



## CHESSWOOD ANNOUNCES FIRST QUARTER 2024 RESULTS

TORONTO, May 8, 2024 – 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 months ended March 31, 2024.

### First Quarter Highlights

- *The Company continued entering into new agreements with mutual funds or partnerships managed by its affiliates for the non-recourse sale of leases and loans in exchange for fees. During the three months ended March 31, 2024, \$341.9 million of U.S. and Canadian finance receivables were sold under such arrangements (three months ended March 31, 2023 - \$106.0 million).*
- *On January 31, 2024, the U.S. Financing Segment closed the first sale of finance receivables to Bishop Holdings LLC, an entity owned by certain funds managed by Wafra Inc. (“Wafra Funds”) and the Company’s subsidiary, Pawnee Leasing Corporation.*

"Chesswood reported an adjusted net loss<sup>(1)</sup> of \$5.2 million in the first quarter of 2024, reflecting the ongoing challenges associated with our lease and loan portfolios performance. Expense management remained a priority in the quarter. General and administrative expenses were higher than expected due to rising collection costs associated with charged off leases and loans. Although we expect these costs to remain elevated, it is these costs which allow our collections teams to utilize the many tools at their disposal to recover on delinquent or impaired loans," said Ryan Marr, Chesswood’s President and CEO.

"The highlight of the quarter was certainly the initial success of our joint venture with Wafra through Bishop Holdings LLC. We successfully sold \$196.8 million of assets to this joint venture, in which Chesswood has 10% ownership," said Mr. Marr. "This joint venture provides us with strong visibility on capital to support origination levels, grow our recurring fee streams as well as participate in portfolio performance. While it is paramount that we strike a balance between on and off balance sheet sources of earnings, we remain committed to our asset management model to augment volatility associated with credit performance."

"Our team continues to make progress in resizing our U.S. equipment leasing business to match the realities of capital availability, loan demand and portfolio performance. We have made good progress adjusting our lending mix, targeting a 14-16% average yield on new originations. At quarter end, the average life of the U.S. receivables portfolio was approximately 33 months. Therefore, we roll off approximately one third of the portfolio each year, freeing up equity for new originations," added Mr. Marr.

### Summary of First Quarter Results

A larger volume of off balance sheet sales occurred in Q1 2024, further progressing Chesswood’s alternative asset management business. For the three months ended March 31, 2024, the Company sold \$341.9 million of finance receivables to mutual funds or partnerships managed by its affiliates (Q1 2023 - \$106.0 million). As a result, the average finance receivables (after allowance for expected credit losses (“**ECL**”)) decreased by \$476.5 million period over period, decreasing interest revenue by \$12.8 million. Lower interest revenues were slightly offset by a \$0.4 million increase in ancillary finance and other fee income due to greater reoccurring fee revenue streams. In addition, a non-cash unrealized loss of \$1.7 million was recorded on the mark to market value of the warrants issued to an affiliate of Wafra Funds as part of the joint venture arrangement with Wafra Inc.; however, this was offset by lower interest expenses and personnel expenses.

Average debt outstanding decreased by \$425.7 million, resulting in a decrease in interest expense of \$2.0 million compared to the same period in the prior year. The change in allowance for ECL compared to the

same period in the prior year decreased by \$18.4 million, offset by an increase in net charge-offs of \$16.0 million when compared to the same period of the prior year. Lower ECL provisions in the quarter resulted from lower average finance receivable balances and a reduction in stage one loss reserves associated with expected improvements in portfolio performance going forward. General and administrative expenses were \$1.3 million higher compared to the same period in prior year, driven by expenses associated with lease and loan recovery costs, offset by reductions in personnel expenses of \$3.2 million.

## **U.S.**

The U.S. Equipment Financing Segment generated revenue of \$31.1 million (\$26.6 million interest revenue and \$4.5 million ancillary finance and other fee income) for the three months ended March 31, 2024, compared to revenue of \$41.3 million (\$35.4 million interest revenue and \$5.9 million ancillary finance and other fee income) during the same period of the prior year, a decrease of \$10.2 million. Interest revenue decreased by \$8.8 million when compared to the same period in the prior year due to a 26.2% decrease in average net investment in finance receivables (before allowance for ECL) to \$1.0 billion as a result of continued off-balance sheet sales and lower on balance sheet originations. The average yield earned during the three months ended March 31, 2024 increased by 0.1% (to 10.6%) compared with the same period in the prior year. The overall yield increased as the segment adjusted its products for increased costs of funding, partially offset by the sale of current year higher yielding originations to mutual funds and partnerships managed by Chesswood Capital Management USA Inc. to generate recurring fee-based revenue.

## **Canada**

During the three months ended March 31, 2024, the Canadian Equipment Financing Segment generated revenue of \$20.4 million (\$14.4 million interest revenue and \$6.0 million ancillary finance and other fee income), a decrease of \$4.0 million (\$5.6 million decrease in interest revenue offset by a \$1.6 million increase in ancillary finance and other fee income) when compared to the same period in the prior year. The Canadian Equipment Financing Segment's average net investment in finance receivables (before allowance for ECL) decreased by approximately \$167.8 million for the three months ended March 31, 2024 compared to the same period in the prior year. During the three months ended March 31, 2024, the interest revenue yield earned on the Canadian Equipment Financing Segment's net finance receivables was 10.2%, a decrease from 10.9% compared to the same period in the prior year. This is due to the sale of current year's higher yielding originations through off-balance sheet conduits to generate recurring fee-based revenue.

The Canadian Consumer Financing Segment generated revenue of \$1.9 million (\$1.6 million interest revenue and \$0.3 million ancillary finance and other fee income) during the three months ended March 31, 2024, an increase of \$0.8 million (\$0.6 million increase in interest revenue and a \$0.2 million increase in ancillary finance and other fee income) from the same period in the prior year. The Canadian Consumer Financing Segment's average net investment in finance receivables (before allowance for ECL) increased by approximately \$19.5 million for the three months ended March 31, 2024 compared to the same period in the prior year as a result of the continued growth of this segment. The interest revenue yield earned on the Canadian Consumer Financing Segment's average net finance receivables (before allowance for ECL) increased to 10.7% (from 9.6%) as the Canadian Consumer Financing Segment adjusts its products for increased costs of funding.

During the three months ended March 31, 2024, the Canadian Auto Financing Segment generated revenue of \$12.3 million (\$11.7 million interest revenue and \$0.6 million ancillary finance and other fee income) compared to \$11.6 million (\$10.9 million interest revenue and \$0.7 million ancillary finance and other fee income) during the same period in the prior year. The segment's average net investment in finance receivables (before allowance for ECL) was \$273.3 million for the three months ended March 31, 2024 compared to \$248.5 million during the same period in the prior year, an increase of \$24.8 million. The interest revenue yield earned on the Canadian Auto Financing Segment's net finance receivables was 17.1% during the period, a decrease of 0.5% compared to the same period in the prior year.

## Outlook

First quarter macroeconomic data has impacted the timing of expectations for interest rate reductions in the United States. Data has generally come in stronger than expected, accompanied by higher inflation readings on core metrics. Sentiment around interest rate reductions has shifted, and markets are now pricing in fewer (if any) cuts to rates in the back half of the year in the United States.

In contrast, the Canadian market appears to be under pressure from the increase in front end rates. This is evident in several indicators around economic activity, inflation, and employment gauges. The Canadian dollar has been reflecting this potential policy differential, having depreciated versus the U.S. dollar.

A reduction in interest rates would have a meaningful impact on Chesswood's profitability, so these variables are relevant to our operating results. In a declining rate environment, pricing will likely be more stable, allowing for margin expansion upon rate adjustments. In the near term, we plan to continue reducing leverage where appropriate and redeploy any excess liquidity into higher margin loans.

With a more stable macro environment, we expect results to improve in the back half of the year, albeit slowly given liquidity constraints.

Chesswood's board continues to evaluate different business options through its special committee and strategic review process. The committee will provide updates on this review when appropriate.

### **Consolidated Operating and Financial Results**

| <b>Financial Highlights</b><br>(in CDN \$000's, except EPS) | <b>For the Three Months</b> |             |
|---|-----------------------------|-------------|
|   | <b>Ended March 31,</b>      |             |
|   | <b>2024</b>                 | <b>2023</b> |
| Revenue   | \$68,799                    | \$81,143    |
| Interest expense  | (28,964)                    | (30,957)    |
| Net charge-offs   | (28,861)                    | (12,874)    |
|   | 10,974                      | 37,312      |
| <b><u>Expenses:</u></b>                                     |                             |             |
| Personnel   | (13,568)                    | (16,743)    |
| Other expenses  | (14,318)                    | (13,030)    |
| Depreciation  | (396)                       | (460)       |
| <b>Adjusted Operating Income (Loss)<sup>(1)</sup></b>       | <b>(17,308)</b>             | 7,079       |
| Decrease/(Increase) in allowance for ECL                    | 13,318                      | (5,108)     |
| Unrealized loss on warrant liability                        | (1,669)                     | —           |
| Amortization – intangible assets                            | (475)                       | (659)       |
| <b>Operating income (loss)</b>                              | <b>(6,134)</b>              | 1,312       |
| Unrealized gain (loss) on foreign exchange                  | (170)                       | 256         |
| <b>Income (loss) before taxes</b>                           | <b>\$(6,304)</b>            | \$1,568     |
| <b>Net income (loss)</b>                                    | <b>\$(6,820)</b>            | \$957       |
| <b>Earnings (loss) Per Share – Basic</b>                    | <b>\$(0.34)</b>             | \$0.06      |
| <b>Earnings (loss) Per Share – Diluted</b>                  | <b>\$(0.34)</b>             | \$0.06      |
| <b>Free Cash Flow<sup>(1)</sup></b>                         | <b>\$(13,504)</b>           | \$5,729     |
| <b>Free Cash Flow Per Share – Diluted</b>                   | <b>\$(0.68)</b>             | \$0.28      |

(1) - See Note (1) below related to NON-GAAP Measures

(1) "Adjusted Operating Income (Loss)" and "Free Cash Flow" and other non-GAAP measures as defined below, 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 audited consolidated statements of income (loss), 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 Net Income (Loss)" is net income (loss) as presented in the consolidated statements of income adjusted for one time non-recurring items and non-cash unrealized loss on the revaluation of warrant instruments. See the "Consolidated results of operations for the three months ended March 31, 2024 and 2023" section of the MD&A for reconciliations of Adjusted Net Income (Loss).

"Adjusted Operating Income (Loss)" is operating income (loss) as presented in the audited consolidated statements of income (loss), adjusted to exclude the amortization of intangible assets and the change in allowance for ECL. Adjusted Operating Income (Loss) 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. 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 6(c) - *Finance Receivables* in the unaudited interim condensed consolidated financial statements for the three months ended March 31, 2024 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 (including Exchangeable Securities - see Note 15 to the unaudited interim condensed consolidated financial statements for the three months ended March 31, 2024) during the period for income attributable to common shares on a fully diluted basis.

## **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](http://www.ChesswoodGroup.com)

[www.PawneeLeasing.com](http://www.PawneeLeasing.com)

[www.VaultPay.ca](http://www.VaultPay.ca)

[www.Rifco.net](http://www.Rifco.net)

[www.EasyLegal.ca](http://www.EasyLegal.ca)

[www.TandemFinance.com](http://www.TandemFinance.com)

[www.VaultCredit.com](http://www.VaultCredit.com)

[www.WaypointInvestmentPartners.com](http://www.WaypointInvestmentPartners.com)

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