AnaCap Financial Europe continues to deliver strong collections and remains fully operational

Financial results for the quarter ended 31 March 2020

27 May 2020

AnaCap Financial Europe S.A. SICAV-RAIF ("AFE" or the "Company") has today announced the financial results for the quarter ended 31 March 2020.

Key financial highlights for Q1 2020 are summarised in the table below:

	Quarter ended 31 March 2020	Quarter ended 31 March 2019	Variance
Revenue	**€17.5m**	**€19.7m**	**-11.4%**
Gross Attributable Collections	**€20.2m**	**€31.1m**	**-35.1%**
Adjusted EBITDA	**€12.6m**	**€22.4m**	**-43.9%**
Total Operating Cost Ratio [1]	**34.5%**	**26.9%**	**+760 bps**
Net Debt/Adjusted EBITDA	**4.22x**	**3.79x**	**+0.43x**
84-Month ERC	**€496.4m**	**€555.4m**	**-10.6%**

Key Highlights:

- Strong collections performance in Q1 2020 with Gross Attributable Collections of €20.2m ahead of forecast by 17%
- Successful business continuity plans implemented allows 100% of AnaCap staff and the majority of key business partners to operate remotely and safely during COVID-19 crisis
- Prudent reforecast completed in Q1 2020 due to anticipated impact COVID-19 will have on short term collections leads to non-cash impairment of €37m
- Strong liquidity position with €33m of cash and a further €47m available to draw on the RCF, ensuring AFE can manage low cost operations effectively and remain patient with capital

COVID-19

Following the outbreak of COVID-19 the safety and wellbeing of all staff and ensuring operational effectiveness have been the main priorities of the Company. The Company is pleased to say that, after successful implementation of business continuity plans, 100% of AnaCap staff are operational and can work remotely, with servicing partners and other key partners also having successfully implemented their own business continuity plans. This has allowed AFE to continue operating at full capacity throughout the pandemic.

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[1] Total operating cost ratio represents the ratio of total operating expenses (excluding non-recurring costs and foreign exchange gains/losses) divided by Gross Collections.

Trading Update

Despite the challenges faced so far from COVID-19, the Group can report a successful period of collections performance, with Q1 2020 attributable collections 17% ahead of forecast. Whilst cash collections are often driven by strategies that involve judicial processes, including access to courts, bankruptcy administrators, public registries, notaries and real estate auctions, secured portfolios are backed by underlying collateral, often in excess of the credit owned, which helps support and protect the underlying quantum of cash recoveries. Although difficult to precisely forecast the extent of delays, our current expectations are that COVID-19 will have a significant impact on collections performance from Q2 throughout the remainder of the year.

Impairment

Due to the impact of COVID-19, the Group completed what we believe to be a prudent reforecast completed as at the end of Q1. This includes both a significant timing delay in collections as well as a 1.4% loss in ERC (~€7m), with ERC as of 31 March 2020 at €496m. As a consequence, the Group will report a non-cash impairment of €37m, resulting in a write down of the book value of its investment in portfolios to €311m, or an 11% reduction. The impairment charge has been partially offset by a reduction in secured loan notes payable of €2.9m reflecting co-investors share of the write down.

The level of impairment is primarily driven by the impact of discounting expected cash flow over the life of the portfolio (using the Effective Interest Rate to calculate the book value) as well as a small decrease of ERC. The proportion of ERC now forecast to be delivered in the last three quarters of 2020 has reduced to €45m or 40% of what was expected when ERC was forecast in Q4 2019, with the closure and suspension of court and judicial processes throughout the Group's core geographies having a significant impact on the timing of collection recovery strategies.

Due to the unprecedented nature of COVID-19 and the still evolving social, economic and policy backdrop, future collections may be subject to further reforecasts.

Capital Structure and Liquidity

The Company continues to closely monitor its liquidity position and capital structure to ensure they are managed as efficiently as possible. The Company's liquidity position is strong, with available headroom of ~€80m as of March end, including €33m of cash and €47m available on the RCF. This strong liquidity position, combined with the Company's low fixed cost base, allows the Company to manage its operations efficiently and to remain both patient and selective in capital deployment. The Company's Net Debt to Adjusted EBITDA at 4.22x has increased by 0.39x since YE 2019, which was expected following a period of low deployment, and we expect it will rise further in the short term due to the significant impact of COVID-19 before returning to its longer-term target range of between 3.0 and 3.5 times.

Outlook

A clear timing impact on collections has already been observed, with varied challenges across geographies. However, the Company believes its slower pace of deployment in 2019 reflects conservative underwriting and pricing discipline during a period where NPL pricing peaked due to strong demand and a benign economic backdrop. As a result, the Company expects the level of its investment activity to increase as the true economic impact of COVID-19 takes hold across European economies.

New opportunities are likely to emerge as bank provisions increase and market pricing resets. This should lead to the re-emergence of more attractive primary and secondary NPL portfolio as well as adjacent opportunities going forward. For AFE, this is expected to include expansion into a wider range of asset types where AnaCap has extensive experience such as non-core performing loans and direct real estate investments amongst others, including further co-investment alongside AnaCap's Credit Opportunities funds. Moreover, by investing alongside AnaCap's funds, it is possible to maintain a higher level of diversification across both the number of deals and variety of asset types.

The Company continues to explore opportunities in both core markets and potentially new geographies and will remain patient, highly selective and acutely focused on evolving risks. In the short term, the Company has adjusted down its deployment targets whilst increasing the expected rate of return for new investments to reflect current market conditions.

Justin Sulger
Partner, Head of Credit at AnaCap Financial Partners

"We have been hugely impressed with the efforts of our team and all of our servicing partners since the onset of the COVID-19 crisis, seeing real time the impact of the significant investment we have made in the development of our platform in recent years.

As the true economic impact of the crisis unfolds, we are maintaining an intensive focus on actively managing AFE's existing portfolio and preparing to capitalise on new, emerging opportunities."

Teleconference

At 14.00 hours BST on 27 May 2020, an audio Conference Presentation will be held on the results for the quarter ended 31 March 2020. For further details please visit the AFE website at: **www.anacapfe.com**

For further information, please contact us via:

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NOTES TO EDITORS

AnaCap Financial Europe (www.anacapfe.com)

AnaCap Financial Europe S.A. SICAV-RAIF (AFE) is a debt purchaser which invests in a diverse range of primarily non-performing debt across Europe. AFE has broad based expertise spanning unsecured and secured, consumer, SME and corporate debt. AFE was established on 28 June 2017 and acquired a portfolio of assets from existing AnaCap Credit Funds on 21 July 2017.

AFE benefits from the wide network and extensive track record in origination, underwriting and servicing that AnaCap has developed since 2005 across the European financial services sector.

AnaCap Financial Partners (www.anacapfp.com)

AnaCap is the leading Financial Sector investor in the European mid-market, investing across the industry through complementary Private Equity and Credit platforms.

Since 2005 we have raised €5.1 billion in AUM and completed over 85 primary investments across 15 European jurisdictions. We operate out of 5 offices in London, Luxembourg, New Delhi, Madrid and Lisbon.

Our name, AnaCap, defines our investment approach: 'Analytics before Capital'. Our investment decisions are founded on a disciplined, operational and data-driven investment approach with support from Minerva, our proprietary intelligence platform.

Leveraging our deep expertise as Financial Sector investors, owners and operators, we are an active investor and generate value in Private Equity through our intense operational engagement model and carefully calibrated M&A programmes. In Credit, our active asset management approach focuses on using data intelligently to enhance recoveries and provide servicing solutions.

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