Chesswood Group Limited

CHESSWOOD ANNOUNCES THIRD QUARTER 2023 RESULTS

TORONTO, November 6, 2023 – Chesswood Group Limited ("**Chesswood**" or the "**Company**") (TSX: CHW), a publicly traded North American specialty finance company providing commercial equipment leases and loans, automotive loans, home improvement financing, legal financing and asset management, today reported its results for the three and nine months ended September 30, 2023.

Highlights

- *Free Cash Flow(1) for the three months ended September 30, 2023, was $5.3 million, an increase of $5.0 million compared to the three months ended June 30, 2023.*

- *The Company's Canadian auto financing Segment continued to experience strong originations, with total originations of $108.2 million(2) for the nine months ended September 30, 2023, an increase of 12.0% from the same period in the prior year.*

- *The Vault Home consumer financing business had total originations of $72.5 million for the nine months ended September 30, 2023, a substantial increase from $20.1 million from the same period in the prior year.*

- *During the nine months ended September 30, 2023, the Company continued entering into new agreements with investment managers and financial institutions for the non-recourse sale of leases and loans in exchange for fees. During the nine months ended September 30, 2023, $334.0 million of U.S. and Canadian finance receivables were sold under such arrangements (year ended December 31, 2022 - $270.1 million).*

"The third quarter results continued to reflect the macroeconomic headwinds that started at the beginning of 2023," said Ryan Marr, Chesswood's President and CEO. "Credit weakness remains predominantly concentrated in the U.S. transportation sector, where industry fundamentals have deteriorated since mid-2022. However, our collections teams have a strong track record of collections and recoveries and we are confident that this time will be no different."

"In the quarter, we focused on the variables within our control – in particular operating expenses. We made considerable progress reducing costs across the entire organization. Compared to the previous quarter, personnel expenses in the quarter were down $3.5 million, or 21.0%, and general and administrative expenses declined $4.3 million, or 27.2%, in the quarter, once again reflecting cost controls. Our teams continue to carefully evaluate market conditions and align objectives company wide for 2024," said Mr. Marr.

"Investor appetite for commercial and consumer loans with established securitization programs continues to attract new capital. As we enter the final quarter of the year, we were excited to announce our new joint venture partnership with Wafra Inc., a large global investment manager. This joint venture partnership significantly enhances Chesswood's liquidity and provides us additional off-balance sheet funding for our finance receivables and fee generation," added Mr. Marr.

Summary of Third Quarter Results

The Company reported consolidated net income of $0.1 million for the three months ended September 30, 2023, compared to $12.3 million in the same period of 2022. The decrease was caused by greater net charge-offs and rising interest rates, the latter of which was further impacted by the Company's higher debt outstanding balance. Increased revenues from portfolio growth and greater off-balance sheet sales partially offset these factors.

The Company's U.S. equipment financing segment generated revenue of $35.9 million ($31.6 million interest revenue and $4.3 million ancillary finance and other fee income) during the three months ended September 30, 2023. Interest revenue decreased by $0.8 million when compared to the same period in the prior year due to a 6.1% decrease in average net investment in finance receivables (before allowance for ECL) to $1.2 billion as a result of continued off-balance sheet sales and lower originations. As a result, net investment in leases and loans (before allowance for expected credit losses ("ECL")) as at September 30, 2023, was $139.8 million lower than as at September 30, 2022.

The Company's Canadian equipment financing segment generated revenue of $27.3 million ($20.1 million interest revenue and $7.2 million ancillary finance and other fee income) during the three months ended September 30, 2023, an increase of $7.7 million from the same period in the prior year. The Canadian equipment financing segment's average net investment in finance receivables (before allowance for ECL) increased by approximately $100.4 million in the three months ended September 30, 2023 (to $748.9 million), compared to the same period in the prior year. In addition, the Canadian equipment financing segment sold $59.9 million of leases and loans under off-balance sheet arrangements, while the on-balance sheet portfolio reached an interest revenue yield of 10.7% in the third quarter of 2023 compared to the 10.6% yield achieved in the same period last year. The increase in net income was due to higher revenue levels partially offset by increased interest and other expenses.

The Company's Canadian auto financing segment generated revenue of $11.7 million ($11.1 million interest revenue and $0.6 million ancillary finance and other fee income) during the three months ended September 30, 2023, an increase of $0.8 million compared to the same period in the prior year. The segment's average net investment in finance receivables (before allowance for ECL) increased by approximately $35.7 million in the three months ended September 30, 2023 (to $263.8 million), compared to the same period in the prior year. Net income was reduced in the third quarter of 2023 because of higher interest expense and net charge-offs.

The Company recognized a provision for credit losses in the third quarter of $20.8 million, a $11.7 million increase compared to the same period in the prior year. The increase was primarily related to higher net charge-offs in the quarter.

The Free Cash Flow[(2)] for the quarter was $5.3 million, down $6.6 million compared to the same period in the prior year. The decrease in Free Cash Flow resulted from increased interest expense during the quarter compared to the same period in prior year.

Outlook

U.S. Credit conditions remained weak throughout the current quarter. Our team continues to focus on collection efforts and tighten credit standards for new approvals. We have seen these sentiments echoed by our peers who are seeing similar performance patterns – particularly in the transportation vertical.

Our Canadian entities are performing well overall. While pleased with this result, we are cautious about the market given the rise in interest rates, the observable weakness in Canada's housing market and the rise in unemployment.

We expect to close the first sale of assets to our newly announced joint venture with Wafra in the fourth quarter. Under these arrangements, Chesswood can allocate capital to the joint venture, thereby earning returns on equity in addition to fees for originations and servicing the finance receivables. Both parties have committed to supporting a long-term relationship and scaling the assets to at least $1 billion over the next coming years.

As a result of our ongoing emphasis on asset management, we expect a substantial portion of our originated assets to be held in off-balance sheet structures in the future, enabling Chesswood to invest its equity alongside partners or in new opportunities.

Consolidated Operating and Financial Results

Financial Highlights (in CDN $000s, except EPS)	**For the Three Months Ended September 30**		**For the Nine Months Ended September 30**	
	2023	**2022**	**2023**	**2022**
Revenue	$80,013	$73,054	$241,613	$199,289
Interest expense	(32,111)	(17,284)	(91,729)	(46,504)
Net charge-offs	(17,315)	(5,542)	(47,426)	(9,039)
	30,587	50,228	102,458	143,746
Personnel expenses	(12,984)	(17,127)	(46,168)	(47,477)
General and administrative expenses	(11,616)	(11,849)	(40,602)	(32,790)
Depreciation	(466)	(477)	(1,390)	(1,342)
Adjusted Operating Income(2)	**$5,521**	**$20,775**	**$14,298**	**$62,137**
Decrease/(increase) in non-cash allowance for credit losses	(3,472)	(3,542)	(8,024)	(24,928)
Amortization of intangible assets	(706)	(660)	(2,077)	(1,844)
Operating Income	**1,343**	**16,573**	**4,197**	**35,365**
Unrealized loss on foreign exchange	(653)	(549)	(560)	(1,003)
Income Before Taxes	**$690**	**$16,024**	**$3,637**	**$34,362**
Net Income	**$110**	**$12,296**	**$2,914**	**$23,626**
Earnings Per Share – Basic	**$0.01**	**$0.64**	**$0.18**	**$1.27**
Earnings Per Share – Diluted	**$0.01**	**$0.58**	**$0.17**	**$1.14**
Free Cash Flow(2)	**$5,329**	**$11,956**	**$11,423**	**$42,909**
Free Cash Flow Per Share – Diluted	$0.26	$0.57	$0.55	$2.04

(2) - See "Non-GAAP Measures" below.

Notes

(1) NON-GAAP MEASURES

Adjusted Operating Income and Free Cash Flow are not recognized measures under International Financial Reporting Standards and do not have standardized meanings. Therefore, these measures may be different from similarly labelled measures presented by other companies. Furthermore, these measures are based primarily on the significant banking and lending agreements of the Company and its subsidiaries to determine compliance with financial covenants and calculate permitted dividends and cash available for purchases of shares under the Company's normal course issuer bid.

“EBITDA” is net income (loss) as presented in the unaudited interim condensed consolidated statements of income, adjusted to exclude interest expense, income taxes, depreciation and amortization and goodwill and intangible asset impairment. EBITDA is included in one of the Company’s significant bank agreements where it is used for financial covenant purposes.

“Adjusted EBITDA” is EBITDA as further adjusted for inclusion of interest on debt facilities as a deduction from net income (loss), and the removal of other non-cash or non-recurring items such as (i) non-cash gain (loss) on financial instruments and investments, (ii) non-cash unrealized gain (loss) on foreign exchange, (iii) non-cash share-based compensation expense, (iv) non-cash change in finance receivable allowance for ECL, (v) restructuring and other transaction costs, and (vi) any unusual and material one-time gains or expenses. Adjusted EBITDA is a measure of performance defined in one of the Company’s significant bank agreements and is the basis for the Company's Free Cash Flow calculation. Adjusted EBITDA is therefore included as a non-GAAP measure relevant for a wider audience of the Company’s financial reporting users.

"Adjusted Operating Income" is operating income (loss) as presented in the unaudited interim condensed consolidated statements of income, adjusted to exclude the amortization of intangible assets and the change in allowance for ECL. Adjusted Operating Income is intended to reflect the recurring income from the Company’s businesses. Amortization of intangible assets, which includes the expense related to broker relationships and software, is a function of acquisitions. The cost of maintaining the broker relationships after the acquisition, being internally generated intangible assets, cannot be measured and is therefore not recognized as an asset, meaning that once these acquisition-related intangibles have been fully amortized they are not replenished, and the amortization expense will cease. The change in the allowance for ECL can be calculated from the continuity of the allowance for ECL in Note 5(c) - *Finance Receivables* in the unaudited interim condensed consolidated financial statements as the difference between the provision for credit losses and the net charge-offs during a period. The change in allowance for ECL is a non-cash item. It reflects our creditor-approved formulas for Adjusted EBITDA and Free Cash Flow that drive our maximum permitted dividends, both relevant measures for the Company’s financial reporting users.

"Free Cash Flow" or "FCF" is Adjusted EBITDA less maintenance capital expenditures, the tax effect of the non-cash change in the allowance for ECL and tax expense. Cash receives significant attention from primary users of financial reporting. Free Cash Flow provides an indication of the cash the Company generates that is available for servicing and repaying debt, investing for future growth and providing dividends to our shareholders. The FCF measure provides information relevant to assessing the Company’s resilience to shocks and the ability to act on opportunities. Free Cash Flow is a calculation that reflects the agreement with one of the Company's significant lenders as a measure of the cash flow produced by the Company's businesses in a period. It is also management’s view that the measure reduces the impact of significant non-cash charges and recoveries that do not reflect the actual cash flows of the businesses, and can vary considerably in amount from period to period.

"Free Cash Flow per share - Diluted" is FCF divided by the weighted average number of shares outstanding during the period for income attributable to common shares on a fully diluted basis.

(2) Origination volumes include contracts that were originated by the Company’s Canadian auto financing segment and sold to investment managers and financial institutions.

ABOUT CHESSWOOD GROUP LIMITED

Chesswood Group Limited is a Toronto, Canada based holding company whose subsidiaries engage in the business of specialty finance (including equipment finance throughout North America and vehicle finance and legal sector finance in Canada), as well as the origination and management of private credit alternatives for North American investors. Our shares trade on the Toronto Stock Exchange (under the symbol CHW).

For information on Chesswood Group Limited and its operating subsidiaries:
www.ChesswoodGroup.com

www.PawneeLeasing.com	www.TandemFinance.com
www.VaultPay.ca	www.VaultCredit.com
www.Rifco.net	www.WaypointInvestmentPartners.com
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