Lowell

Garfunkelux Holdco 2 S.A.

QE 31 March 2024 Results

1. Highlights

- **120 Month Estimated Remaining Collections** ("ERC") at £3,694m[(4)] as of 31 March 2024, down 11.1% since 31 March 2023.
- **Portfolio investments acquired** for the three months ending 31 March 2024 total £101.5m, an increase of £9.8m compared with the three months ending 31 March 2023.
- **Debt Purchase gross cash collections** of £225.1m[(3)] in the three months ending 31 March 2024, a decrease of 25.2% on the three months ending 31 March 2023.
- **Cash income** of £263.1m[(3)] in the three months ending 31 March 2024, down 22.0% compared to the three month period ending 31 March 2023.
- **Cash EBITDA**[(1)] for the three months ended 31 March 2024 of £154.4m, a 29.2% decrease on the three month period ending 31 March 2023, with LTM Cash EBITDA to 31 March 2024 of £710.0m.
- **Net debt to LTM Pro forma Cash EBITDA**[(2)] is at 3.2x as at 31 March 2024.
- **Net secured debt to LTM Pro forma Cash EBITDA**[(2)] is at 2.6x as at 31 March 2024.

(1) Cash EBITDA is defined as cash collections on acquired portfolios plus service revenue, other revenue and other income less collection activity costs and other expenses (which together equal operating costs) and before exceptional items, depreciation, amortisation and impairment of non-performing loans.

(2) Pro forma LTM Cash EBITDA as quoted is defined as Group Cash EBITDA for the twelve months ended 31 March 2024, adjusted for Pro forma cost adjustments.

(3) Q1-23 comparative figure included £91m net contribution associated with the acceleration of debt purchase cashflows pertaining to the sale of a pool of Swedish portfolios which completed in March 2023.

(4) ERC reduction reflects impact of Balance Sheet Velocity transactions across LTM period resulting in accelerated collections in the region of £234m.

1. Highlights (continued)

Commenting on the results, Colin Storrar, CEO, said:

"The business continues to deliver operationally, and we have started the year with strong momentum. These results showcase another quarter of delivery against our collection expectation and continued underwriting at attractive returns. We have strengthened liquidity through our Balance Sheet Velocity Programme and we are confident the business will continue to showcase best in class operational performance across all regions."

About Lowell:

Lowell is one of Europe's largest credit management companies with a mission to make credit work better for all and a commitment to fair and ethical customer practices. It operates in the UK, Germany, Austria, Switzerland, Denmark, Norway, Finland, and Sweden. The Group employs over 4,000 people, including 1,500 in the UK.

Lowell's unparalleled combination of data analytics, deep consumer 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 is committed to delivering the most fair and affordable 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

1. Highlights (continued)

Non-IFRS financial measures

We have included certain non-IFRS financial measures in this trading update, including **Estimated Remaining Collections** ("ERC"), **Cash EBITDA** and **Gross Money Multiples** ("GMMs").

We present ERC because it represents our expected gross cash proceeds of the purchased debt portfolios recorded on our balance sheet over the 120-month and 180-month periods. ERC is calculated as of a point in time assuming no additional purchases are made. ERC is a metric that is also often used by other companies in our industry. **We present ERC because it represents our best estimate of the undiscounted cash value of our purchased debt portfolios at any point in time, which is an important supplemental measure for our board of directors and management to assess the gross cash generation capacity of the assets backing our business**. In addition, the instruments governing our indebtedness use ERC to measure our compliance with certain covenants and, in certain circumstances, our ability to incur indebtedness. Our ERC projection, calculated by our proprietary analytical models, utilises historical portfolio collection performance data and assumptions about future collection rates. While we cannot guarantee that we will achieve such collections and while our ERC projection may not be comparable to similar metrics used by other companies in our industry, our ERC forecasts have historically proven to be somewhat conservative through all phases of the economic cycle.

We present Cash EBITDA because we believe it may enhance an investor's understanding of our underlying cash flow generation at a given point in time that can be used to service or pay down debt, pay income taxes, purchase new debt portfolios and for other uses. Cash EBITDA is 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.

Our board of directors and management use Cash EBITDA to understand cash profit in a period, mindful it is neither a proxy for future periods (since it is a lagged measure which can be influenced by the volume and mix of purchases in the latter months of the reported period), nor is it an indication of run off cash generation as the current cost base is representative of our front loaded cost curves and recent purchasing activity. Cash EBITDA is not a measure calculated in accordance with IFRS and our use of the term Cash EBITDA may vary from others in our industry. For a reconciliation of Cash EBITDA to operating profit, see page 22.

We present Gross Money Multiples ("GMMs") because it represents our expected gross cash return from purchased debt portfolios. In addition, GMMs are one of a number of return metrics that we use when making pricing and investment decisions. GMMs can be reported on a rolling basis or on a static basis. On a rolling basis, GMMs are calculated as the sum of gross collections achieved to date plus our ERC as at the reporting date, divided by purchase price. All things being equal and based on this rolling definition, GMMs should improve over time as portfolios and vintages mature. On a static basis, GMMs are calculated over a static time-period – for example, a static 120m GMM will be based upon either gross collections achieved to date plus the remaining months of ERC required to get to a 120m total period or the original priced 120m collection expectations, divided by purchase price.

ERC, Cash EBITDA and GMMs and all other non-IFRS measures have important limitations as analytical tools and you should not consider them in isolation or as substitutes for analysis of our results as reported under IFRS.

2. Operating & financial review

The following table summarises key performance indicators at, and for the periods ended 31 March 2024 and 31 March 2023.

(£ in millions unless otherwise noted)	**Three months ended or as at 31 March 2024**	**Three months ended or as at 31 March 2023**
Portfolio investments acquired	101.5	91.7
3PC income	37.9	36.0
Cash income(2)	263.1	337.1
Cash EBITDA(1) (2)	154.4	218.0
120 month ERC(3)	3,694	4,154
180 month ERC(3)	4,233	4,950

(1) Cash EBITDA is defined as cash collections on acquired portfolios plus service revenue, other revenue and other income less collection activity costs and other expenses (which together equal operating costs) and before exceptional items, depreciation, amortisation and impairment of non-performing loans.

(2) Q1-23 comparative figure included £91m net contribution associated with the acceleration of debt purchase cashflows pertaining to the sale of a pool of Swedish portfolios which completed in March 2023.

(3) ERC reduction reflects impact of Balance Sheet Velocity transactions across LTM period resulting in accelerated collections in the region of £234m.

2. Operating & financial review (continued)

Collections
DP Collections were £225.1m in the three months ending 31 March 2024, a decrease of £76.0m on the three month period ending 31 March 2023.

Income
Total income of £157.3m was generated in the three months ending 31 March 2024, a decrease of £6.8m on the three month period ending 31 March 2023.

Total income includes income from portfolio investments of £106.1m in the three months to 31 March 2023 (three months to 31 March 2023: £115.6m) and net portfolio write-up of £11.0m in the three months to 31 March 2024 (three months to 31 March 2023 net portfolio write-up: £10.2m).

Service revenue in the three months to 31 March 2024 of £38.4m included 3PC income of £37.9m (three months to 31 March 2023: 3PC income of £36.0m).

Operating expenses
Operating expenses were £126.9m for the period (three months to 31 March 2023: £126.9m). Of which £76.8m were collection activity costs, (three months to 31 March 2023: £74.0m).

Finance costs
Finance costs totalled £61.1m for the three months ended 31 March 2024, see note 3.

Cash flow
Net cash generated from operating activities after portfolio purchases and exceptional costs totalled £38.4m in the three months to 31 March 2024. Net cash generated from operating activities before portfolio purchases and income taxes paid totalled £139.5m in the 3 months to 31 March 2024.

While returns achieved on an individual portfolio can vary, the business has a consistent and impressive track record of generating strong and sustainable unlevered returns on its aggregate purchased portfolios. Gross Money Multiple as at 31 March 2024 is shown below.

	UK As at 31 March 2024		**DACH As at 31 March 2024**		**Nordics As at 31 March 2024**	
	Invested (£ millions)	**Gross Money Multiple (1)**	**Invested (€ millions)**	**Gross Money Multiple (1)**	**Invested (€ millions)**	**Gross Money Multiple (1)**
Total 120 month	3,016	2.4x	1,037	2.6x	1,633	2.2x

(1) Gross Money Multiple presented in this quarterly report only includes actuals to date and forecast collections for the next 120m, although collections can extend past that period.

Garfunkelux Holdco 2 S.A.
Unaudited condensed consolidated interim statement of comprehensive income
3 months ended 31 March 2024

	Note	3 months to 31 March 2024 £000	3 months to 31 March 2023 £000
Continuing operations			
Income			
Income from portfolio investments	4	106,110	115,550
Net portfolio write up	4	10,974	10,155
Portfolio fair value gains / losses	5	1,473	883
Service revenue	2	38,350	37,051
Other revenue		202	284
Other income		219	165
Total income		**157,328**	**164,088**
Operating expenses			
Collection activity costs		(76,842)	(74,029)
Other expenses		(50,080)	(52,842)
Total operating expenses		**(126,922)**	**(126,871)**
Operating profit		**30,406**	**37,217**
Finance income		2,319	1,010
Finance costs	3	(61,128)	(57,257)
(Loss) for the period, before tax		**(28,402)**	**(19,030)**
Tax charge		(1,404)	(1,735)
Loss for the period		**(29,807)**	**(20,765)**
Other comprehensive expenditure			
Items that will or may be reclassified subsequently to profit or loss			
Foreign operations – foreign currency translation differences		(18,017)	(38,054)
Other comprehensive expenditure, net of tax		**(18,017)**	**(38,054)**
Total comprehensive expenditure for the period		**(47,824)**	**(58,819)**

The notes on pages 11 to 22 form part of the interim financial statements.

Garfunkelux Holdco 2 S.A.
Unaudited condensed consolidated interim statement of financial position
As at 31 March 2024

	Note	31 March 2024 £000	31 March 2023 £000
Assets			
Non-current assets			
Goodwill		857,122	1,148,705
Intangible assets		100,444	119,517
Property, plant and equipment		47,454	60,681
Portfolio investments – amortised cost	4	1,189,895	1,429,170
Portfolio investments – fair value	5	35,675	12,500
Other financial assets		22,839	2,759
Deferred tax assets		147,244	78,879
Total non-current assets		**2,400,673**	**2,852,211**
Current assets			
Portfolio investments – amortised cost	4	491,381	655,389
Portfolio investments – fair value	5	1,094	1,051
Assets classified as held for sale		141,980	-
Trade and other receivables	6	91,294	81,945
Other financial assets		15,188	9,428
Derivatives		5,791	16,200
Assets for current tax		2,422	3,605
Cash and cash equivalents		201,738	143,385
Total current assets		**950,888**	**911,003**
Total assets		**3,351,561**	**3,763,214**
Equity			
Share capital		4,385	4,385
Share premium and similar premiums		1,109,586	1,109,586
Reserves		(154,187)	(218,732)
Retained deficit		(1,015,818)	(530,898)
Total equity		**(56,034)**	**364,341**
Liabilities			
Non-current liabilities			
Borrowings	8	2,649,209	2,681,687
Retirement benefit deficit		7,075	6,360
Provisions		6,803	5,826
Other financial liabilities		38,067	53,642
Deferred tax liabilities		29,702	37,488
Total non-current liabilities		**2,730,857**	**2,785,003**
Current liabilities			
Trade and other payables	7	104,107	168,950
Provisions		10,740	7,176
Borrowings	8	508,909	407,585
Other financial liabilities		34,935	11,476
Current tax liabilities		18,048	18,683
Total current liabilities		**676,739**	**613,870**
Total equity and liabilities		**3,351,561**	**3,763,214**

The notes on pages 11 to 22 form part of the interim financial statements.

Garfunkelux Holdco 2 S.A.
Unaudited condensed consolidated interim statement of changes in equity
3 months ended 31 March 2024

	Share Capital £000	Share premium & similar premiums £000	Capital Reserve £000	Translation reserve £000	Valuation reserve £000	Retained deficit £000	Total £000
Balance at 31 December 2022	**4,385**	**1,109,586**	**(8,291)**	**(174,455)**	**2,068**	**(510,133)**	**423,160**
Loss for the period	-	-	-	-	-	(20,765)	(20,765)
Exchange differences	-	-	-	(38,054)	-		(38,054)
Total comprehensive Expenditure	-	-	-	**(38,054)**	-	**(20,765)**	**(58,819)**
Balance at 31 March 2023	**4,385**	**1,109,586**	**(8,291)**	**(212,509)**	**2,068**	**(530,898)**	**364,341**
Loss for the period	-	-	-	-	-	(455,114)	(455,114)
Actuarial gain on pension	-	-	-	-	(1,474)	-	(1,474)
Deferred tax on pension	-	-	-	-	(24)	-	(24)
Exchange differences	-	-	-	84,060	-	-	84,060
Total comprehensive income/ (expenditure)	**-**	**-**	**-**	**84,060**	**(1,498)**	**(455,114)**	**(372,552)**
Balance at 31 December 2023	**4,385**	**1,109,586**	**(8,291)**	**(128,449)**	**570**	**(986,012)**	**(8,211)**
Loss for the period	-	-	-	-	-	(29,806)	(29,806)
Exchange differences	-	-	-	(18,017)	-	-	(18,017)
Total comprehensive income / (expenditure)	**-**	**-**	**-**	**(18,017)**	**-**	**(29,806)**	**(47,823)**
Balance at 31 March 2024	**4,385**	**1,109,586**	**(8,291)**	**(146,466)**	**570**	**(1,015,818)**	**(56,034)**

The notes on pages 11 to 22 form part of the interim financial statements.

Garfunkelux Holdco 2 S.A.
Unaudited condensed consolidated interim statement of cash flows
3 months ended 31 March 2024

	Note	3 months to 31 March 2024 £000	3 months to 31 March 2023 £000
Net cash generated from operating activities	**8**	**38,369**	**121,734**
Investing activities			
Purchase from property, plant and equipment		(5,927)	(3,327)
Purchase of intangible assets		(2,041)	(2,221)
Net cash used in investing activities		**(7,968)**	**(5,548)**
Financing activities			
Proceeds from loans and borrowings		408,416	552,557
Repayment of borrowings		(343,707)	(628,582)
Payment of lease liabilities		(4,103)	(2,602)
Interest paid		(30,622)	(27,206)
Net cash generated from / (used in) financing activities		**29,985**	**(105,833)**
Net increase/ (decrease) in cash and cash equivalents		**60,386**	**10,353**
Cash and cash equivalents at beginning of period		143,083	133,499
Effect of movements in exchange rates on cash held		(1,731)	(467)
Cash and cash equivalents at end of period		**201,738**	**143,385**

The notes on pages 11 to 22 form part of the interim financial statements.

Garfunkelux Holdco 2 S.A.
Notes to the unaudited condensed consolidated interim financial statements
3 months ended 31 March 2024

1. Accounting policies

General information and basis of preparation

These interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. These interim financial statements have been prepared on a historical cost basis except for derivative financial instruments that have been measured at fair value. Those standards have been applied consistently to the historical periods.

Basis of consolidation

The Group interim financial statements consolidate the interim financial statements of Garfunkelux Holdco 2 S.A. ("the Company") and its subsidiaries (together "the Group") for the three month period ending 31 March 2024.

The Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing voting rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable return from its involvement with the investee; and
- The ability to use its power over the investee to affect its return.

Generally there is a presumption that a majority of voting rights results in control. To support its presumption and when the Group has less than a majority of voting rights or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee including:

- The contractual arrangements with the other investee;
- Rights arising from the contractual arrangements; and
- The Group voting rights and potential voting rights.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Going concern

In assessing whether the going concern basis is appropriate to adopt, the Directors have undertaken a review of forecast cash flow models and both severe but plausible scenarios and a reverse stress test scenario, for a period in excess of 12 months from the date of approval of these financial statements. The severe but plausible scenarios have taken into account both the Group's historical performance through periods of stress and external events, for example the cost of living crisis, which may negatively impact a customer's ability to pay.

The scenarios consider the impact of cash flow reductions of 15% across all regions, a reduction in purchases of 10% in the UK and 20% in DACH and the Nordics, and a combination of both with the Group maintaining c.£290m of liquidity in the next 18 months under the most severe scenario considered.

The scenarios are considered to be severe but plausible by management and, both before and after taking Management actions as required, the Group maintains sufficient liquidity and cash reserves to continue as a going concern.

The Group's earliest debt maturity horizon is July 2025 and the latest is October 2027, being two of the Group's three securitisation facilities.

Consequently, the directors believe that it remains appropriate to prepare the interim financial statements on a going concern basis.

Garfunkelux Holdco 2 S.A.
Notes to the unaudited condensed consolidated interim financial statements
3 months ended 31 March 2024

1. Accounting policies (continued)

Foreign currency

The Group entities initially record all their transactions in the Functional Currency of each entity and items included in the financial statements of these entities are measured using their Functional Currency.

Transactions in foreign currencies are translated to the respective Functional Currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the Functional Currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the Statement of Comprehensive Income ("SCI"). Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the Functional Currency at foreign exchange rates ruling at the dates the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's Presentational Currency (Sterling) at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve.

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 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.

Total goodwill is tested for impairment annually. Additionally, if there is evidence of impairment in any cash-generating unit ("CGU"), goodwill allocated to that CGU is also tested for impairment.

Garfunkelux Holdco 2 S.A.
Notes to the unaudited condensed consolidated interim financial statements
3 months ended 31 March 2024

1. Accounting policies (continued)

Revenue recognition and effective interest rate method

Income from portfolio investments held at amortised cost

Income from portfolio investments represents the yield from acquired portfolio investments, net of VAT where applicable. Acquired portfolio investments are held to collect contractual cash flows of payments of solely principal and interest, recognising them at amortised cost and in line with IFRS 9.

The effective interest rate ("EIR") is the rate that exactly discounts the day one estimated future cash receipts of the acquired portfolio asset to the net carrying amount at initial recognition, (i.e. the price paid to acquire the asset). These estimated future cash receipts are reflective of the estimated remaining life of the portfolios of 120 months.

Acquired portfolio investments are acquired at a deep discount and classified as purchased or originated credit impaired ("POCI") in line with IFRS 9. As a result, the estimated future cash flows and hence EIR, reflect the expected life time credit losses within each portfolio.

Increases in portfolio carrying values can and do occur should forecasted cash flows be deemed greater than previous estimates and because of the rolling nature of the period to derive future cash receipts. The difference in carrying value following an enhanced collection forecast is recognised in the net portfolio write up line item within income, with subsequent reversals also recorded in this line. This line represents the net impairment gains or losses on portfolio investments.

The portfolio fair value release represents the unwinding of this fair value uplift (see note 4). This uplift is being unwound in line with the standard profile of a gross ERC curve of these portfolios.

Fair value gains on acquired portfolio investments at Fair Value Through Profit and Loss ("FVTPL")

Fair value gains on portfolio investments at FVTPL represents all of the income and expenses relating to the Group's portfolio investments which are classified as FVTPL. The line item includes fair value changes, interest and dividends.

Service Revenue

Service revenue represents amounts receivable for tracing and debt collecting services (commissions and fees) provided to third party clients including collection lawyers, net of VAT where applicable. Performance obligations within service contracts are the collection of cash and hence these are satisfied when the Group collects on debt. Payment is due from clients shortly after cash is collected on their behalf. Revenue is recognised when performance obligations are satisfied.

Impairment of acquired portfolio investments

Acquired portfolio investments are reviewed for indications of impairment at the Statement of Financial Position ("SFP") date in accordance with the IFRS 9 forward looking expected credit loss ("ECL") model. As the Group's portfolio investments are classified as POCI assets, lifetime ECL is included in the calculation of EIR. The estimation of ECL includes an assessment of forward-looking economic assumptions. Impairment represents changes to carrying values, discounted at the EIR, of the portfolio investments as a result of reassessments of the estimated future cash flows. These are recognised in net portfolio write up/down in the SCI.

The impairment adjustment is calculated by discounting regularly revised cash flow forecasts developed for each individual portfolio investment, at the initially set EIR. The cash flow forecasts, which represent the undiscounted value of the ERC of the Group's portfolio investments at a given point in time, are calculated over the portfolio expected useful life, based on previous month's collections and portfolio performance information collated within our proprietary valuation model.

Garfunkelux Holdco 2 S.A.
Notes to the unaudited condensed consolidated interim financial statements
3 months ended 31 March 2024

1. Accounting policies (continued)

Financial instruments
Financial assets and financial liabilities are recognised in the Group's consolidated SFP when the Group becomes a party to the contractual provisions of the instrument.

On initial recognition, a financial asset is classified at amortised cost, fair value through profit or loss ("FVTPL"), or fair value through other comprehensive income ("FVOCI").

Amortised cost financial assets

A financial asset is measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest.

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 EIR 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 EIR method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term 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 acquired portfolio investments.

Financial assets and liabilities at fair value through profit or loss

This category relates to financial assets and liabilities that must be recognised at fair value through profit or loss. Such assets or liabilities are initially recognised at transaction price, which at this point equates to fair value. They must be measured subsequently at fair value.

The main assets and liabilities in the Group falling into this category are portfolio investments held at FVTPL and derivative financial instruments that do not fall under the scope of hedge accounting in accordance with IFRS 9.

The Group classified non-current assets as held for sale when their carrying amounts will be recovered principally through sale rather than through continuing use. To be classified as held for sale, the non-current asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sale of such assets, and the sale must be highly probable. For a sale to be highly probable, the appropriate level of management must be committed to a plan to sell the assets and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify as a completed sale within one year from the date of classification and actions required to complete the plan should indicate it is unlikely that significant changes to the plan will be made.

Garfunkelux Holdco 2 S.A.
Notes to the unaudited condensed consolidated interim financial statements
3 months ended 31 March 2024

1. Accounting policies (continued)

Financial instruments
Impairment of financial assets

Financial assets, other than those held at fair value through profit or loss / SCI (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.

Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the financial asset to another entity. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

If the terms of the financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised, and a new financial asset is recognised at fair value less any eligible transaction costs.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises collateralised borrowings for the proceeds received.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial liabilities

All financial liabilities held by the Group are measured at amortised cost using the EIR method, except for those measured at fair value through the SCI, e.g. derivative liabilities. The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Fair value measurements
The fair value of financial instruments is determined in accordance with IFRS 13 (Fair Value Measurement).

Collection activity costs
Collection activity costs represent direct staff costs and the direct third party costs 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 costs.

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Notes to the unaudited condensed consolidated interim financial statements
3 months ended 31 March 2024

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.

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.

2. Service revenue

	3 months to 31 March 2024 £000	3 months to 31 March 2023 £000
3PC income	37,934	36,025
Other service revenue	416	1,026
	38,350	**37,051**

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3. Finance costs

	3 months to 31 March 2024 £000	3 months to 31 March 2023 £000
Interest payable on the Senior Secured Notes	26,809	32,101
Fees payable on financing structures	1,856	1,838
Interest and fees payable on Revolving credit facility	3,285	4,802
Interest payable on shareholder loan	14,131	12,737
Net foreign exchange loss	-	536
Interest payable on securitisation	7,508	4,490
Other interest payable	158	189
Interest expense from lease liabilities	665	564
	61,128	**57,257**

4. Portfolio investments – amortised cost

	31 March 2024 £000	31 March 2023 £000
Non-current		
Portfolio investments – amortised cost	1,186,155	1,429,170
Portfolio investments – Asset Backed Security	3,740	-
Current		
Portfolio investments – amortised cost	489,145	655,389
Portfolio investments – Asset Backed Security	2,236	-
Total	**1,681,276**	**2,084,559**

The movements in amortised cost portfolios were as follows:

	31 March 2024 £000	31 March 2023 £000
At start of the period	1,635,895	2,172,883
Portfolios acquired during the period	101,457	91,660
Collections in the period [1]	(185,150)	(300,846)
Income from portfolio investments	106,110	115,550
Net portfolio write up	10,974	10,155
Net foreign exchange movement	6,014	(4,844)
At end of the period	**1,675,300**	**2,084,558**

(1) Excludes £39.8m of collections relating to the DACH back book sale which are classified as Held for Sale Assets on the balance sheet

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4. Portfolio investments – amortised cost (continued)

The movements in amortised cost Asset Backed Security (ABS) investments were as follows:

	31 March 2024 £000	31 March 2023 £000
At start of period	**5,975**	**-**
Income from ABS investment	1	-
At end of period	**5,976**	**-**

5. Portfolio investments – fair value

	31 March 2024 £000	31 March 2023 £000
Non-current		
Portfolio investments – fair value through PL (FVTPL)	27,425	12,500
Portfolio investments – fair value through OCI (FVOCI)	8,250	-
Current		
Portfolio investments – fair value through PL (FVTPL)	1,094	1,051
Total	**36,768**	**13,551**

The movements in fair value acquired portfolio investments were as follows:

Fair value through P&L:

	31 March 2024 £000	31 March 2023 £000
At start of period	**27,207**	**12,958**
Collections in the period	(161)	(290)
Fair value gain	1,473	883
At end of period	**28,519**	**13,551**

Fair value through OCI:

	31 March 2024 £000	31 March 2023 £000
At start of period	**8,250**	**-**
Interest income from FVOCI instrument	-	-
At end of period	**8,250**	**-**

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6. Trade and other receivables

	31 March 2024 £000	31 March 2023 £000
Trade receivables	30,829	25,759
Prepayments and accrued income	15,230	13,834
Other receivables	41,980	41,004
Tax receivable	3,255	1,348
	91,294	**81,945**

7. Trade and other payables

	31 March 2024 £000	31 March 2023 £000
Trade payables	11,879	17,328
Other taxes and social security	1,356	1,487
Accruals and deferred income	44,907	43,230
Other payables	45,965	106,905
	104,107	**168,950**

Other payables includes amounts due of £5.2m in respect of portfolios purchased but not yet paid for as at 31 March 2024 (31 March 2023: £12.1m).

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8. Borrowings

	31 March 2024 £000	31 March 2023 £000
Non-current		
Unsecured borrowing at amortised cost		
Shareholder loan owed to Garfunkelux Holdco 1 S.à r.l.	612,837	558,922
Total unsecured	**612,837**	**558,922**
Secured borrowing at amortised cost		
Senior Secured Notes	1,644,069	1,696,060
Prepaid costs on secured borrowings	(10,149)	(16,700)
Securitisation loans	402,452	443,405
Total secured	**2,036,372**	**2,122,765**
Total borrowings due for settlement after 12 months	**2,649,209**	**2,681,687**
Current		
Unsecured borrowing at amortised cost		
Other interest payable	280	289
Total unsecured	**280**	**289**
Secured borrowing at amortised cost		
Interest on Senior Secured Notes	41,538	51,344
Prepaid costs on secured borrowings	(6,823)	(7,727)
Revolving credit facility	377,245	285,940
Securitisation loans	96,669	77,739
Total secured	**508,629**	**407,296**
Total borrowings due for settlement before 12 months	**508,909**	**407,585**

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9. Note to the statement of cashflows

	Note	3 months to 31 March 2024 £000	3 months to 31 March 2023 £000
Loss for the period before tax		**(28,402)**	**(19,030)**
Adjustments for:			
Income on portfolio investments	4	(106,110)	(115,550)
Net portfolio write up	4	(10,974)	(10,155)
Portfolio fair value gain	5	(1,473)	(883)
Collections on owned portfolios	4	225,074	301,136
Depreciation and amortisation		12,505	4,158
Finance income		(2,319)	(1,010)
Finance costs	3	61,128	57,257
Unrealised gain from foreign exchange		(25,351)	(35,445)
Decrease in trade and other receivables		9,825	7,998
(Decrease)/ Increase in trade and other payables		(31,480)	21,544
Movement in other net assets		37,081	1,275
Cash generated by operating activities before portfolio acquisitions		**139,504**	**211,295**
Portfolios acquired (1)		(98,432)	(88,636)
Income taxes paid		(2,703)	(925)
Net cash used in operating activities		**38,369**	**121,734**

(1) Portfolios acquired represents the amount paid for portfolio purchases in the period, taking into account timing differences.

10. Subsequent events

In April 2024 and May 2024, the Group concluded two portfolio sales for combined net proceeds of c.€136m. These assets had associated 120m ERC of c.€320m at Dec-23 and reflected the majority of assets classified as held for sale on the Consolidated Statement of Financial Position as at 31 March 2024. These transactions form part of the Group's wider Balance Sheet Velocity programme and resulted in the acceleration of collections on assets in DACH as part of the Group's shift to an increased servicing led offering in this region.

Reconciliations

Profit to Cash EBITDA	3 months to 31 March 2024 £000
Loss for the period	(29,807)
Net finance costs	58,809
Taxation credit	1,404
Operating profit	**30,406**
Net portfolio write-up	(10,974)
Portfolio fair value gain	(1,473)
Portfolio amortisation	118,964
Non-recurring costs / exceptional items, net of exceptional income	4,961
Depreciation and amortisation	12,505
Cash EBITDA	**154,389**

Cash collections to Cash EBITDA	3 months to 31 March 2024 £000
Cash collections	225,074
Other income	38,772
Operating expenses	(126,922)
Non-recurring costs / exceptional items, net of exceptional income	4,961
Depreciation and amortisation	12,505
Cash EBITDA	**154,389**

Net cash flow to Cash EBITDA	3 months to 31 March 2024 £000
Increase in cash in the period	60,386
Movement in debt	(64,709)
Portfolios acquired	98,432
Interest paid	30,622
Taxation servicing	2,703
Capital expenditure and financial investment	7,968
Payment of lease liabilities	4,103
Cash flow before interest, portfolio purchases, tax expenses and capital expenditure	**139,504**
Working capital adjustments	9,924
Non-recurring costs /exceptional items, net of exceptional income	4,961
Cash EBITDA	**154,389**