

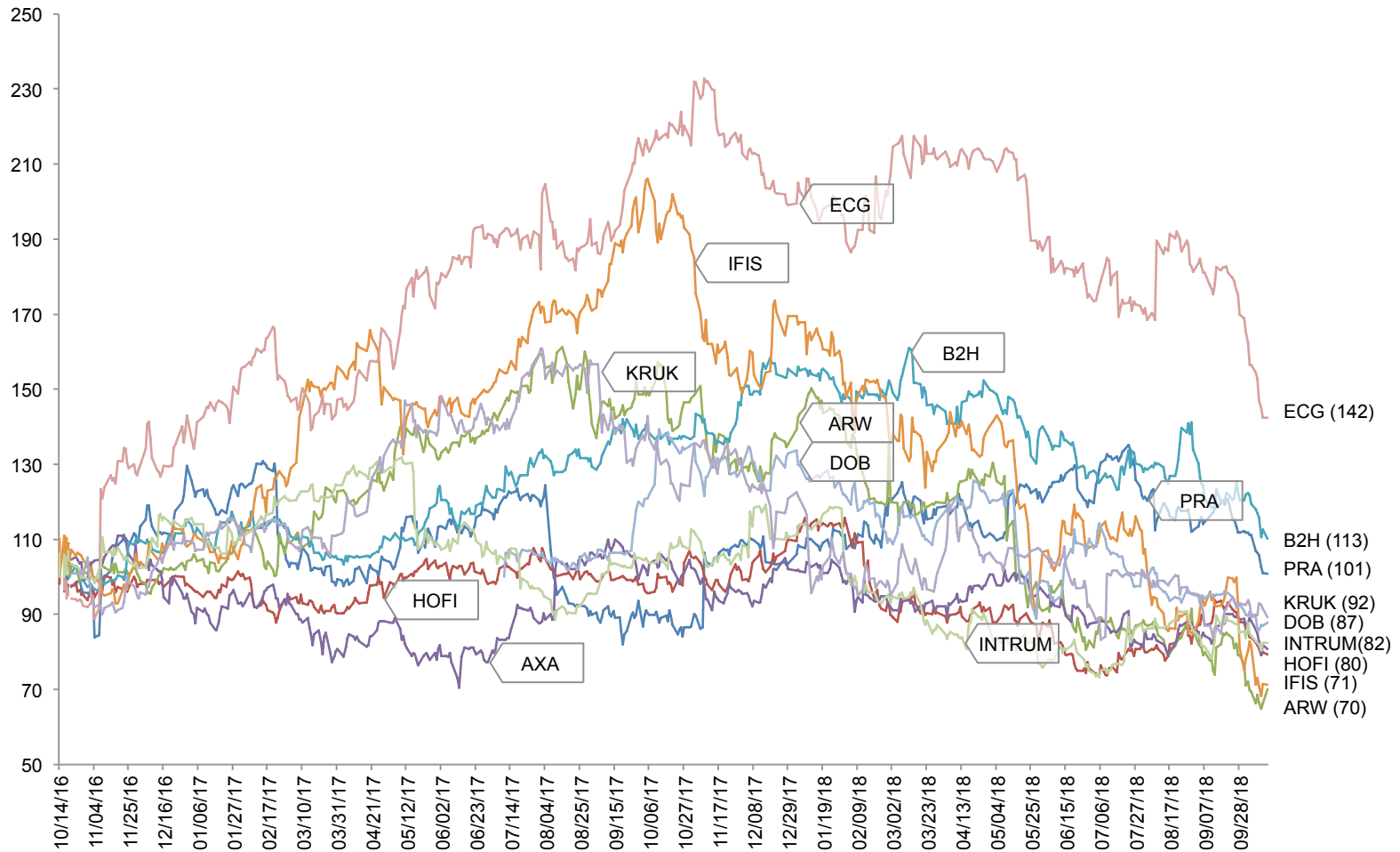


# Debtwire Week 2018 Discussion Notes

*17 October 2018*

# Share Price Performance of Debt Managers

*Most European players are below their share price levels from two years ago.*



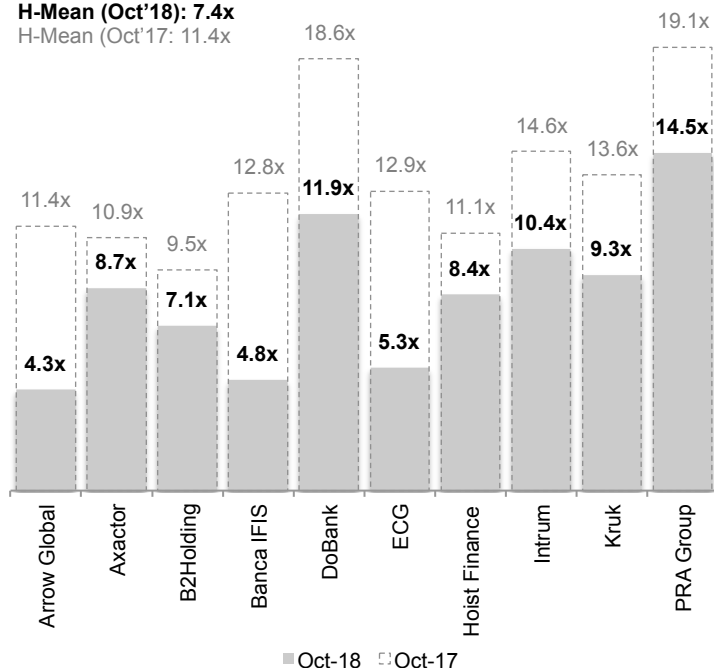
Source: Factset.  
(1) Prices as of 15 October 2018.

# Market Valuations of Listed Debt Managers

*Multiple compression makes it not only difficult but also more dilutive to raise new equity just when ROEs are also coming under pressure.*

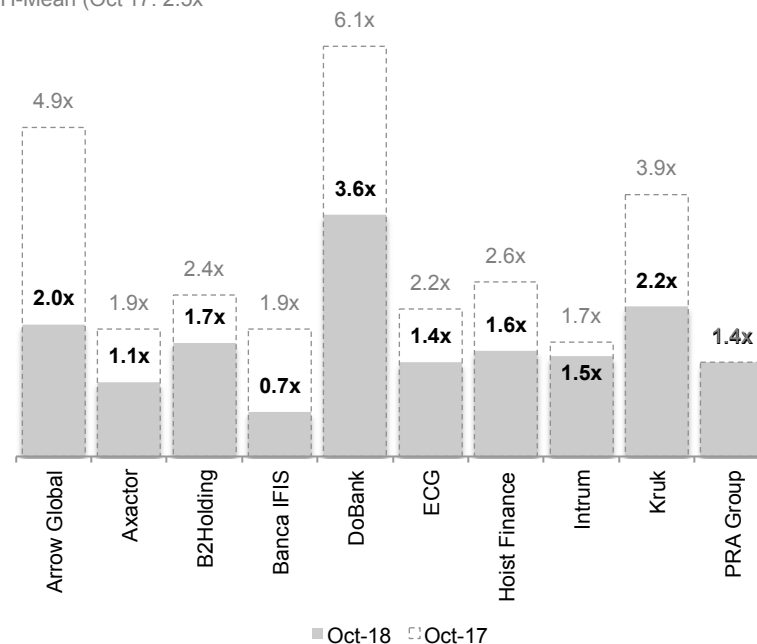
**FW1 PE Multiples**  
(Current<sup>(1)</sup> vs 1 Year Ago)

**H-Mean (Oct'18): 7.4x**  
H-Mean (Oct'17: 11.4x



**P/B Multiples**  
(Current<sup>(1)</sup> vs 1 Year Ago)

**H-Mean (Oct'18): 1.4x**  
H-Mean (Oct'17: 2.5x

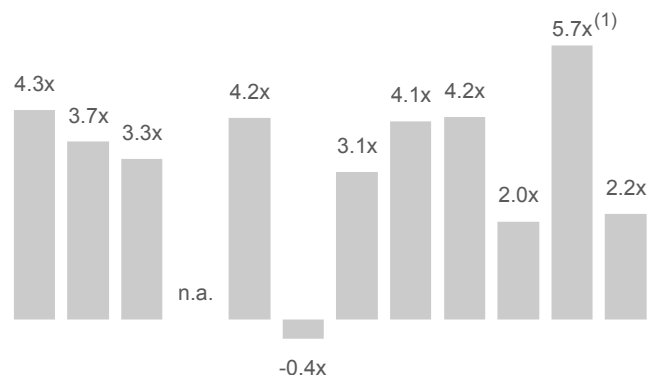


Source: Companies' reports, Factset. Book values as of 1H 2018.  
(1) Prices as of 8 October 2018.

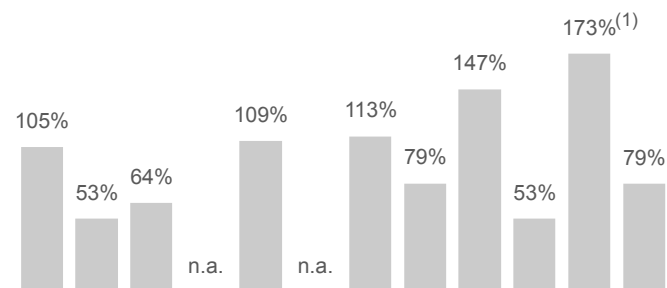
# High Debt Levels Cause Investor Concern

*Net Debt/Adjusted EBITDA multiples are not sufficient measures to analyse financial health.*

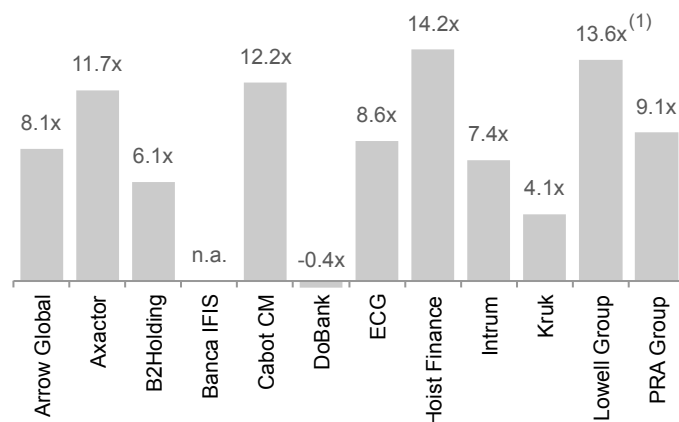
**Net Debt/LTM Adj. EBITDA (x)**



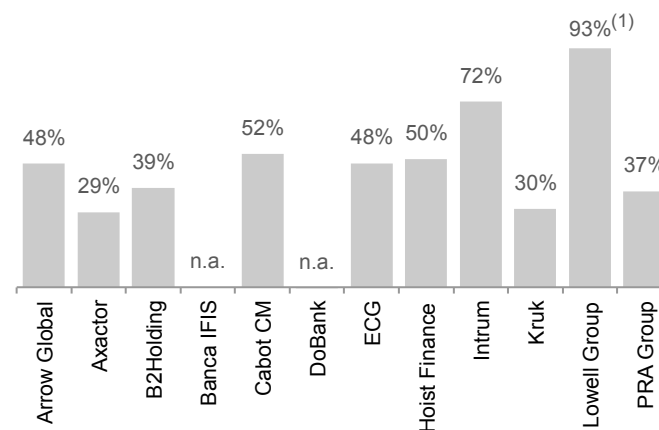
**Net Debt as % of Inv. Portfolio Holding Value**



**Net Debt/LTM EBITDA (x)**



**Net Debt as % of Total ERC<sup>(2)</sup>**



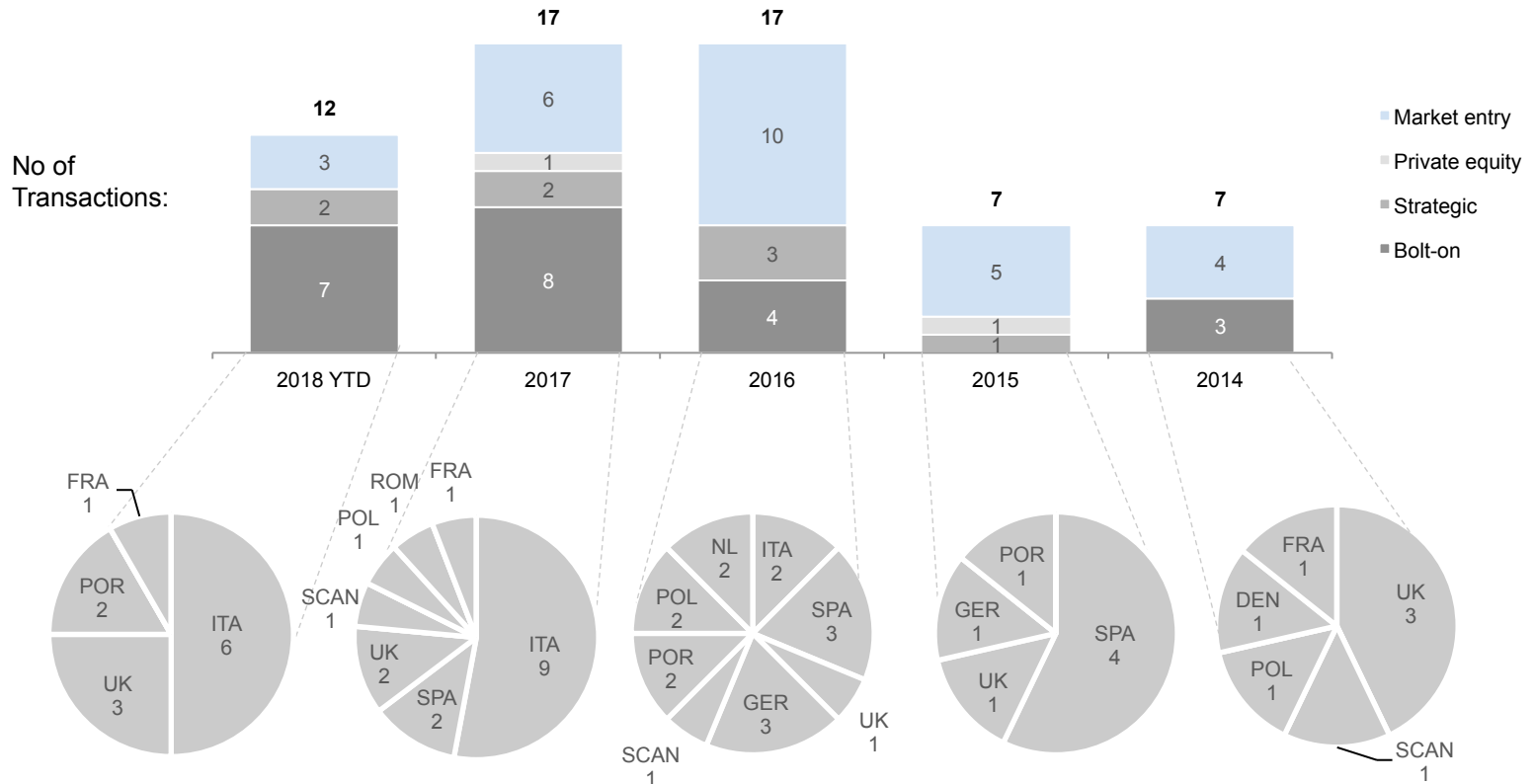
Source: Companies' reports, Factset.

- (1) Lowell acquired Intrum's Nordic Carve-out business with an investment portfolio of €400m for €730m and completed the transaction in March 2018. The merger and relevant funding requirements distorted the capital structure for the period.
- (2) Arrow Global and Hoist Finance Total ERC figures estimated by adding 15% to 120m ERC. Lowell 180m ERC assumed equal to total ERC.

# Recent M&A Trends

*A large part of M&A activity over the last three years was concentrated around market entry acquisitions and bolt-on transactions in servicing.*

Transaction Value <sup>(1)</sup> :	€673m	€1,770m	€4,449m	€2,008m	€1,215m
Notable Transactions:	Lowell – Nor. Carve-out BC Partners - MCS		Intrum - Lindorff	Permira – GFKL GFKL - Lowell	PRA – Aktiv Cabot - Marlin



Source: Factset, transaction reports, acquirer announcements, public news.  
(1) Disclosed values only.

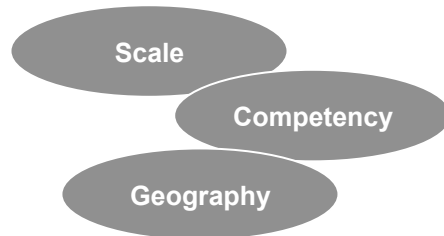
# Drivers of Further M&A Among European Debt Managers

*Pro-active search for the correct business calibration, pre-emptive defense and private equity exits are likely to be the key M&A drivers over the medium term.*

1

Pro-active

*What additional elements are needed to further improve competitive position?*



2

Pre-emptive

*Which combinations in the market could transform the competitive landscape?*



3

Reactive

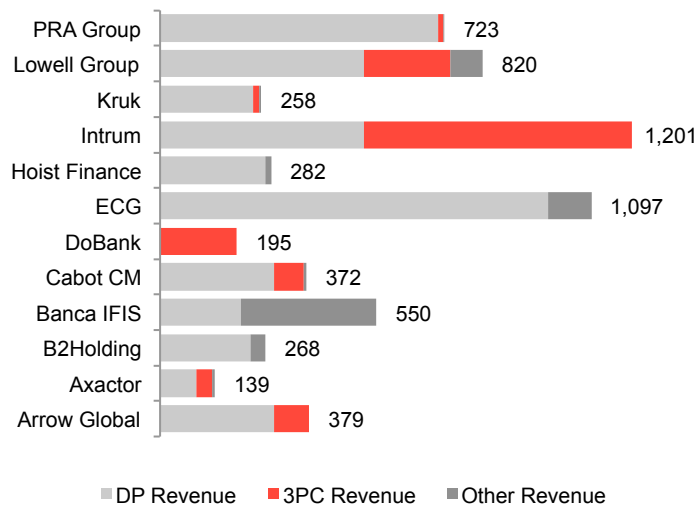
*Which businesses may be driven to a sale or merger over the next 2-3 years?*



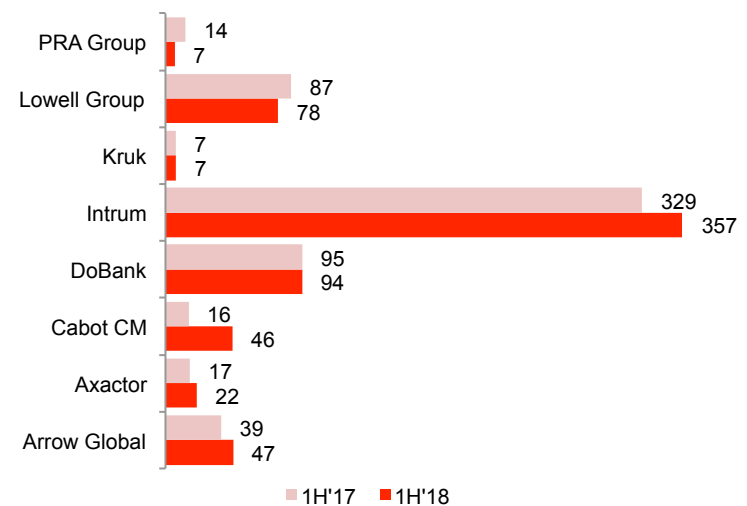
# 3PC Trends

*Some of the players significantly beefed up servicing capacity with bolt-on acquisitions and are emphasising 3PC revenue in their investor discussions.*

Breakdown of LTM Revenues (€m)



3PC Revenue (€m)  
(1H'18 vs 1H'17)



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