

Owl Finance Limited trading update for the year ended 31 March 2020⁽¹⁾

Prompt action on costs protects cash position going into Covid-19 lockdown period

Strategic Update

- The Covid-19 pandemic and related lockdown in the UK has had a material impact on the business in the first quarter of the year ending 31 March 2021; it is still too early to reliably conclude on the likely longer-term impact on the business.
- The Group's base planning scenario indicates that it is not expected to encounter any liquidity issues in either the current financial year or the year ending 31 March 2022. There are however credible downside scenarios in which, if the recovery of the business was slower than is expected, the Group would be unable to make its interest payments on the Senior Secured Notes as early as September 2021.
- In this context the Group has recently commenced discussion with both the board of Hibu Group Limited and the Group's largest bondholders regarding the long-term capital structure of the Owl Finance Group which, if successful, are likely to result in it ceasing to be part of the Hibu Group. These discussions have been constructive and if concluded will give the opportunity to Yell UK to accelerate its growth plans.

Financial and operational highlights for the year ending 31 March 2020

- Digital revenue declined slightly faster than Q3 in January and February before accelerating sharply during March when new customer acquisitions fell by 70% and there were early signs of a material increase in customer losses.
- Digital EBITDA declined by £2.1m in the quarter, with revenue decline partially offset by cost savings and trading operating cash flow declined by £0.8m benefiting from the deferral of £1.4m of VAT payments.
- Average monthly visits to Yell.com in the last 12 months declined from 10.4m to 9.0m. Changes to the Google search engine results page in February drove improvements in our rankings before a sharp drop off in consumer searches for business services in March. Average monthly partnership usage of Yell data declined to 24.8m.
- The company ended its financial year with a cash balance of £33.7m, after drawing down £8.8m of its revolving credit facility and paying £9.1m of bond interest in March.

Summary Operating Results	Quarter ended					Full year		
	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Mar-20	Mar-19	Change
Non-GAAP⁽²⁾, £m								
Digital revenue	44.5	43.7	42.6	41.5	38.0	165.8	189.6	-12.6%
Digital EBITDA	15.2	11.5	11.9	11.4	9.3	44.1	60.4	-27.0%
Trading operating cash flow	8.8	9.7	12.4	9.3	8.5	39.9	38.3	4.2%

(1) All figures, including comparatives, are the unaudited consolidated results of Owl Finance Limited and its subsidiaries (the "Group"). A copy of this document published on 28 May 2020 can be found at <https://www.hibugroup.com/bondholders>.

(2) Non-GAAP Key Performance Indicators ("KPIs") are defined in Appendix 1.

Owl Finance Limited and subsidiaries

Claire Miles, Yell UK Chief Executive Officer, said commenting on Yell's results and the impact of Covid-19 on the business:

"Yell remains very much open for business thanks to the monumental efforts of our people to enable remote working for 95% of employees in just two weeks. We are still acquiring new customers and our customer service teams continue to remotely serve our base of approximately 100,000 customers, helping as many as possible to continue trading and grow through these challenging times."

"Our FY20 results were in line with expectations although the ongoing trend of decline is obviously disappointing. The financial year ahead remains highly uncertain, but we are starting with £34m in the bank and I am confident that we will maintain adequate liquidity during the year. Because of the prompt actions that we took on costs, with the support of our people, particularly by those furloughed or moved to reduced hours, combined with the benefit from deferring VAT payments, I expect the business to be cash positive in Q1."

"We have necessarily scaled back our investment activities and we have recently announced plans to reduce our field salesforce, but we are continuing to drive forward all our strategic programmes along with the service changes required to improve customer satisfaction and retention. I continue to believe in the longer-term growth potential of the business, and I look forward to sharing with you more on the journey ahead once things have started to return to normal later in the year."

Enquiries: yellinvestors@yell.com

A conference call will be held for bondholders to discuss these results at 14.00 UK time on 28 May 2020

[>> Click here to Join Call <<](#) 0800 358 6374 (US: 866 519 2796) Passcode: 281899

Owl Finance Limited and subsidiaries

Operating and financial discussion

Financial condition and results of operations

£m	Year ended 31 March 2020	Year ended 31 March 2019	Change
Digital			
Yell.com revenue	90.2	106.4	(15.2%)
Digital Marketing Services revenue	75.6	83.2	(9.1%)
Digital revenue	165.8	189.6	(12.6%)
Digital product contribution	132.1	151.0	(12.5%)
Digital product contribution margin (%) ⁽¹⁾	79.7%	79.6%	
Digital EBITDA	44.1	60.4	(27.0%)
Digital EBITDA margin (%)	26.6%	31.9%	
Printed Directories			
Print revenue	–	11.6	(100.0%)
Print EBITDA	–	(0.1)	(100.0%)
Total			
Revenue	165.8	201.2	(17.6%)
Adjusted EBITDA	44.1	60.3	(26.9%)
Operating Metrics			
Digital customers at period end (thousands)	104.7	118.3	(11.5%)
Digital customers acquired (thousands) ⁽²⁾	25.7	26.1	(1.5%)
Digital customers lost (thousands) ⁽²⁾	39.4	39.6	0.5%
Average revenue per digital customer (£) ⁽³⁾	1,470	1,495	(1.7%)
Average monthly visits to Yell.com (last 12 months, m)	9.0	10.4	(13.5%)

Digital revenue & product contribution

Digital revenue was down 12.6% on the prior year as the benefit of print to digital migration ended and some previously transitioned customers, and certain national customers, cancelled their digital spend when final print directories were published in the quarter ended 31 March 2019. The decline was more pronounced for Yell.com which had previously enjoyed more of the benefit of print to digital migration. Product contribution margin was maintained in line with the prior year despite the shift in product mix away from higher-margin Yell.com due to an improvement in the digital marketing services margin.

Digital EBITDA

Digital EBITDA decreased by £16.2m on the prior year due to the £18.9m decline in product contribution and investment in additional sales consultants, partially offset by cost savings in back office functions and the reclassification of £3.5m of lease payments from operating costs to financing cash flows under IFRS 16.

Digital customers

Customer acquisitions and losses were both broadly in line with the same period in the prior year although the average rate of monthly customer churn increased from 2.5% to 2.8%. Average revenue per customer was 1.7% lower due to the impact of cancellations from certain higher-spending national customers.

Yell.com visits

Average monthly visits to Yell.com in the last 12 months decreased to 9.0m due to search engine algorithm changes whilst syndicated partnerships delivered a further 24.8m⁽⁴⁾ average monthly usage in the quarter.

(1) Contribution: Yell.com 99.5% (prior year: 99.4%) Digital Marketing Services 56.0% (prior year: 54.3%).

(2) Customers acquired and lost are an aggregation of monthly changes in the customer base. Individual customers who take advantage of the ability to switch in and out of digital products from month to month could be counted as both an addition and a loss more than once during a quarter.

(3) Monthly average in the last twelve months (LTM). LTM average digital customers 31 March 2020: 111.4k and 31 March 2019: 125.2k.

(4) Source: Syndicated partner stats, January to March 2020.

Owl Finance Limited and subsidiaries

Liquidity and capital resources

£m	Year ended 31 March 2020	Year ended 31 March 2019	Change
Adjusted EBITDA	44.1	60.3	(26.9%)
Capital expenditure	(5.7)	(7.7)	26.0%
Restructuring payments	(3.2)	(4.0)	20.0%
Pension contributions	–	(5.8)	100.0%
Working capital movement	4.7	(4.5)	204.4%
Trading operating cash flow	39.9	38.3	4.2%
Cash and cash equivalents	33.7	19.6	71.4%
Senior Secured Notes	214.0	225.0	4.9%

Trading operating cash flow was £1.6m higher than the prior year due to the decline in Adjusted EBITDA being more than offset by lower capital expenditure, the discontinuation of pension contributions, and the reversal of a working capital outflow in the prior year.

Cash and cash equivalents held by the continuing operations of the Group increased by £14.1m during the year. The Group has access to a £25.0m revolving credit facility of which £8.8m was drawn at 31 March 2020 (31 March 2019: nil).

During the year, the Group repurchased £11.0m nominal value of Senior Secured Notes for cash consideration of £9.5m (average price of 86.4% of the par value of the Senior Secured Notes).

Increase (decrease) in cash and cash equivalents held by continuing operations

£m	Year ended 31 March 2020	Year ended 31 March 2019	Change
Trading operating cash flow	39.9	38.3	4.2%
Lease payments ⁽¹⁾	(3.5)	–	–
Hibu Group management charges ⁽²⁾	(3.0)	(3.5)	(14.3%)
Hibu Group costs funded by the Group ⁽³⁾	(2.8)	–	–
Tax paid	(0.5)	(1.2)	58.3%
Commitment fees on revolving credit facility	(0.3)	(0.2)	(50.0%)
Interest on Senior Secured Notes	(18.4)	(16.6)	(12.0%)
Repurchases of Senior Secured Notes	(9.5)	–	–
One-off pension contribution	–	(10.0)	100.0%
Refinancing costs	–	(9.1)	100.0%
Disposal of Hibu brand	–	1.5	(100.0%)
Excess cash flow	1.9	(0.8)	337.5%
Drawdown of revolving credit facility	8.8	–	–
Loans repaid by (to) Hibu Group	3.3	(1.7)	294.1%
Foreign exchange gain	0.1	0.6	(83.3%)
Legacy loan repayments and withholding taxes	–	(12.1)	100.0%
Increase (decrease) in cash and cash equivalents	14.1	(14.0)	200.7%

(1) Prior to the adoption of IFRS 16, lease payments in the prior year were included within EBITDA and trading operating cash flow.

(2) Hibu Group management charges are primarily an estimate of management costs occurring above the Group that are charged to Group operations in accordance with the Hibu Group's arm's length transfer pricing methodologies.

(3) Costs paid by the Group on behalf of the Hibu Group. These amounts were subsequently refunded by the Hibu Group in April 2020.

Owl Finance Limited and subsidiaries

Audited consolidated financial statements

The audited consolidated financial statements of the Group for the year ended 31 March 2020 are expected to be released on 29 July 2020.

As noted above the Covid-19 pandemic and related lockdown in the UK has had a material impact on the business in the first quarter of the year ending 31 March 2021 and that it is still too early to reliably conclude on the likely longer-term impact on the business.

Full disclosure of these risks, updated for developments over the next two months, will be made in the audited consolidated financial statements.

DISCLAIMER

This report is for information purposes only and does not constitute a prospectus or any offer to sell or the solicitation of an offer to buy any security in the United States of America, the United Kingdom or in any other jurisdiction. Securities may not be offered, sold or transferred within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act of 1933, as amended.

The information contained in this report does not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for Owl Finance Limited for the year ended 31 March 2019 can be found at <https://www.hibugroup.com/bondholders> within the document 'Yell FY19 Full Year Operating & Financial Discussion' and have been filed with the Registrar of Companies. The auditor has reported on those accounts and its report was unqualified and did not contain a statement under Section 498(2) or 498(3) of the Companies Act 2006.

Presented in this report are certain non-GAAP financial measures of the Group ("Non-GAAP Financial Measures") that are not required by or presented in accordance with IFRS-EU, FRS 101 or FRS 104, including EBITDA among others. The Non-GAAP Financial Measures are not measurements of financial performance under IFRS-EU, FRS 101 or FRS 104 and have not been audited or reviewed. Accordingly, they should not be considered as alternatives to other indicators of operating performance, cash flows or any other measure of performance derived in accordance with IFRS-EU, FRS 101 or FRS 104. The Non-GAAP Financial Measures as presented in this report may differ from and may not be comparable to similarly titled measures used by other companies. The calculations for the Non-GAAP Financial Measures are based on various assumptions. There can be no assurance that the items identified for adjustment as non-recurring will not recur in the future or that similar items will not be incurred in the future. Such measures are inherently subject to risks and uncertainties. It may not give an accurate or complete picture of the financial condition or results of operations for the periods presented and should not be relied upon when making an investment decision.

This report may include forward-looking statements within the meaning of the securities laws of certain applicable jurisdictions. These forward-looking statements include, but are not limited to, all statements other than statements of historical facts, including, without limitation, those regarding our intentions, beliefs or current expectations concerning, among other things, our future financial conditions and performance, results of operations and liquidity, our strategy, plans, objectives, prospects, growth, goals and targets, future developments in the markets in which we participate or are seeking to participate, and anticipated regulatory changes in the industry in which we operate. These forward-looking statements can be identified by the use of forward-looking terminology, including, but not limited to, terms such as "aim", "anticipate", "assume", "believe", "continue", "could", "estimate", "expect", "forecast", "guidance", "intend", "may", "outlook", "plan", "predict", "project", "should", "will" or "would" or, in each case, their negative, or other variations or comparable terminology.

By their nature, forward-looking statements involve known and unknown risks, uncertainties and other factors because they relate to events and depend on circumstances that may or may not occur in the future. We caution you that forward-looking statements are not guarantees of future performance and are based on numerous assumptions. Our actual financial condition, results of operations and cash flows, and the development of the industry in which we operate, may differ materially from (and be more negative than) those made in, or suggested by, the forward-looking statements contained in this report. In addition, even if our financial condition, results of operations and cash flows, and the development of the industry in which we operate, are consistent with the forward-looking statements contained in this report, those results or developments may not be indicative of results or developments in subsequent periods. We undertake no obligation publicly to update or revise any forward-looking statements, except as may be required by law.

Owl Finance Limited and subsidiaries

Appendix 1. Key Performance Measures (“KPIs”)

Management use KPIs to better understand the underlying financial performance of the Group and to provide comparability of information between reporting periods and business units. Given that KPIs are not defined by International Reporting Standards they may not be directly comparable with other companies who use similar measures. KPIs used in these financial statements are:

KPI	Description
Adjusted EBITDA	Operating profit adjusted to add back amortisation, depreciation, restructuring costs, non-cash valuation adjustments and Hibu Group management costs, including share-based payments.
Average revenue per digital customer	Digital revenue in the last twelve months divided by the average number of digital customers in the same period.
Digital customers	Customers with a live digital product on the last day of the reporting period. Excludes a small number of customers receiving free promotional products and customers of Sitemaker Software Limited (SSL).
Digital customers acquired	Digital customers with no live product on the first day of the reporting period and a live product on the last day of the reporting period.
Digital customers lost	Digital customers with a live product on the first day of the reporting period and no live product on the last day of the reporting period.
Digital EBITDA	EBITDA relating to digital products.
Digital EBITDA margin	The ratio of Digital EBITDA to Digital revenue.
Digital product contribution	Digital revenue less the direct costs associated with service delivery of digital products.
Digital revenue	Revenue from digital products.
EBITDA	Operating profit adjusted to add back amortisation and depreciation.
Hibu Group management costs	An estimate of costs relating to the management of the Hibu Group to be charged to Yell UK Operations in accordance with the Hibu Group’s arm’s length transfer pricing methodologies.
Print EBITDA	EBITDA relating to print products.
Syndicated Usage	Searches for businesses via Yell’s content syndication partners, where Yell data was used in the search results provided.
Trading operating cash flow	Adjusted EBITDA less capital expenditure, exceptional costs, pension contributions and changes in working capital (excludes Hibu Group management costs).
Visits to Yell.com	Calculated as the average over the last twelve months. Usage is sourced and audited by Omniture and includes desktop and mobile visits but excludes any third party syndicated usage.