AFE S.A. SICAV-RAIF

Presentation of the consolidated financial results of AFE S.A. SICAV-RAIF for period ended 30 June 2023

26 Sep 2023

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Today's Presenters

Justin Sulger – Managing Partner
Veld Capital

Eric Verret – CFO
AFE S.A. SICAV-RAIF

Arnar Omarsson – Head of Asset Solutions
AFE S.A. SICAV-RAIF

Agenda

Overview

Justin Sulger

Overview

COLLECTION PERFORMANCE	▪ Realised €43.2m in Total Attributable Collections in H1, which was 26.4% below forecast ▪ Under-performance driven by delay in some collections as well as lower than expected recovery from targeted disposals of residual NPL portfolios in Italy and Portugal ▪ €8.2m of Q2 delayed collections already realised post quarter-end
ERC STILL GROWING DESPITE LIMITED DEPLOYMENT	▪ ERC of €518.7m, incrementally higher y-o-y, with further embedded ERC growth of €58.2m from already contracted follow-on investments ▪ €3.3m net increase in fair value of assets to €316.8m driven by uplift from incomed generating RE assets
FINANCIAL METRICS	▪ Increase in Adjusted EBITDA leverage to 5.02x driven by temporary delay in collections ▪ Leverage expected to come back down in H2 and beyond as collections recover, even without significantly increased deployment ▪ LTV of 71.1% (versus RCF covenant of 75%) and high FCCR of 3.1x
REFINANCING UPDATE	▪ In active discussions with committee of bondholders (representing c. 70% of the bonds outstanding) and RCF lenders on refinancing alternatives ▪ Investment environment remains compelling across secured asset types illustrated by exceptionally high returns on offer from increasingly motivated sellers

Key Financial Highlights

Eric Verret

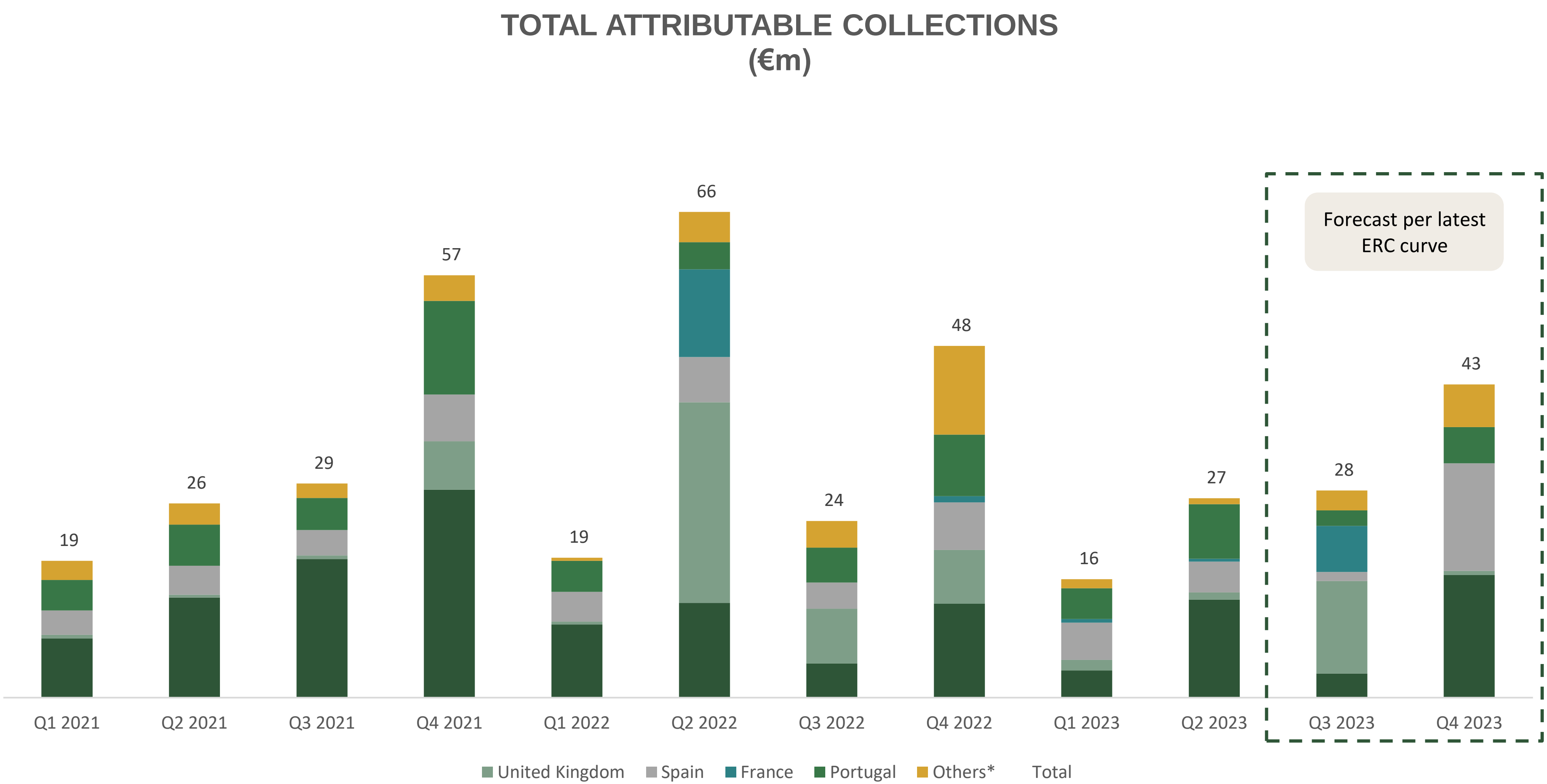
H1 2023 Key Financial Highlights

TOTAL ATTRIBUTABLE COLLECTIONS	REVENUE	LTM ADJ. EBITDA
€43.2m	€33.6m	€73.5m
-48.6% vs 6M to H1 2022	-30.2% vs 6M to H1 2022[1]	-45.9% vs LTM to H1 2022
DEPLOYMENT[2]	**84-MONTH ERC**	**NET DEBT**
€10.4m	€518.7m	€368.7m
-59.4% vs 6M to H1 2022	+1.8% vs 6M to H1 2022	+3.6% vs 6M to H1 2022

1. YTD Include revaluation gain on Direct Real Estate investments
2. Includes follow-on investments

Collections performance

First quarter of underperformance in the last 14 quarters driven by temporary delay in collections

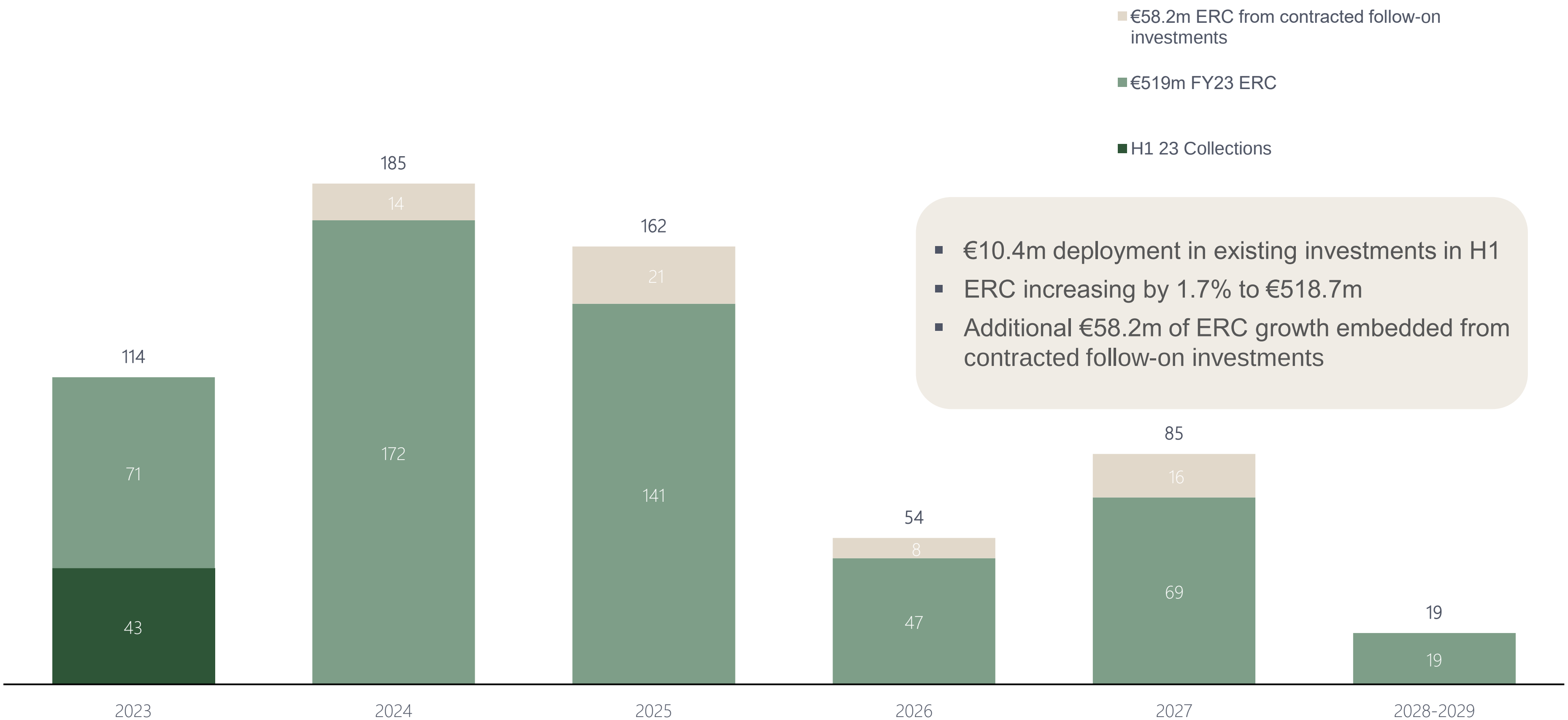


*Q4 2022 including €12M of Phoenix Asset Management subsidiary sale in Q4 22

Embedded ERC growth

Clear path to increasing free cash flow, with already embedded growth prior to new deployment

ERC CURVE (€m)



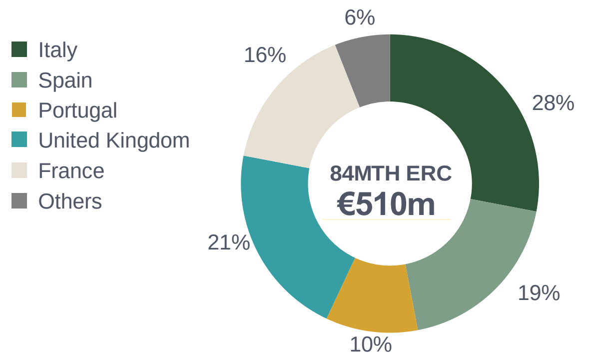
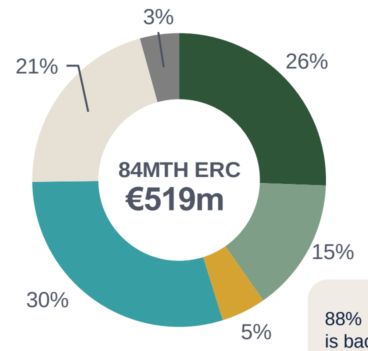
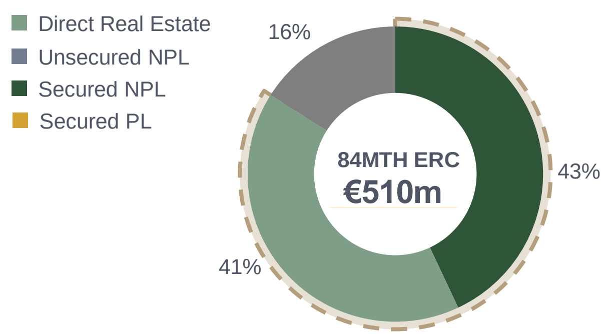
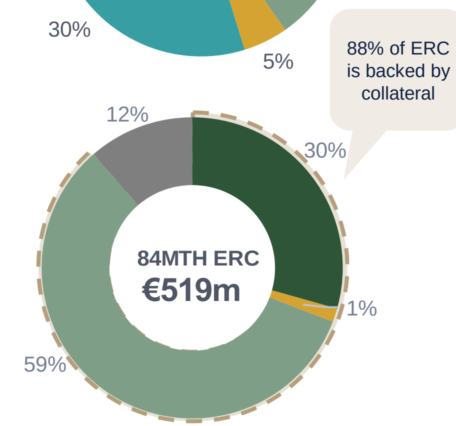
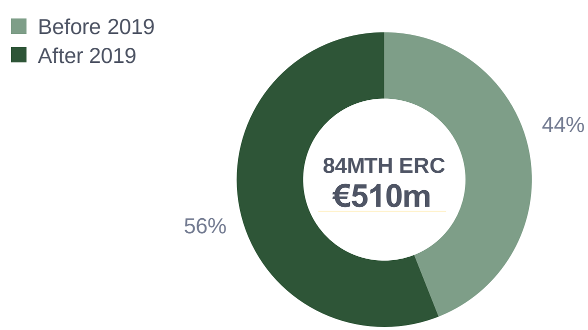
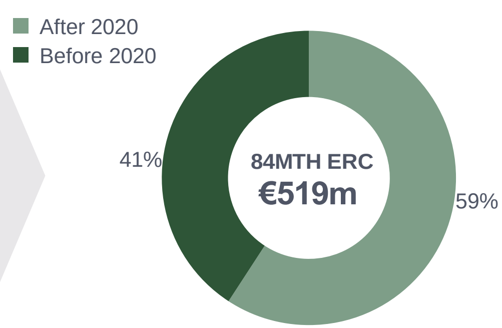
- €10.4m deployment in existing investments in H1
- ERC increasing by 1.7% to €518.7m
- Additional €58.2m of ERC growth embedded from contracted follow-on investments

Portfolio Review

Arnar Omarsson

Highly diversified and predominantly secured ERC

ERC remains underpinned by strong, over-collateralised portfolio

	Q2 2022	Q2 2023	Commentary
Country Composition			▪ Good diversification across countries ▪ Continued reduction in Southern European exposure, offset by growth in UK and France
Asset Composition			▪ Primarily secured assets with embedded cash flow ▪ Growth in targeted, high quality Direct Real Estate opportunities, generating cash flow without volatility stemming from legally driven recovery proceedings
Vintage Composition			▪ 41% of portfolio representing pre-2020 vintages ▪ High visibility on collections from a seasoned portfolio

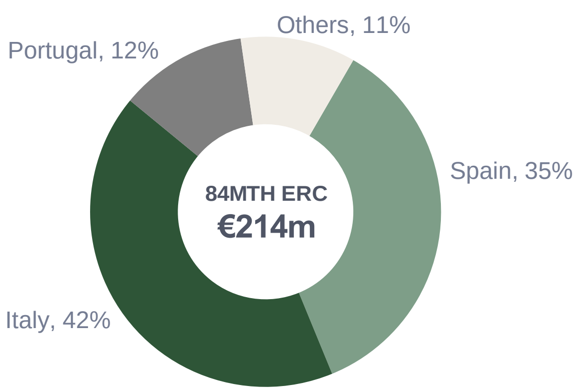
Highly seasoned, cash generative NPL portfolio

NPL portfolio underpinned by significant over-collateralisation

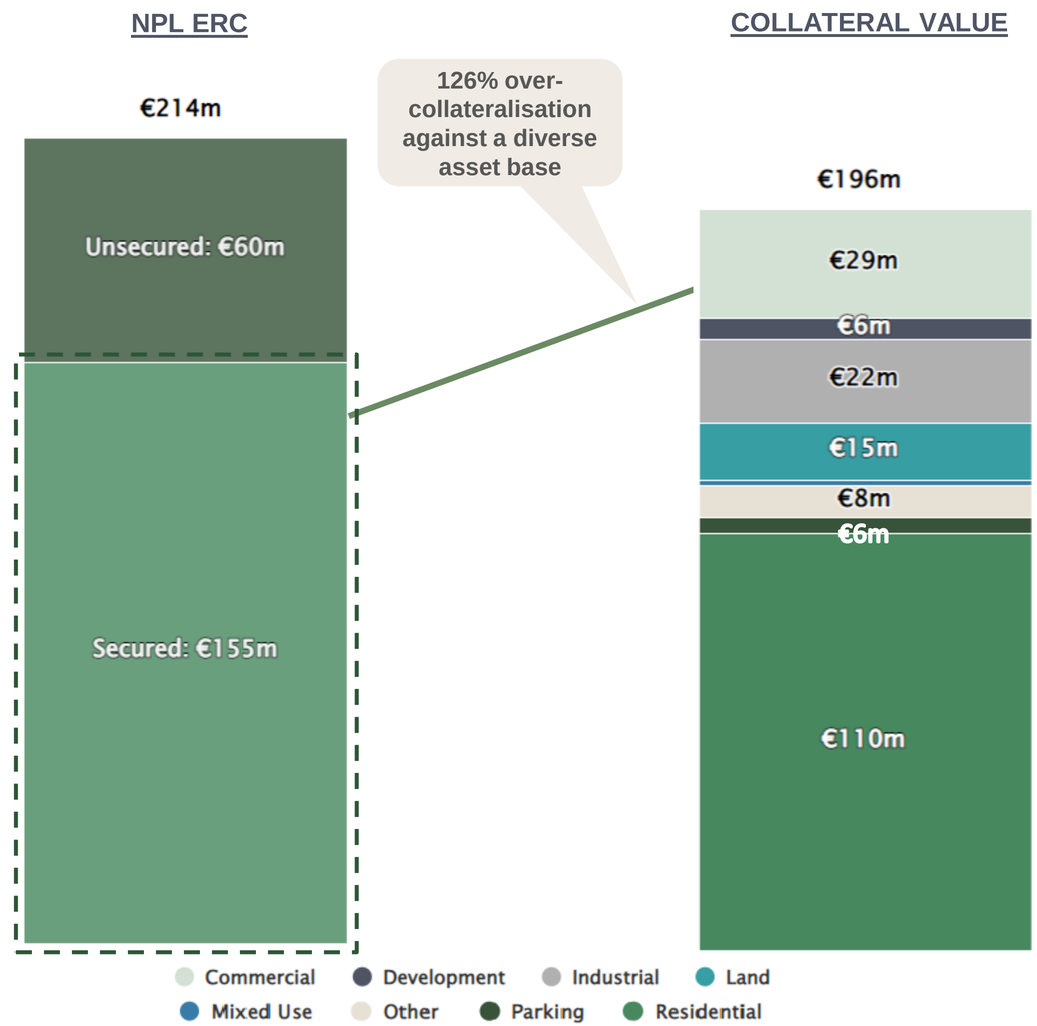
NPL Snapshot (as at 30 June 2023)

ERC	€214m (41% ERC)
Secured ERC	€155m
Outstanding Balance	€2,057b
No of Borrowers	~86,000
No of Loans	~101,000
Average Balance	~€30,000
Collateral Value	~€196m
Number of Collateral	~6,600

Country Composition



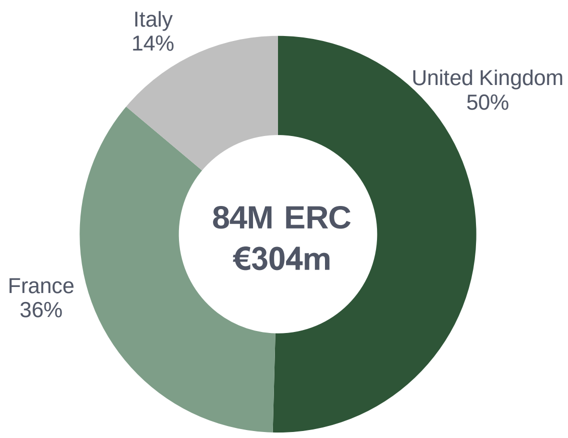
NPL ERC Portfolio vs Collateral Value



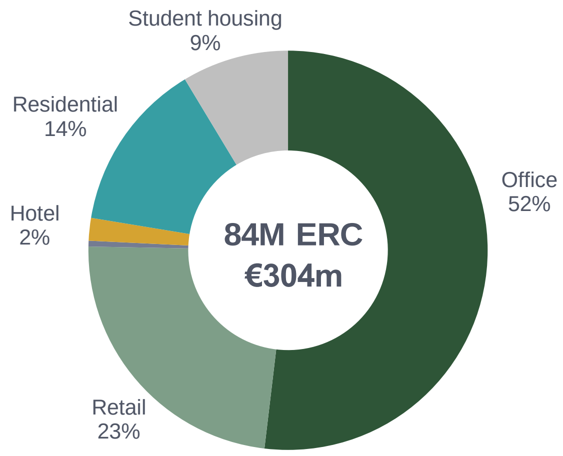
Diversified portfolio of high quality real estate

Mix of targeted properties acquired at significant discounts to market value from distressed sellers

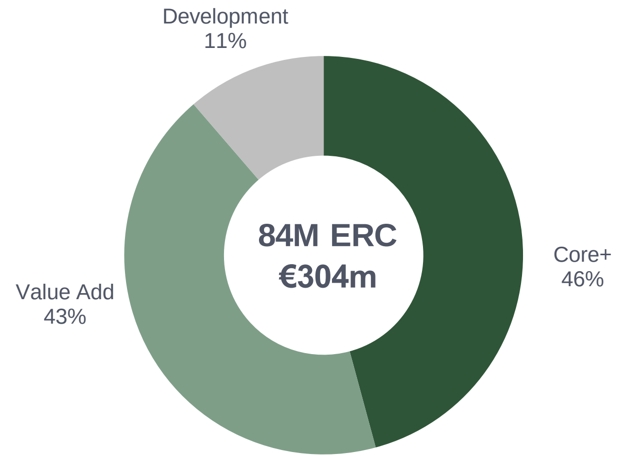
REAL ESTATE ERC BY COUNTRY[2]



REAL ESTATE ERC BY ASSET TYPE[2]



REAL ESTATE ERC BY STRATEGY[2]



Direct Real Estate investments represent **58.6% of total ERC at an attractive average GMM of 2.0x**[1]:

- Targeted 'winning assets' in top tier locations from motivated sellers, often driven by liquidity needs and / or liability driven events
- Two-thirds of the real estate portfolios are **income-generating**
- Continually **de-risking** through **active asset management** driving increased income generation and value creation
- Ability to hold assets for longer and deliver additional cashflow in outer years
- In September 2023, AFE signed a forward sale agreement for a French real estate asset, following the successful execution of re-development strategy sale, which is expected to crystallise a c.2.0x GMM.

1. Weighted by ERC
2. Data as at 30 June 2023

Diversified and Resilient CRE Portfolio

Significant ongoing value creation from highly engaged asset management approach

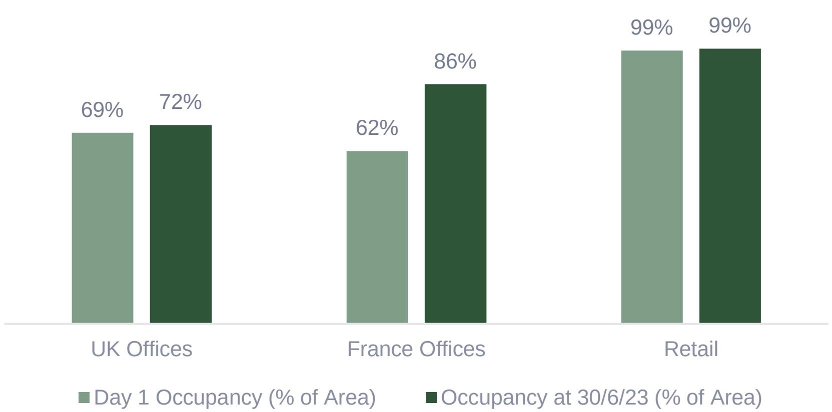
Income Generating Portfolio

ERC	€202m (66% Real Estate ERC)
Number of Assets	16 office / 2 retail assets
Number of Tenants	243
Total Area	213k sqm
Initial Yield	6.8%
Current Yield	7.8%
Stabilised Yield	8.8%
Initial Occupancy	73%
Current Occupancy	84%

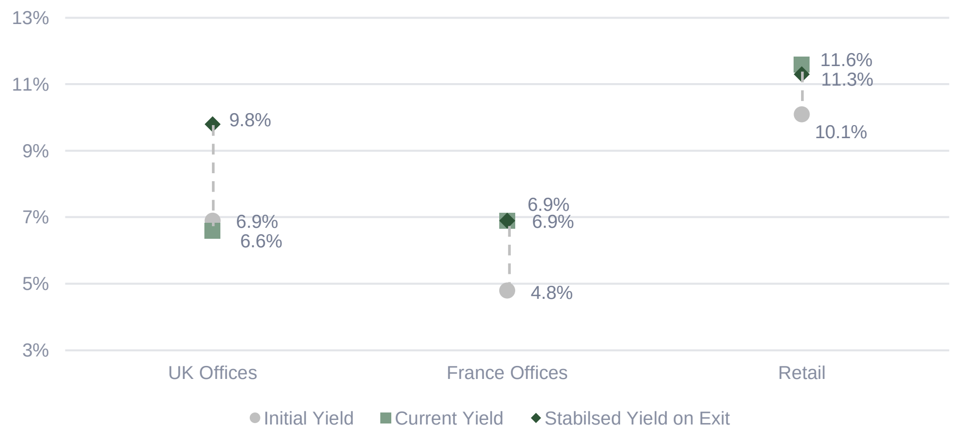
Commentary

- Mix of 18 high quality office and retail assets
- High level of income, with average current yield of ~7.8%
- Since acquisition, ~23k sqm of additional space leased, increasing occupancy from 73% to 84%
- Contracted rent increased 26% across the portfolio since acquisition

Occupancy Levels



Initial, Current and Stabilised Yields



Well balanced geographic diversification across core markets

Despite economic headwinds across Europe and some delays in our collections activity, our Team is working on initiatives across all core markets to drive short-term portfolio performance

	United Kingdom	France	Spain	Italy	Portugal
ERC %	**30%**	**21%**	**15%**	**26%**	**5%**
Key Portfolio Insights	▪ Headline rents for best-in-class space continue increasing to historical highs ▪ Limited sales activity as buyers and sellers continue in price-discovery mode	▪ Historically low CRE investment volumes in central Paris, with transaction lot sizes ~25% below long-term average, largely due to uncertainty around cost of financing ▪ Leasing activity picking up, particularly for well located, grade A buildings	▪ Collections activity hampered in H1'23 due to successive strikes among civil servants, judges and court admin staff ▪ Property market has remained resilient, despite tighter credit and inflationary pressures	▪ Stable performance from younger vintage secured segments but challenge to extract greater value from tails of oldest, predominantly unsecured SME positions ▪ Signs rising capex costs are starting to ease in 2023	▪ Economic performance better compared to Italy & Spain, with employment rate at historically high levels ▪ Some early signs of slowing demand from end-users across tail assets
Key Performance Drivers	▪ Rental collection at +99% for our portfolio assets ▪ Early engagement with large tenants leading to key lease re-gearings ▪ Creating best-in-class space to attract tenants	▪ Rental collection at +99% for our portfolio assets ▪ Creating bespoke solutions to make key tenants commit to our buildings for the long term ▪ Disciplined, value-added capex programs with tight controls over budgets	▪ Proactive legal actions on Top positions to unlock value and accelerate collections ▪ Loan and mini portfolio sales of less liquid residential assets ▪ Proactive actions on Top positions to unlock value and accelerate collections	▪ Cash in court (CIC) distributions continued to be driver across H1'23 collections ▪ Residential pre-sale activity capitalising on continued market strength in Milan and Rome, with sale values exceeding business plan by ~10%	▪ Tail sale of seasoned residential secured portfolio executed in Q2 ▪ Intensive engagements with courts on release of CIC payments ongoing
Key Initiatives	▪ Increasing bifurcation between "winning", grade A buildings and "everything else" ▪ Stabilization of base rates in the short/medium term leading to increase in transaction volume	▪ Leasing and investment volumes showing signs of improvement and expected to continue to improve in the latter stages of the year	▪ Continue proactive, forensic management of legal cases to mitigate legal backlog ▪ Targeted loan sales and REO campaigns to accelerate collections	▪ Sub-portfolio sales of most residual, predominantly unsecured SME positions failing to optimise performance in current market ▪ Amicable solutions and loan sale remain key resolution strategies	▪ Proactive engagement with courts to release cash-in-court payments ▪ Campaigns to accelerate collections on the unsecured investment

Strategic Outlook

Justin Sulger

Strategic Outlook

Key Takeaways

1. H1 Collections below forecast due to some collections delayed to early August and lower proceeds from the sale of residual portfolios
2. Leverage expected to reduce in second half as collections accelerate, and come back in management target range of 3.0 to 3.5x in 2024
3. ERC growing to €519m with additional €58.2m ERC growth embedded from already contracted follow-on investments

What's Next

4. Continuing to limit deployment in the near term only to existing, already committed, follow-on investments to enhance liquidity position
5. Ongoing refinancing discussions with RCF lenders and committee of bondholders

Q&A

Q&A

Any questions?

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Appendix

Profit & Loss Statement

€m	6M to H1 2023	6M to H1 2022	% Change
Interest Income	€22.38	€25.28	-11%
Servicing Income	€2.20	€2.19	0%
Fair Value Investments gains	€8.98	€20.59	-56%
Total revenue	€33.55	€48.05	-30%
Collections Activity Costs	(€11.53)	(€8.34)	38%
Overheads	(€9.19)	(€8.06)	14%
Impairment (losses)/gains	(€9.04)	(€1.64)	450%
Loss on disposal	(€7.10)	€0.00	0%
Net foreign currency (loss)/gain	€1.72	(€0.28)	-708%
Total Operating expenses	(€35.14)	(€18.32)	92%
Net Finance costs	(€18.21)	(€12.65)	44%
Other gain/(losses)	€10.47	€1.85	468%
PBT	**(€9.33)**	**€18.93**	**-149%**
Tax credit/(expenses)	(€0.10)	€0.36	-128%
Comprehensive income for the period	**(€9.43)**	**€19.29**	**-149%**

- Interest Income reduction driven by delay in some collections as well as lower than expected recovery from targeted disposals of residual NPL portfolios in Italy and Portugal, which was compensated by revaluation gains due to increasing % of Direct Real Estate investments, offering diversification in profit generation

Adjusted EBITDA reconciliations

	6M to H1 2023	6M to H1 2022	Variance	Variance
	€m	€m	€m	%
Profit before tax	-9.3	18.9	-28.3	303%
Finance costs	18.2	12.6	5.6	31%
Share of profit in associate and joint ventures	-10.5	-1.8	-8.6	82%
Net foreign currency movements	-1.7	0.3	-2.0	116%
Impairment losses	9.0	1.6	7.4	82%
Loss on disposal	7.1	0.0	7.1	100%
Proceeds from portfolio disposals	7.4	1.1	6.3	85%
Collections from portfolios	35.8	81.5	-45.7	-128%
Revenue	-33.6	-48.1	14.5	-43%
Other income	2.2	2.2	0.0	0%
Cash collected on behalf of secured loan noteholders	-1.1	-1.5	0.4	-38%
Adjusted EBITDA	**23.6**	**66.9**	**-43.3**	**-183%**

Reconciliation from Total Attributable Collections to Core Collections

Collections are monitored in two different ways:

1. **Total Attributable Collections** - These comprise collections received before any Collection Activity Costs are deducted for purchased loan portfolios, purchased loan notes and investments in joint ventures, however only those collections which are attributable to and to the sole benefit of the Group i.e. excluding co-investors portion of collections

2. **Core Collections** - Core Collections refers to the way collections are accounted for in the Financial Statements. These comprise collections (including any portion attributable to co-investors) received before any costs to collect are deducted for purchased loan portfolios and net collections (i.e. net of costs to collect) for purchased loan notes and investments in joint ventures, less any disposals of the Group's Assets.

Reconciliation from Total Attributable Collections to Core Collections (€m)			
6M to H1 2023 Total Attributable Collections		**43.2**	Used to calculate ERC
Gross up for portfolios with co-investors[1]		1.1	
Remove costs deducted at source[2]	-	1.1	
Remove proceeds from assets sale	-	7.4	
6M to H1 2023 Core Collections		**35.8**	Used in Financial Statements to calculate book value of investments

1. When investments have co-investors, co-investor share of Core Collections is used to calculate secured loan notes on balance sheet
2. For purchased loan notes and joint ventures, Collection Activity Costs are deducted at source

Glossary

- **“84-month ERC (“ERC")”** means AFE’s estimated remaining collections on purchased loan portfolios, purchased loan notes, investments in joint ventures and Inventory over an 84-month period, assuming no additional purchases are made and on an undiscounted basis. ERC excludes any proportionate share of remaining cash collections that may be payable to a co-investor holding secured loan notes. ERC includes estimated collections on sold portfolios where part of the sale proceeds are based on future collections from that underlying portfolio.
- **“Estimated Rental Value (“ERV")”** means current rent at which space within a property could reasonably be expected to be let given current market conditions.
- **“Adjusted EBITDA”** represents (loss)/profit before tax adjusted to exclude the effects of finance costs and finance income, share of profit/(loss) in associates, net foreign currency losses/(gains), impairment of portfolio investments, portfolio investment disposals, repayments of secured loan notes and non-recurring items. Revenue on purchased loan portfolios, purchased loan notes, investments in joint ventures and costs on secured loan notes calculated using the effective interest rate method are replaced with Gross Collections in the period.
- **“Free Cashflow”** reflects how much cash the business generates before purchasing new portfolios
- **“Collection Activity Costs**” represents direct costs incurred from servicing and managing purchased loan portfolios (excluding structural overheads). Costs incurred from servicing and managing purchased loan notes and investments in joint ventures are not considered since Gross Collections for these portfolio investments are recognised and accounted for net of direct costs in the financial statements.
- **“Core Collections”** represent Gross Collections, less any disposals of the Group’s Assets.
- **“Core collection cost ratio”** represent the ratio of total operating expenses to core collections
- **“Collection Activity cost ratio”** represent the ratio of collection activity costs to core collections
- **“Total Attributable Collections”** represents total collections attributable to AFE Group before costs and excluding any share of cash collections that relate to the interests of co-investors holding secured loan notes.
- **“Gross Collections”** represents cash collected from debtors in connection with purchased loan portfolios and net cash collections (after servicing costs) for purchased loan notes and investments in joint ventures including disposals of portfolio investments. Gross Collections include any proportionate share of cash collections that relate to the interests of co-investors holdings of secured loan notes.
- **“GMM”** represents Total Attributable Collections received on a portfolio to the date the multiple is measured, plus ERC for that portfolio at the same date, divided by the total amount paid for the portfolio at the date of purchase.
- **“PBT”** means Profit before tax
- **“Leverage Ratio”** represents Net Debt divided by LTM Adjusted EBITDA.
- **“LTM Adjusted EBITDA”** means Adjusted EBITDA for the 12 months period to 31 March 2023
- **“ICR”** means Interest Coverage Ratio representing LTM adjusted EBITDA divide by Interest expense
- **“Weighted Average Life”** means average life of all deals in years. Weighted average base on Total Attributable Collections
- **“LTV”** means Net Debt divided by ERC.
- **“Net Debt”** represents third-party indebtedness, including bank guarantees, less cash and cash equivalents, and excluding unamortised debt issue costs, facility fees and amounts due to co-investors under secured loan notes.
- **“Direct Real Estate”** represents participation into joint ventures’ holding Direct Real Estates
- **“Asset Solutions”** represents investment monitoring to enhance recoveries and provide servicing solutions on credit loan portfolios and executing value add strategies to enhance real estate assets[1]
- **“Credit Opportunities”** represents Veld Credit Opportunities III, IV and any future Veld Credit funds

1. AFE does not engage in portfolio management or any other MiFID activity or other regulated financial service