

# Garfunkelux Holdco 2 S.A.

## Q1-20 Interim Results

May 22<sup>nd</sup>, 2020

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# Agenda

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1 | Key Highlights

2 | Financial Update

3 | General Outlook

4 | Appendix

# 1. Key Highlights

# Key Highlights

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## Building on FY19 Momentum

- Continued robust collections performance across the Group
- Q1 collections of 100% vs static pool expectation
- Further widening of margins

## Delivering Positive Consumer Experience

- Operational resilience achieved through delivery of seamless working from home capability
- Policy leadership on customer forbearance, putting Lowell positively ahead of regulatory intervention

## Protecting Liquidity

- Strong position of liquidity
- £257m available from diversified funding sources
- Business model that generated £300m of cash from operating activities after financing costs<sup>1</sup>

<sup>1</sup> LTM cash generated by operating activities before portfolio acquisitions less LTM cash interest paid, as reported

# Coordinated and Decisive Response to Maintain BAU Capabilities

## Area of Review

- Colleague welfare
- Customer engagement
- Purchasing pipeline
- Cost base

## Actions Taken

- Swift and efficient mobilisation of at-home workforce ensuring business continuity and colleague safety
- Pro-active client dialogue to ensure continuation of strong and mutually beneficial relationships
- Policy and industry leadership on forbearance; direct and successful representation to Chancellor and HM Treasury
- Re-affirmed our commitment to working with all customers to achieve affordable and sustainable repayments
- Pragmatic assessment of purchasing landscape; focus on liquidity
- Reduction to discretionary spend alongside workforce based savings

## 2. Financial Update

# A Quarter of Balanced Growth With Leverage Held Flat

£m	Q1-19	Q1-20	Var%
Cash Income	225	228	+1%
Cash EBITDA	108	120	+11%
Acquisitions	94	58	(38)%
120m ERC	3.1bn	3.4bn	+9%

**100%**  
Collections vs Static  
Pool<sup>1</sup>

**+350bps**  
Increase in  
LTM Cash EBITDA  
Margin

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

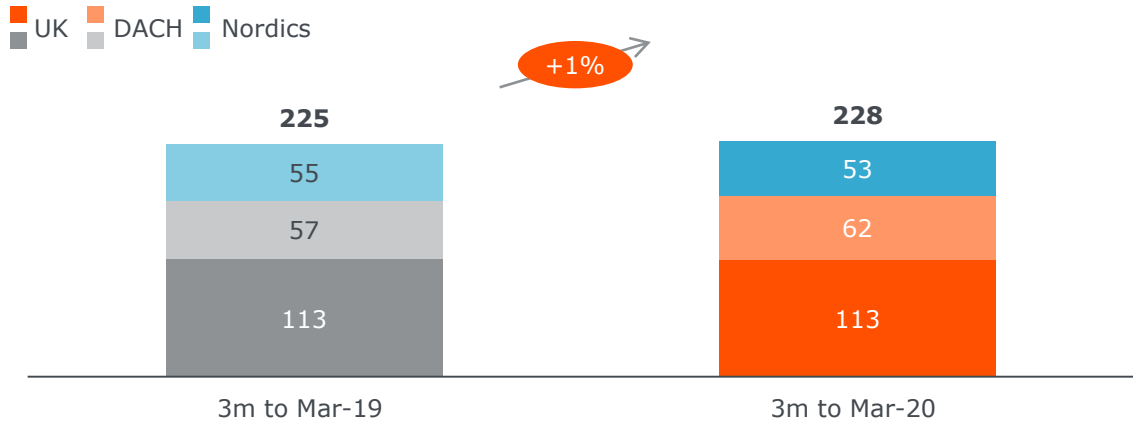
**£257m**  
Available  
Liquidity<sup>3</sup>

<sup>1</sup> Collection performance for the 3 months to Mar-20 vs Dec-19 static pool. <sup>2</sup> Calculated as Net Debt to LTM Pro Forma Cash EBITDA. <sup>3</sup> Calculated as Unrestricted cash on balance sheet plus amounts available to draw on RCF and UK Securitisation as at Mar-20.

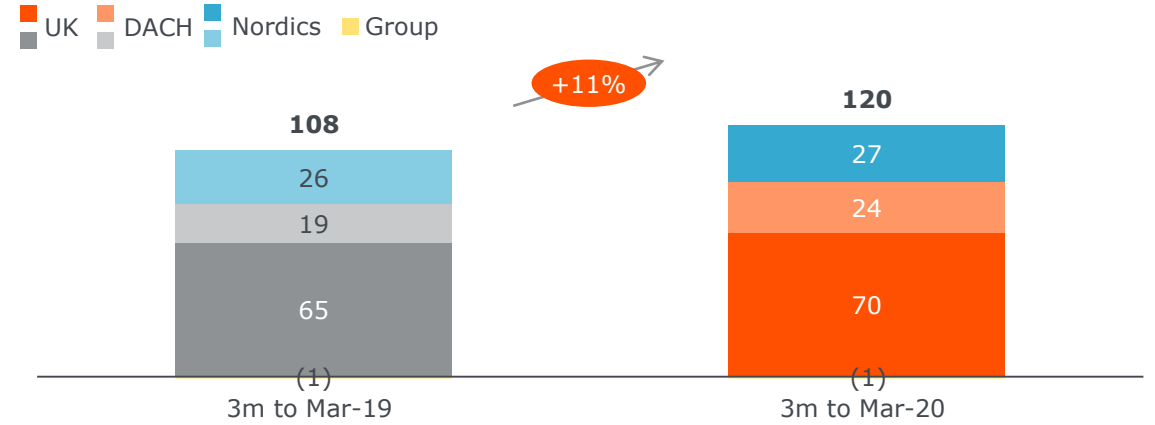


# Continued Momentum and Widening Margins Evident

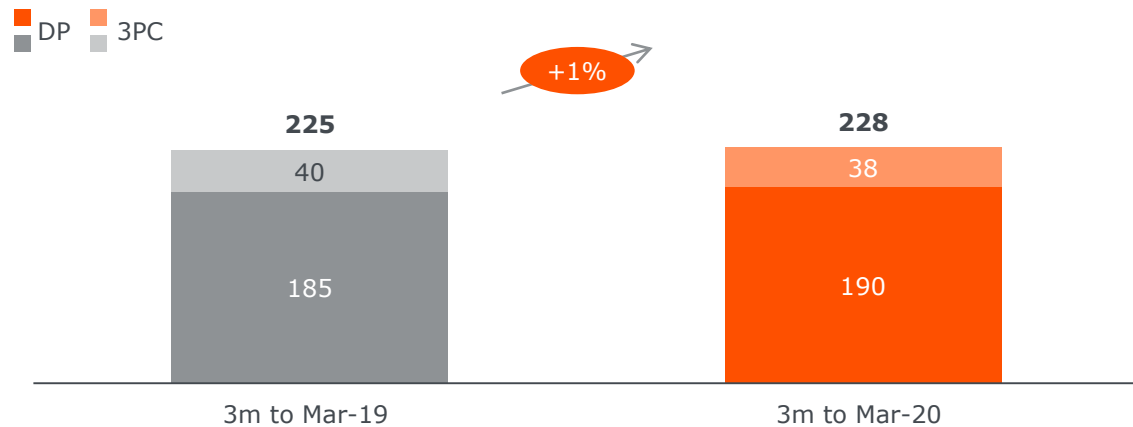
Cash Income by Geography (£m)



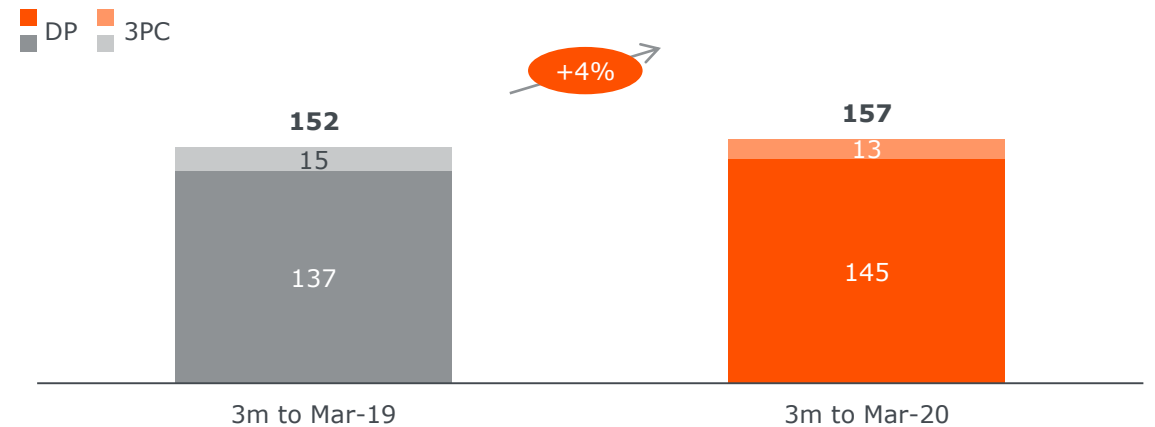
Cash EBITDA (£m)



Cash Income by Service Line (£m)

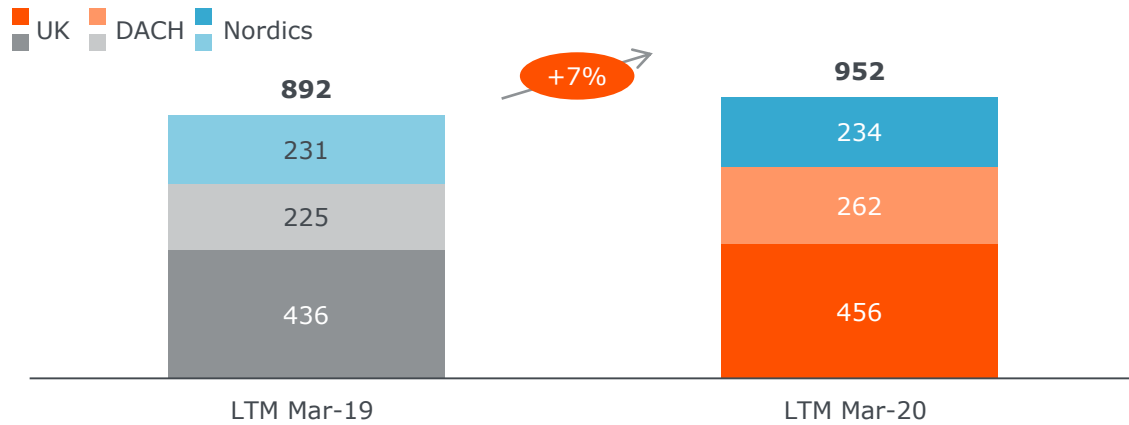


Gross Profit (£m)

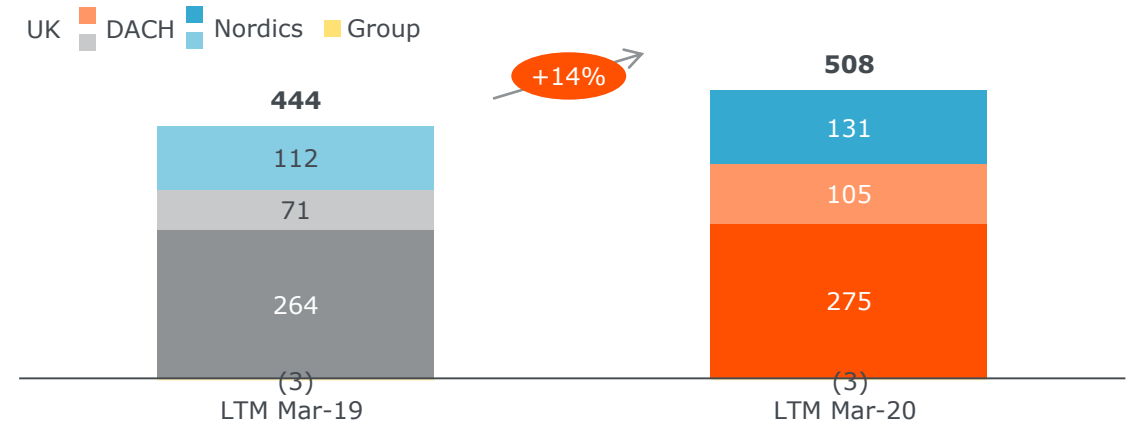


# Allowing for Further Continuation of LTM Growth Trends

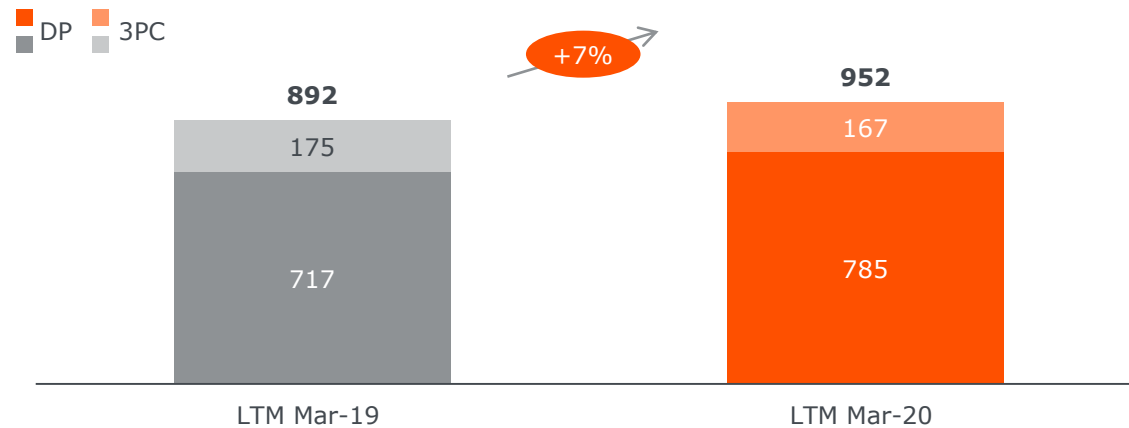
Cash Income by Geography (£m)



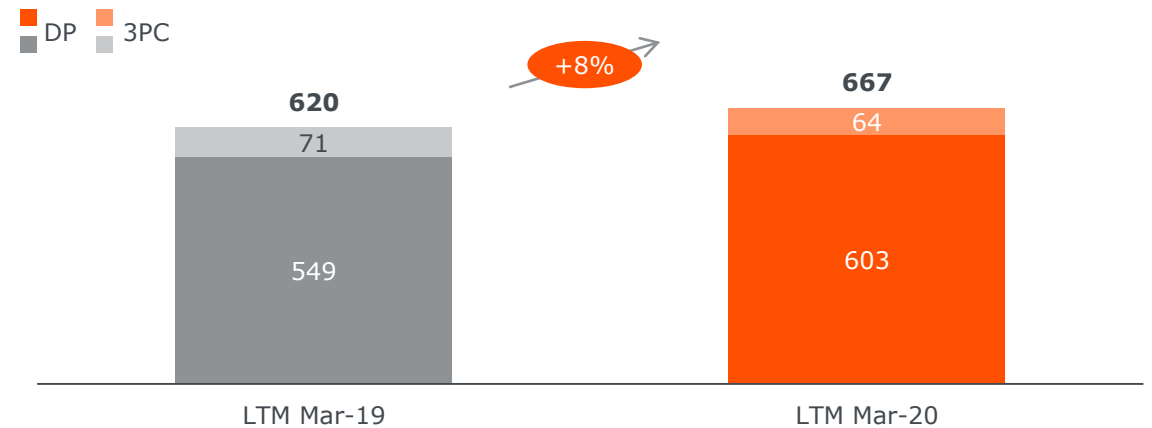
Cash EBITDA (£m)



Cash Income by Service Line (£m)



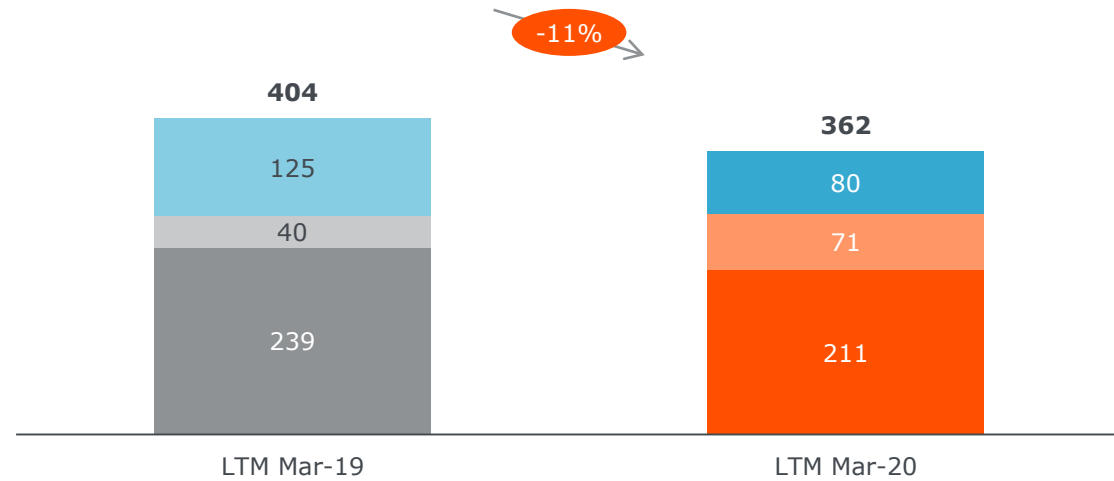
Gross Profit (£m)



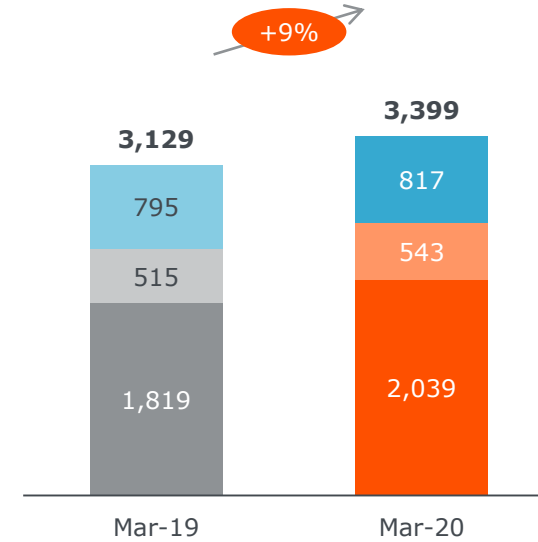
# Continued Discipline in Capital Deployment

LTM Portfolio Acquisitions (£m)

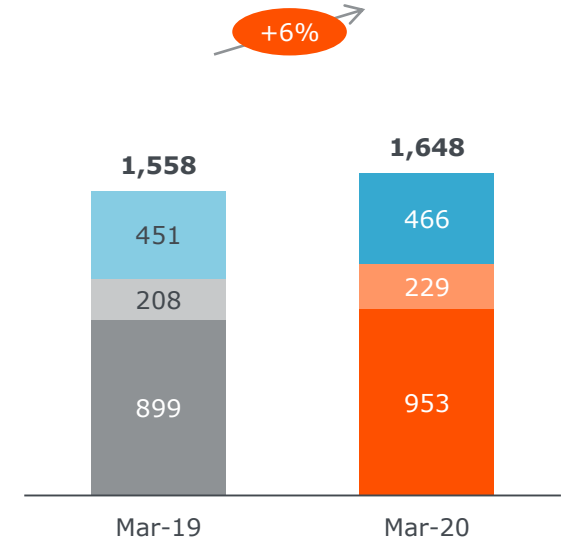
UK DACH Nordics



120m ERC (£m)



Portfolio Book Value<sup>1</sup> (£m)



<sup>1</sup> Portfolio book value recognised on an 84m basis for UK and 120m basis for DACH and Nordics.

# Flat Leverage and a Strong Liquidity Position

£m	Mar-20
<b>Leverage</b>	
Net Debt <sup>1</sup>	2,437.8
<b>LTM Cash EBITDA<sup>2</sup></b>	513.5
<b>Net Debt / LTM Cash EBITDA</b>	<b>4.7x</b>
<b>Leverage Guidance by 2021 – 2022</b>	<b>4.0x – 3.5x</b>
<b>Liquidity</b>	
RCF capacity <sup>3</sup>	401
Amounts drawn	(231)
Securitisation reset availability	17
Cash <sup>4</sup>	71
<b>Available Liquidity</b>	<b>257</b>

£m	LTM Mar-20
Trailing LTM Excess Cash before Average Replacement Rate	359
Average Replacement Rate <sup>1</sup>	~(276)
<b>Excess Cash</b>	<b>~84</b>

- Group maintains significant liquidity of ~£257m;
- Additional drawdown of UK Securitisation in February 2020 of ~£78m
- Trailing excess cash in ERC Steady State scenario increased to ~£84m, reflective of the margin accretion reported

<sup>1</sup> As calculated in Appendix. <sup>2</sup> Pro Forma LTM Cash EBITDA includes Pro Forma cost adjustments of £5m. <sup>3</sup> Calculated as €200m, plus 7.9% of the Group's 84m ERC. <sup>4</sup> Unrestricted cash on balance sheet as at Mar-20.

# Looking Forward...

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- Q2 will see some collections impact, although April shows underlying resilience of the Group
- April performance at ~90% vs static pool
- Expectation at this stage is that collections are likely to be deferred rather than lost
- Group continues to prioritise cash management, maintaining a strong level of liquidity
- Leverage guidance of 4.0x – 3.5x by 2021 / 2022 remains but anticipate short term increase

# 3. General Outlook

# An Attractive Market Outlook With Clear Internal Focus

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- Significant purchasing opportunities expected across all markets
- Focus on Lowell 23 strategy continues
- Fundamentals of our cash generative business model unchanged
- Planning for the workplace of the future
- Co-investment structures provide optionality in choosing how best to access the market

# Appendix



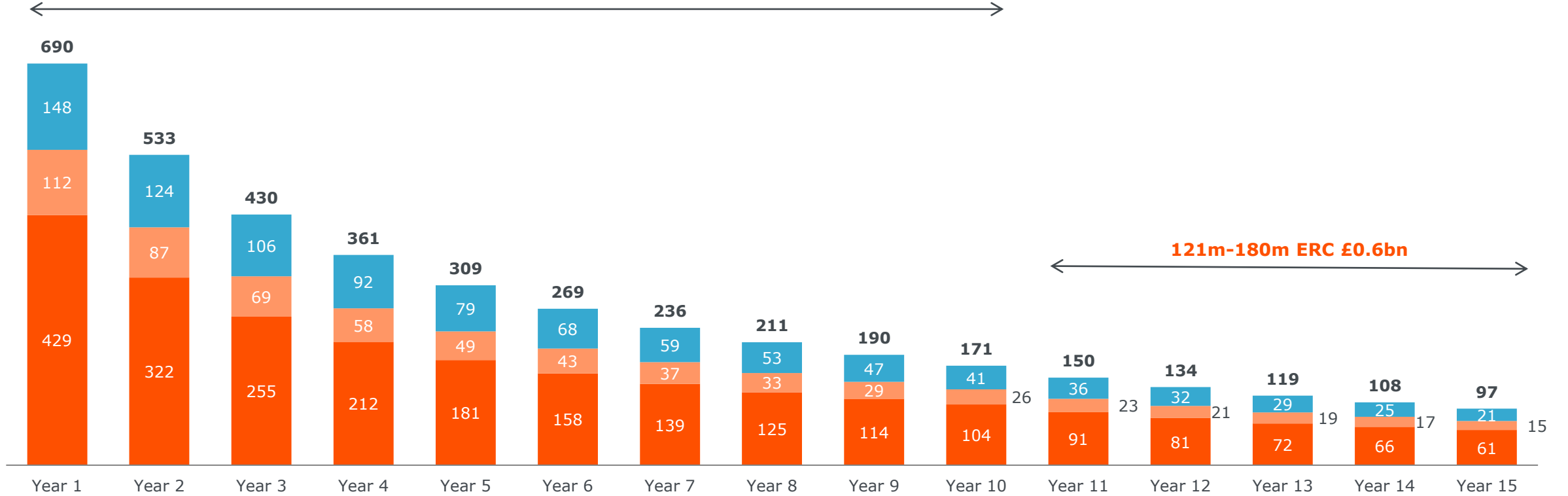
# ERC Profile

£m

UK DACH Nordics

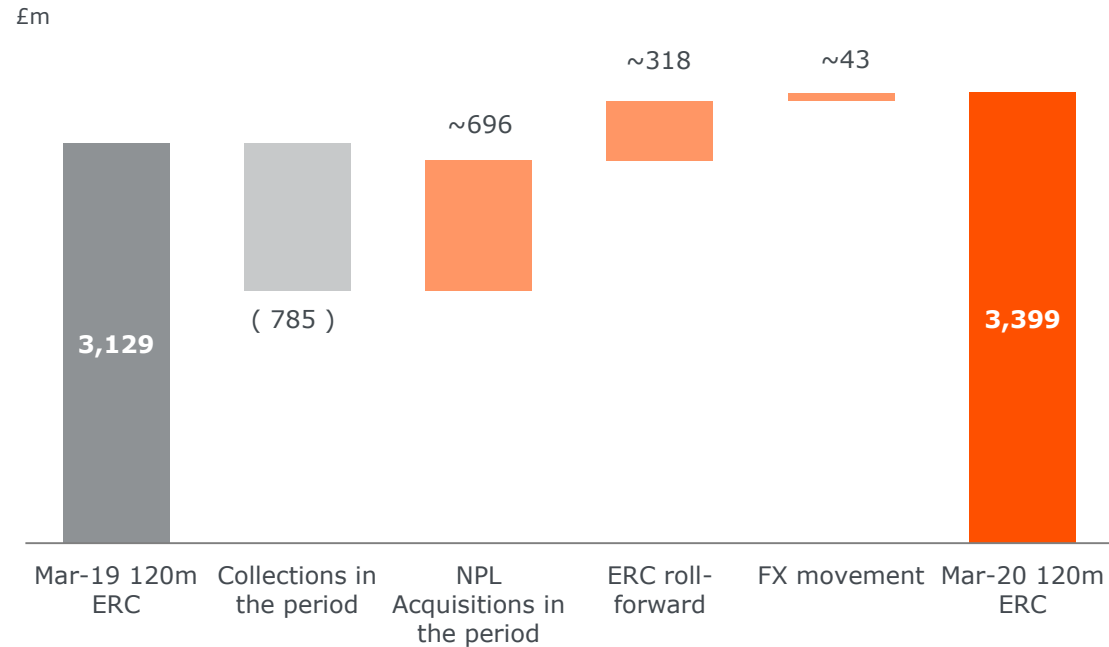
120m ERC £3.4bn

121m-180m ERC £0.6bn

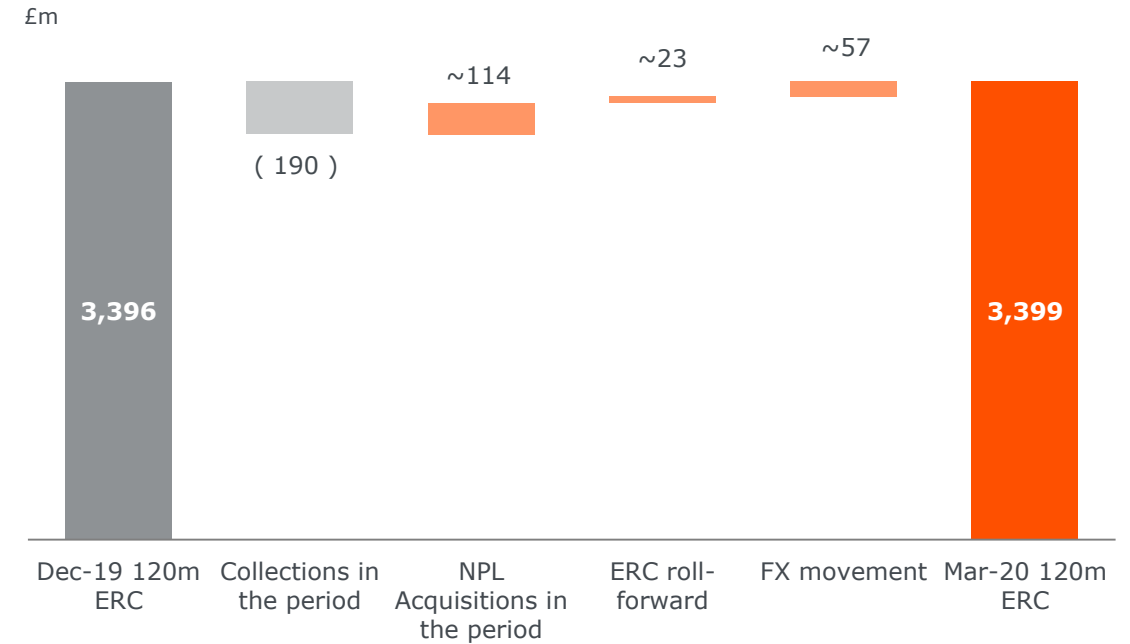


# 120m ERC Roll-Forward

ERC Roll-Forward; Mar-19 to Mar-20

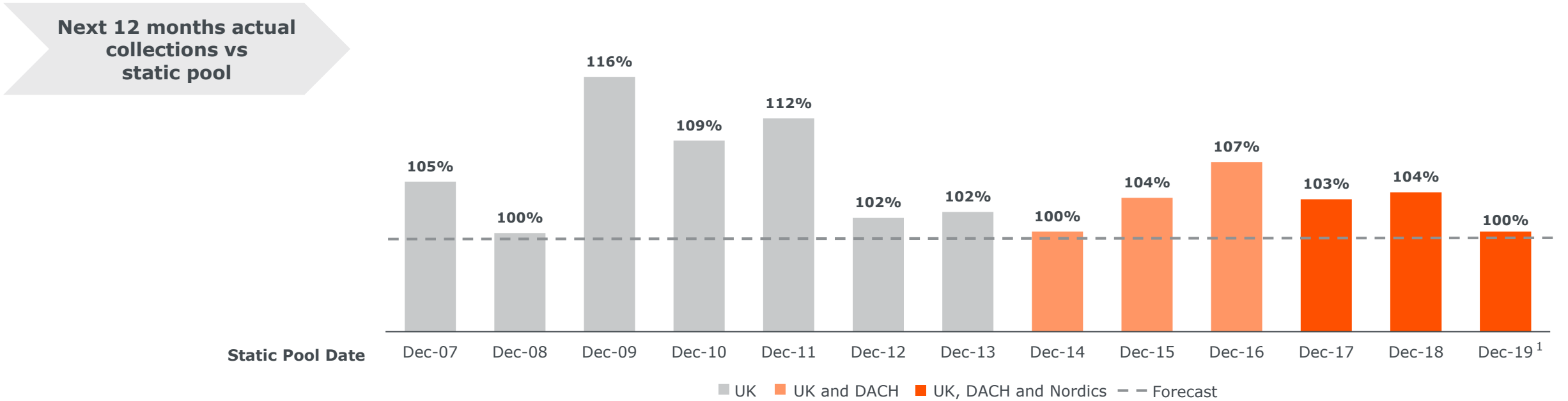
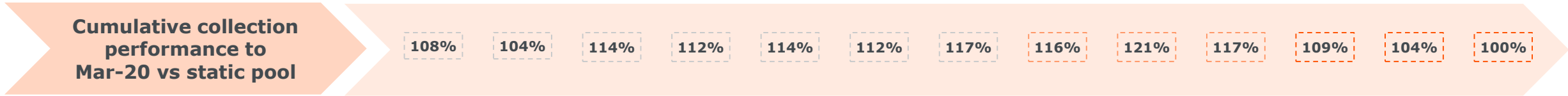


ERC Roll-Forward; Dec-19 to Mar-20



- 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

# Track Record of Collections Resilience



<sup>1</sup>Actual collection performance for the 3 months to Mar-20 vs Dec-19 static pool

# Reconciling to the Financial Statements

## Reported Income to Cash Income

	DP	3PC	Group Total
Income from Portfolio Investments	101	-	101
<i>Add Portfolio Amortisation</i>	88	-	88
<b>DP Cash Income</b>	<b>190</b>	<b>-</b>	<b>190</b>
Service Revenue	-	48	48
<i>Less Lawyer Service Income</i>	-	(10)	(10)
<b>3PC Cash Income</b>	<b>-</b>	<b>38</b>	<b>38</b>
<b>A Total Cash Income</b>	<b>190</b>	<b>38</b>	<b>228</b>

## Reported Costs to Normalised Costs

	DP	3PC	Group Total
Collection Activity Costs	-	-	81
<i>Less Lawyer Service Costs</i>	-	-	(10)
<i>Less Non recurring costs</i>	-	-	(1)
<b>B Normalised Collection Activity Costs</b>	<b>45</b>	<b>25</b>	<b>70</b>

## Gross Profit Calculation

	DP	3PC	Group Total
<b>A</b> Cash Income	190	38	228
<b>B</b> Collection Activity Costs	(45)	(25)	(70)
<b>C</b> Gross Profit	<b>145</b>	<b>13</b>	<b>157</b>
<b>C/A</b> Gross Profit Margin	<b>76%</b>	<b>33%</b>	<b>69%</b>

## Other Expenses

	Group Total
Other Expenses	56
<i>Less Depreciation, Amortisation &amp; Impairment</i>	(10)
<i>Less Non recurring costs</i>	(8)
<b>Normalised Other Expenses</b>	<b>38</b>

# Calculation of Group ERC Replacement Rate Using Static GMM

Group (£m)		Mar-20
	Group ERC <sup>1</sup>	3,638
	Year 1 Collections	690
	Roll-forward (UK – YR11, DACH and Nordics – YR16)	123
<b>A</b>	Collections to replace	567
	2019 vintage Static GMM	2.0x
	2020 vintage Static GMM	2.0x
<b>B</b>	Blended Static GMM <sup>2</sup>	2.0x
<b>A/B</b>	Replacement Rate as calculated at Mar-20	281
	Replacement Rate as calculated at Mar-19	270
	Average LTM Replacement Rate <sup>3</sup>	276

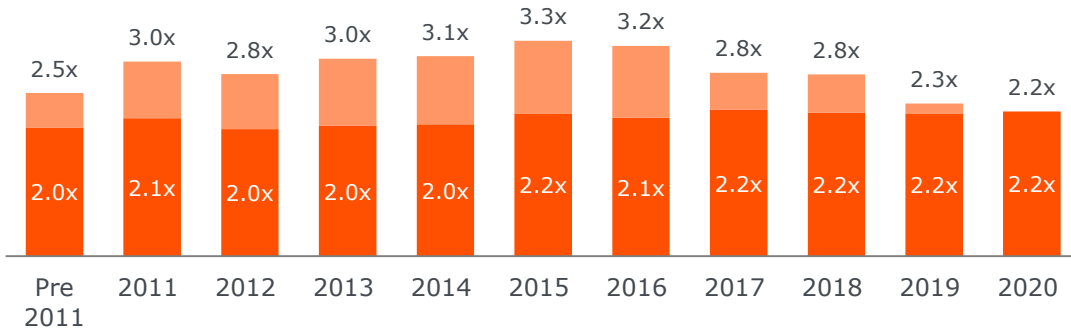
GMM Weighted Average Calculation				
<b>2019 Vintage</b>	UK	DACH	Nordics	Total
Purchases (£m)	234	65	98	397
% of total purchases	59%	16%	25%	100%
Actual Static GMM	2.2x	1.6x	1.8x	
<b>Weighted Average</b>				<b>2.0x</b>
<b>2020 Vintage</b>	UK	DACH	Nordics	Total
Purchases (£m)	32	13	13	58
% of total purchases	56%	22%	23%	100%
Actual Static GMM	2.1x	2.0x	1.9x	
<b>Weighted Average</b>				<b>2.0x</b>
<b>Blended Static GMM</b>				<b>2.0x</b>

<sup>1</sup> Group ERC represents 120m for UK and 180m for DACH and Nordics. <sup>2</sup> Blended GMM represents the weighted average static GMM for 2019 and 2020 vintages, across the UK, DACH and Nordics as at Mar-20.

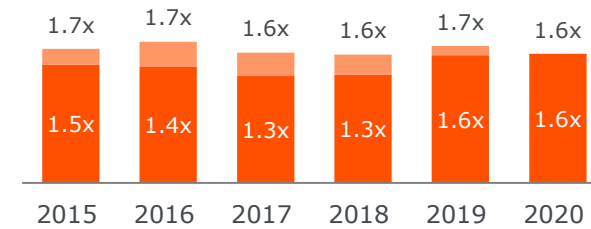
<sup>3</sup> Average Replacement Rate is an average of the Replacement Rate as calculated at Mar-20 and the Replacement Rate as calculated at Mar-19.

# GMM Per Vintage – Pricing vs Current

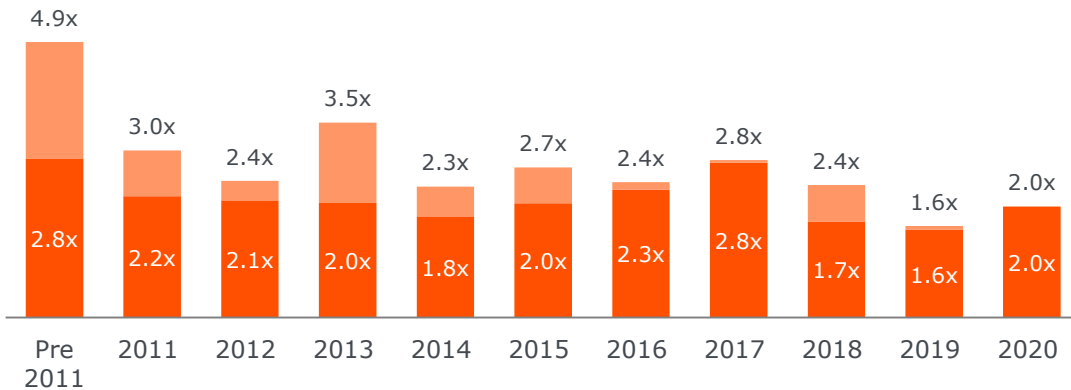
UK Non-Paying<sup>1</sup>



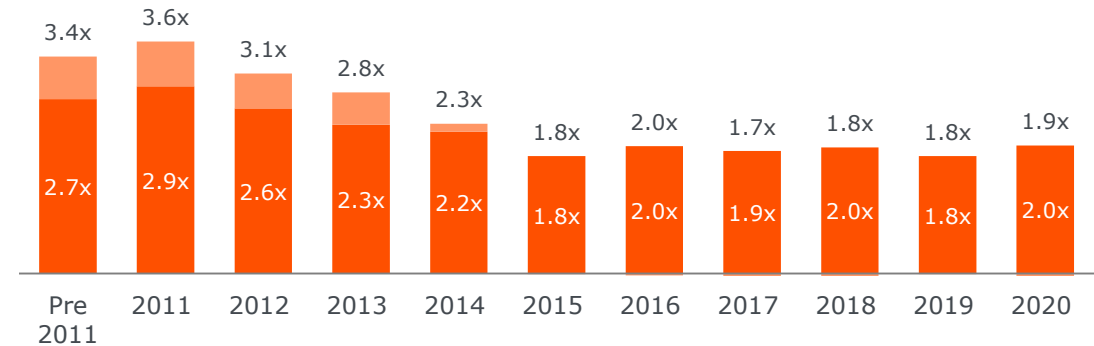
UK Paying<sup>1</sup>



DACH<sup>2</sup>



Nordics<sup>2</sup>



■ Priced GMM ■ Current GMM

Note: Current GMM is calculated using actual collections to Mar-20 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.

# Net Debt and Borrowings as at 31 March 2020

## Net Debt (£m)

### Bond Principal

£565m Senior Secured Notes 8.5%	565
€365m Senior Secured Notes 7.5%	323
€415m Senior Secured Notes EURIBOR +3.5%	368
€530m Senior Secured Notes EURIBOR +4.5%	470
SEK1,280m Senior Secured Notes STIBOR +4.75%	103
£230m Senior Notes 11%	197 <sup>2</sup>

### RCF Drawings and Other

GBP Drawn RCF	183
EUR Drawn RCF	48
UK Securitisation	238
DACH Securitisation	15

### Cash

Cash <sup>1</sup>	71
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<b>Senior Secured Net Debt</b>	<b>1,988</b>
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<b>Net Debt</b>	<b>2,438</b>
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<b>Gross Debt</b>	<b>2,509</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>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>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

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

## Investor Relation Activity

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

### **Investor Relations Contacts:**

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