Chesswood Group Limited

CHESSWOOD ANNOUNCES FISCAL YEAR 2022 RESULTS

TORONTO, March 16, 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, and asset management, today reported its results for its year ended December 31, 2022.

Year End Highlights

- *Record gross finance receivables at year-end of $2.8 billion, up 69% from the end of 2021*
- *Fully diluted earnings per fully diluted share (“EPS”) of $1.47 ($1.59 per share in 2021). Adjusting for one-time non-cash charges of $7.2 million[1] related to the RIFCO acquisition, the adjusted fully diluted EPS was $1.81 per share[1]*
- *2022 return on equity (“ROE”) of 14.6%. Adjusting for one-time non-cash charges related to the RIFCO acquisition, adjusted ROE was 17.7%[1]*
- *Free cash flow generation of $51.7[1] million, or $2.47[1] per fully diluted share, up 54% from fiscal year 2021*
- *Utilized off balance sheet funding with third party investors for US$199.4 million of net investment in finance receivables under the asset management segment, which provided Chesswood with origination, management, and servicing fees*
- *Repurchased 453,612 common shares under the Company’s normal course issuer bid (3% of the outstanding common shares) at an average price of $12.58 per share*
- *Increased dividends to $0.05 per share per month (or $0.60 per year), a 25% increase, effective January 31, 2023*

Fourth Quarter Highlights

- *Strong origination volumes of $367.9 million in the equipment finance segment and $36.3 million in the automotive finance segment*
- *Earnings of $6.8 million ($0.33 per fully diluted share) and free cash flow generation of $8.8[1] million ($0.42[1] per fully diluted share)*

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

“2022 was a strong year for Chesswood Group. Our diversified portfolio generated record earnings and free cash flow. Our newly acquired automotive subsidiary, RIFCO, achieved strong first year results, complementing our equipment finance businesses in North America. Chesswood Capital Management continued to grow throughout the year with the launch of a new private credit fund in Canada as well as the recent announcement with Värde Partners.

“The economic environment throughout 2022 was impacted by central bank rate considerations, both the predictions and then the decisions in the second half of the year. We have begun to see the early signs of economic pressure resulting from these increases, primarily in origination volumes and delinquency statistics. The impact, however, has not been homogenous across Chesswood’s portfolio. We believe the diversifications strategy undertaken, along with a preference for prime credit, will provide ballast to the portfolio should economic conditions worsen. We have begun to see opportunities to price credit more aggressively, taking advantage of a pullback in capital availability in certain markets. Historically, periods of turbulence offer the best risk/reward for Chesswood's operating groups" said Ryan Marr, Chesswood's President and CEO.

Summary of Fourth Quarter & Year End Results

2022 Full Year

The Company reported consolidated net income of $30.4 million in the year ended December 31, 2022, compared to a net income of $31.2 million in 2021, a decrease of $0.8 million.

The U.S. Equipment Finance Segment generated revenue of $150.9 million ($130.4 million interest revenue and $20.5 million ancillary finance and other fee income) during the year ended December 31, 2022, compared to $105.3 million ($94.2 million interest revenue and $11.1 million ancillary finance and other fee income) in the prior year, an increase of $45.6 million year-over-year. The increase in interest revenue of $36.1 million was caused by a US$311.3 million increase in the average net investment in finance receivables (before allowance for expected credit losses ("ECL")) and continuously growing originations since 2021. The impact of the portfolio growth was offset by a 1.2% decrease in the interest revenue yield during the year. The average annualized interest revenue yield earned on U.S. based net finance receivables was 10.6% in the year ended December 31, 2022, compared to 11.8% in the prior year, reflecting the continuing growth of the Tandem portfolio, which has a slightly lower yield.

The Canadian Equipment Financing Segment generated revenue of $74.3 million ($62.0 million interest revenue and $12.3 million ancillary finance and other fee income) during the year ended December 31, 2022, compared to $32.8 million ($25.9 million interest revenue and $6.9 million ancillary finance and other fee income) in the prior year, an increase of $41.5 million, or 126%. The Canadian Equipment Financing Segment's average net investment in finance receivables (before allowance for ECL) increased approximately $333.6 million in the year ended December 31, 2022, compared to the prior year, largely due to Vault Credit's continued expansion in the Canadian equipment leasing market. In addition, the average number of finance receivable contracts outstanding increased by 10,812 in the year ended December 31, 2022, and the segment's interest revenue yield increased from 10.2% to 10.5% year-over-year.

The Canadian Auto Financing Segment, Rifco, reported interest revenue on leases and loans in the year of $40.3 million and ancillary and other income of $1.6 million.

A $41.7 million increase in interest expense, year-over-year was driven primarily by an increase in average debt outstanding throughout the year and a higher cost of funds as a result of rising interest rates. Personnel expenses increased $27.2 million, to $63.0 million, due to higher staff counts arising from the acquisition of Rifco, as well as direct personnel costs related to processing the increased originations as a result of the growth in both the U.S. and Canadian Segments.

The Company recognized a provision for credit losses of $44.3 million, a $44.1 million increase compared to the prior year. The increase was primarily related to the acquisition of Rifco, higher net charge offs and an increase in the allowance for ECL given market uncertainties.

Q4 2022

The Company reported consolidated net income of $6.8 million for the three months ended December 31, 2022, compared to $7.9 million in the same period of 2021, a decrease of $1.1 million in the same quarter year-over-year. The decrease was caused by greater net charge offs and provision rates in 2022 due to market uncertainties, higher cost of funds, and increased personnel and operating expenses due to higher originations, partially offset by increased revenues from portfolio growth.

The U.S. Equipment Financing Segment's interest revenue on leases and loans in the three-month period totaled $34.8 million, an increase of $7.1 million year-over-year, as a result of a 31% increase in average net investment in finance receivables (before allowance for ECL), an increase of US$233.2 million (to US$992.6 million) in the three months compared to the same period in the prior year. This was partially offset by a 0.9% decrease in the average yield earned compared to the same period in prior year. The decrease in overall yield was due to the continuing growth of the Tandem portfolio, which has a slightly lower yield.

The Canadian Equipment Financing Segment generated revenue of $23.4 million during the three months ended December 31, 2022, an increase of $10.2 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 approximately $363.3 million in the three months ended December 31, 2022, compared to the same period in the prior year. The Canadian Equipment Financing Segment interest revenue yield was 10.8% in the fourth quarter of 2022 compared to 11.1% achieved in the same period last year. The decline in net income was due to increased provision for credit losses, interest, and other expenses partially offset by higher revenue levels.

The Canadian Auto Financing Segment contributed interest revenue on leases and loans in the quarter of $10.8 million and ancillary and other income of $0.5 million.

The Company recognized a provision for credit losses of $10.3 million, a $9.9 million increase compared to the same period in the prior year. The increase was primarily related to higher net charge offs in the quarter as well as higher provision rates to reflect pessimistic market expectations.

Free cash flow[1] for the period was $8.8 million, down $2.7 million from Q4 2021. The decrease in free cash flow was a result of increased interest and other operating expenses during the quarter.

Outlook

Chesswood has undergone substantial transformation when comparing its scale, sources of funding and diversity of asset exposures to levels three years ago. The operating teams have demonstrated their ability to grow profitably without sacrificing credit standards and operational processes. To ensure we can continue along this path, core technology systems are being upgraded to improve efficiency and provide better risk management across the organization.

We see a long runway to continue building value across our operational platforms. The medium term objective for our team is to achieve a total portfolio size between $4 billion and $6 billion over the next several years. Current origination levels support this objective, and therefore time is the primary variable for us to achieve success.

As we progress further into 2023, the economy is showing signs of distress. While macro economic headlines appear stable, it is evident in the performance of loan portfolios across a variety of industries that delinquencies are trending higher. We too are seeing this in our portfolio, and have been increasing provisions as well as ramping up our collections teams.

As pressure on short term rates abate, we have focused on repricing our different products to reflect new market realities. This has taken time and lagged the speed of rising rates. Curve inversion has offered some relief on securitizations, but we will require another quarter before our adjustments to pricing are fully reflected. We expect to see gradual margin improvements as we progress throughout the year, and will adjust pricing further if necessary.

We are excited to announce a new institutional funding arrangement – Värde Partners - at the start of 2023. Värde Partners is a leading global alternative investment firm specializing in credit and credit-related assets. This second forward flow arrangement for Chesswood further validates the appetite for receivables originated by Chesswood operating entities, and represents continued progress on our asset management objectives. As part of the agreement, Värde will provide us with additional off balance sheet funding for our U.S Equipment receivables to support the growth of our overall loan portfolio while diversifying our income sources.

Consolidated Operating and Financial Results

Financial Highlights (in CDN $000's, except EPS)	For the Three Months Ended December 31		For the Year Ended December 31	
	2022	**2021**	**2022**	**2021**
Revenue	$77,076	$44,243	$276,365	$138,083
Interest expense	(26,875)	(9,202)	(73,379)	(31,671)
Net recoveries (charge-offs)	(8,514)	472	(17,553)	(2,028)
	41,687	35,513	185,433	104,384
Expenses:				
Personnel	(15,528)	(14,207)	(63,005)	(35,813)
Other expenses	(13,033)	(8,942)	(45,823)	(26,450)
Depreciation	(423)	(322)	(1,765)	(1,111)
Adjusted Operating Income(1)	**$12,703**	$12,042	**$74,840**	$41,010
Decrease/(Increase) in Allowance for expected credit losses	(1,834)	(921)	(26,762)	1,840
Amortization – intangible assets	(591)	(549)	(2,435)	(1,789)
Operating income (loss)	**10,278**	10,572	**45,643**	41,061
Mark-to-market adj. on swaps/caps	-	-	-	344
Other non-cash items	(461)	(851)	(1,464)	666
Income (loss) before taxes	**$9,817**	$9,721	**$44,179**	$42,071
Net income (loss)	**$6,790**	$7,896	**$30,416**	$31,169
Earnings Per Share – Basic	**$0.36**	$0.46	**$1.63**	$1.75
Earnings Per Share – Diluted	**$0.33**	$0.40	**$1.47**	$1.59
Free Cash Flow	**$8,806**	$11,486	**$51,715**	$33,573
Free Cash Flow Per Share – Diluted	$0.42	$0.56	$2.47	$1.72

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

(1) 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. Furthermore, these measures are based primarily on the significant banking and lending agreements of the Company and its subsidiaries for the purposes of determination of compliance with financial covenants as well as calculation of 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 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 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 (as defined below) calculation. 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 Fully Diluted EPS” is a non-GAAP measure representing Adjusted Net Income (Loss) attributable to common shareholders divided by total weighted average diluted shares.

	December 31, 2022
Weighted average basic shares	17,540,296
Weighted average basic shares & Exchangeable Securities	19,018,833
% Attributable to Parent	92.2%

Exchangeable Securities are 1,274,601 Class B shares and 203,936 Class C shares of U.S. Acquisitionco were issued as partial consideration for the acquisition of Pawnee in May 2006.

($ thousands, except share count and adjusted fully diluted EPS)	Year ended December 31, 2022
Net income attributable to common shareholders	28,548
Parent portion of business combination initial allowance on a purchased portfolio (7,166 x 92.2%)	6,607
Adjusted net income (loss) attributable to common shareholders	35,155
Weighted average fully diluted shares	19,417,729
Adjusted fully diluted EPS	1.81

The total provision for credit losses booked on the acquired Rifco portfolio was $9.3 million. This provision was tax adjusted using Alberta's statutory rate of 23% to determine the adjustment to net income of $7.2 million.

"Adjusted Net Income (Loss)" is Net Income (Loss) as presented in the consolidated statements of income adjusted for one-time non-recurring items. See the "Results of operations for the year ended December 31, 2022 and 2021" and "Results of operations for the three months ended December 31, 2022 and 2021" sections of this MD&A for reconciliations of Adjusted Net Income (Loss).

"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 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 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 allowance for ECL can be calculated from continuity of the allowance for ECL in Note 6(c) - Finance Receivables in the audited 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 and reflects our creditor approved formulas for Adjusted EBITDA and Free Cash Flow that drives our Maximum Permitted Dividends (as defined below), both relevant measures for users of the Company's financial reporting.

"Adjusted Return on Equity" is a non-GAAP ratio representing Adjusted Net Income (Loss) divided by average equity as presented in the consolidated statements of financial position.

($ thousands)	Year ended December 31, 2022
Net income	30,416
Business combination initial allowance on a purchased portfolio	7,166
Adjusted net income (loss)	37,582
Average equity, excluding one time items	211,777
Adjusted return on equity	17.7%

The total provision for credit losses booked on the acquired Rifco portfolio was $9.3 million. This provision was tax adjusted using Alberta's statutory rate of 23% to determine the adjustment to net income of $7.2 million.

"Free Cash Flow" or "FCF" is Adjusted EBITDA less maintenance capital expenditures, tax effect of the non-cash change in the allowance for expected 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 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 FCF divided by the weighted average number of shares outstanding during the period for income attributable to common shares and Exchangeable Securities on a fully diluted basis.

ABOUT CHESSWOOD GROUP LIMITED

Chesswood Group Limited is a holding company whose subsidiaries engage in the business of specialty finance (including equipment finance throughout North America, and vehicle finance in Canada), as well as the origination and management of private credit alternatives for North American investors. Based in Toronto, Canada, the firm is publicly traded on the Toronto Stock Exchange (TSX: 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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