

# Financial targets and preliminary Q4-financials

11 January 2023

AXACTOR





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## Q4 business update

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Strategy

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Market outlook

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Financial targets

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# Q4 business update



- Axactor is **delivering** on the promised strategy of **growth**
  - NPL **investments** increasing to EUR 93m for the quarter and EUR 288m for the year - 2.7x replacement capex
  - 5% growth on 3PC revenue in the fourth quarter compared to last year



- Axactor is **delivering** on the promised strategy of **accretive** portfolio investments
  - Gross IRR on the total book lifted from 15.7% to 17.3% over the last 7 quarters
  - The 2022 vintage secured at an attractive and accretive gross IRR level of 21.3%



- Axactor is **delivering** stable collection **performance**
  - Collection performance came in at 99% in the fourth quarter and for the full year



- Axactor is delivering on **cost control**
  - We see strong cost control in all markets and expect 2022 to come in at an all-time low cost-to-collect



- Axactor has improved the interest rate **hedge** for 2023
  - Current hedge: 1-year duration, EUR 573m, 0.5% EURIBOR strike with start date 15 Dec 2022



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# Axactor is pursuing a strategy based on three strategic levers

## 1 Accretive investments

- Invest in accretive portfolios with attractive gross IRR driving margin expansion on NPL
- Target of reaching total backbook Gross IRR above 20%. Currently experiencing Gross IRR of 22+% on newly signed acquisitions

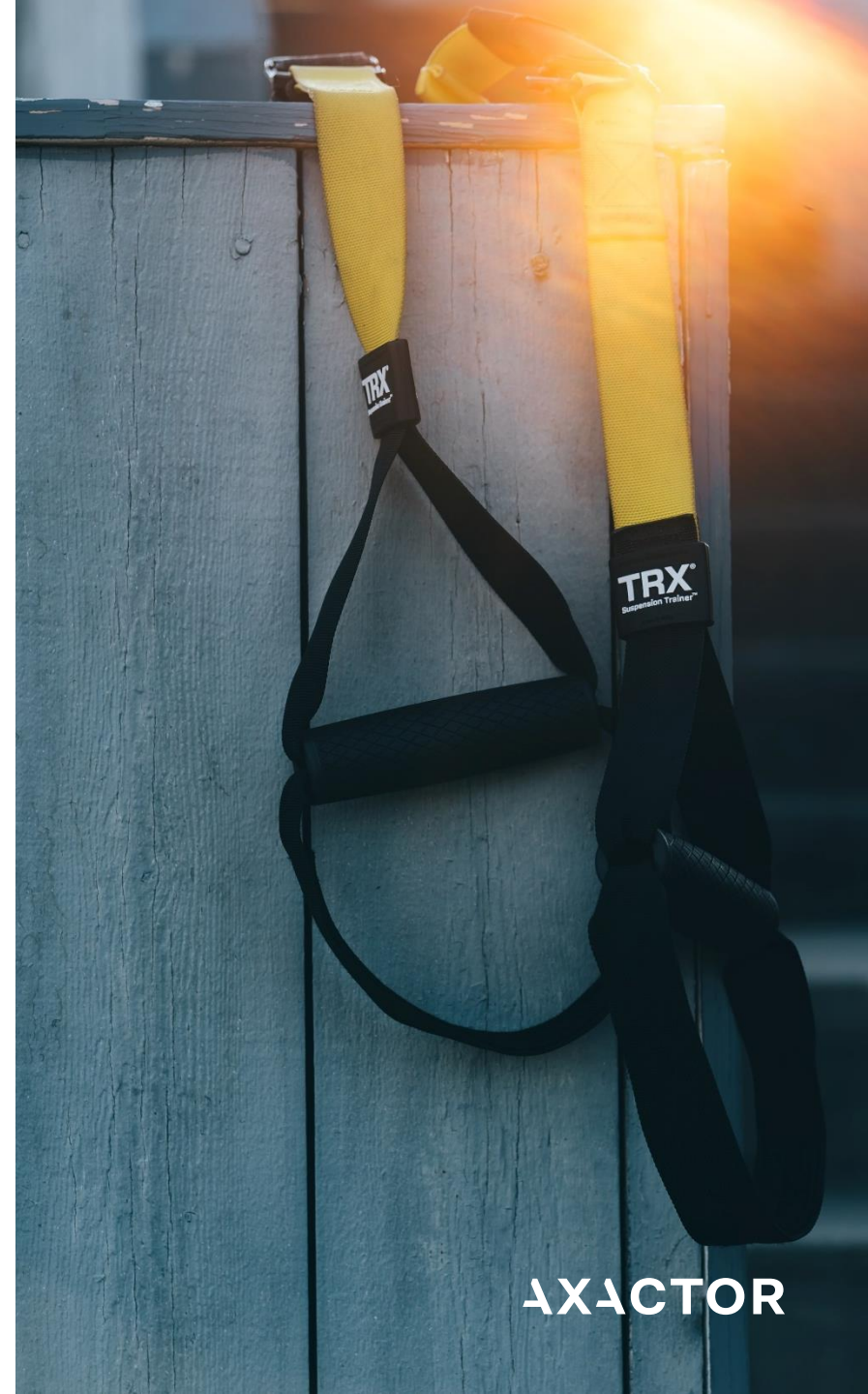
## 2 Cost leadership

- Cloud based unified IT-infrastructure, optimized processes and a strong cost culture
- Currently investing extensively in data-driven valuation and -operation to further excel

## 3 Best at what we do

Targeted focus to become best at what we do<sup>1</sup>

- *Industry:* Bank & finance
- *Debt type:* B2C, unsecured
- *Markets:* Existing six countries

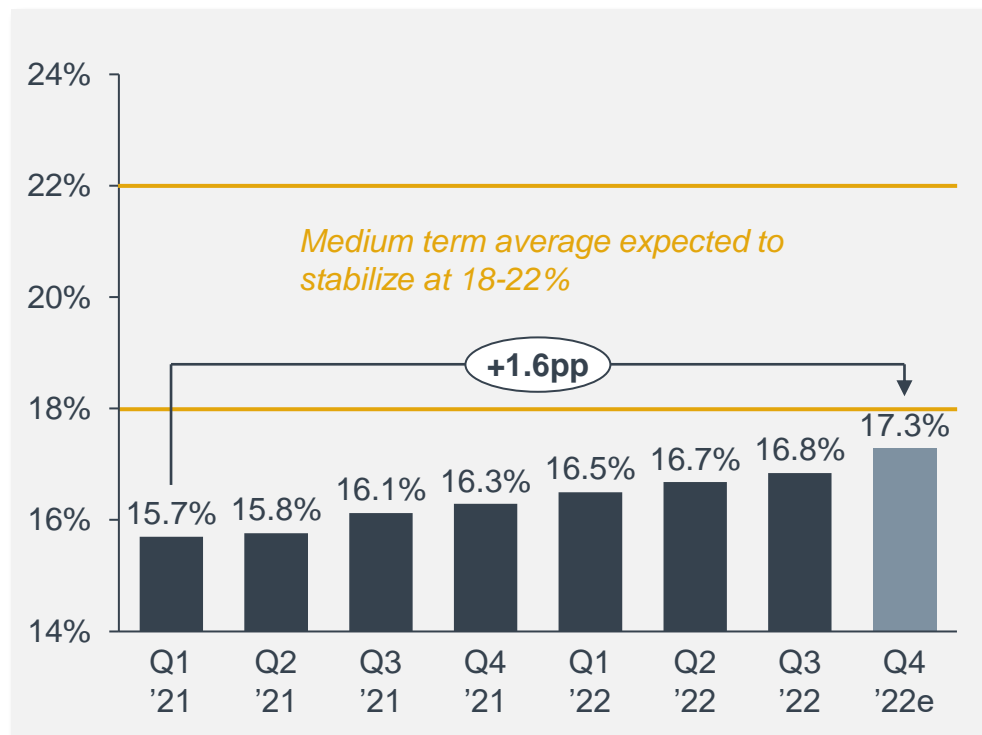


## 1

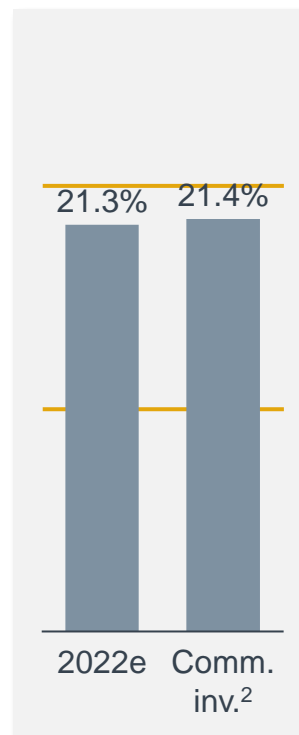
# Accretive investments

- NPL gross IRR on the total book is steadily increasing

Gross IRR on the total NPL book<sup>1</sup>...



...and per vintage



Gross IRR on total NPL book gradually increasing, up 1.6pp last 7 quarters

Committed investments 4.1pp higher than the total NPL book

The associated risk is gradually reduced

- Increasing scale reduces volatility
- Focusing on known sellers
- Access to even more data

## 2

# Cost leadership

- Axactor was incepted to create the most cost-efficient debt collection company in Europe

### Key levers to obtain cost leadership



- Started with practically “**clean sheets**”



- One common cloud-based **IT-platform**



- Significant investments in **data-driven** collection



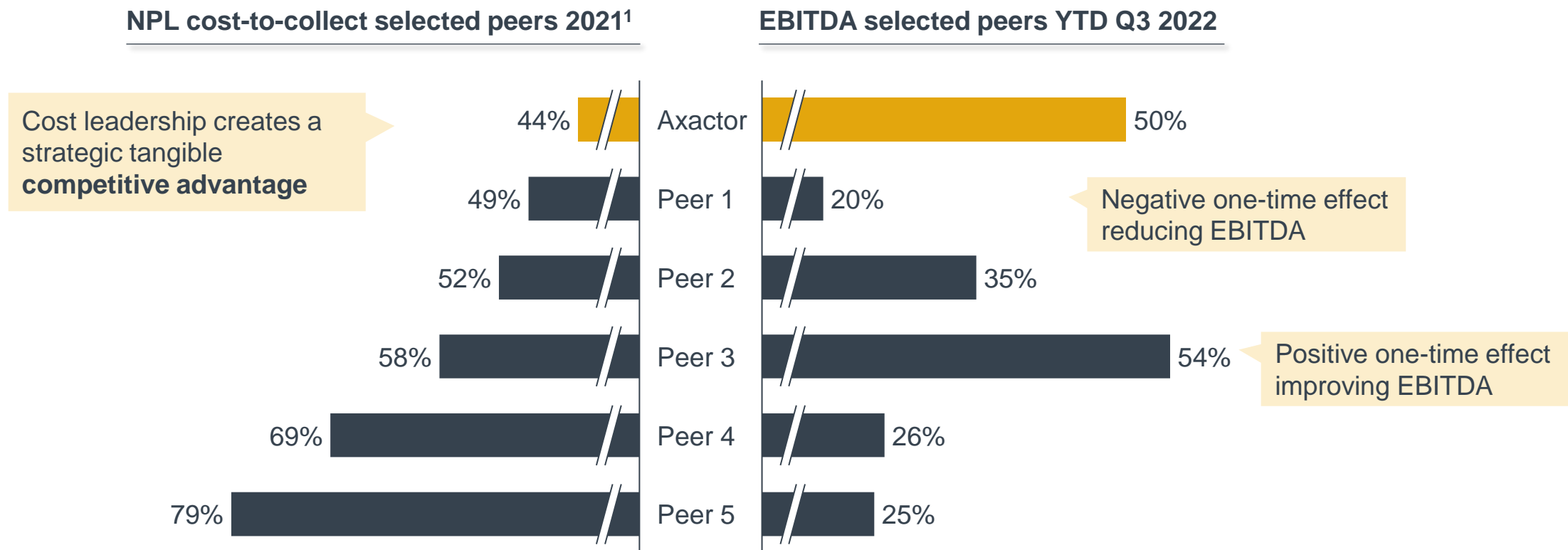
- Fostered a strong **cost culture**



- Pursuing a **niche strategy**

## 2 Cost leadership

- Axactor is probably the most cost-efficient debt collector in Europe



1) Cost is calculated as segment OPEX + allocation of unallocated OPEX and Depreciation & Amortization (excluding amortization of NPL portfolios). Segment OPEX is used as allocation key. Income is calculated as Total income adjusted for revaluations to show income excluding one-time effects based on changes in future expectations. Additional adjustments made on two peers to make numbers comparable, e.g. due to reporting numbers as a bank.



## 2

## Cost leadership

- The next “big thing” on cost is to become even more data-driven in operations

### Where to go from here on cost?



- Investing heavily in **machine learning** scorecards and **robotics** to increase collection and reduce cost



- Harvest **economies of scale** through growth



- Intensified focus on sharing **best practice** across the countries

### An example of what we do on data

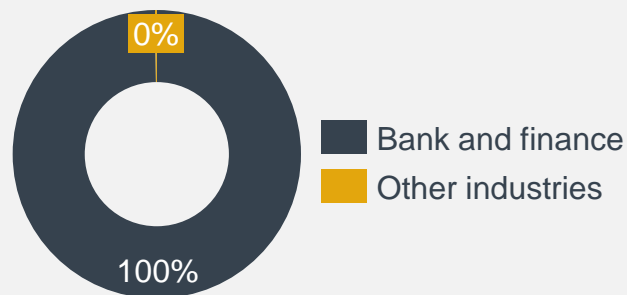
- Debt collection is all about understanding **which** cases to work on and **how** to work them
- E.g. we have developed **scorecards** to identify cases to work on **amicably**, which ones to go **legal** on and which ones **not** to focus on currently
- The scorecards **increase collection** (as we work on the correct cases) and **reduce cost** (as we do not work on cases with low current potential)

## 3

## Best at what we do

- Following a niche strategy to become best at what we do

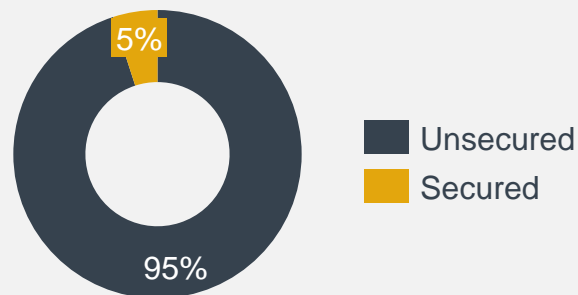
NPL book values per industry  
(%)



### Why bank and finance?

- Larger claims perfectly suited for our “craftmanship” debt collection
- Significant and attractive NPL and 3PC market

NPL book values per debt type  
(%)



### Why unsecured?

- Consist of numerous smaller claims creating a stable, early and predictable cashflow
- Significant and attractive NPL and 3PC market

Markets



### Why our six markets?

- Mature NPL transaction markets
- Stable legal systems
- Stable political environment
- Attractive returns



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# Current market affected by several macro factors

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## Increased **cost of funding**<sup>1</sup>

- Interest rates are increasing but expected to be **fully offset** by the interest rate hedge in Q1 2023 compared to Q4 2022<sup>2</sup>

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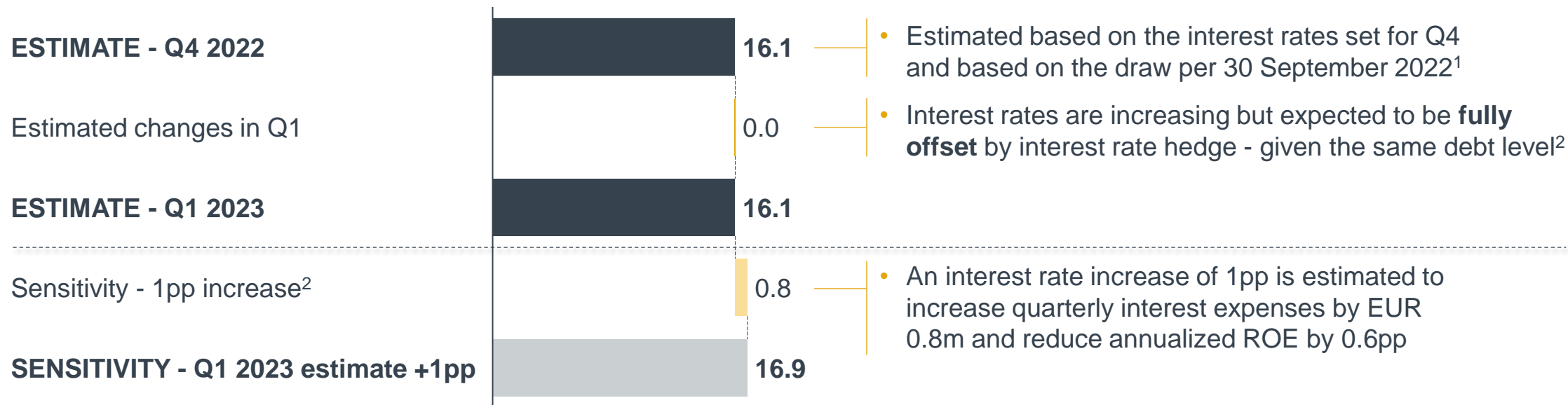
## Mixed outlook on backbook **collections**

- 👎 Rising **inflation** and **interest rates** might put pressure on debtors' ability to repay and postpone collections
- 👍 Low **unemployment** rates, increasing **salaries** and government **aid** packages expected to partly offset challenges



# Axactor expects interest expenses on borrowings to be flat in Q1 2023 compared to Q4 2022

Quarterly interest expense on borrowings  
(EUR million)



1) The draw will fluctuate during the quarter and affect the final interest expense on borrowings. Interest rates are set quarterly on both the RCF and on the bonds. The RCF interest rates are set according to the reporting quarter whereas the two bonds deviate from the reporting quarter with 12-15 days

2) Axactor has a 1-year, EUR 573m, 0.5% EURIBOR strike contract with start date 15 Dec 2022. The calculations for both Q4 and Q1 is based on the draw per 30 September 2022. The interest rate sensitivity calculation is valid until the hedge expires 15 Dec 2023.

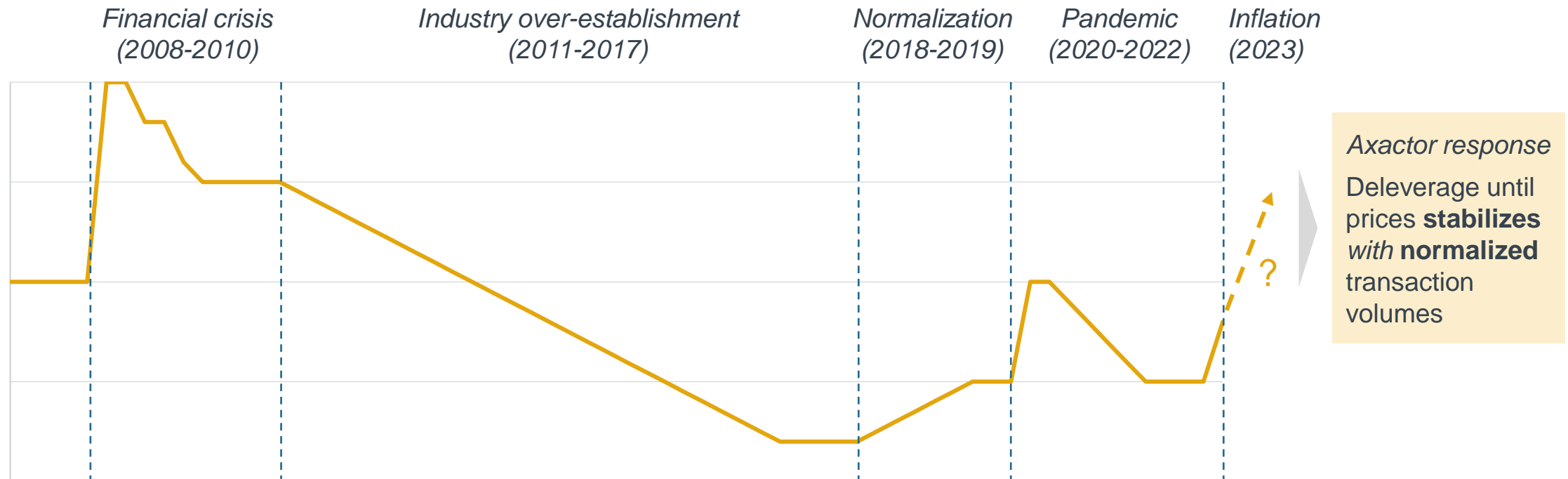
Comment: Stated numbers are for continuing operations

# We expect IRR's to increase significantly in 2023

- Many similarities between the financial crisis and the current market turmoil for the industry

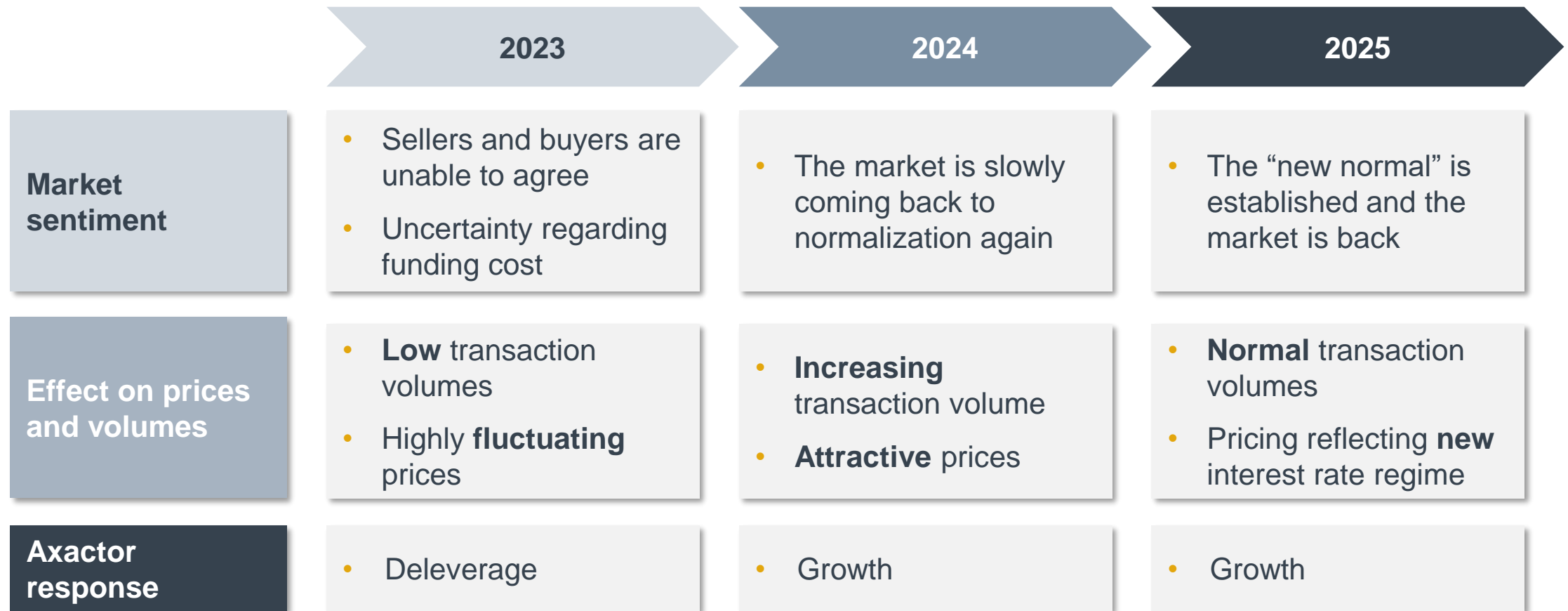
Illustration of perceived market IRR

(2008-2022)





# We expect low transaction volumes in 2023 and a reopening with attractive prices in 2024





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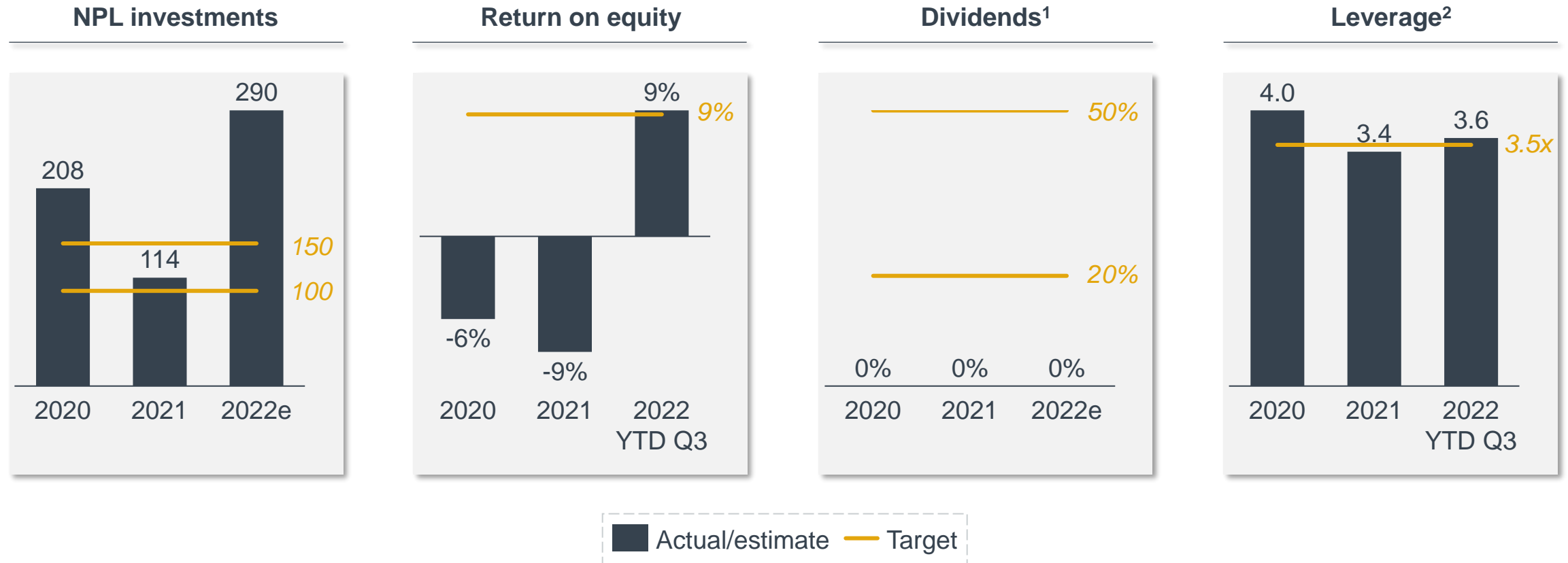
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# Axactor has set realistic targets which outline a clear direction going forward

Dimension	Targets 2023		Targets 2024 and beyond
Growth	NPL investments of EUR <b>100 - 150 million</b> <sup>1</sup>	<ul style="list-style-type: none"> <li>Axactor will deleverage until market prices <b>stabilizes</b> <i>with normalized</i> volumes</li> </ul>	<ul style="list-style-type: none"> <li>NPL investments of EUR 200 – 300 million</li> </ul>
Profit	Minimum <b>9%</b> ROE	<ul style="list-style-type: none"> <li>Continued stable profits despite macroeconomic turmoil</li> </ul>	<ul style="list-style-type: none"> <li>Unclear visibility on cost of funding</li> <li>See slide 19 for underlying long-term potential</li> </ul>
Returns	<b>20 - 50%</b> dividend pay-out ratio <sup>2</sup>	<ul style="list-style-type: none"> <li>Secure tangible shareholder returns</li> </ul>	<ul style="list-style-type: none"> <li>20 - 50% dividend pay-out ratio</li> </ul>
Leverage <sup>3</sup>	Maximum leverage of <b>3.5x</b> at year-end	<ul style="list-style-type: none"> <li>Foster financial strength and solid credit ratings</li> </ul>	<ul style="list-style-type: none"> <li>Maximum leverage of 3.5x</li> </ul>



# Compared to historical performance, all 2023 targets are perceived as realistic

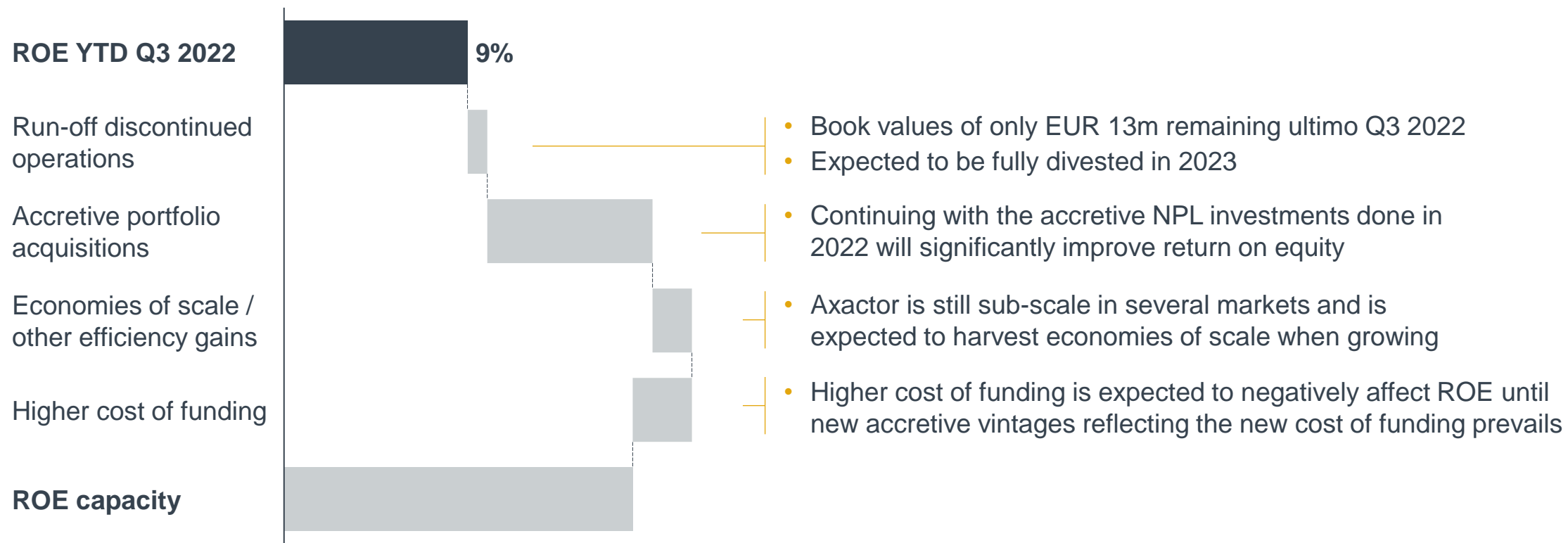


# Where are we heading beyond 2023?

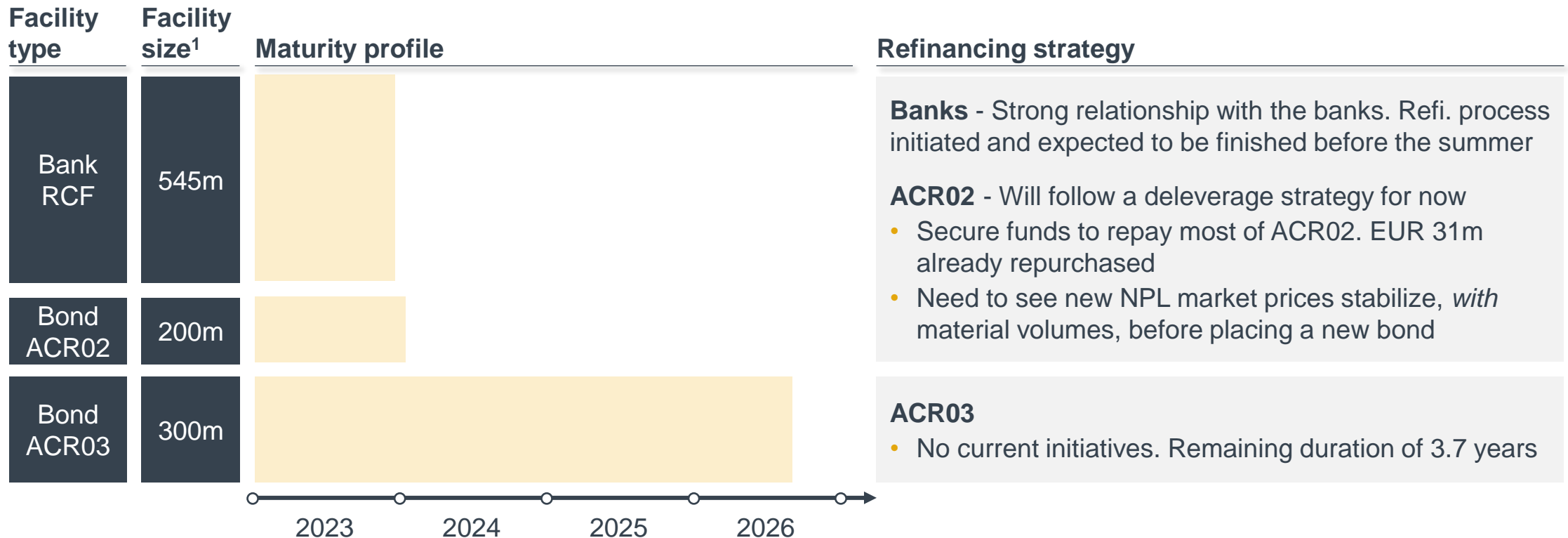
- Current business performance and portfolio prices indicates an ROE uplift

Illustration - return on equity to shareholders

(%)



# Axactor will deleverage in 2023 to prepare for refinancing of ACR02 and await stabilization of NPL and bond markets





# Disclaimer

## - Cautionary note regarding forward-looking statements

The statements contained in this presentation may include forward-looking statements, such as statements of future expectations. These statements are based on the management's current views and assumptions and involve both known and unknown risks and uncertainties.

Although Axactor believes that the expectations implied in any such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to be correct.

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We will create the industry  
benchmark of the future

