

# Garfunkelux Holdco 2 S.A.

## FY19 Results

March 13<sup>th</sup>, 2020

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Disclosure Note: There exists no material differences if we were to consolidate the accounts at the Garfunkelux Holdco 3 S.A. level versus the consolidated accounts of Garfunkelux Holdco 2 S.A.

# Agenda

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1 | Key Highlights

2 | Financial Update

3 | Outlook

4 | Appendix

# 1. Key Highlights

# Key Highlights

## A Year of Delivery

- A year of strong financial delivery with earnings growth and 200bps widening of Cash EBITDA margin
- Disciplined capital deployment with leverage at 4.7x and 2019 Net IRR increasing to 19%
- Strong backbook collections in excess of forecast; frontbook collections ahead of underwriting expectation
- Operational foundations strengthened through further digitalisation of customer journeys and completion of inaugural co-investment transaction
- Diversification across the business remains a key mitigant to any macroeconomic downturn
- Lowell23; developed as a strategic framework for future focus

# Increased Optionality as to Market Access and Liquidity Management

## Co-Investment Partnership



- A partnership with a listed global asset manager with over £300bn of assets under management
- Agreement to jointly acquire NPLs across our three regional markets
- Targeted deployment of **€300m of capital** over 3 years
- Lowell to provide asset management services for all acquired assets
- Inaugural portfolio investment completed

## NPL Procurement Agreement



- Partnership with OLB, a German based bank managing over €20bn in assets
- Mandate for Lowell to procure NPLs in the DACH region for OLB up to **€30m per annum**
- Lowell sole servicer of portfolios acquired by OLB under this agreement

**Strong endorsement of Lowell's unique capabilities to source, price and service consumer unsecured NPLs**

# We Exist to Make Credit Work Better for All

NPLs form a structural part of credit origination businesses

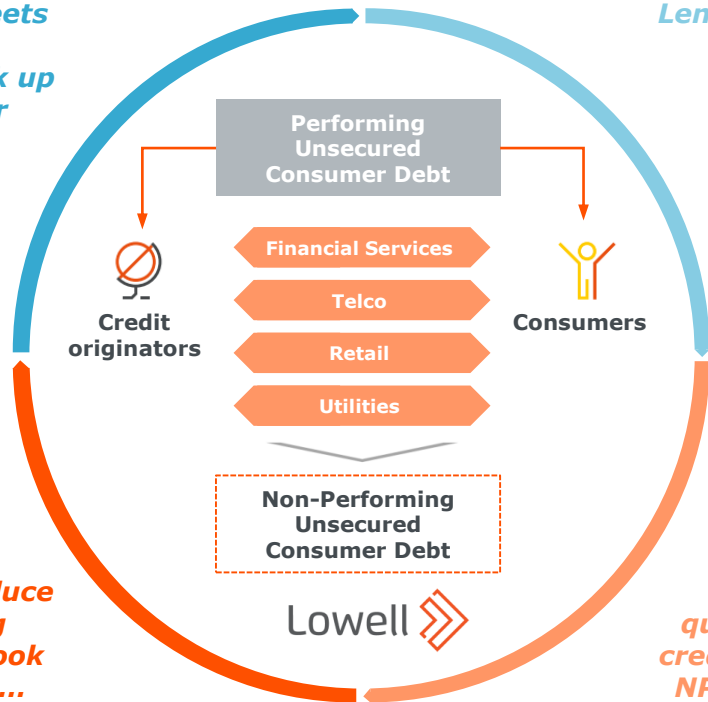
Lowell is a trusted partner to credit originators and consumers alike

*Balance sheets cleaned up, gradual pick up in consumer lending...*

*Lending volumes increase and credit risk increases...*

*Lenders reduce new lending limits and look to sell NPLs...*

*Low credit quality leads to credit losses and NPLs build-up...*



## Originators

## Consumers

- **We help** to accelerate recoveries
- **We enable** continued financing of the real economy
- **We apply** a compliant approach protecting franchise and reputation
- **We provide** scale, focus and sophistication

- **We provide** tailored, sustainable solutions to resolve indebtedness
- **We help** to repair credit scores and to obtain renewed access to credit
- **We contribute** to public policy development
- **We find** affordable, sustainable ways to reduce financial burden

## 2. Financial Update



# 2019 Has Been a Strong Year of Financial Delivery...

£m	FY18	FY19	Var%
Cash Income	874	950	+9%
Cash EBITDA	437	496	+14%
Acquisitions	408	397	(3)%
120m ERC	3.1bn	3.4bn	+9%

**104%**  
Collections vs Static  
Pool <sup>1</sup>

**+200bps**  
Increase in  
Cash EBITDA Margin

**4.7x**  
Leverage <sup>2</sup>

**~19%**  
Net IRR on 2019  
Vintage <sup>3</sup>

<sup>1</sup> Collection performance for the 12 months to Dec-19 vs Dec-18 static pool, excluding the sale of the NPLs in the period. <sup>2</sup> Calculated as Net Debt to LTM Pro Forma Cash EBITDA.

<sup>3</sup> Blended Group priced Net IRR, net of collection activity costs.

# ...With Operational Delivery Underpinning Financial Success

## Operational Delivery...

### Origination

- £397m invested at increasingly attractive returns
- Deep client relationships; average length of 9 years<sup>1</sup> with servicing clients

### Collections Innovation

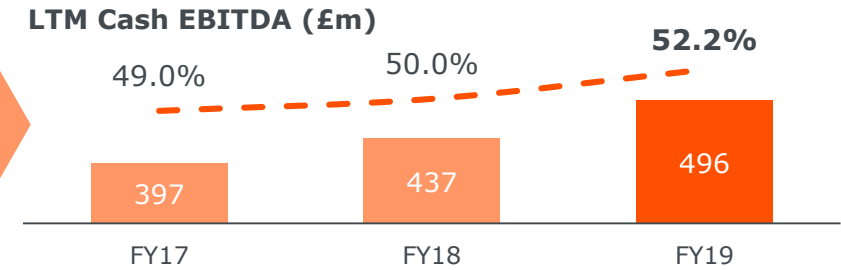
- Digital collections increased 43% YoY<sup>2</sup>
- Lowell Labs to further enhance Data & Analytics capabilities

### Economies of Scale

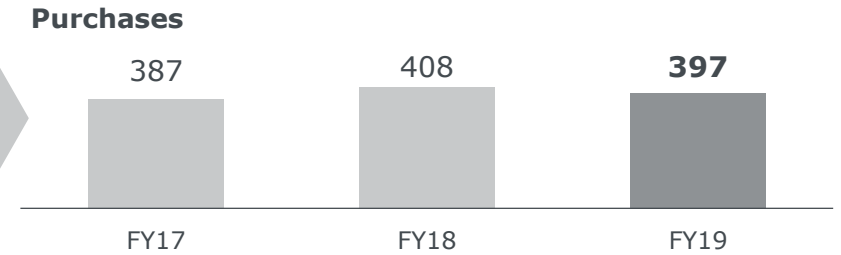
- Indirect costs largely flat year-on-year vs 9% Cash Income growth

## ...Underpinning Financial Success

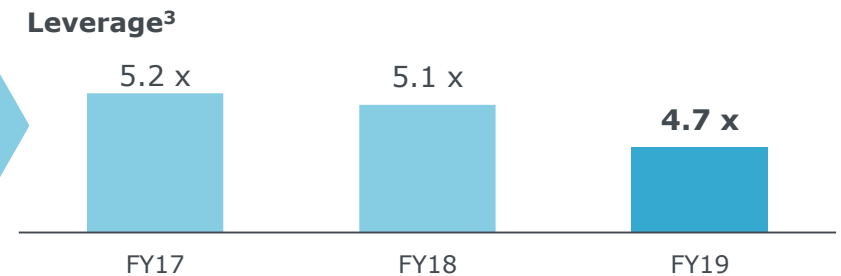
### Continued Growth & Improving Margins



### Balance Sheet Discipline



### Sustainable Leverage Reduction

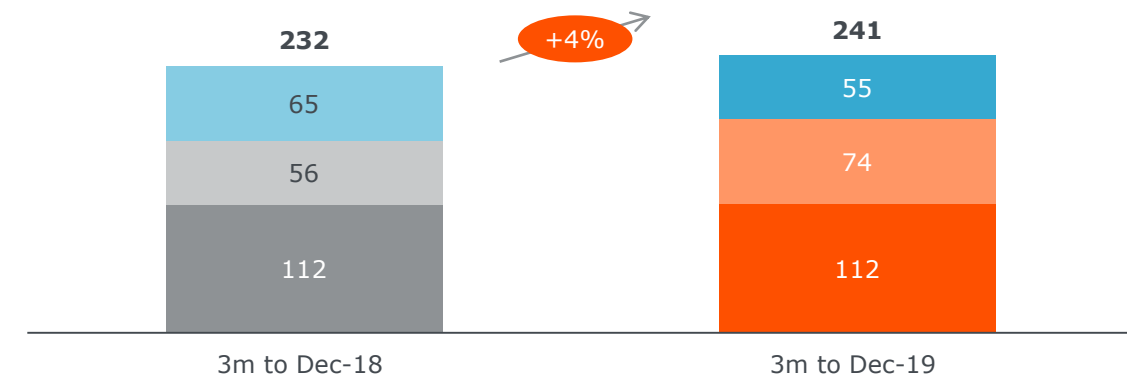
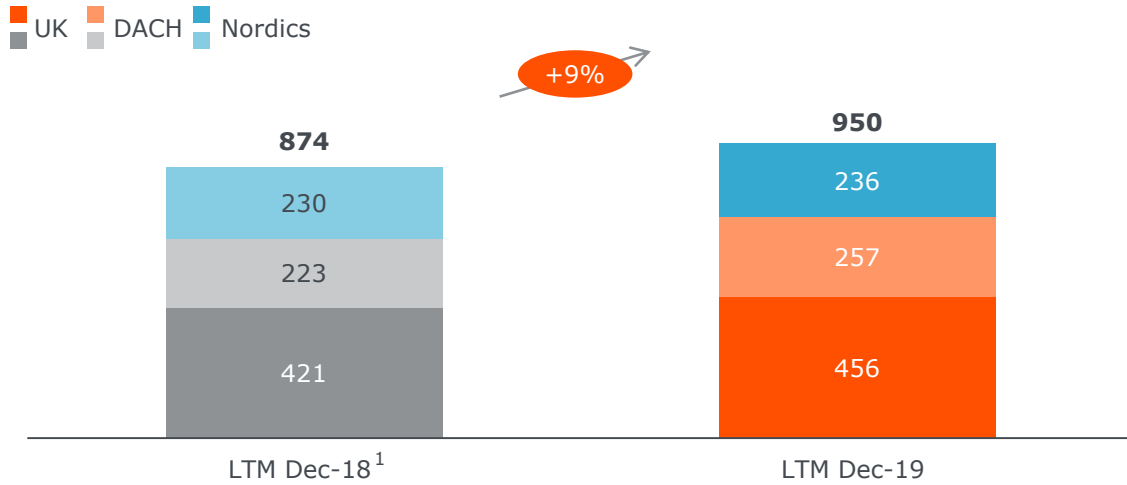


<sup>1</sup> Average length of current servicing relationships with top 10 clients in both DACH and the Nordics. <sup>2</sup> Percentage increase of payments initiated through the UK Lowell consumer website.

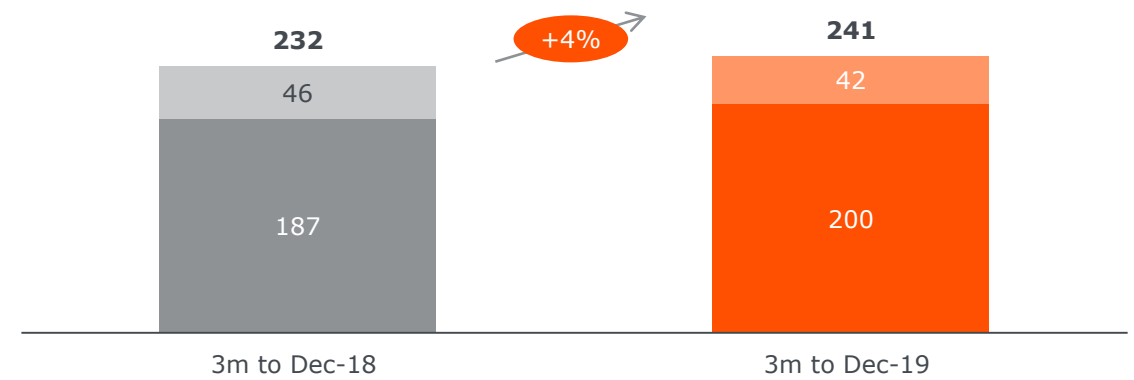
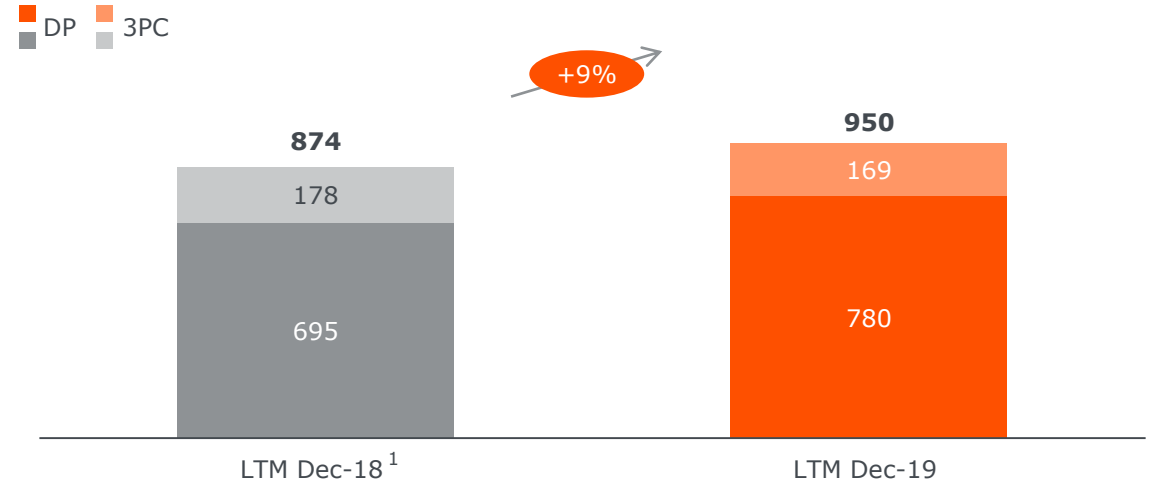
<sup>3</sup> Defined as Net Debt / LTM Pro Forma Cash EBITDA.

# LTM Cash Income Growth of 9%

Cash Income by Geography (£m)



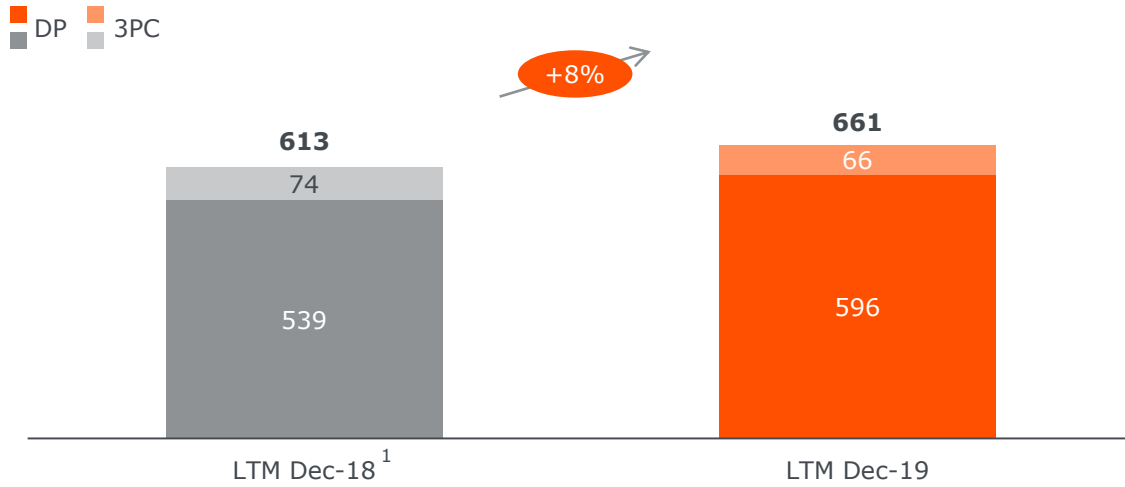
Cash Income by Service Line (£m)



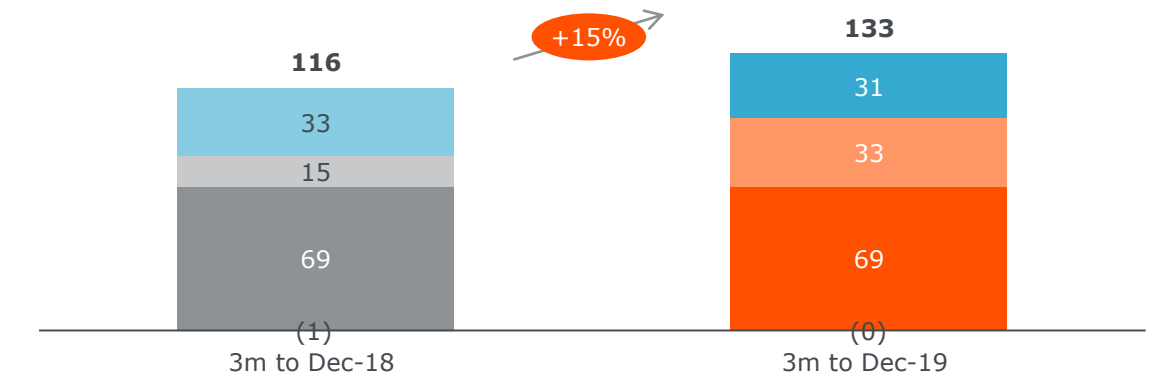
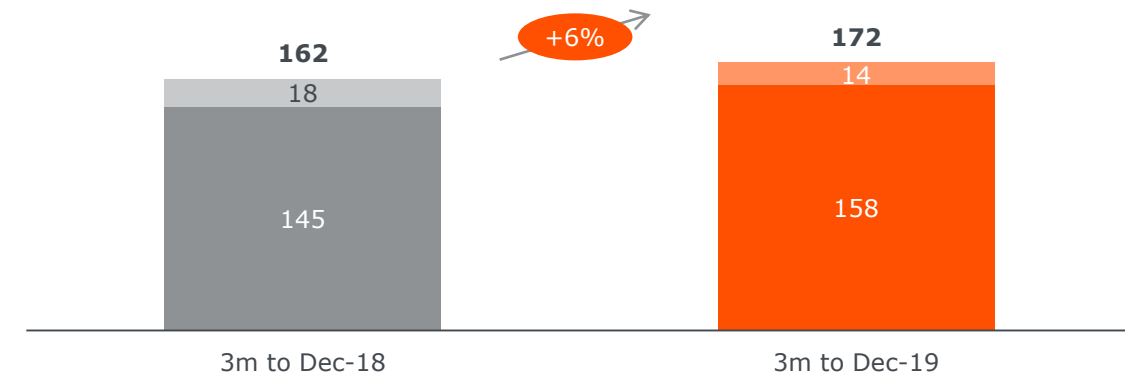
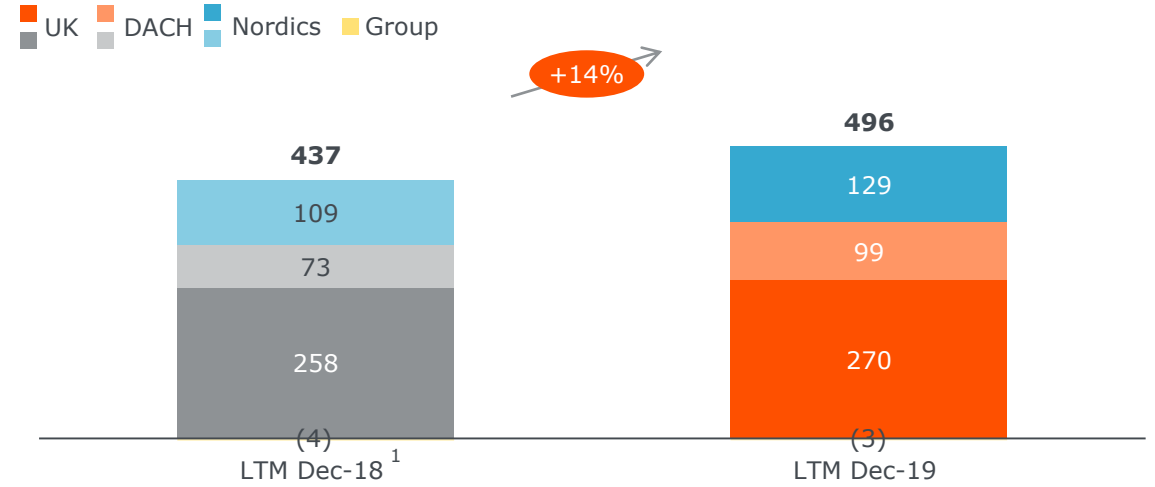
<sup>1</sup> Presented on a Pro Forma basis as if acquisition of the Carve-out Business had occurred on 1 Jan 2018.

# With LTM Earnings Growth at an Even More Impressive 14%

Gross Profit (£m)



Cash EBITDA (£m)



<sup>1</sup> Presented on a Pro Forma basis as if acquisition of the Carve-out Business had occurred on 1 Jan 2018.

# Cost Control and Economies of Scale Increasingly Evident

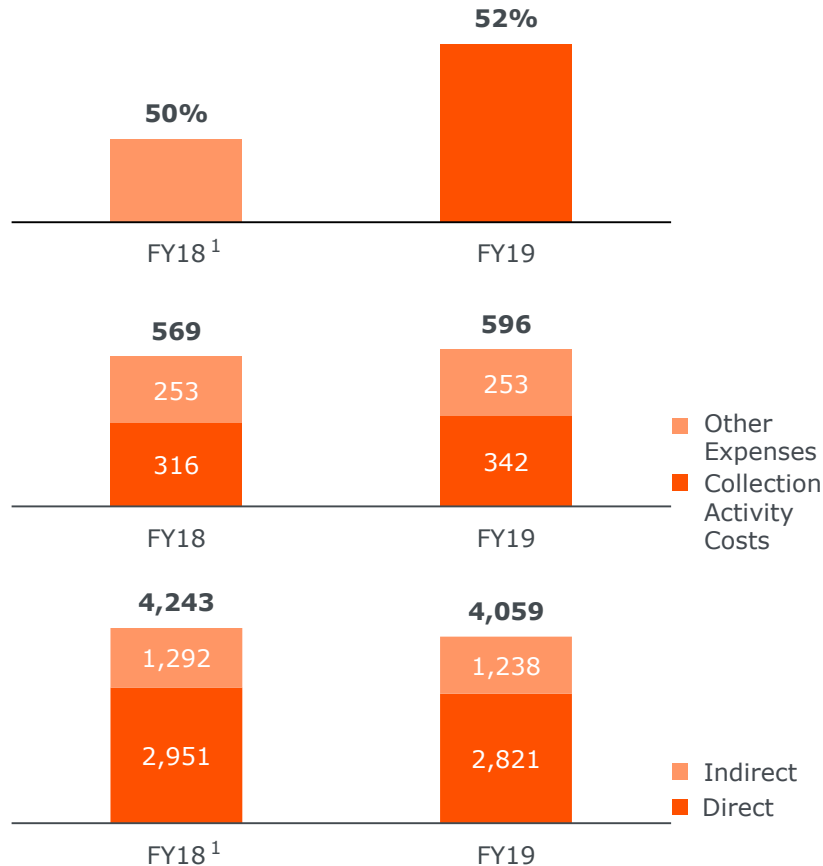
## Tangible Progress to Date

## With a Clear Plan for Further Improvement

**220bps increase in Cash EBITDA margin**

**Indirect costs held flat despite 9% Cash Income growth**

**Reduced direct and indirect headcount**



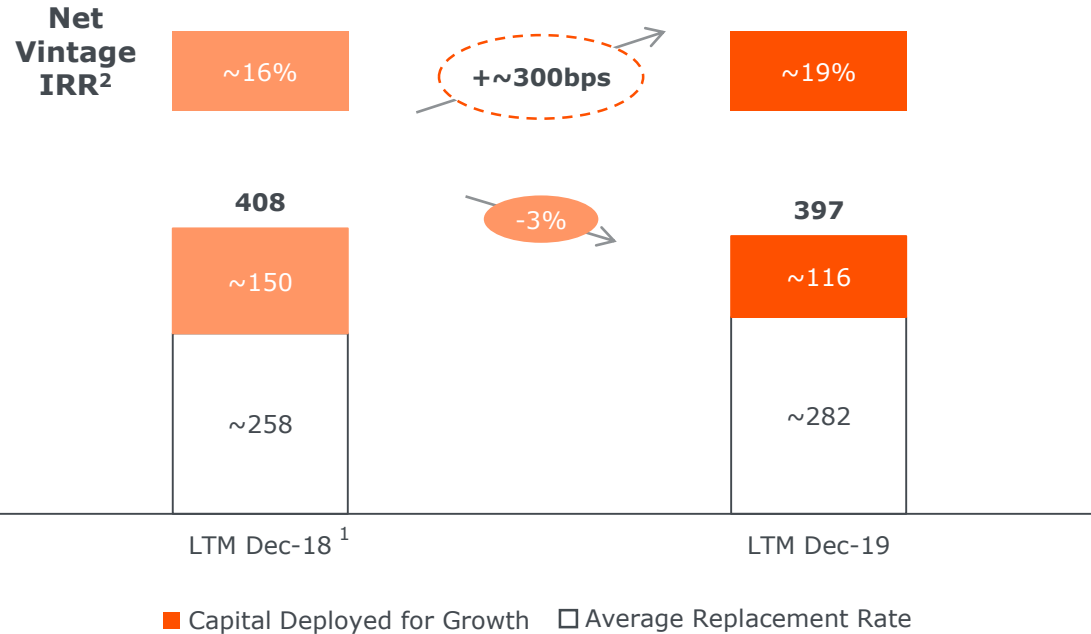
Further Cash EBITDA margin accretion aspirations across the next 12 months supported by:

- Further leveraging of overheads; costs remaining broadly flat vs growing cash income and asset base
- Increase in proportion of digital journeys
- Increase in back office process automation
- Full year benefit of FTE reduction initiated in 2019 being reflected in 2020 numbers

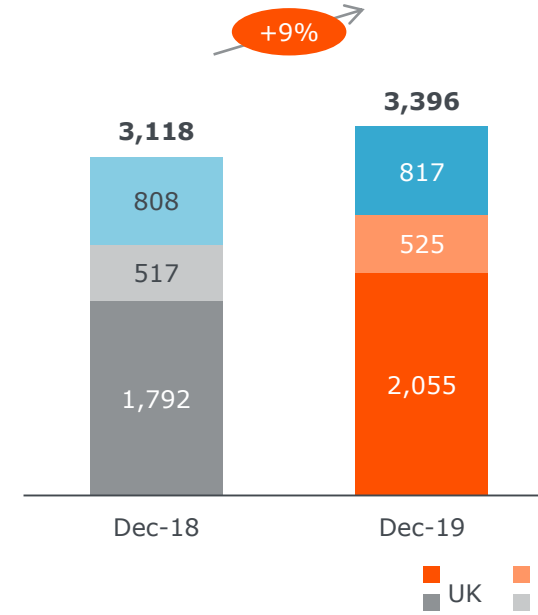
<sup>1</sup> Presented on a Pro Forma basis as if acquisition of the Carve-out Business had occurred on 1 Jan 2018.

# Disciplined Capital Deployment Benefitting Balance Sheet and IRR Goals

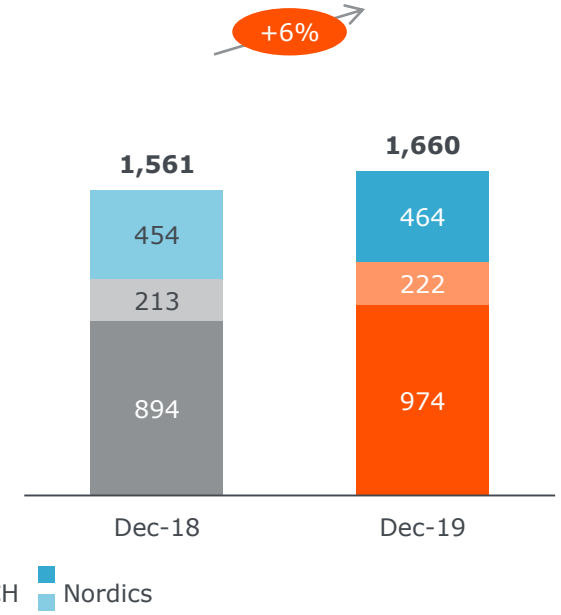
LTM Portfolio Acquisitions (£m)



120m ERC (£m)



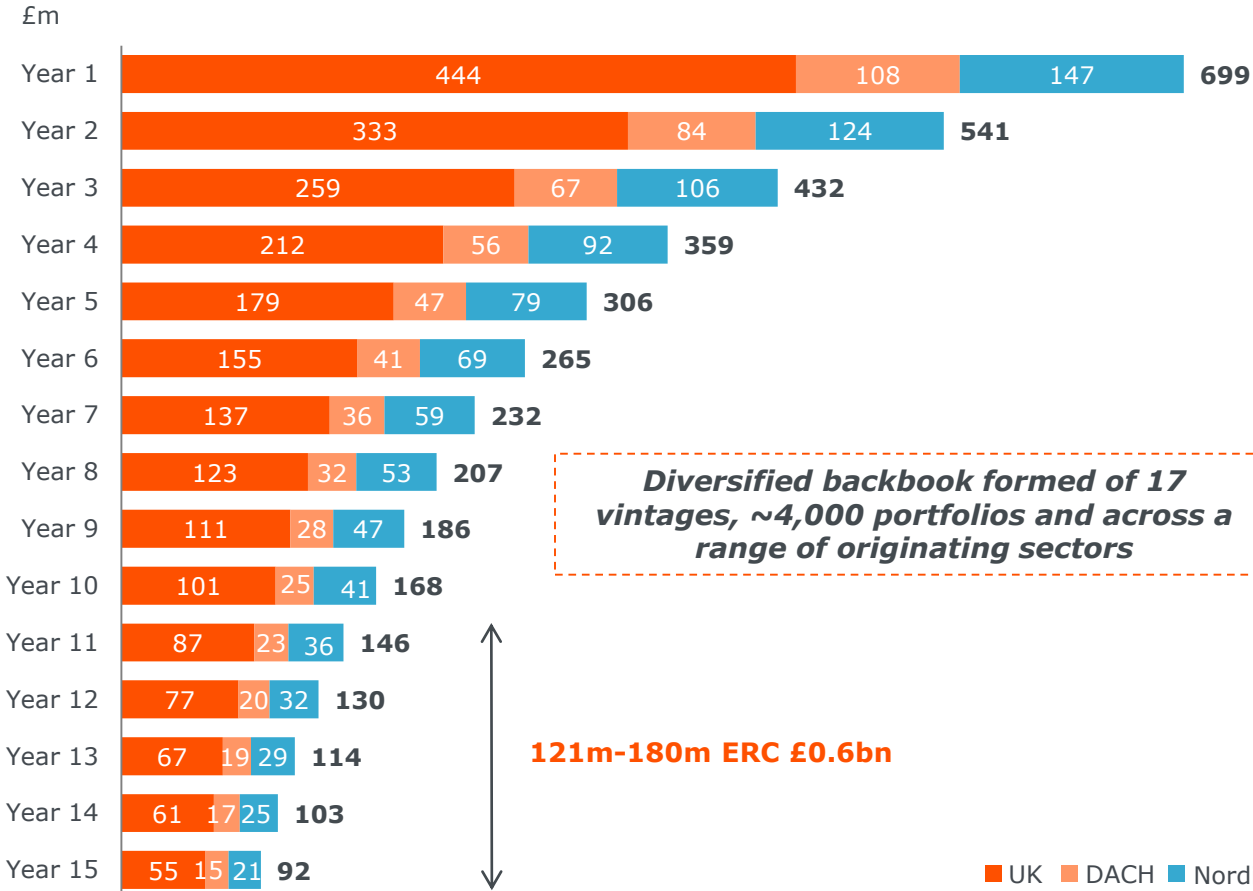
Portfolio Book Value<sup>3</sup> (£m)



<sup>1</sup> Presented on a Pro Forma basis as if acquisition of the Carve-out Business had occurred on 1 Jan 2018. <sup>2</sup> Blended Group priced Net IRR, net of collection activity costs. <sup>3</sup> Book value of assets recognised on an 84m basis for UK and 120m basis for DACH and Nordics. Disclosure Note: FY19 vintage; 84m ERC for FY19 of £560m, 84m priced GMM of 1.7x.

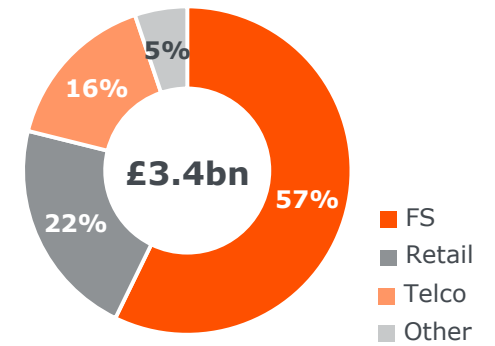
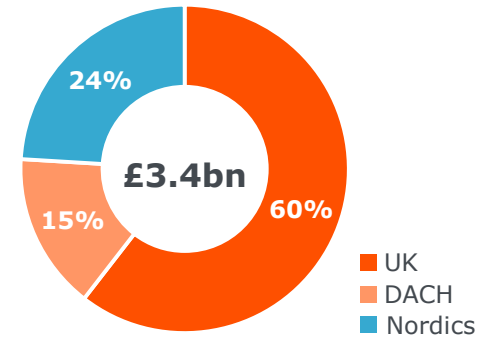
# Attractive Assets of Scale, Diversification and Liquidation Visibility

## ERC Profile

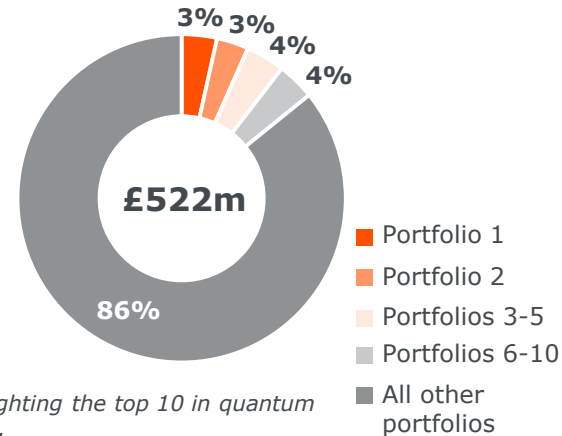


## Underpinned by Diversified Asset Base

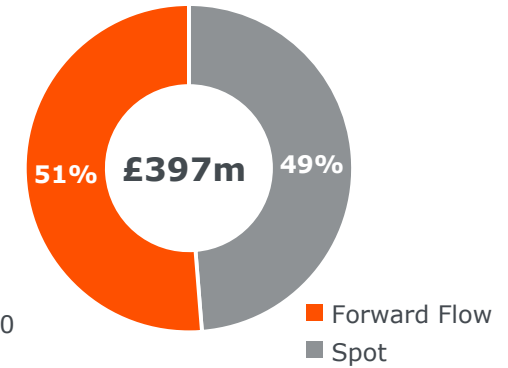
### 120m ERC



### Revenue by Portfolio<sup>1</sup>

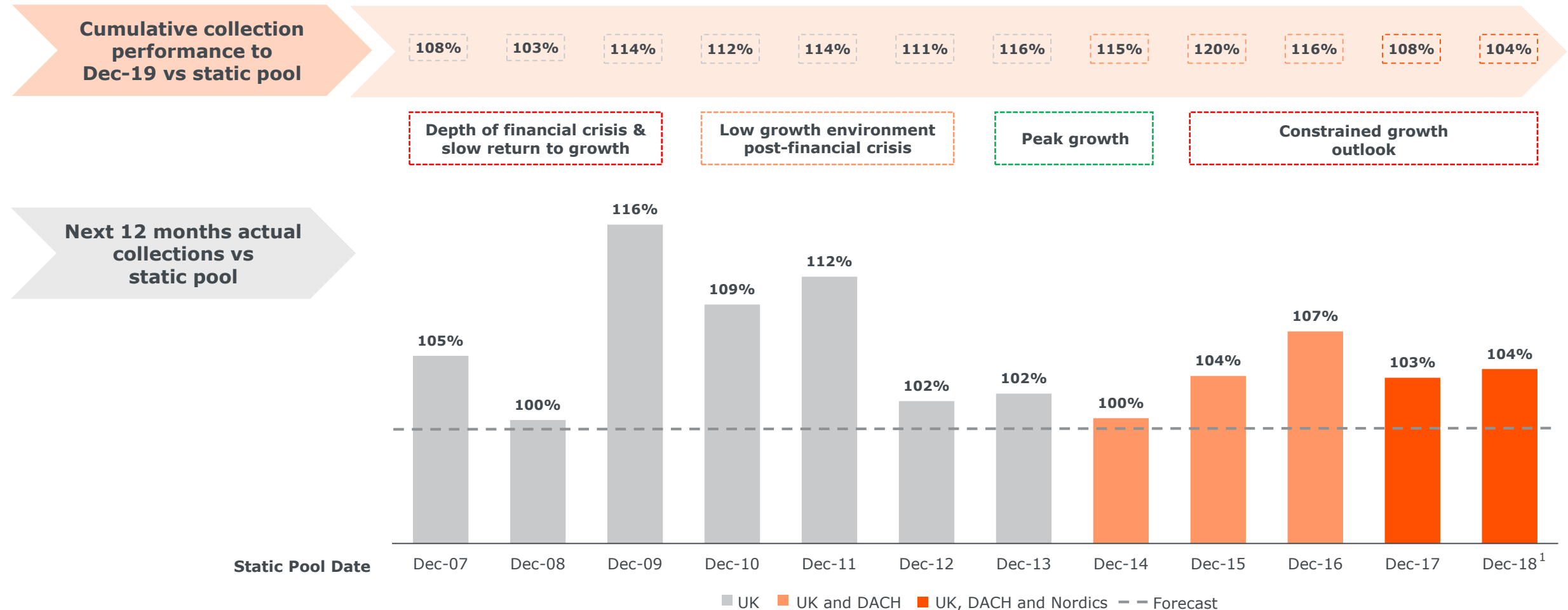


### NPL Acquisitions



<sup>1</sup> Debt Purchase revenue (defined as Income from portfolio investments and Net portfolio write up) in FY19 split by portfolio highlighting the top 10 in quantum  
 Disclosure Note: Group ERC as at 31 December 2019 of £2,835m (84m basis), £3,396m (120m basis) and £3,980m (180m basis).

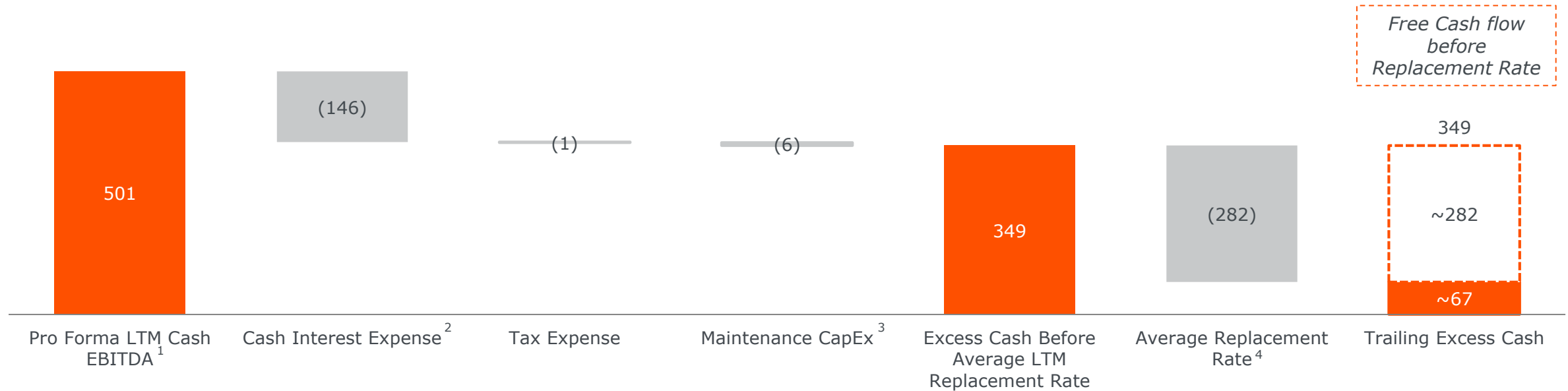
# Through the Cycle Track Record of Prudent Forecasting



<sup>1</sup>Actual collection performance for the 12 months to Dec-19 vs Dec-18 static pool, excluding the sale of the NPLs in the period



# Improving Cash Generation



- An improving trend with calculated trailing excess cash increasing across FY19

£m	LTM Mar-19	LTM Jun-19	LTM Sep-19	LTM Dec-19
Trailing LTM Excess Cash before Average Replacement Rate	291	308	326	349
Average Replacement Rate <sup>1</sup>	(264)	(266)	(274)	(282)
<b>Excess Cash</b>	<b>27</b>	<b>42</b>	<b>51</b>	<b>67</b>
			<b>+148%</b>	

<sup>1</sup> Pro Forma Cash EBITDA includes ~£5m of Pro Forma cost adjustments. <sup>2</sup> Cash Interest calculated as next 12 months interest on debt instruments and drawings as at 31 Dec 2019.

<sup>3</sup> Management Pro Forma Group estimate as disclosed in Jan-18 Offering Memorandum. <sup>4</sup> Average Replacement Rate as calculated in Appendix

# With Enhanced Free Cash Flow Key to Improved Balance Sheet Metrics

- **Strong operating cash flow improvement** supports increasing level of capital deployed for growth
- Cash EBITDA growth outpacing Net Debt movement driving **deleveraging by 0.4x since Q2-19**

## Lowell Generates Strong Operating Cash Flows...

£m	FY18 <sup>1</sup>	FY19
<b>Operating Cash Flows</b>		
Cash generated by Operating Activities <sup>2</sup>	350	452
Interest paid	(146)	(157)
Income Taxes paid	(6)	(1)
<b>Net Operating Cash Flow</b>	<b>197</b>	<b>292</b>

## ...Resulting in Strong Growth and Deleveraging

£m	FY18	FY19	%
LTM PF Cash EBITDA	444	501	13%
120m ERC	3,118	3,396	9%
Portfolio Book Value	1,561	1,660	6%
<b>Net Debt</b>	<b>2,283</b>	<b>2,376</b>	<b>4.0%</b>
<b>Net Debt / Cash EBITDA</b>	<b>5.1 x</b>	<b>4.7x</b>	<b>(0.4)x</b>

<sup>1</sup> As per the Consolidated Financial Statements for the year ended 31 December 2018, which included the Nordics from the point of acquisition; 31 March 2018 onwards

<sup>2</sup> Includes Non recurring costs in FY18 and FY19 of £45m and £43m, respectively, and is represented before portfolio acquisitions as per the Consolidated Financial Statements for the year ended 31 December 2019.

# And Substantial Deleveraging in Line With Our Plan

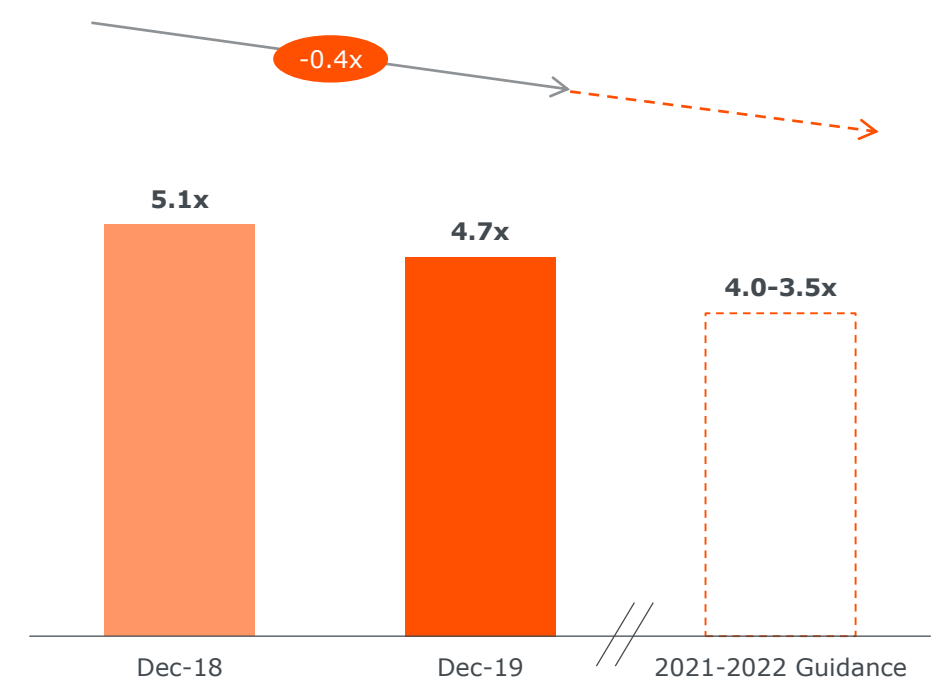
## Sustainable and Recurring Drivers...

Driver	Proof Point	% Increase vs Dec-18	Implied Impact on Leverage
1 <b>Continuously improving gross returns</b>	<ul style="list-style-type: none"> <li>104% collection performance<sup>1</sup></li> <li>Net IRR of 19%</li> </ul>	<b>+9%</b> LTM Cash Income	<b>(0.4)x</b>
2 <b>Cost control and improved efficiency</b>	<ul style="list-style-type: none"> <li>LTM Cash EBITDA margin up YoY from 50% to 52%</li> </ul>	<b>+14%</b> LTM Cash EBITDA	<b>(0.2)x</b>
3 <b>Disciplined purchases with strong operating cash flow improvement</b>	<ul style="list-style-type: none"> <li>Increase in net debt lower than Cash EBITDA increase</li> </ul>	<b>(3)%</b> LTM Purchases	<b>+0.2x</b>

<b>Sustained deleveraging</b>	<b>(0.4)x</b>
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## ...Delivering as Guided

Evolution of Net Debt / LTM Pro Forma Cash EBITDA<sup>2</sup>



With a strong position of liquidity of £261m at FY19<sup>2</sup>

<sup>1</sup> Actual collection performance for the 12 months to Dec-19 vs Dec-18 static pool, excluding the sale of the NPLs in the period. <sup>2</sup> Pro Forma Cash EBITDA includes Pro Forma cost adjustments.  
<sup>2</sup> Calculated as Unrestricted cash on balance sheet plus amounts available to draw on RCF and Securitisation facilities as at Dec-19. .

## 3. Outlook

# Post Trading Update

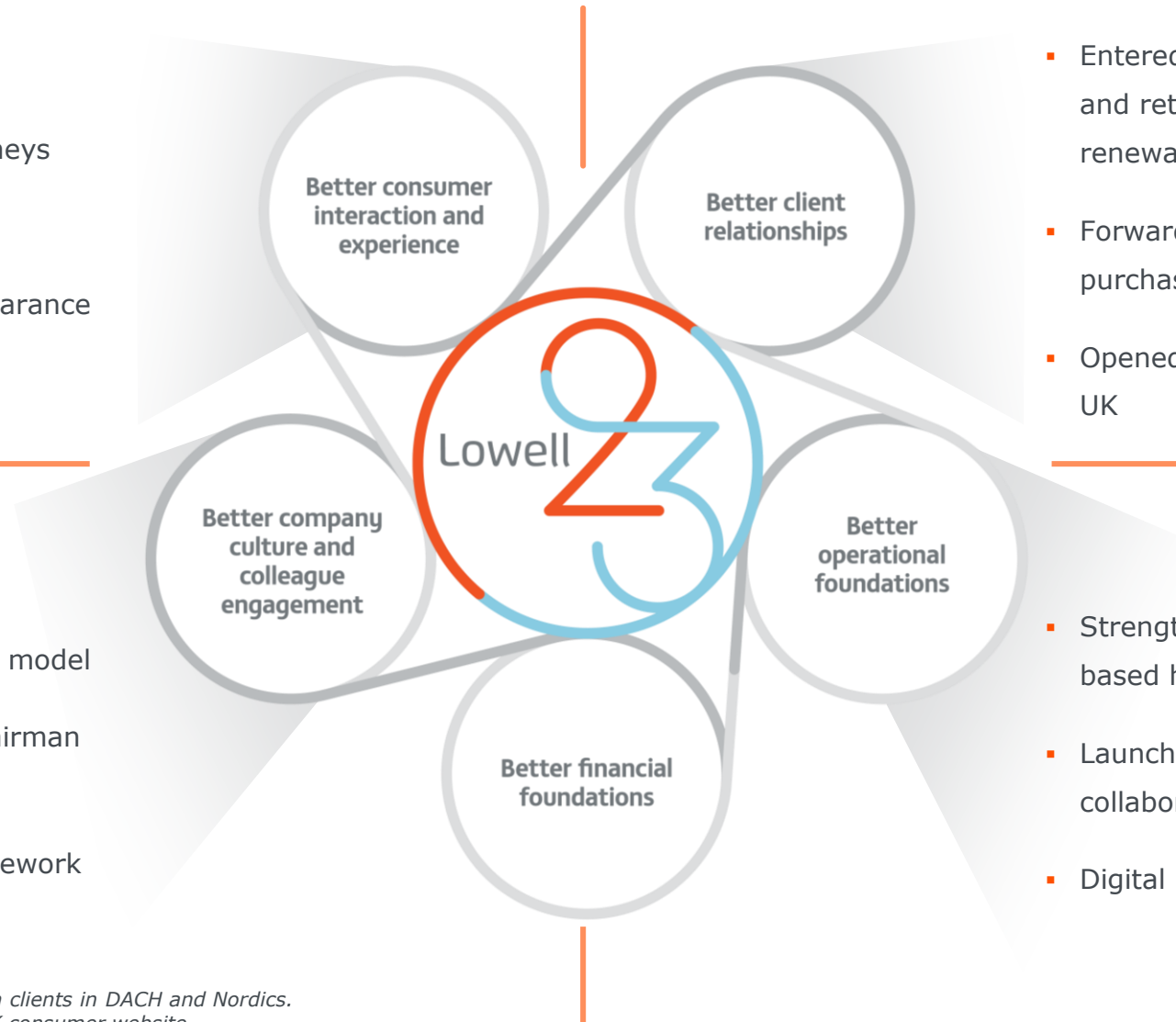
## A Strong Start to 2020

- January and February earnings in line with expectations
- Purchase market remains fulsome; business benefits from optimal mix of Spot and Forward Flow
- Business is watchful as to capital deployment volume and likely return evolution
- Business remains pragmatic and thoughtful as to when best to access capital markets
- Planning well advanced to mitigate any disruption associated with COVID-19
- Any macro-economic downturn will give rise to enhanced purchase opportunities

# Laying the Foundations of the Future

- Designed improved customer journeys
- Accelerated digital engagement
- Provided continued access to forbearance and care for the most vulnerable

- Completed a move to a pan Nordic model
- Enhanced governance through Chairman and NED appointments
- Developed Lowell 23 strategy framework



- Entered into meaningful new 3PC contracts and retained key contracts subject to market renewal
- Forward Flows accounted for 51% of LTM purchases
- Opened up new sectors e.g. Utilities in the UK

- Strengthen IT resilience and installed cloud based hosting
- Launched Lowell Labs and commenced collaboration with Urban Institute
- Digital collections increased 43% YoY<sup>2</sup>

<sup>1</sup> Average length of current servicing relationships with clients in DACH and Nordics.

<sup>2</sup> YoY increase of digitally initiated payments on the UK consumer website

# Concluding Remarks

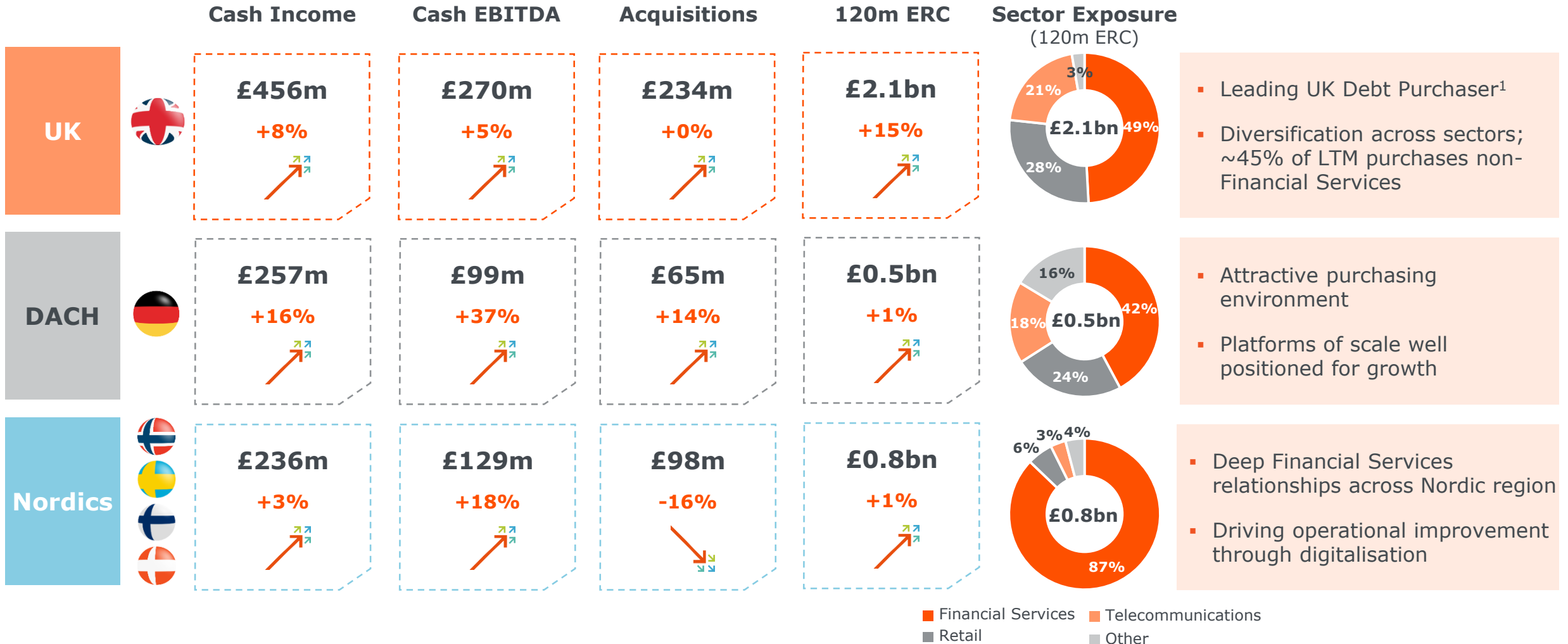
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- 2019 was a year of significant financial and operational delivery
- Earnings growth, widening margins and de-leverage delivered
- Confidence exists as to ability to manage socio-economic dislocation and continue positive financial trajectory
- Ongoing commitment to medium term leverage guidance and disciplined capital deployment
- Lowell 23 provides a strategic framework to both articulate and track progress

# Appendix



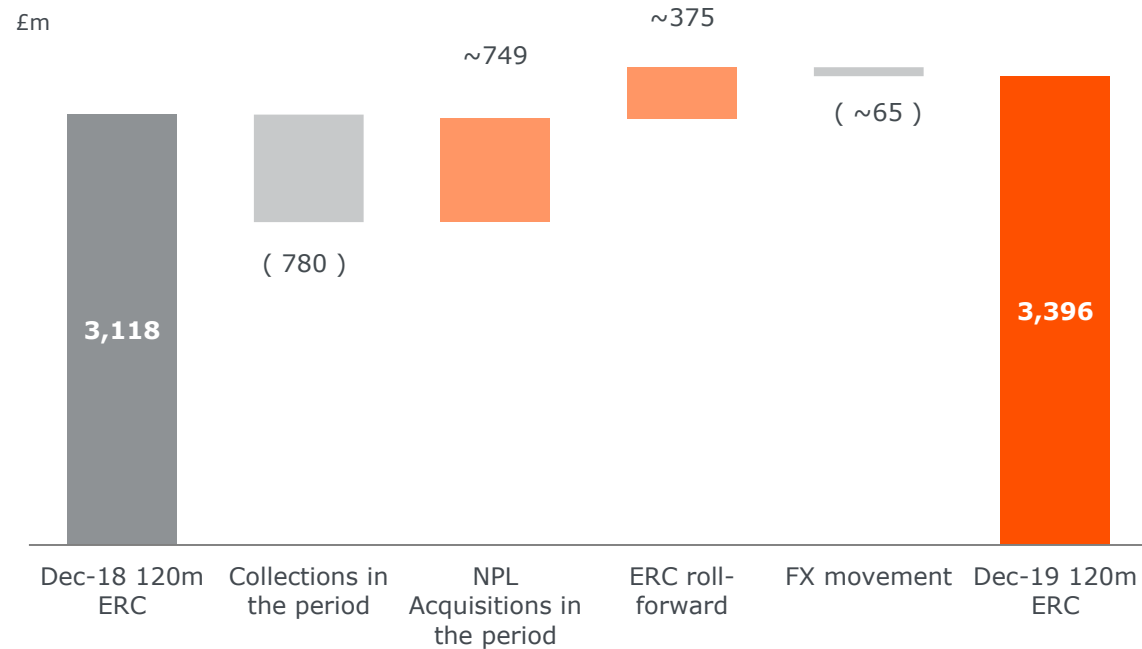
# Consistent Performance Across All Regions



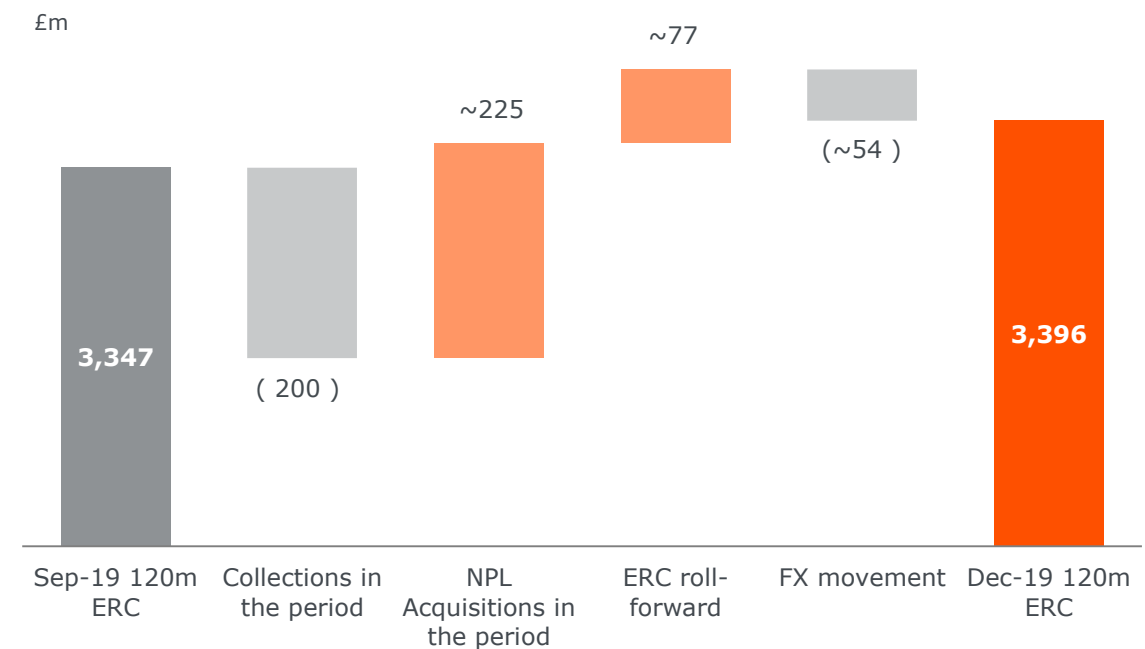
<sup>1</sup> Based on LTM NPL acquisitions as of Dec-2019.

# 120m ERC Roll-Forward

ERC Roll-Forward; Dec-18 to Dec-19



ERC Roll-Forward; Sep-19 to Dec-19



- NPL Acquisitions in the period: purchases in the period grossed up to 120m ERC based on respective priced 120m GMMs
- ERC roll-forward takes into account:
  - Mechanical nature of revaluation (roll-in of value present in the tail)
  - Change in collections expectations leading to an uplift or reduction in estimated cash-flows

# Calculation of Group ERC Replacement Rate Using Static GMM

Group (£m)		Dec-19
	Group ERC <sup>1</sup>	3,633
	Year 1 Collections	699
	Roll-forward (UK - YR11, DACH and Nordics - YR16)	119
<b>A</b>	Collections to replace	580
	2018 vintage Static GMM	2.1x
	2019 vintage Static GMM	2.0x
<b>B</b>	Blended Static GMM <sup>2</sup>	2.1x
<b>A/B</b>	Replacement Rate as calculated at Dec-19	282
	Replacement Rate as calculated at Dec-18	281
	Average LTM Replacement Rate <sup>3</sup>	282

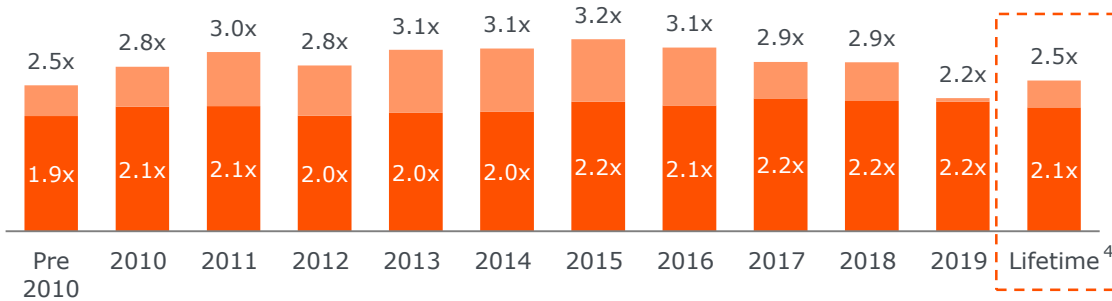
GMM Weighted Average Calculation				
<b>2018 Vintage</b>	UK	DACH	Nordics	Total
Purchases (£m)	233	57	118	408
% of total purchases	57%	14%	29%	100%
Actual Static GMM	2.2x	2.4x	1.9x	
<b>Weighted Average</b>				<b>2.1x</b>
<b>2019 Vintage</b>	UK	DACH	Nordics	Total
Purchases (£m)	234	65	98	397
% of total purchases	59%	16%	25%	100%
Actual Static GMM	2.2x	1.6x	1.8x	
<b>Weighted Average</b>				<b>2.0x</b>
<b>Blended Static GMM</b>				<b>2.1x</b>

<sup>1</sup> Group ERC represents 120m for UK, 180m for DACH and Nordics where applicable. <sup>2</sup> Blended GMM represents the weighted average static GMM for 2018 and 2019 vintages, across the UK, DACH and Nordics as at Dec-19.

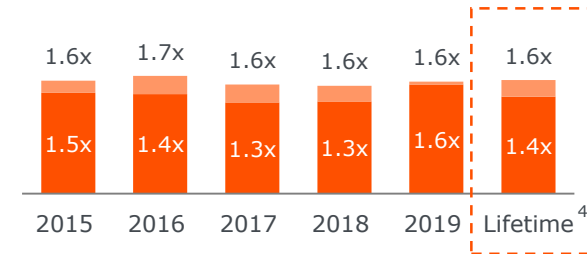
<sup>3</sup> Average Replacement Rate is an average of the Replacement Rate as calculated at Dec-19 and the Replacement Rate as calculated at Dec-18.

# GMM Per Vintage – Pricing vs Current

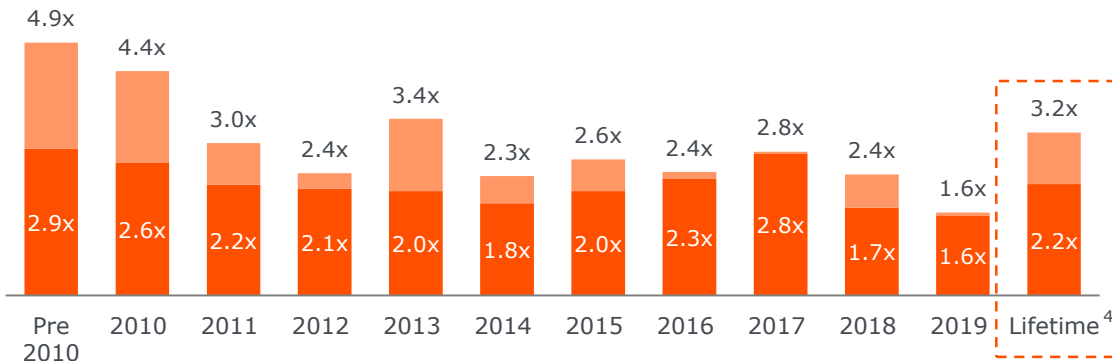
UK Non-Paying<sup>1</sup>



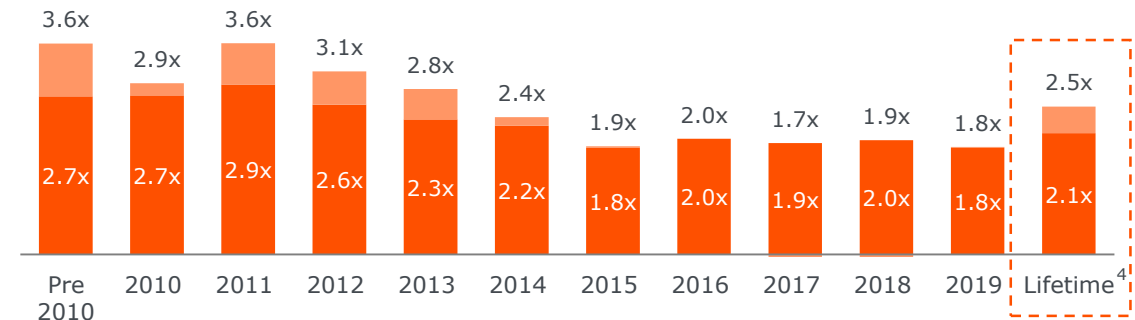
UK Paying<sup>1</sup>



DACH<sup>2</sup>



Nordics<sup>2</sup>



■ Priced GMM ■ Current GMM

Note: Current GMM is calculated using actual collections to Dec-19, plus ERC across the next 120m (UK) and 180m (DACH and Nordics).

<sup>1</sup> UK based on 120m ERC. GMM at pricing based on initial 120m only priced collection expectation. UK Paying: These portfolios are determined at the point of acquisition based on the proportion of accounts within that portfolio which are set up on a payment plan. <sup>2</sup> Based on 180m ERC. GMM at pricing based on initial 180m only priced collection expectation. <sup>4</sup> Lifetime GMM represents cumulative GMM performance from 2003 onwards.

# Reconciling to the Financial Statements

## Reported Income to Cash Income

	DP	3PC	Group Total
Income from Portfolio Investments	377	-	377
Add Portfolio Amortisation	403	-	403
<b>DP Cash Income</b>	<b>780</b>	<b>-</b>	<b>780</b>
Service Revenue	-	219	219
Less Lawyer Service Income	-	(50)	(50)
<b>3PC Cash Income</b>	<b>-</b>	<b>169</b>	<b>169</b>
<b>A Total Cash Income</b>	<b>780</b>	<b>169</b>	<b>950</b>

## Reported Costs to Normalised Costs

	DP	3PC	Group Total
Collection Activity Costs	-	-	342
Less Lawyer Service Costs	-	-	(51)
Less Non recurring costs	-	-	(4)
<b>B Normalised Collection Activity Costs</b>	<b>185</b>	<b>103</b>	<b>288</b>

## Gross Profit Calculation

	DP	3PC	Group Total
<b>A</b> Cash Income	780	169	950
<b>B</b> Collection Activity Costs	(185)	(103)	(288)
<b>C Gross Profit</b>	<b>596</b>	<b>66</b>	<b>661</b>
<b>C/A Gross Profit Margin</b>	<b>76%</b>	<b>39%</b>	<b>70%</b>

## Other Expenses

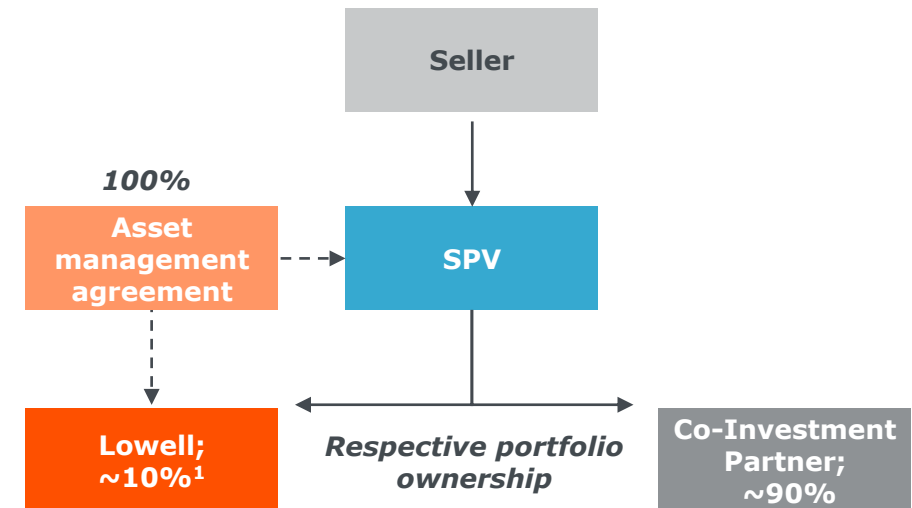
	Group Total
Other Expenses	253
Less Depreciation, Amortisation & Impairment	(42)
Less Non recurring costs	(39)
<b>Normalised Other Expenses</b>	<b>172</b>

# Co-Investment Structure

## Overview

- Co-Investor and Lowell to jointly acquire NPLs across Lowell's three regional markets
- Alignment of economic interests through jointly investing – targeting the deployment of **€300m of capital** over 3 years
- Reflects the growing pipeline of NPL opportunities which is outpacing our on-balance sheet investment capacity
- Lowell to provide asset management services for all acquired assets, providing for future non-DP income growth
- An inaugural transaction has already been closed; a portfolio from a large Financial Services client in our Nordic region

## Co-Investment Structure



<sup>1</sup> Lowell to invest no less than 10%

# Net Debt and Borrowings as at 31 December 2019

## Net Debt (£m)

### Bond Principal

£565m Senior Secured Notes 8.5%	565
€365m Senior Secured Notes 7.5%	310
€415m Senior Secured Notes EURIBOR +3.5%	353
€530m Senior Secured Notes EURIBOR +4.5%	451
SEK1,280m Senior Secured Notes STIBOR +4.75%	104
£230m Senior Notes 11%	197 <sup>2</sup>

### RCF Drawings and Other

GBP Drawn RCF	225
EUR Drawn RCF	40
UK Securitisation	178
DACH Securitisation	16

### Cash<sup>1</sup>

Cash	63
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<b>Senior Secured Net Debt</b>	<b>1,985</b>
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<b>Net Debt</b>	<b>2,376</b>
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<b>Gross Debt</b>	<b>2,439</b>
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## Bonds

Currency	Issue	Security	Maturity	Coupon	Issuer
GBP m	565	Senior secured notes	Nov-22	8.50%	GH3
EUR m	365	Senior secured notes	Aug-22	7.50%	GH3
EUR m	415	Senior secured notes	Sep-23	EURIBOR +3.50%	GH3
EUR m	530	Senior secured notes	Sep-23	EURIBOR +4.50%	GH3
SEK m	1,280	Senior secured notes	Sep-23	STIBOR +4.75%	GH3
GBP m	197 <sup>2</sup>	Senior notes	Nov-23	11.00%	GH2

## Revolving Credit Facility (RCF) and Other

Currency	Committed Amount	Security	Maturity	Interest	Margin
EUR m	455	Super Senior Secured RCF	31-Dec-21	LIBOR / EURIBOR	3.50%
GBP m	255	Asset Backed Loan	Apr-24	LIBOR	2.85%

<sup>1</sup> Excludes restricted cash. <sup>2</sup> The Group repurchased £33.5m of the bonds in August 2019.

# Glossary

<b>3PC</b>	-	Third Party Collection	
<b>Acquisitions</b>	-	The purchases of NPLs	
<b>AuM</b>	-	Assets under Management	
<b>Cash EBITDA</b>	-	Defined as collections on owned portfolios plus other turnover, less collection activity costs and other expenses (which together equals servicing costs) and before exceptional items, depreciation and amortisation	
<b>Cash Income</b>	-	Total income for the period adding back portfolio amortisation and portfolio fair value release and deducting net portfolio write-up, lawyer service revenue, other revenue (less payment services income) and other income	
<b>CMS</b>	-	Credit Management Services	
<b>DACH</b>	-	Germany, Austria and Switzerland	
<b>DP</b>	-	Debt Purchase	
<b>EBITDA</b>	-	Defined as operating profit plus depreciation and amortisation, non-recurring costs and exceptional items (net of exceptional income) and portfolio fair value adjustment (where applicable)	
<b>ERC</b>	-	Estimated Remaining Collections over 84, 120 or 180 months	
<b>EURIBOR</b>	-	Euro Interbank Offer Rate	
<b>Extant Group</b>	-	The group prior to completion of the acquisition of the Carve-out Business from Intrum	
<b>FRN</b>	-	Floating Rate Notes	
<b>GMM</b>	-	'Gross money multiple', being the expected collections on a portfolio or particular vintage, divided by its respective purchase price. Reported on either a 'static' or 'current' basis	
<b>Gross Profit</b>	-	Gross Profit calculated as Cash Income less Collection Activity Costs excluding Lawyer Service activity, less the amounts captured within Collection Activity Costs related to Non-recurring Costs / Exceptional Items (net of exceptional income)	
<b>IFRS</b>	-	International Financial Reporting Standards	
<b>LIBOR</b>	-	London Interbank Offer Rate	
<b>Net Debt</b>	-	Senior Secured Notes bond principal plus Senior Notes bond principal plus RCF drawn amounts plus securitisation drawn amounts less cash	
<b>Nordics</b>	-	For the purpose of the presentation include Sweden, Denmark, Norway, Finland and Estonia (up to the point of disposal)	
<b>NPL</b>	-	Non Performing Loans	
<b>Pro Forma Group</b>	-	The combined group following the acquisition of the Carve-out Business from Intrum	
<b>RCF</b>	-	Revolving Credit Facility	
<b>Replacement Rate</b>	-	The estimated amount of purchases to maintain current Group ERC	
<b>Static GMM</b>	-	'Gross money multiple' reported on a 'static' basis, being the collections to date and the expected collections on a portfolio or particular vintage, together restricted to 120 or 180 months, divided by its respective purchase price	
<b>STIBOR</b>	-	Stockholm Interbank Offer Rate	



# Upcoming Events

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## Results

- Q1-20 – May 2020
- Q2-20 – August 2020
- Q3-20 – November 2020

## Investor Relation Activity

- Goldman Sachs – Annual EMEA Leveraged Finance Conference, London – 8 September 2020

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