Lowell Group

QE 30 Sept 2015 Results

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1 Highlights

- 120 Month Estimated Remaining Collections ("ERC") at £1,087.0m as of September 30, 2015, up 36% since September 30, 2014.
- 84 Month ERC at £924.4m as of September 30, 2015, up 29% since September 30, 2014.
- Cash asset return (LTM Adjusted EBITDA / Average 84 month ERC) of 18%, for the 12 months to September 30, 2015.
- Portfolio investments acquired for the quarter up 100% to £84.3m compared to the quarter ended September 30, 2014.
- Collections of £60.8m in the quarter, up 14% compared to the quarter ended September 30, 2014.
- Adjusted EBITDA for the quarter up 10% to £37.9m compared to the quarter ended September 30, 2014.
- Customer account numbers since inception increased to 19.2m from 18.2m as at June 30, 2015 and 15.6m as at September 30, 2014. This is an increase of 23% since September 30, 2014.
- As at September 30, 2015, the aggregate face value of debt purchased since inception totalled £15.4bn, a 17% increase from the same period in 2014.
- Loan to value ratio (net debt/average 84 month ERC) reduced from 57% at original bond issuance to 49% as of September 30, 2015, (September 30, 2014: 50%).
- Net debt to Adjusted EBITDA is at 3.2x cover at September 30, 2015 with fixed charge cover ratio at 3.4x cover at the same date.

1 Highlights (continued)

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

"I'm delighted to announce another excellent set of results in a quarter where we've seen record quarterly portfolio acquisitions.

Outside of our ongoing acquisition success, our principle key metrics show further strong quarter on quarter growth, with collections increasing 14% to £61 million and Adjusted EBITDA increasing 12% to £38 million.

At the same time, our balance sheet continues to grow – our 84 month estimated remaining collections now stands at £924 million and 120 month at £1,087 million.

Following the announcement that a company backed by the Permira funds has entered into an agreement to acquire Lowell Group from majority shareholder TDR Capital, the transaction completed on October 13, 2015. Subsequently, Lowell has now merged with GFKL and integration is progressing well."

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Lowell Group ("Lowell") is a leading acquirer of non-performing portfolio investments in the United Kingdom, having acquired assets with a face value of £15.4bn. 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 September 30, 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 120 months from our purchased assets (our "Estimated Remaining Collections" or "ERC") amount to £1,087.0m. 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 September 30 2015	Three months ended or as of September 30 2014	12 months ended or as of September 30 2015
Portfolio investments acquired	84.3	42.1	197.7
Number of owned accounts acquired (in millions)	1.0	1.2	3.6
Number of owned accounts (in millions)	19.2	15.6	19.2
Aggregate face value of debt (in £ billions)	15.4	13.1	15.4
Cash collections	60.8	53.4	227.9
Adjusted EBITDA	37.9	34.4	142.0
Adjusted EBITDA ratio	62.4%	64.3%	62.3%
84 month ERC	924.4	713.9	924.4
120 month ERC	1,087.0	800.9	1,087.0
Net debt	449.1	355.6	449.1
LTV ratio	49%	50%	49%

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. 46% of the 84 month ERC is likely to be recovered in the next 24 months, with 74% of these projected collections expected to be recovered in the next four years.

84 month ERC on owned portfolios as of September 30, 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								
2004	0.3	0.2	0.2	0.1	0.1	0.1	0.1	1.1
2005	0.7	0.6	0.5	0.4	0.4	0.3	0.3	3.2
2006	1.9	1.5	1.3	1.0	0.8	0.7	0.6	7.8
2007	3.1	2.6	2.1	1.7	1.5	1.3	1.2	13.5
2008	5.2	4.2	3.4	2.8	2.3	2.1	1.8	21.8
2009	8.4	6.8	5.4	4.3	3.6	3.2	2.8	34.5
2010	9.3	7.3	5.6	4.4	3.6	3.1	2.7	36.0
2011	16.2	12.6	9.9	7.7	6.4	5.6	5.0	63.4
2012	27.0	21.0	16.4	13.1	11.0	9.7	8.7	106.9
2013	37.4	28.2	21.9	17.3	14.4	12.5	11.0	142.7
2014	60.8	44.0	34.0	26.8	22.2	19.3	16.9	224.0
2015	74.2	54.6	41.8	32.8	26.6	21.7	17.8	269.5
Total	244.5	183.6	142.5	112.4	92.9	79.6	68.9	924.4
Cumulative Percentage	26.4%	46.3%	61.7%	73.9%	83.9%	92.6%	100.0%	

2 Operating & financial review (continued)

Collections

Strong quarterly collections of £60.8m were achieved by the business in the three months ending September 30, 2015, an increase of 14% on the corresponding three months to September 30, 2014.

Operating Profit

Operating expenses including exceptional costs (excluding depreciation and amortisation) were £22.6m for the three months ended September 30, 2015, £8.4m higher than the three months ended September 30, 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 £17.6m for the three months ended September 30, 2015. These were £1.0m higher than the three months ended September 30, 2014. The higher costs arose due to extra fees incurred on the increased Revolving Credit Facility of £215m.

Taxation

A tax charge arose in the quarter of £0.6m, which consisted of a prior year credit of £1.7m, truing up the 2014 tax charge to the finalised tax returns and a tax charge of £2.4m relating to the quarters result. The Group made a second payment on account of £0.3m in July 2015.

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Cash flow

Net cash outflow from operating activities increased to £61.2m during the quarter to September 30, 2015 when compared to the corresponding period in 2014. This is primarily due to the significant increase in portfolio purchases in the quarter of £84.3m.

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 September 30, 2015 is shown below:

	As of Sept 30, 2015	
Segment	Invested (£ millions)	Gross cash-on-cash multiple(i)
Total..................................	957.3	2.40x

(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.

Metis Bidco Limited

Consolidated interim statement of comprehensive income
3 months ended 30th September 2015

	Note	3 months to 30th September 2015 £000	3 months to 30th September 2014 £000
Continuing operations			
Revenue			
Income from portfolio investments	*1, 3*	33,861	28,662
Portfolio write up	*1, 3*	14,337	7,937
Portfolio fair value release	*1, 3*	(936)	(1,220)
		47,262	35,379
Other revenue	*1*	2,524	8,267
Total revenue		**49,786**	**43,646**
Operating expenses			
Collection activity costs	*1*	(10,758)	(9,177)
Other expenses		(16,432)	(20,226)
Total operating expenses		**(27,190)**	**(29,403)**
Operating profit		**22,596**	**14,243**
Interest income		5	20
Finance costs	*2*	(17,646)	(16,667)
Profit before tax		**4,955**	**(2,404)**
Tax expense		(584)	(857)
Profit/(loss) for the period attributable to equity shareholders		**4,371**	**(3,261)**
Other comprehensive income		-	-
Total comprehensive income/(expense) for the period attributable to equity shareholders		**4,371**	**(3,261)**

The notes on pages 9 to 14 form part of the interim financial statements.

Metis Bidco Limited

Consolidated interim statement of financial position
As at 30th September 2015

	Note	30th September 2015 £000	30th September 2014 £000
Fixed assets			
Non-current assets			
Goodwill		169,817	169,819
Intangible assets		4,724	5,622
Property, plant and equipment		4,003	3,987
Portfolio investments	3	286,069	204,600
Deferred tax asset		-	250
Total non-current assets		**464,613**	**384,278**
Current assets			
Portfolio investments	3	203,699	163,677
Trade and other receivables	4	38,298	33,153
Cash and cash equivalents		13,897	34,373
Total current assets		**255,894**	**231,203**
Total assets		**720,507**	**615,481**
Equity			
Share capital		1,295	1,295
Share premium		69	69
Retained deficit		(82,743)	(72,866)
Total equity attributable to shareholders		**(81,379)**	**(71,502)**
Liabilities			
Non-current liabilities			
Borrowings	6	752,556	650,023
Current liabilities			
Trade and other payables	5	47,636	36,909
Current tax liabilities		1,694	51
Total current liabilities		**49,330**	**36,960**
Total equity and liabilities		**720,507**	**615,481**

The notes on pages 9 to 14 form part of the interim financial statements.

Metis Bidco Limited

Consolidated interim statement of cash flows
3 months ended 30th September 2015

	3 months to 30th September 2015 £000	3 months to 30th September 2014 £000
Net cash used in operating activities	**(61,222)**	**(19,469)**
Investing activities		
Interest received	5	20
Purchases of tangible and intangible assets	(1,125)	(323)
Proceeds from disposal of fixed assets	-	41
Net cash used in investing activities	**(1,120)**	**(262)**
Financing activities		
Repayment of borrowings	-	(26)
New share issue	-	65
Drawdown of borrowings	65,000	-
Net cash from financing activities	**65,000**	**39**
Net decrease in cash and cash equivalents	2,658	(19,692)
Cash and cash equivalents at beginning of period	11,239	54,065
Cash and cash equivalents at end of period	**13,897**	**34,373**

Net cash from operating activities

	3 months to 30th September 2015 £000	3 months to 30th September 2014 £000
Profit/(loss) for the period	4,371	(3,261)
Adjustments for:		
Depreciation	217	225
Amortisation	669	816
Loss on disposal of fixed assets	8	236
Interest received	(5)	(20)
Tax expense	584	857
Release of deferred consideration	-	(5,200)
Interest expense	17,646	16,667
	23,490	10,320
Changes in:		
Decrease in trade and other receivables	1,357	3,222
Increase in portfolio investments	(70,756)	(24,011)
Increase in trade and other payables	4,013	9,765
Cash generated from operating activities	**(41,896)**	**(704)**
Interest and fees paid	(19,041)	(18,742)
Income taxes paid	(285)	(23)
Net cash from operating activities	**(61,222)**	**(19,469)**

Metis Bidco Limited

Notes to the interim financial statements
3 months ended 30th September 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 Metis Bidco Limited ("the Company") and all its subsidiary undertakings (together "the Group") drawn up to 30 September 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 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.

Metis Bidco Limited

Notes to the interim financial statements
3 months ended 30th September 2015

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.

Metis Bidco Limited

Notes to the interim financial statements
3 months ended 30th September 2015

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 30 September 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.

Metis Bidco Limited

Notes to the interim financial statements
3 months ended 30th September 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.

Metis Bidco Limited

Notes to the interim financial statements
3 months ended 30th September 2015

2. Finance costs

	3 months to 30th September 2015 £000	3 months to 30th September 2014 £000
Bond interest & fees	9,309	9,209
RCF interest & fees	1,269	478
Shareholders loan expense	695	676
Preference share coupon	6,373	6,304
	17,646	16,667

3. Portfolio investments

	30th September 2015 £000	30th September 2014 £000
As at the period brought forward	419,012	344,266
Portfolios acquired during the period	84,281	41,981
Collections in the period	(60,787)	(53,349)
Income from portfolio investments	33,861	28,662
Portfolio fair value release	(936)	(1,220)
Portfolio write-up	14,337	7,937
	489,768	368,277

4. Trade and other receivables

	30th September 2015 £000	30th September 2014 £000
Trade receivables	1,570	2,176
Litigation deferred costs	17,869	14,410
Other receivables	6,560	6,162
Prepayments and accrued income	9,214	6,818
Corporation tax repayable	3,085	3,587
	38,298	33,153

Metis Bidco Limited

Notes to the interim financial statements
3 months ended 30th September 2015

5. Trade and other payables

	30th September 2015 £000	30th September 2014 £000
Trade payables	4,693	6,257
Amounts owed to company's immediate parent for group relief	2,785	2,785
Amounts owed to other parties for group relief	1,434	1,361
Other taxes and social security	1,115	1,533
Accruals and deferred income	5,174	5,763
Other payables	3,297	4,682
Other payables – acquired portfolio investments	25,073	9,302
Loan notes premium	4,065	5,226
	47,636	36,909

6. Borrowings

	30th September 2015 £000	30th September 2014 £000
Preference share amounts owed to company's immediate parent	167,355	151,569
Preference share amounts owed to other parties	100,707	91,208
Loan notes owed to immediate parent	18,233	16,516
Loan notes owed to other parties	10,275	9,307
Bond principal	390,000	390,000
Prepaid bond costs	(7,014)	(8,577)
Revolving credit facility	73,000	-
	752,556	650,023

Reconciliations

Operating Profit to Adjusted EBITDA

(£ in millions)	3 months to 30th September 2015 £000	3 months to 30th September 2014 £000
Profit/(loss) for the period attributable to equity shareholders	4.4	(3.3)
Net finance costs	17.6	16.6
Taxation charge	0.6	0.9
Operating profit	**22.6**	**14.2**
Portfolio amortisation	26.9	24.8
Portfolio write up	(14.3)	(7.9)
Portfolio fair value adjustment	0.9	1.2
Non recurring costs	1.2	1.6
Depreciation and amortisation	0.6	0.5
Adjusted EBITDA	**37.9**	**34.4**

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

(£ in millions)	3 months to 30th September 2015 £000	3 months to 30th September 2014 £000
Increase/(decrease) in cash in the period	2.7	(19.7)
Movement in debt	(65.0)	-
Portfolio purchases	79.7	37.2
Debt servicing	19.0	18.7
Tax servicing	0.3	-
Cash flow before debt and tax servicing	**36.7**	**36.2**
Capital expenditure	1.1	0.3
Working capital	0.1	(2.1)
Adjusted EBITDA	**37.9**	**34.4**

Cash Collections to Adjusted EBITDA

(£ in millions)	3 months to 30th September 2015 £000	3 months to 30th September 2014 £000
Cash collections	60.8	53.4
Other income	2.5	8.3
Operating expenses	(27.2)	(29.4)
Non recurring costs	1.2	1.6
Depreciation and amortisation	0.6	0.5
Adjusted EBITDA	**37.9**	**34.4**