



## CHESSWOOD ANNOUNCES FISCAL YEAR 2021 RESULTS

TORONTO, March 9, 2022 – Chesswood Group Limited (“Chesswood” or the “Company”) (TSX: CHW), a publicly traded North American specialty finance company providing commercial equipment leases and loans, business loans, home improvement financing, and (since January 14, 2022) automobile loans, today reported its results for its year ended December 31, 2021.

### Year End Highlights

- *Record gross finance receivables at year-end of \$1.7 billion, up 89% from fiscal year 2020*
- *Fully diluted earnings per share of \$1.59 versus previous fiscal year loss of \$0.48 per share*
- *2021 average return on equity of 19%*
- *Free cash flow generation of \$33.6 million, or \$1.72 per fully diluted share, up 56% from fiscal year 2020*
- *Repurchased 488,040 common shares under the Company’s normal course issuer bid at an average price of \$10.06 per share (3% of the outstanding common shares)*
- *Increasing dividend to \$0.04 per share per month (or \$0.48 per year), a 33% increase, effective March 31, 2022*

### Fourth Quarter Highlights

- *Strong originations totaling \$341 million, with Vault Credit Corporation and Tandem Finance each surpassing \$100 million in the quarter*
- *Free cash flow of \$11.5 million, or \$0.56 per fully diluted share, up 10% from Q3 and up 44% from Q4 2020*
- *Strong diluted earnings per share of \$0.40, even after a one-time, non-cash share grant impacted diluted per share earnings by \$0.12 in the quarter*
- *Announced the acquisition of Rifco Inc. (“Rifco”) for \$28 million (which was completed in early 2022)*
- *Pawnee closed its third marketed securitization for US\$356 million, with an effective interest rate of 2%*

“2021 was a transformational year for Chesswood Group. We set the objective at the beginning of the year to diversify Chesswood’s balance sheet both with regards to underwritten assets and funding sources. We accomplished our goal through the launch of Vault Home as well as the acquisition of Rifco. In addition, we formed a new revolver syndicate, successfully completed our largest marketed ABS offering through our subsidiary, Pawnee Leasing Corporation, and formed Chesswood Capital Management to manage off balance sheet funding relationships. We expect these initiatives to further enhance shareholder value by growing profitability across a diverse set of assets, reducing volatility in our operating results and ultimately increasing returns for investors.”

“The economic environment throughout 2021 was particularly favorable for specialty finance companies. A combination of loan demand recovery following declines in 2020 brought on by COVID-19 and low interest rates produced exceptional opportunities for growth. Furthermore, government subsidies provided to individuals and businesses resulted in low charge-off and delinquency rates throughout the year. Practically speaking, it is likely we will begin to see the market normalize in 2022 and would point to rising

rates as an indication that this is in fact occurring. That said, the groundwork our team laid in 2021 has created a platform for continued growth throughout the year as we leverage Chesswood's scale to the benefit of all of our operating subsidiaries." said Ryan Marr, Chesswood's President and CEO.

"I am pleased to announce that Chesswood's Board has approved an increase in the annual dividend rate from \$0.36 per share to \$0.48 per share, a 33% increase. This increase reflects Chesswood's strong free cash flow generation and outlook for business profitability. We continue to take a balanced approach between overall portfolio growth and returning cash to shareholders through dividends and buybacks." said Mr. Marr.

### **Summary of Fourth Quarter & Year End Results**

#### **2021 Year**

The Company reported consolidated net income of \$31.2 million in the year ended December 31, 2021, compared to a net loss of \$8.5 million in 2020, an increase of \$39.7 million.

The U.S. Equipment Finance Segment's interest revenue on leases and loans totaled \$94.2 million, an increase of \$2.7 million year-over-year. The increase was caused by a US\$118.0 million increase in the average portfolio size and continuously growing originations since the last quarter of 2020. The impact of the portfolio growth was offset by a 7% decrease in foreign exchange year-over-year and a 1% decrease in the interest revenue yield during the year. The average annualized interest revenue yield earned on U.S. based net finance receivables was 12% in the year ended December 31, 2021, compared to 13% in the prior year, reflecting an increase in the overall percentage of prime receivables.

The Canadian Equipment Financing Segment generated revenue of \$32.8 million during the year ended December 31, 2021, compared to \$15.2 million in the prior year, an increase of \$17.6 million, or 116%. The Canadian Equipment Financing Segment's average net investment in finance receivables (before allowance for credit losses ("ACL")) increased approximately \$114.6 million in the year ended December 31, 2021, compared to the prior year, largely due to the Blue Chip and Vault Credit merger and Vault Credit's continued expansion in the Canadian equipment leasing market. In addition, the average number of finance receivable contracts outstanding increased by 4,979 in the year ended December 31, 2021, compared to the prior year. In the year ended December 31, 2021, the interest revenue yield of 10% earned on the Canadian Equipment Financing Segment's net finance receivables has increased from 8% in 2020.

A \$3.1 million increase in the interest expense, year-over-year, is driven primarily by an increase in average debt outstanding throughout the year. Personnel expenses increased \$13.1 million, to \$32.3 million, due to higher staff counts arising from the merger with Vault Credit, and for processing the increase in originations as a result of the growth in both the U.S. and Canadian Segments.

The Company recognized a provision for credit losses of \$0.2 million, a \$25.5 million decrease compared to the prior year. The decrease is primarily related to provision releases as a result of a consistently better performing portfolio, especially as COVID-19 uncertainties lessen, as well as continued strong collection efforts.

#### **Q4 2021**

The Company reported consolidated net income of \$7.9 million for the three months ended December 31, 2021, compared to \$0.1 million in the same period of 2020, an increase of \$7.8 million in the same quarter year-over-year. Net income was impacted by a one-time restricted share unit grant which reduced net income by \$2.3 million in the quarter.

The U.S. Equipment Financing Segment's interest revenue on leases and loans totaled \$27.7 million, an increase of \$7.8 million year-over-year in the three-month period, as a result of a 55% increase in average net investment in finance receivables (before ACL), an increase of US\$270.4 million to US\$759.4 million in the three months ended December 31, 2021 compared to the same period in the prior year. This was partially offset by the decrease in the average yield earned during the period (11.7% compared to 12.2% in the prior year). The decrease in overall yield percentage is due to the continuing growth in the prime segment of the portfolio.

The Canadian Equipment Financing Segment generated revenue of \$13.1 million during the three months ended December 31, 2021, an increase of \$9.6 million from the same period in the prior year. The Canadian Equipment Financing Segment's average net investment in finance receivables (before ACL) increased approximately \$245.5 million in the three months ended December 31, 2021 compared to the same period in the prior year. The average annualized interest revenue yield earned on the Canadian Equipment Financing Segment's net finance receivables increased by 3% (to 11%), during the period compared to the same period in the prior year.

The Company recognized a provision for credit losses of \$0.4 million, a \$1.5 million decrease compared to the same period in prior year. The decrease is primarily related to provision releases as a result of a better performing portfolio, one year further away from COVID-19 uncertainties, as well as continued strong collection efforts. This was partially offset by the growing loan portfolio book.

## **Outlook**

Chesswood exited 2021 with record originations and the largest receivables portfolio in the Company's history. We expect this momentum to continue throughout 2022 with the added benefit of contributions from our newly acquired automobile finance entity, Rifco.

The equipment finance subsidiaries continue to see strong origination volumes in both Canada and the United States. Changes in the general interest rate environment are expected to impact pricing for prime credits as the industry passes through increases in funding cost. Historically, we have been successful in maintaining credit spreads in a rising rate environment. Any negative impact from rising rates will likely be seen in weaker industry wide origination volumes.

Portfolio losses and recoveries throughout 2021 were the strongest in Chesswood's history due to several economic factors. For 2022, we expect these metrics to begin normalizing towards levels more consistent with our underwriting expectations. Furthermore, the addition of near-prime receivables from our Rifco acquisition will increase overall portfolio provisioning and losses. On a net basis, we expect to maintain strong credit margins, consistent with Chesswood's historical performance.

Our acquisition of Rifco will begin to contribute to overall results in Q1 of 2022. As a reminder, the accounting treatment for acquisitions of loan portfolios requires that the allowance for doubtful accounts be taken as a provision in the quarter for which the portfolio is acquired. Therefore, Q1 results will be impacted by this one-time charge, flowing through the income statement. RIFCO is expected to build on the results achieved in 2021 after adjusting for this one-time provision.

Chesswood's funding sources for the year will be augmented with off-balance sheet investments arranged by Chesswood Capital Management. In addition to managing Chesswood's on balance sheet facilities and access to the ABS markets, Chesswood Capital Management will structure off-balance sheet funding partnerships as well as manage investor capital seeking direct exposure to the underlying originations of Chesswood's operating subsidiaries. Chesswood and its subsidiaries will earn management fees, servicing fees and origination fees associated with these programs. We are excited about these new funding relationships and expect them to be accretive to Chesswood's profitability and return on equity.

**Consolidated Operating and Financial Results**

	1.2535	1.3415	
(\$ thousands)	Year ended December 31,		
	2021	2020	Change
Revenue	\$ 138,083	\$ 117,056	\$ 21,027
Interest expense	(31,671)	(28,521)	(3,150)
Net charge-offs	(2,028)	(31,374)	29,346
	<b>104,384</b>	57,161	47,223
<b>Expenses:</b>			
Personnel expenses	(32,269)	(19,203)	(13,066)
Share-based compensation expense	(3,544)	(920)	(2,624)
Other expenses	(26,450)	(18,618)	(7,832)
Depreciation	(1,111)	(1,216)	105
Adjusted operating income <sup>(1)</sup>	<b>41,010</b>	17,204	23,806
Decrease in allowance for credit losses (“ACL”)	<b>1,840</b>	5,730	(3,890)
Amortization of intangible assets	(1,789)	(1,333)	(456)
Operating Income	<b>41,061</b>	21,601	19,460
Restructuring and other transaction costs	—	(9,250)	9,250
Goodwill and intangible asset impairment	—	(20,828)	20,828
Mark-to-market gain (loss) on interest rate derivative	<b>344</b>	(118)	462
Other non-cash FMV charges and unrealized FX	<b>666</b>	477	189
Income (loss) before taxes	<b>42,071</b>	(8,118)	50,189
Tax expense	<b>(10,902)</b>	(407)	(10,495)
<b>Net Income (Loss)</b>	<b>\$ 31,169</b>	\$ (8,525)	\$ 39,694
<b>Earnings Per Share – Basic</b>	<b>\$ 1.75</b>	\$ (0.48)	\$ 2.23
<b>Earnings Per Share – Diluted</b>	<b>\$ 1.59</b>	\$ (0.48)	\$ 2.07
<b>Free Cash Flow</b>	<b>\$ 33,573</b>	\$ 19,606	\$ 13,967
<b>Free Cash Flow Per Share - Diluted</b>	<b>\$ 1.72</b>	\$ 1.10	\$ 0.62

(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. The calculation of these measures are based on the requirements of certain significant banking and lending agreements with Company for the purposes of calculation of permitted dividends and cash required for purchases of shares under the Company's normal course issuer bid. For further information, reference should be made to the Non-GAAP Measures in the Company's Management Discussion & Analysis section of its 2021 Annual Report.

## **ABOUT CHESSWOOD GROUP LIMITED**

Through three wholly owned subsidiaries in the United States and five 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. In Canada, Blue Chip Leasing Corporation has been originating and servicing commercial equipment leases and loans since 1996, and today operates through a nationwide network of more than 50 brokers. Vault Credit Corporation 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 Home was acquired in September 2021 and focuses on providing home improvement and other consumer financing solutions in Canada. Rifco Inc. is focused on being the best alternative auto finance company, with the mission to help Canadians own automobiles. Rifco 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 collections practices. Chesswood Capital Management will provide private credit alternatives to investors seeking exposure to 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](http://www.ChesswoodGroup.com).

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

<a href="http://www.PawneeLeasing.com">www.PawneeLeasing.com</a>	<a href="http://www.BlueChipLeasing.com">www.BlueChipLeasing.com</a>
<a href="http://www.TandemFinance.com">www.TandemFinance.com</a>	<a href="http://www.VaultCredit.com">www.VaultCredit.com</a>
<a href="http://www.VaultPay.com">www.VaultPay.com</a>	<a href="http://www.Rifco.net">www.Rifco.net</a>

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*This news release contains forward-looking statements that involve a number of risks and uncertainties because they relate to events and depend on circumstances that will occur in the future. Many factors could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements (including the ultimate duration and severity of the COVID-19 pandemic, the successful growth of Vault Home, the successful integration of Rifco Inc., and the successful launch of Chesswood Capital Management). By its nature, this information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections, or conclusions will not prove to be accurate, that assumptions may not be correct, and that objectives, strategic goals and priorities will not be achieved. Additional information about the risks and uncertainties of the Company's businesses and material factors or assumptions on which information contained in forward-looking statements is based is provided in its publicly filed documents, including the Company's annual information form and management's discussion and analysis of the financial condition and performance, which are available electronically through the System for Electronic Document Analysis and Retrieval at [www.sedar.com](http://www.sedar.com).*

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