# CHESSWOOD ANNOUNCES THIRD QUARTER 2022 RESULTS AND DIVIDEND INCREASE

TORONTO, November 7, 2022 – 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, and asset management, today reported its results for the three and nine months ended September 30, 2022.

## Q3 2022 Highlights

- *Strong origination volumes of $379.9 million in the equipment finance segment and $33.1 million in the automotive finance segment, resulting in record gross finance receivables of $2.7 billion as at September 30, 2022.*

- *Utilized off balance sheet funding with a third party institutional investor for US$66.9 million of net investment in finance receivables under the asset management segment's first forward flow arrangement, which provides Chesswood with origination, management, and servicing fees.*

- *Earnings of $12.3 million ($0.58 per fully diluted share) and free cash flow generation of $12.0[1] million ($0.57[1] per fully diluted share).*

- *Return on equity for the quarter of 22.6%.*

- *Increasing dividend to $0.05 per share per month (or $0.60 per year), a 25% increase, effective January 31, 2023.*

"Chesswood generated strong earnings and free cash flow in the third quarter of 2022. Each of our operating companies maintained strong origination volumes despite pricing increases that occurred during the quarter to offset the impact of rising interest rates" said Ryan Marr, Chesswood's President and CEO. "Our teams remain conservative with their underwriting, as evidenced by the strong credit performance in the quarter" added Mr. Marr.

"Our asset management group continues to work with investment partners to sell U.S. Equipment Finance Segment receivables. In the quarter, we observed increased concern by investors regarding the future economic environment. We are, therefore, particularly pleased with the performance of our receivables assets, as they continue to be some of the best performing within the specialty finance industry," said Mr. Marr. "We continue to expand conversations with new partners to further scale our off-balance sheet programs at Chesswood," added Mr. Marr.

"As we draw closer to the end of 2022, our teams can celebrate the tremendous success we have had throughout 2022. With our portfolios having experienced tremendous growth this year, we believe it is prudent to shift our focus towards enhancing liquidity in response to the changing economic environment," said Mr. Marr.

"I am pleased to announce that Chesswood's Board has approved an increase in the annual dividend rate from $0.48 per share to $0.60 per share, a 25% increase. This increase reflects Chesswood's strong free cash flow generation," said Mr. Marr.

**Summary of Q3 Results**

The Company reported consolidated net income of $12.3 million in the three months ended September 30, 2022 compared to net income of $9.1 million in the same period in 2021, an increase of $3.2 million compared to the same period in the prior year. The increase was primarily the result of the addition of Rifco National Auto Finance Corporation ("Rifco"), which was acquired in January 2022 and which contributed $1.5 million in the three months ended September 30, 2022.

The U.S. Equipment Financing Segment reported aggregate interest revenue and ancillary and other income on leases and loans in the quarter of $38.4 million ($32.4 million interest revenue and $6.0 million of ancillary and other income), a total increase of $11.1 million compared to the same period in the prior year. The increase is the result of the growing finance receivables portfolio and off balance sheet funding.

The Canadian Equipment Financing Segment reported aggregate interest revenue and ancillary and other income on leases and loans in the quarter of $19.6 million ($17.2 million interest revenue and $2.4 million ancillary and other income), a total increase of $10.0 million compared to the same period in the prior year. The increase reflects the expansion of the Canadian Equipment Financing Segment.

The Canadian Auto Financing Segment reported interest revenue on leases and loans in the quarter of $10.5 million and ancillary and other income of $0.4 million.

Overall operating costs were up $13.4 million compared to the same period in the prior year, to $30.1 million. A majority of the increase relates to costs associated with personnel, collections, marketing, and other operating costs.

Other expenses from the equipment financing segments were up $3.3 million compared to the same period in the prior year, mainly consisting of costs attributable to originations as a result of scaling the businesses. In addition, the growth of the equipment financing segments and their originations required an 36% increase in the number of employees since September 30, 2021, increasing personnel costs by $4.9 million.

Free cash flow[2] for the period was $12.0 million, up $1.8 million from Q3 2021. The increase in free cash flow is the result of growing revenues (including revenues from Rifco, which was acquired earlier in 2022).

### Outlook

Our teams are working diligently to adjust pricing to reflect the impact of rising interest rates. At the current levels of inflation, it is difficult to determine when the interest rate hiking cycle will end. We are therefore fixing funding costs along with new originations to manage profitability.

If history is any gauge, a recession is almost certain to occur as central banks continue to increase interest rates. Our teams have considerable experience navigating these difficult environments successfully. First, our average portfolio term is short, thereby producing significant cash flow during periods where origination volumes decline. Second, most of our funding is fixed, reducing the overall impact of rising rates. Lastly, our portfolio of receivables is largely made up of prime borrowers with strong credit profiles.

Based on previous cycles, we expect that funding markets will become progressively more challenging as evidenced by recent activity. We therefore believe the decisions made during the third quarter position our businesses to capitalize on opportunities going forward.

| **Financial Highlights** | **For the Three Months** | | **For the Nine Months** | |
|---|---|---|---|---|
| (in CDN $000's, except EPS) | **Ended September 30** | | **Ended September 30** | |
| | **2022** | **2021** | **2022** | **2021** |
| Revenue | $73,054 | $37,007 | $199,289 | $93,840 |
| Interest expense | (17,284) | (8,835) | (46,504) | (22,469) |
| Net recoveries (charge-offs) | (5,542) | 1,410 | (9,039) | (2,500) |
| | 50,228 | 29,582 | 143,746 | 68,871 |
| **Expenses:** | | | | |
| Personnel | (17,127) | (8,667) | (47,477) | (21,606) |
| Other expenses | (11,849) | (7,249) | (32,790) | (17,508) |
| Depreciation | (477) | (290) | (1,342) | (789) |
| **Adjusted Operating Income(1)** | **$20,775** | $13,376 | **$62,137** | $28,968 |
| Decrease/(Increase) in Allowance for Credit Losses | (3,542) | (1,830) | (24,928) | 2,761 |
| Amortization – intangible assets | (660) | (546) | (1,844) | (1,240) |
| **Operating income (loss)** | **16,573** | 11,000 | **35,365** | 30,489 |
| Mark-to-market adj. on swaps/caps | - | 86 | - | 344 |

| | | | | |
|---|---|---|---|---|
| Other non-cash items | (549) | 1,249 | (1,003) | 1,517 |
| **Income (loss) before taxes** | **$16,024** | $12,335 | **$34,362** | $32,350 |
| **Net income (loss)** | **$12,296** | $9,148 | **$23,626** | $23,273 |
| **Earnings Per Share – Basic** | **$0.64** | $0.49 | **$1.27** | $1.29 |
| **Earnings Per Share – Diluted** | **$0.58** | $0.45 | **$1.14** | $1.19 |
| **Free Cash Flow** | **$11,956** | $10,188 | **$42,909** | $22,087 |
| Free Cash Flow Per Share – Diluted | $0.57 | $0.51 | $2.04 | $1.15 |

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

## NON-GAAP MEASURES

Adjusted Operating Income and Free Cash Flow are not recognized measures under International Financial Reporting Standards and do not have a standard meaning. Accordingly, these measures may not be comparable to similar measures presented by other issuers.

[1] "EBITDA" is Net Income (Loss) as presented in the 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 further removal of other non-cash or non-recurring items such as (i) non-cash gain (loss) on interest rate derivatives 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 credit losses ("ACL"), (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 as defined below. Adjusted EBITDA is therefore included as a non-GAAP measure that is relevant for a wider audience of users of the Company's financial reporting.

"Adjusted Operating Income" is Operating Income (Loss) as presented in the consolidated statements of income, adjusted to exclude amortization of intangible assets and the change in ACL. 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 non-compete clauses, is a function of acquisitions. The cost of maintaining the broker relationships after 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 ACL can be calculated from continuity of the ACL in Note 6(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 ACL is a non-cash item and reflects our creditor approved formulas for Adjusted EBITDA and Free Cash Flow that drives our Maximum Permitted Dividends, both relevant measures for users of the Company's financial reporting.

"Free Cash Flow" or "FCF" is defined as Adjusted EBITDA less maintenance capital expenditures, tax effect of the non-cash change in the allowance for credit losses 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 which 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 resilience of the Company 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 to a measure of the cash flow produced by the Company's businesses in a period. It is also management's concurrent view that the measure significantly reduces the impact of large non-cash charges and/or recoveries that do not reflect actual cash flows of the businesses and can vary greatly in amounts from period to period.

"Free Cash Flow per diluted share" is defined as FCF divided by the weighted average number of shares outstanding during the period for income attributable to common shares and Exchangeable Securities (as defined below in the "Statement of Financial Position" section) on a fully diluted basis.

**ABOUT CHESSWOOD GROUP LIMITED**

Through three wholly-owned operating subsidiaries in the United States and five operating subsidiaries in Canada, two of which are wholly-owned, Chesswood Group Limited is a North American specialty finance company publicly traded on the Toronto Stock Exchange. Colorado-based Pawnee Leasing Corporation, founded in 1982, finances a highly diversified portfolio of commercial equipment leases and loans through relationships with over 600 brokers in the United States. Tandem Finance Inc. provides financing in the U.S. through the equipment vendor channel. Vault Credit Corporation, which through its predecessor corporations, has been originating and servicing commercial equipment leases and loans in Canada since 1996, specializes in equipment leases and commercial loans across Canada, allowing for customizable financing solutions while catering to a wide spectrum of credit tiers, equipment types and sectors by offering industry-leading service levels, experienced underwriters and account administrators. Vault Credit operates through a nationwide network of more than 60 brokers. Vault Home Credit Corporation was launched in September 2021 and focuses on providing home improvement and other consumer financing solutions in Canada. Rifco National Auto Finance Corporation, with the mission to help Canadians own automobiles, seeks to create sustainable long-term competitive advantages through personalized partnerships with dealers, innovative products, the use of industry-leading data and analytics, and leading collection practices. Through Waypoint Investment Partners Inc., a Toronto-based investment manager and exempt market dealer, and Chesswood Capital Management USA Inc., Chesswood Capital Management provides private credit alternatives to Canadian and U.S. investors seeking exposure to lease and loan receivables, including those originated by Chesswood subsidiaries.

Based in Toronto, Canada, Chesswood Group Limited's shares trade on the TSX under the symbol CHW.

To learn more about Chesswood Group Limited, visit www.ChesswoodGroup.com.

The websites of Chesswood Group Limited's operating businesses are:

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

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