 – 60 Months	61 – 72 Months	73 – 84 Months	Total
Financial Year of purchase								
2005	0.8	0.6	0.5	0.5	0.4	0.3	0.3	3.4
2006	1.4	1.1	0.9	0.8	0.6	0.5	0.4	5.7
2007	2.8	2.3	1.8	1.5	1.2	0.9	0.8	11.3
2008	5.0	4.1	3.4	2.6	2.1	1.7	1.4	20.3
2009	8.6	7.0	5.7	4.5	3.7	2.9	2.3	34.7
2010	9.4	7.4	5.7	4.5	3.5	2.8	2.1	35.4
2011	14.0	10.9	8.5	6.7	5.4	4.2	3.2	52.9
2012	23.2	18.2	14.5	11.6	9.3	7.7	6.1	90.6
2013	39.5	29.8	23.3	18.4	14.6	11.6	9.1	146.3
2014	65.8	47.6	37.5	29.8	23.8	19.0	14.9	238.4
2015	31.9	22.0	15.9	11.8	9.1	7.1	5.7	103.4
Total	202.4	151.0	117.7	92.7	73.7	58.7	46.2	742.4
Cumulative Percentage	27.3%	47.6%	63.5%	75.9%	85.9%	93.8%	100.0%	

2 Operating & financial review (continued)

Collections

Strong quarterly collections of £55.9m were achieved by the business in the three months ending March 31, 2015, an increase of 14% on the corresponding three months to March 31, 2014.

Operating Profit

Operating expenses including exceptional costs (excluding depreciation and amortisation) were £23.8m for the three months ended March 31, 2015, £2.0m higher than the three months ended March 31, 2014. 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.

Finance Cost

Finance costs were £9.9m for the three months ended March 31, 2015. These were £1.4m higher than the three months ended March 31, 2014. The increase was due to interest and fees incurred from the £115.0m additional bond issued on 11 March 2014. At the date of this report (21st May 2015) the group continues to remain undrawn on its Revolving Credit Facility.

Taxation

A tax credit arose in the quarter, which represents an increase in the deferred tax asset as at the end of Q2. No corporation tax will be payable until all the losses created from the conversion of accounting standards from UK GAAP to IFRS have been utilised. These losses were created due to revenue and subsequently taxable profits significantly reducing with revenue now recognised under the EIR method.

The Group received a number of tax rebates from HMRC during the quarter (£1.3m) in respect of tax overpayments made in previous years. The group expects a further rebate of around £2.2m from the carry back of losses in relation to the 2013 financial year. These are all a consequence of the conversion to IFRS.

2 Operating & financial review (continued)

Cash flow

Net cash outflow from operating activities decreased to £16.5m during the quarter to March 31, 2015 when compared to the corresponding period in 2014. This is primarily due to lower acquisitions of portfolio investments in the quarter to March 31, 2015 when compared to the corresponding period in 2014.

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 cash-on-cash multiple as at March 31, 2015 is shown below:

	As of Mar31, 2015	
Segment	Invested (£ millions)	Gross cash-on-cash multiple(i)
Total	813.0	2.36x

(i) Gross Cash-On-Cash Multiple presented in this quarterly report only includes actuals to date and forecast collections for the next 120 months, although collections can extend past that period.

3 Recent developments & outlook

Recent developments

We formally agreed the increase of the RCF facility to £83m with RBS on 11th February 2015 in anticipation of a number of purchase opportunities we expect to come to market in the outlying months of the financial year. There have been no other significant developments since we last reported to you on 24th February 2015.

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 interim statement of comprehensive income
3 months ended 31st March 2015

	Note	3 months to 31st March 2015 £000	3 months to 31st March 2014 £000
Continuing operations			
Revenue			
Income from portfolio investments	1, 3	30,481	25,616
Portfolio (write down) /write up	1, 3	(4)	13,220
Portfolio fair value release	1, 3	(936)	(1,220)
		29,541	37,616
Other revenue	1	2,674	3,758
Total revenue		**32,215**	**41,374**
Operating expenses			
Collection activity costs	1	(10,336)	(8,064)
Other expenses		(14,349)	(14,933)
Total operating expenses		**(24,685)**	**(22,997)**
Operating profit		**7,530**	**18,377**
Interest income		1	39
Finance costs	2	(9,851)	(8,510)
(Loss) / profit before tax		**(2,320)**	**9,906**
Tax credit / (expense)		556	(2,227)
(Loss) / profit for the period attributable to equity shareholders		**(1,764)**	**7,679**
Other comprehensive income		-	-
Total comprehensive (expenditure)/income for the period attributable to equity shareholders		**(1,764)**	**7,679**

The notes on pages 10 to 15 form part of the interim financial statements.

Lowell Finance Holdings Limited

Consolidated interim statement of financial position
As at 31st March 2015

	Note	31st March 2015 £000	31st March 2014 £000
Fixed assets			
Non-current assets			
Goodwill		177,247	177,247
Intangible assets		4,693	6,857
Property, plant and equipment		3,966	3,518
Portfolio investments	*3*	207,114	175,296
Deferred tax asset		471	4,246
Total non-current assets		393,491	367,164
Current assets			
Portfolio investments	*3*	168,493	151,206
Trade and other receivables	*4*	33,587	28,294
Cash and cash equivalents		15,845	89,121
Total current assets		217,925	268,621
Total assets		611,416	635,785
Equity			
Share capital		182,913	182,913
Retained earnings		26,766	13,691
Total equity attributable to shareholders		209,679	196,604
Liabilities			
Non-current liabilities			
Borrowings	*6*	386,629	401,928
Current liabilities			
Trade and other payables	*5*	15,108	37,253
Total equity and liabilities		611,416	635,785

The notes on pages 10 to 15 form part of the interim financial statements.

Lowell Finance Holdings Limited

Consolidated interim statement of cash flows
3 months ended 31st March 2015

	3 months to 31st March 2015 £000	3 months to 31st March 2014 £000
Net cash used in operating activities	(16,454)	(32,262)
Investing activities		
Interest received	1	39
Purchases of tangible and intangible assets	(464)	(2,744)
Net cash from investing activities	(463)	(2,705)
Financing activities		
New borrowings	-	115,000
Repayment of borrowings	-	5,000
Net cash from financing activities	-	120,000
Net (decrease) / increase in cash and cash equivalents	(16,917)	85,033
Cash and cash equivalents at beginning of period	32,762	4,088
Cash and cash equivalents at end of period	15,845	89,121

Net cash from operating activities

	3 months to 31st March 2015 £000	3 months to 31st March 2014 £000
(Loss)/profit for the period	(1,764)	7,679
Adjustments for:		
Depreciation	216	409
Amortisation	687	779
Interest received	(1)	(39)
Tax (credit)/expense	(556)	2,227
Interest expense	9,851	8,510
	8,433	19,565
Changes in:		
Increase in trade and other receivables	(4,025)	(8,539)
Increase in portfolio investments	(4,787)	(42,315)
Increase in trade and other payables	1,243	16,952
Cash generated from operating activities	864	(14,337)
Interest and fees paid	(18,616)	(17,702)
Income taxes received / (paid)	1,298	(223)
Net cash from operating activities	(16,454)	(32,262)

Lowell Finance Holdings Limited

Notes to the interim financial statements
3 months ended 31st March 2015

1. Accounting policies

General information and basis of accounting

These interim 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 interim financial statements consolidate the interim financial statements of Lowell Finance Holdings Limited ("the Company") and all its subsidiary undertakings (together "the Group") drawn up to 31 March 2015. 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 interim 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 the statement of comprehensive income ("SCI") 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.

1. Accounting policies (continued)

Revenue recognition and effective interest rate method

Finance revenue on portfolio investments

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

The effective interest rate ("EIR") is the rate that exactly discounts 84 months of estimated future cash receipts through the expected life of the portfolio investment. The EIR is determined at the acquisition of the portfolio investment, 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.

Portfolio investments are acquired 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 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 portfolio investments

Portfolio investments 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.

1. Accounting policies (continued)

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

Portfolio investments are acquired from institutions at a substantial discount from their face value. The portfolios are initially recorded at their fair value, being their acquisition price, and are subsequently measured at amortised cost using the effective interest method.

The portfolio investment 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 acquisition of portfolio investments. The fair value and subsequent amortised cost of portfolios acquired under these agreements are determined on the same basis as the Group's other portfolio investments.

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 section under impairment of portfolio investments.

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. As at 31 March 2015 and 2014 the Group had no outstanding derivatives. All contracts mature or were closed out as at 30 March 2012. No other contracts have been entered into since this date.

Litigation costs

Litigation costs represent upfront fees paid during the litigation process. The fees are legally recoverable from the customer and are added to the customer account balance to be recovered at a later date. Litigation costs are deferred to the SFP on initial recognition and released to the SCI in line with the forecast collections profile over seven years.

Lowell Finance Holdings Limited

Notes to the interim financial statements
3 months ended 31st March 2015

1. Accounting policies (continued)

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the SCI because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the period end.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Collection activity costs

Collection activity costs represents the direct third party costs incurred in providing services as a debt collection agency or collecting debts on acquired portfolio investments; examples include printing and postage, third party commissions, search and trace costs, litigation, telephone and SMS text costs. They are recognised as the costs are incurred (accruals basis).

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, if it is probable that the Group will be required to settle that obligation and if a reliable estimate of the amount of the obligation can be made.

Lowell Finance Holdings Limited

Notes to the interim financial statements
3 months ended 31st March 2015

2. Finance costs

	3 months to 31st March 2015 £000	3 months to 31st March 2014 £000
Bond interest & fees	9,311	7,878
RCF interest & fees	540	632
	9,851	8,510

3. Portfolio investments

	31st March 2015 £000	31st March 2014 £000
As at the period brought forward	370,821	284,187
Portfolios acquired during the period	31,176	53,650
Collections in the period	(55,929)	(48,951)
Income from portfolio investments	30,481	25,616
Portfolio fair value release	(4)	13,220
Portfolio write-up	(936)	(1,220)
	375,607	326,502

4. Trade and other receivables

	31st March 2015 £000	31st March 2014 £000
Trade receivables	1,717	2,579
Litigation deferred costs	15,287	8,841
Other receivables	7,001	7,971
Prepayments and accrued income	7,343	8,527
Amounts owed by immediate parent	36	376
Corporation tax repayable	2,203	-
	33,587	28,294

Lowell Finance Holdings Limited

Notes to the interim financial statements
3 months ended 31st March 2015

5. Trade and other payables

	31st March 2015 £000	31st March 2014 £000
Trade payables	4,753	4,143
Other payables	3,905	2,352
Other payables – acquired portfolio investments	2,087	15,467
Other payables – contingent consideration	-	5,200
Accruals and deferred income	3,049	2,219
Other taxes and social security	1,314	1,193
Corporation tax payable	-	1,900
Amounts owing to company's immediate parent for group relief	-	4,779
	15,108	37,253

6. Borrowings

	31st March 2015 £000	31st March 2014 £000
Bond principal	390,000	390,000
Bond interest	-	394
Bond premium	4,647	5,808
Prepaid bond costs	(8,018)	(9,274)
Revolving credit facility	-	15,000
	386,629	401,928

Reconciliations

Operating Profit to Adjusted EBITDA

(£ in millions)	Three months to 31st March 2015	2014
(Loss)/profit for the period attributable to equity shareholders	(1.8)	7.7
Net finance costs	9.9	8.5
Taxation (credit)/charge	(0.6)	2.2
Operating profit	7.5	18.4
Portfolio amortisation	25.5	23.3
Portfolio write up	-	(13.2)
Portfolio fair value adjustment	0.9	1.2
Non recurring costs	-	0.9
Depreciation and amortisation	0.9	1.2
Adjusted EBITDA	34.8	31.8

(Decrease)/Increase in Cash in the Period to Cash-flow before Debt Service and Adjusted EBITDA

(£ in millions)	Three months to 31st March 2015	2014
(Decrease) / increase in cash in the period	(16.9)	85.0
Movement in debt	-	(120.0)
Portfolio purchases	31.8	38.2
Debt servicing	18.6	17.7
Tax servicing	(1.3)	0.2
Cash flow before debt and tax servicing	32.2	21.1
Capital expenditure	0.5	2.7
Working capital	2.1	8.0
Adjusted EBITDA	34.8	31.8

Cash Collections to Adjusted EBITDA

(£ in millions)	Three months to 31st March 2015	2014
Cash collections	55.9	48.9
Other income	2.7	3.8
Operating expenses	(24.7)	(23.0)
Non recurring costs	-	0.9
Depreciation and amortisation	0.9	1.2
Adjusted EBITDA	34.8	31.8