Owl Finance Limited and subsidiaries

Owl Finance Limited trading update for the year ended 31 March 2021[(1)]

Results ahead of expectations as positive customer acquisition and retention trends continue

Financial and operational highlights for the quarter ended 31 March 2021

- Full year expectations were exceeded on revenue, EBITDA and cash.
- Revenue decreased by £0.6m compared to Q3. However, the trend towards underlying stabilisation continued as customer acquisitions increased by 19% in the quarter and monthly churn decreased again from 3.0% to 2.8%. The net decline in customers more than halved to 1.6k in the quarter versus 3.3k in Q3.
- Adjusted EBITDA increased by £0.7m compared to Q3 as the lower revenue was offset by continued strong cost control and improved bad debt experience. Trading operating cash flow decreased by £0.3m in the quarter reflecting the lower revenue.
- Average monthly visits to Yell.com continue to run at approximately 8m.
- Short term liquidity remains adequate with the Group ending the year with £30.4m cash in the bank after paying £9.1m of bond interest in March.

Summary Operating Results	**Quarter ended**					**Year to date**		
Non-GAAP[(2)], £m	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Mar-21	Mar-20	Change
Revenue	38.0	30.8	30.8	30.4	29.8	121.8	165.8	(27%)
Adjusted EBITDA	9.3	8.2	4.1	5.5	6.2	24.0	44.1	(46%)
Trading operating cash flow	8.5	9.9	5.5	5.4	5.1	25.9	39.9	(35%)

(1) All figures, including comparatives, are the unaudited consolidated results of Owl Finance Limited and its subsidiaries (the "Group").

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

Claire Miles, Yell UK Chief Executive Officer, said:

"I am very pleased that we have been able to beat our previous expectations on revenue, EBITDA and cash for the financial year. In the last three quarters, despite ongoing restrictions and a smaller salesforce, our quarterly revenue declined by just 3% from £30.8m in Q1 to £29.8m in Q4."

"Sales performance continues to improve steadily, our customer churn rate is now back down to pre-Covid levels, and we ended the year on a high with the absolute decline in customer numbers in Q4 at its lowest level since 2008."

"Our stabilise-evolve-transform strategy remains unchanged and we now plan to focus more heavily on the evolve stage and achieving a return to quarter on quarter growth in a buoyant digital market."

Enquiries: investors@yell.com

A conference call will be held for bondholders to discuss these results at 14:00 UK time on 20 May 2021.

>> Click here to Join Call << 0800 279 4827 (US: 866 519 2796) Passcode: 167062

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Operating and financial discussion

Financial condition and results of operations

£m	**Year ended 31 March 2021**	Year ended 31 March 2020	Change
Yell.com revenue	**67.8**	90.2	(25%)
Digital Marketing Services revenue	**54.0**	75.6	(29%)
Revenue	**121.8**	165.8	(27%)
Product contribution	**97.4**	132.1	(26%)
Product contribution margin (%) (1)	**80.0%**	79.7%	
Adjusted EBITDA	**24.0**	44.1	(46%)
Adjusted EBITDA margin (%)	**19.7%**	26.6%	
Operating Metrics			
Customers at beginning of period (thousands)	**104.7**	118.4	(11%)
Customers acquired (thousands) (2)	**19.7**	25.7	(23%)
Customers lost (thousands) (2)	**(38.2)**	(39.4)	(3%)
Customers at end of period (thousands)	**86.2**	104.7	(18%)
Average revenue per customer (£) (3)	**1,309**	1,470	(11%)
Average monthly visits to Yell.com (last 12 months, m)	**8.0**	9.0	(11%)

Non-GAAP KPIs are defined in Appendix 1.

Revenue & product contribution

Revenue decreased 27% compared to the prior year primarily driven by a significant decline in the first quarter of the financial year during the first Covid-19 lockdown. In the last three quarters, despite ongoing restrictions and a smaller salesforce, quarterly revenue declined by just 3%. Product contribution margin was slightly above prior year due to a small shift in product mix towards higher-margin Yell.com.

Adjusted EBITDA

Adjusted EBITDA decreased by £20.1m compared to the prior year due to the £34.7m decline in product contribution, partially offset by £14.6m of cost savings including furlough during the first lockdown and permanent headcount reductions in response to the decline in revenue.

Customers

Quarterly customer acquisitions, which averaged 6.4k in the prior year, decreased to 3.8k during the first quarter due to the lockdown but recovered to 5.4k, 4.8k and 5.7k in the following three quarters. Monthly customer churn, which averaged 2.9% in the prior year, averaged 3.9% in the first and second quarters but recovered to 3.0% in the third quarter and 2.8% in the final quarter. Average revenue per customer fell by 11% as customers reduced or paused their advertising during the lockdown although most of these subsequently reactivated their spend.

Yell.com visits

Average monthly visits to Yell.com reduced from 10m to 8m during the prior year but have remained broadly at 8m during the last 12 months. Average monthly usage from syndicated partnerships increased from 25.0m in the second quarter to 29.1m in the third quarter. Measurement of usage was recently updated by one of our key partners, resulting in a rebased total of 38.2m in the fourth quarter.

(1) Contribution: Yell.com 99.3% (prior year: 99.5%) Digital Marketing Services 55.6% (prior year: 56.0%).

(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 2021: 91.6k and 31 March 2020: 111.4k.

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Liquidity and capital resources

£m	**Year ended 31 March 2021**	Year ended 31 March 2020	Change
Adjusted EBITDA	**24.0**	44.1	(46%)
Capital expenditure	**(6.6)**	(5.7)	(16%)
Restructuring payments	**(5.0)**	(3.2)	(51%)
Working capital movement	**13.5**	4.7	194%
Trading operating cash flow	**25.9**	39.9	(35%)
Cash and cash equivalents	**30.4**	33.7	(10%)
Senior Secured Notes	**214.0**	214.0	0%

Trading operating cash flow was £14.0m lower than the prior year due to the £20.1m decline in Adjusted EBITDA partially offset by a large working capital inflow.

The working capital inflow was due mainly to the deferral of VAT payments and a decrease in trade receivables in line with the decline in revenue. A total of £7.0m VAT has been deferred and is due to be repaid in monthly instalments during the year ending 31 March 2022. Other than the VAT repayment, management do not expect significant working capital movements in the future.

Trading operating cash flow excludes Hibu Group management costs, for which the Group paid a net £0.4m in the period.

Cash and cash equivalents decreased from £33.7m to £30.4m in the year ended 31 March 2021. The trading operating cash flow during the period was offset by the payment of interest on the senior secured notes and repayment of the revolving credit facility.

The Group has access to a £25.0m revolving credit facility which was undrawn at 31 March 2021. The facility is subject to a covenant requiring the Group to maintain a ratio of net debt to EBITDA of less than 6.25 if the facility is greater than, or equal to, 35% drawn. At 31 March 2021, the ratio was approximately 8.9.

Increase (decrease) in cash and cash equivalents

£m	**Year ended 31 March 2021**	Year ended 31 March 2020	Change
Trading operating cash flow	**25.9**	39.9	(35%)
Lease payments	**(3.4)**	(3.5)	3%
Hibu Group management charges (1)	**(0.4)**	(5.8)	93%
Tax refunded / (paid)	**0.1**	(0.5)	n/a
Commitment fees on revolving credit facility	**(0.4)**	(0.3)	(33%)
Interest on Senior Secured Notes	**(18.2)**	(18.4)	1%
Repurchases of Senior Secured Notes	**–**	(9.5)	–
Excess cash flow	**3.6**	1.9	89%
(Repayment) / drawdown of revolving credit facility	**(8.8)**	8.8	–
Loans repaid by Hibu Group	**2.3**	3.3	(30%)
Foreign exchange (loss) / gain	**(0.4)**	0.1	n/a
(Decrease) / increase in cash and cash equivalents	**(3.3)**	14.1	n/a

(1) 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. The charge for the year ended 31 March 2020 included £3.9m of costs paid by the Group on behalf of the Hibu Group that were subsequently refunded by the Hibu Group in April 2020. The charge for the year ended 31 March 2021 included the refund of £3.9m in relation to the prior year and £2.8m of costs paid by the Group on behalf of the Hibu Group that were subsequently refunded in April 2021.

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The Covid-19 pandemic and related lockdown in the UK had a material effect on the business in the first part of the year ended 31 March 2021 but since then the results have largely stabilised and the Group's financial forecasts indicate sufficient liquidity to meet all its financial obligations in the current financial year and the year ending 31 March 2023.

In accordance with guidance from the Financial Reporting Council, against the backdrop of uncertainty caused by the Covid-19 pandemic and the revenue trajectory of the two most recent financial years, the Group has modelled an unlikely but possible downside scenario in which, if the recovery of the business faltered and went significantly into reverse with no mitigating cost reductions, the Group would be unable to make its interest payments on the Senior Secured Notes as early as September 2022.

The audited consolidated financial statements of the Group for the year ended 31 March 2021 are expected to be released on 29 July 2021. Full disclosure of the risks outlined above, updated for developments over the next two months, will be made in the audited consolidated financial statements.

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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 customer	Revenue in the last twelve months divided by the average number of customers in the same period.
Customers	Customers with a live 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).
Customers acquired	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.
Customers lost	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.
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.
Product contribution	Revenue less the direct costs associated with service delivery of 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 a systems audit conducted on a periodic basis by Omniture and includes desktop and mobile visits but excludes any third party syndicated usage.