Lowell

Garfunkelux Holdco 2 S.A.

QE 31 March 2023 Results

1. Highlights

- **120 Month Estimated Remaining Collections** ("ERC") at £4,154.0m as of 31 March 2023, up 10.4% since 31 March 2022.
- **Portfolio investments acquired** for the three months ending 31 March 2023 total £91.7m, a decrease of £96.3m compared with the three months ending 31 March 2022.
- **Debt Purchase gross cash collections** of £301.1m(3) in the three months ending 31 March 2023, an increase of 62.2% on the three months ending 31 March 2022.
- **Cash income** of £337.1m(3) in the three months ending 31 March 2023, up 55.2% compared to the three month period ending 31 March 2022.
- **Cash EBITDA**(1) for the three months ended 31 March 2023 of £218.0m(3), a 72.3% increase on the three month period ending 31 March 2022, with LTM Cash EBITDA to 31 March 2023 of £661.0m(3).
- **Net debt to LTM Pro forma Cash EBITDA**(2) is at 3.5x as at 31 March 2023.
- **Net secured debt to LTM Pro forma Cash EBITDA**(2) is at 2.7x as at 31 March 2023.

(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 2023, adjusted for seven months of Hoist UK Cash EBITDA as if it had been owned for a full 12 months.

(3) Includes £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.

1. Highlights (continued)

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

"These results demonstrate our resilience and continue to demonstrate our long track record of collecting in line with our ERC forecasts. As a business we continue to focus on balance sheet strength and operational efficiency driving 300bps margin expansion and a reduction in leverage below 3.0x across the next 15 months."

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 84-month, 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 20.

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 2023 and 31 March 2022.

(£ in millions unless otherwise noted)	Three months ended or as at 31 March 2023	Three months ended or as at 31 March 2022
Portfolio investments acquired	91.7	188.0
3PC income	36.0	31.6
Cash income(2)	337.1	217.3
Cash EBITDA(1)(2)	218.0	126.2
84 month ERC	3,396.9	3,096.6
120 month ERC	4,154.0	3,762.3
180 month ERC	4,949.9	4,458.0

(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) Includes £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.

2. Operating & financial review (continued)

Collections
DP Collections were £301.1m in the three months ending 31 March 2023, an increase of £115.5m on the three month period ending 31 March 2022.

Income
Total income of £164.1m was generated in the three months ending 31 March 2023, an increase of £18.9m on the three month period ending 31 March 2022.

Total income includes income from portfolio investments of £115.6m in the three months to 31 March 2023 (three months to 31 March 2022: £105.6m) and net portfolio write-up of £10.2m in the three months to 31 March 2023 (three months to 31 March 2022 net portfolio write-up: £4.9m).

Service revenue in the three months to 31 March 2023 of £37.1m included 3PC income of £36.0m and lawyer service revenue of £1.0m (three months to 31 March 2022: 3PC income of £31.6m and lawyer service revenue of £2.8m).

Operating expenses
Operating expenses, including exceptional costs of £2.0m, were £126.9m for the period (three months to 31 March 2022: £109.0m). Of which £74.0m were collection activity costs, which include lawyer service costs which totalled £1.2m in the three months to 31 March 2023 (three months to 31 March 2022: £3.0m).

Finance costs
Finance costs totalled £57.3m for the three months ended 31 March 2023, see note 3.

Cash flow
Net cash used in operating activities after portfolio purchases and exceptional costs totalled £121.7m in the three months to 31 March 2023. Net cash generated from operating activities before portfolio purchases and income taxes paid totalled £211.3m in the 3 months to 31 March 2023.

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 2023 is shown below.

	UK As at 31 March 2023		**DACH As at 31 March 2023**		**Nordics As at 31 March 2023**	
	Invested (£ millions)	**Gross Money Multiple (1)**	**Invested (€ millions)**	**Gross Money Multiple (1)**	**Invested (€ millions)**	**Gross Money Multiple (1)**
Total 120 month	2,515	2.6	834	2.8	1,394	2.2

(1) Gross Money Multiple presented in this quarterly report only includes actuals to date and forecast collections for the next 120, 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 2023

	Note	3 months to 31 March 2023 £000	3 months to 31 March 2022 £000
Continuing operations			
Income			
Income from portfolio investments	4	115,550	105,569
Net portfolio write up	4	10,155	4,877
Portfolio fair value gains / losses	4	883	-
Portfolio fair value release	4	-	(95)
Service revenue	2	37,051	34,326
Other revenue		284	452
Other income		165	96
Total income		**164,088**	**145,225**
Operating expenses			
Collection activity costs		(74,029)	(62,821)
Other expenses		(52,842)	(46,195)
Total operating expenses		**(126,871)**	**(109,016)**
Operating profit		**37,217**	**36,209**
Finance income		1,010	1,333
Finance costs	3	(57,257)	(47,202)
(Loss) for the period, before tax		**(19,030)**	**(9,660)**
Tax credit / (charge)		(1,735)	1,121
Loss for the period		**(20,765)**	**(8,539)**
Other comprehensive expenditure			
Items that will or may be reclassified subsequently to profit or loss			
Foreign operations – foreign currency translation differences		(38,054)	63
Other comprehensive expenditure, net of tax		**(38,054)**	**63**
Total comprehensive expenditure for the period		**(58,819)**	**(8,476)**

The notes on pages 11 to 19 form part of the interim financial statements.

Garfunkelux Holdco 2 S.A.
Unaudited condensed consolidated interim statement of financial position
As at 31 March 2023

	Note	31 March 2023 £000	31 March 2022 £000
Assets			
Non-current assets			
Goodwill		1,148,705	1,182,168
Intangible assets		119,517	127,111
Property, plant and equipment		60,681	35,872
Portfolio investments – amortised cost	4	1,429,170	1,267,834
Portfolio investments – fair value		12,500	-
Other financial assets		2,759	3,666
Deferred tax assets		78,879	62,919
Total non-current assets		**2,852,211**	**2,679,570**
Current assets			
Portfolio investments – amortised cost	4	655,389	610,185
Portfolio investments – fair value		1,051	-
Inventories		-	44
Trade and other receivables	5	81,945	30,492
Other financial assets		9,428	9,561
Derivatives		16,200	1,223
Assets for current tax		3,605	714
Cash and cash equivalents		143,385	140,095
Total current assets		**911,003**	**792,314**
Total assets		**3,763,214**	**3,471,884**
Equity			
Share capital		4,385	4,385
Share premium and similar premiums		1,109,586	1,109,586
Reserves		(218,732)	(122,822)
Retained deficit		(530,898)	(410,514)
Total equity		**364,341**	**580,635**
Liabilities			
Non-current liabilities			
Borrowings	7	2,681,687	2,438,821
Retirement benefit deficit		6,360	8,997
Provisions		5,826	4,832
Other financial liabilities		53,642	29,871
Deferred tax liabilities		37,488	39,180
Total non-current liabilities		**2,785,003**	**2,521,701**
Current liabilities			
Trade and other payables	6	168,950	108,363
Provisions		7,176	7,821
Borrowings	7	407,585	220,946
Other financial liabilities		11,476	7,786
Current tax liabilities		18,683	24,632
Total current liabilities		**613,870**	**369,548**
Total equity and liabilities		**3,763,214**	**3,471,884**

The notes on pages 11 to 19 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 2023

	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 2021	**4,385**	**1,109,586**	**(8,291)**	**(113,626)**	**(968)**	**(401,975)**	**589,111**
Loss for the period	-	-	-	-	-	(8,539)	**(8,539)**
Exchange differences	-	-	-	63	-	-	**63**
Total comprehensive Expenditure	-	-	-	63	-	(8,539)	**(8,476)**
Balance at 31 March 2022	**4,385**	**1,109,586**	**(8,291)**	**(113,563)**	**(968)**	**(410,514)**	**580,635**
Loss for the period	-	-	-	-	-	(99,619)	(99,619)
Actuarial gain on pension	-	-	-	-	3,036	-	3,036
Deferred tax on pensions	-	-	-	-	-	-	-
Exchange differences	-	-	-	(60,892)	-	-	(60,892)
Total comprehensive income/ (expenditure)	**-**	**-**	**-**	**(60,892)**	**3,036**	**(99,619)**	**(157,475)**
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 income / (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**

The notes on pages 11 to 19 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 2023

	Note	3 months to 31 March 2023 £000	3 months to 31 March 2022 £000
Net cash generated from / (used in) operating activities	**8**	**121,734**	**(82,486)**
Investing activities			
Purchase of property, plant and equipment		(3,327)	(240)
Purchase of intangible assets		(2,221)	(2,132)
Net cash used in investing activities		**(5,548)**	**(2,372)**
Financing activities			
Proceeds from loans and borrowings		552,557	269,160
Repayment of borrowings		(628,582)	(180,866)
Payment of lease liabilities		(2,602)	(3,842)
Interest paid		(27,206)	(15,948)
Net cash generated from / (used in) financing activities		**(105,833)**	**68,504**
Net increase/ (decrease) in cash and cash equivalents		**10,353**	**(16,354)**
Cash and cash equivalents at beginning of period		133,499	155,889
Effect of movements in exchange rates on cash held		(467)	561
Cash and cash equivalents at end of period		**143,385**	**140,096**

The notes on pages 11 to 19 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 2023

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 2023.

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 thorough review of forecast cash flow models and scenarios for a period in excess of 12 months from the date of approval of these accounts.

These scenarios have been subject to stress testing, and downside scenarios have been considered, taking into account the Group's resilient performance since the beginning of the COVID-19 pandemic and through the cost of living crisis. In the scenarios considered to be reasonable by management the Group maintains sufficient liquidity and cash reserves to continue in operational existence for the foreseeable future. The Group has liquidity available of c.£231m.

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 2023

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.

1. Accounting policies (continued)

Revenue recognition and effective interest rate method

Finance revenue on portfolio investments

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 in line with IFRS 9.

The effective interest rate ("EIR") is the rate that exactly discounts 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 conditions within the markets which the Group operates and relate to the following 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 likely 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/down line within income, with subsequent reversals also recorded in this line. This line represents the net impairment gains on portfolio investments.

As part of the acquisition accounting around the purchase of Metis Bidco Limited by Simon Bidco Limited on 13 October 2015 the portfolio investments 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 standard profile of a gross collection curve of these portfolios.

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.

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.

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.

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.

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.

During the year, the Group met the criteria to derecognise a portfolio of financial assets. Refer to Note 18 for further details.

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.

Garfunkelux Holdco 2 S.A.
Notes to the unaudited condensed consolidated interim financial statements
3 months ended 31 March 2023

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 2023 £000	3 months to 31 March 2022 £000
3PC income	36,025	31,553
Lawyer service revenue	1,026	2,773
	37,051	**34,326**

Garfunkelux Holdco 2 S.A.
Notes to the unaudited condensed consolidated interim financial statements
3 months ended 31 March 2023

3. Finance costs

	3 months to 31 March 2023 £000	3 months to 31 March 2022 £000
Interest payable on the Senior Secured Notes	32,101	27,970
Fees payable on financing structures	1,838	1,694
Interest and fees payable on Revolving credit facility	4,802	1,130
Interest payable on shareholder loan	12,737	11,617
Net foreign exchange loss	536	-
Interest payable on securitisation	4,490	4,093
Other interest payable	189	208
Interest expense from lease liabilities	564	490
	57,257	**47,202**

4. Portfolio investments – amortised cost

	31 March 2023 £000	31 March 2022 £000
Non-current	1,429,170	1,267,834
Current	655,389	610,185
Total	**2,084,559**	**1,878,019**

	31 March 2023 £000	31 March 2022 £000
At start of the period	2,172,883	1,736,084
Portfolios acquired during the period	91,660	187,999
Collections in the period(1)	(300,846)	(185,553)
Income from portfolio investments	115,550	105,569
Net portfolio write up	10,155	4,877
Portfolio fair value release	-	(95)
Net foreign exchange movement	(4,844)	29,138
At end of the period	**2,084,558**	**1,878,019**

(1) Includes £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.

Portfolio investments – fair value

	31 March 2023 £000
At start of the period	12,958
Collections in the period	(290)
Fair value gains / losses on portfolio investments	883
At end of the period	**13,551**

5. Trade and other receivables

	31 March 2023 £000	31 March 2022 £000
Trade receivables	25,759	10,116
Prepayments and accrued income	13,834	7,545
Other receivables	41,004	12,249
Tax receivable	1,348	582
	81,945	**30,492**

6. Trade and other payables

	31 March 2023 £000	31 March 2022 £000
Trade payables	17,328	20,827
Other taxes and social security	1,487	13,410
Accruals and deferred income	43,230	25,655
Other payables	106,905	48,471
	168,950	**108,363**

Other payables includes amounts due of £12.1m in respect of portfolios purchased but not yet paid for as at 31 March 2023 (31 March 2022: £6.0m).

Garfunkelux Holdco 2 S.A.
Notes to the unaudited condensed consolidated interim financial statements
3 months ended 31 March 2023

7. Borrowings

	31 March 2023 £000	31 March 2022 £000
Non-current		
Unsecured borrowing at amortised cost		
Shareholder loan owed to Garfunkelux Holdco 1 S.à r.l.	558,922	509,703
Total unsecured	**558,922**	**509,703**
Secured borrowing at amortised cost		
Senior Secured Notes	1,696,060	1,644,125
Prepaid costs on secured borrowings	(16,700)	(18,729)
Securitisation loans	443,405	303,722
Total secured	**2,122,765**	**1,929,118**
Total borrowings due for settlement after 12 months	**2,681,687**	**2,438,821**
Current		
Unsecured borrowing at amortised cost		
Other interest payable	289	277
Total unsecured	**289**	**277**
Secured borrowing at amortised cost		
Interest on Senior Secured Notes	51,344	43,021
Prepaid costs on secured borrowings	(7,727)	(5,809)
Revolving credit facility	285,940	124,215
Securitisation loans	77,739	59,242
Total secured	**407,296**	**220,669**
Total borrowings due for settlement before 12 months	**407,585**	**220,946**

Garfunkelux Holdco 2 S.A.
Notes to the unaudited condensed consolidated interim financial statements
3 months ended 31 March 2023

8. Note to the statement of cashflows

	Note	3 months to 31 March 2023 £000	3 months to 31 March 2022 £000
Loss for the period before tax		**(19,030)**	**(9,660)**
Adjustments for:			
Income on portfolio investments	4	(115,550)	(105,569)
Net portfolio write up	4	(10,155)	(4,877)
Portfolio fair value release	4	-	95
Portfolio fair value gain	4	(883)	-
Collections on owned portfolios	4	301,136	185,553
Depreciation and amortisation		4,158	9,601
Finance income		(1,010)	(1,333)
Finance costs	3	57,257	47,202
Unrealised gain from foreign exchange		(35,445)	(18,127)
Decrease in trade and other receivables		7,998	22,323
Decrease / (increase) in trade and other payables		21,544	5,394
Movement in other net assets		1,275	(1,590)
Cash generated by operating activities before portfolio acquisitions		**211,295**	**129,012**
Portfolios acquired [1]		(88,636)	(213,015)
Income taxes paid		(925)	1,517
Net cash used in operating activities		**121,734**	**(82,486)**

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

Garfunkelux Holdco 2 S.A.
Notes to the unaudited condensed consolidated interim financial statements
3 months ended 31 March 2023

9. Subsequent events

On 25 May 2023, the Group concluded an asset-backed securitisation collateralised by assets from the Group's Danish business. The securitised portfolio contained over 28,000 reperforming accounts with 120-month ERC of £93m. The transaction follows the previous Wolf securitisation in 2022, demonstrating the repeatable nature of funding structure across the Groups platforms, whilst further evidencing the Group's ability to increase the velocity of cash flows on its balance sheet.

The issuance raised c.£60m gross proceeds from the sale of the Senior Notes and 51% of the Junior Notes. The Group will retain 49% of the Junior Notes and will continue to service the portfolio.

This transaction continues to show Lowell's strength in rehabilitating consumer accounts from non-paying to generating stable reperforming cash flows, whilst proving its ability to attract new investors and funding to its balance sheet.

Reconciliations

Profit to Cash EBITDA

	3 months to 31 March 2023 £000
Loss for the period	(20,765)
Net finance costs	56,247
Taxation credit	1,735
Operating profit	**37,217**
Net portfolio write-up	(10,155)
Portfolio fair value gain	(883)
Portfolio amortisation	185,586
Non-recurring costs / exceptional items, net of exceptional income	2,038
Depreciation and amortisation	4,158
Cash EBITDA	**217,961**

Cash collections to Cash EBITDA

	3 months to 31 March 2023 £000
Cash collections	301,136
Other income	37,500
Operating expenses	(126,871)
Non-recurring costs / exceptional items, net of exceptional income	2,038
Depreciation and amortisation	4,158
Cash EBITDA	**217,961**

Net cash flow to Cash EBITDA

	3 months to 31 March 2023 £000
Increase in cash in the period	10,354
Movement in debt	76,025
Portfolios acquired	88,636
Interest paid	27,206
Taxation servicing	925
Capital expenditure and financial investment	5,547
Payment of lease liabilities	2,602
Cash flow before interest, portfolio purchases, tax expenses and capital expenditure	**211,295**
Working capital adjustments	4,628
Non-recurring costs /exceptional items, net of exceptional income	2,038
Cash EBITDA	**217,961**