Lowell

Press Release
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Lowell reports full year 2020 results

A transformational year: business positioned very strongly for the future

Lowell, a European leader in credit management services, today announces its full-year results for the 12 months ended 31 December 2020.

Commenting on today's announcement Colin Storrar, Group Chief Executive Officer, said:

"I am very happy with the financial performance last year both in terms of the profit delivery but also the strengthening of the balance sheet in the face of the global pandemic. The ability and resilience of our teams to transition in a seamless manner to working from home while continuing to service our customers and clients in a highly professional, engaged and empathetic way demonstrates the values Lowell lives by."

Key Highlights

- 300bps margin expansion in Cash EBITDA
- Balance sheet completely refinanced with new equity and debt maturity extended
- Resilient collections at 106% of June-20 static pool
- Leverage reduced 0.9x YoY to 3.8x with strong cash flow improvement
- Well positioned to take advantage of market opportunities with £466m of liquidity
- Employee and business resilience proven in challenging circumstances

Key Financial Highlights

- Cash Income of £893m (£950m) – down 6% YoY
- Cash EBITDA of £494m (£496m) – down 0% YoY
- Cash EBITDA Margin of 55% (52%) – up 300bps YoY
- Portfolio Acquisitions of £281m (£397m) – down 29%

(*Note: Comparable numbers for FY19 in brackets)*

Outlook

As we approach the end of the first quarter of 2021, we are encouraged by the strength of our business as we take advantage of the transformational year that was 2020. In addition to being well-positioned to participate in a positive market environment, we are set to build on existing efficiency initiatives in order to continue to deliver robust collections performance, expand our margins and further improve our cash flow.

Our continuing focus will be on building trust amongst our Colleagues, Consumers, Clients, Communities and Investors as we develop greater engagement through our digital initiatives. We believe that our commitment to delivering ease of access, personalised journeys, and highly-rated services provides a strong and sustainable platform for growth. We are confident in the outlook for Lowell in 2021.

Group Financial Performance

Collections resilience continues

Collections have continued to demonstrate resilience with cumulative performance against our Dec-19 static pool forecast improving to 94% in December 2020, up from 93% in September 2020. Consistent with our Q3-20 update, our DACH and Nordic regions continue to outperform Dec-19 static pool forecasts. Our UK business has seen the largest impact on collections, principally driven by management actions undertaken in Q2-20 to protect our customers during the early stages of the COVID-19 pandemic.

Since Jun-20, our UK business has increased outbound customer contact activity to volumes more in line with Q1-20, prior to the outbreak of the pandemic, and since Aug-20, it has resumed new legal collections, and together these actions have driven the strong performance.

Outperformance of ERC projection in quarter

At 30 June 2020, we recognised an £11m net portfolio write down, representing 0.7% of the Group's total carrying value. This write down principally reflected the impact of the expected delay to a proportion of our UK collections generated as a result of management actions described above. There is no expectation of a significant impact on 120m ERC due to the COVID-19 pandemic, since collections are expected to be deferred rather than lost.

In the six months ended 31 December 2020, collections performed at 106% of June-20 static pool forecasts, which incorporated the expected delay to collections recovery. In total, we recognised a net portfolio write up of £21m or 1.2% of the Group's portfolio carrying balance in FY20, reflecting the prudent approach taken to our balance sheet carrying value.

Focus on efficiency drives margin expansion

Focus on cost control delivered a 300bps expansion of Cash EBITDA margin to 55%. Margin expansion has been driven by increased operational leverage of the indirect cost base together with improved collections efficiency. We estimate the temporary reduction in legal fees to have contributed to a short-term margin expansion of 1% during the year. Additional cost initiatives enacted in Q3-20 are principally focussed on indirect cost efficiencies to support 200bps of further margin expansion over the next 24 months. These initiatives are expected to generate annualised cost savings of c£50m by the end of 2021. We expect to incur a total of c£30m of cost to achieve these savings: £10m of which were incurred in FY20.

UK Region

The UK continues to be the Group's largest region accounting for 54% of Group Cash EBITDA, with £2.1bn 120-month ERC and 8 million active customers.

Customer engagement being core to our business, we have heavily focussed on ease of access to our services during the pandemic, together with the continued provision of compassion and understanding of each customer's individual circumstances. We are very proud that this focus, our values and our customer centricity have translated to our Trustpilot score of 4.5 out of 5 with ~10,000 reviews provided.

Our digital collections channels have continued to provide ease of access and hence drive significant customer engagement, with digitally created plans increasing to 40% of total plans, driving an increase of 27% year-on-year in digital collections.

Collections performance in H2 2020 against the Jun-20 static pool has been strong, at 109% of forecast expectations. This represents an encouraging start to the recovery of delayed collections as a result of the management actions taken in Q2-20.

Cash EBITDA has remained at a similar level to the prior year despite a 6% drop in Cash Income due to the ongoing cost focus. Strong cost control and early benefits from cost efficiency programmes have improved the UK margin by 390bps.

DACH Region

The DACH region accounts for approximately 18% of Group Cash EBITDA and has £0.5bn 120-month ERC. Collections performance continued to be strong throughout FY20 with Dec-19 static pool performance in excess of 100%.

We have seen some softening of 3PC placement volumes during the year, in line with the broader market. We expect these volumes to increase over the next 12-18 months.

Cost and operational efficiency continue to be the focus of the region. We are pleased with the stable margin after adjusting for FY19 discontinued business and a small, £8m, portfolio sale to a co-investment partner in 2019.

Nordic Region

The Nordic region accounts for approximately 29% of Group Cash EBITDA and has £0.8bn 120-month ERC. Collections performance continued to be strong throughout FY20 with Dec-19 static pool performance also in excess of 100%.

We are very pleased with the integration of the Solvencia acquisition which provides a meaningful 3PC growth opportunity in the region via a significant contract with the largest energy provider, together with the expansion of our collection capabilities into the smaller ticket market segment. In addition, a key pan-European client win also provides an opportunity for growth in 3PC placement volumes in FY21.

The region continues to benefit from margin expansion with a 420bps increase year-on-year, driven by further cost reductions of £13m. During the year, we completed a small portfolio sale to a co-investment partner for ~£10m and we continue to benefit from servicing income from the portfolio.

Attractive market leads to strong front book returns

We invested prudently in portfolio acquisitions during the year as we closely managed our liquidity during a period of uncertainty. Portfolio acquisitions totalled £281m in FY20, £12m higher than our average replacement rate. Returns remained attractive with a priced 19% IRR for our FY20 vintage. Portfolio acquisitions in FY21 are expected to be around £300m.

The purchasing environment remains attractive across our regions and we believe that NPL volumes will continue to grow across the next 18-24 months as the longer term impact of the global pandemic plays out across our three regions.

Strengthening of business fundamental leads to strong operating cash flow

Cash flow continues to strengthen, with £503m generated from operations before portfolio acquisitions during the year, an increase of £51m year-on-year. On a steady state basis, after deducting £269m of replacement rate portfolio purchases, the level required to maintain our ERC constant, we generated £110m excess cash, a 64% year-on-year increase. Our cash flow continues to strengthen through strong collections performance, further margin expansion and a ~£25m reduction in our cash interest cost. We continue to have excellent visibility of future collections with some £1.2bn collections forecast to be received in the next 24 months.

Successful refinancing repositions financial profile to be sector leading

We successfully refinanced the Group's capital structure, raising £1.7bn high yield bonds due in 2025 and 2026 and extending our €455m revolving credit facility to 2025. The refinancing was supported by a £600m equity contribution. As a result, we benefit from a sector leading financial position. Leverage has reduced by 0.9x year-on-year to 3.8x and is now within our guidance range of 4.0-3.5x. The maturity profile of our debt facilities has been materially extended, with the weighted average maturity now at 5 years.

As at Dec-20, our liquidity remains very strong, with £466m of funds available. We continue to benefit from financial flexibility to allow for investment in portfolios, further supported by the benefit of our co-investment agreements.

Conference Call and Webcast

We will host a call and webcast live at 8.30am (GMT) Thursday 18 March 2021 to present our FY20 results.

Registration details

- Webcast (listen only with digital question submission)
  - https://www.lowell.com/media/1882/our-fy20-results.pdf
- Call (with interactive Q&A)
  - UK: +44 3333 0092 64
  - Further lines available here

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By their nature, forward-looking statements involve known and unknown risks, uncertainties and other factors because they relate to events and depend on circumstances that may or may not occur in the future. Readers are cautioned that forward-looking statements are not guarantees of future performance and are based on numerous assumptions and that the Group's or any of its affiliate's actual results of operations, financial condition and liquidity, and the development of the industries in which they operate, may differ materially from (and be more negative than) those made in, or suggested by, the forward-looking statements contained in this press release. In addition, even if the Group's or any of its affiliate's results of operations, financial condition and liquidity, and the development of the industries in which they operate, are consistent with the forward-looking statements contained in this press release, those results or developments may not be indicative of results or developments in subsequent periods.

About Lowell

Lowell is one of Europe's largest credit management companies with a mission to make credit work better for all. It operates in the UK, Germany, Austria, Switzerland, Denmark, Norway, Finland, and Sweden.

Lowell's unparalleled combination of data analytics insight and robust risk management provides clients with expert solutions in debt purchasing, third party collections and business process outsourcing. With its ethical approach to debt management, Lowell always looks for the most appropriate, sustainable and fair outcome for each customer's specific circumstances.

Lowell was formed in 2015 following the merger of the UK and German market leaders: the Lowell Group and the GFKL Group. In 2018, Lowell completed the acquisition of the Carve-out Business from Intrum, which has market leading positions in the Nordic region. It is backed by global private equity firm Permira and Ontario Teachers' Pension Plan.

For more information on Lowell, please visit our investor website: www.lowell.com