



GALAXY FINCO LIMITED
(Registered in Jersey No. 113706)

RESULTS FOR THE SIX-MONTH PERIOD ENDED
30 SEPTEMBER 2020
(Unaudited)

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1. PERFORMANCE HIGHLIGHTS

Continued growth in underlying revenue and EBITDA as the economic uncertainty around Covid-19 continues around the globe. Renewals across the group and subscription business wins have been a solid theme for the quarter and the first half as a whole.

Group performance

- Revenue +3.7%, with continuing growth in subscription revenues of 6.4%
- Underlying operating costs controlled, delivering growth in adjusted EBITDA of 1.0%

UK

- Revenue growth 2.5%, with subscription revenues (92.6% of total UK revenue) growing by 4.6%
- Share of revenue from renewals 79.3% (+4.4 pp)

International

- Revenue growth excluding run off business +10.1%
- Subscription revenues (52.6% of total revenue) growing by 23.1%. In Q2, subscription revenue for International has exceeded non-subscription revenue for the second quarter in a row
- Share of revenue from renewals 32.1% (+0.1 pp)

Business highlights

- The business has proven to be resilient since the start of the lockdown restrictions. Trading in Q2 was strong in a number of areas. Most notably both new subscription revenue and renewal rates have been robust
- Equally importantly is the feedback we have been getting from existing and new customers. Our customer satisfaction measures have remained solid despite the increased complexity around doing business in the current environment
- At the start of lockdown, all employees were successfully transitioned to homeworking. The repair and replacement services remained operational across all product lines and territories. Since our last results announcement, the KPIs we measure around the effectiveness of remote working remain reassuring
- Our US launch is on target
- Brexit planning process is on track to meet the Part VII transfer deadline of 31 December 2020. We are close to being fully prepared for a no deal Brexit should this happen
- The Board notes the progress being made in executing the five-year plan which is in line with targets set

2. SUMMARY FINANCIAL INFORMATION

| £m | For the period ended 30 September | | |
|--------------------------------|-----------------------------------|---------|----------|
| | 2020 | 2019 | % Change |
| UK Revenue | | | |
| Total UK Revenue | 347.6 | 339.2 | 2.5% |
| Of which is: | | | |
| - Subscription business | 322.0 | 307.9 | 4.6% |
| - Non subscription business | 25.7 | 31.2 | (17.8%) |
| | | | |
| of which is Renewal Business | 275.7 | 254.1 | 8.5% |
| Share of Revenue from Renewals | 79.3% | 74.9% | 4.4 pp |
| | | | |
| International Revenue | | | |
| Total International Revenue | 79.5 | 72.8 | 9.2% |
| Of which is: | | | |
| - Subscription business | 41.8 | 33.9 | 23.1% |
| - Non subscription business | 37.7 | 38.8 | (2.9%) |
| | | | |
| of which is Renewal Business | 25.5 | 23.3 | 9.5% |
| Share of Revenue from Renewals | 32.1% | 32.0% | 0.1 pp |
| | | | |
| Total Group Revenue | 427.1 | 411.9 | 3.7% |
| Repair and claims costs | (171.7) | (176.0) | (2.4%) |
| Acquisition costs | (116.2) | (100.4) | 15.7% |
| Non-trading items* | (3.1) | (4.0) | (22.5%) |
| Operating costs | (77.0) | (74.9) | 2.8% |
| EBITDA* | 59.1 | 56.6 | 4.4% |
| Depreciation and Amortisation | (19.8) | (19.9) | (0.5%) |
| Operating profit | 39.3 | 36.7 | 7.1% |
| Investment (loss)/income | (0.4) | 0.6 | N/A |
| Finance costs | (29.6) | (28.0) | 5.7% |
| Profit before tax (PBT) | 9.3 | 9.3 | 0.0% |
| Income tax charge | (1.5) | (2.1) | (28.6%) |
| Profit after Tax (PAT) | 7.8 | 7.2 | 8.3% |

Cash Flows

| £m | For the period ended 30 September | | |
|--|-----------------------------------|--------|----------|
| | 2020 | 2019* | % Change |
| EBITDA | 59.1 | 56.6 | 4.4% |
| Investment (loss)/income | (0.4) | 0.6 | N/A |
| Non-trading items | 3.1 | 4.0 | (22.5%) |
| Adjusted EBITDA | 61.8 | 61.2 | 1.0% |
| - UK** | 55.8 | 55.7 | 0.2% |
| - International | 6.0 | 5.5 | 9.1% |
| Less: Regulated Business EBITDA | (21.1) | (21.7) | (2.4%) |
| Unregulated Business EBITDA | 40.7 | 39.5 | 2.8% |
| Unregulated Business capital expenditures | (11.3) | (8.4) | 34.5% |
| Unregulated Business change in working capital | 13.7 | (23.5) | N/A |
| Unregulated Business Free Cash flow | 43.1 | 7.7 | N/A |
| Increase in Distributable reserves in Regulated Business | 3.9 | 26.9 | (85.4%) |
| Group Free Cash Flow | 47.0 | 34.5 | 36.3% |
| Tax received/(expense) | 1.6 | (8.6) | N/A |
| Post-Tax Free Cash Flow | 48.6 | 25.9 | 88.0% |

* H1 2019 EBITDA has been restated to reflect the reclassification of initial launch costs for the US to Non-trading items

** Includes holding company costs

3. OPERATING AND FINANCIAL REVIEW

Group revenue increased by 3.7% for the six-month period ended 30 September 2020 to £427.1m (H1 2019: £411.9m) driven principally by the resilient subscription model and embedded growth from high renewal ratios. The increase in International revenue for the six-month period ended 30 September 2020 to £79.5m (H1 2019: £72.8m) is a result of the impact of the increased renewals as the International business continues to adopt the well-established UK subscription model.

Share of revenue from renewals for UK was 79.3% of total UK revenue, representing an increase of 8.5% to £275.7m for the period ended 30 September 2020 (H1 2019: £254.1m). For International, the share of revenue from renewals was 32.1% of total International revenue, representing an increase of 9.5% to £25.5m for the period ended 30 September 2020 (H1 2019: £23.3m). The organic growth of our renewals book is driven by our subscription model, retention and pricing initiatives. In H1, subscription revenue for International has exceeded non-subscription revenue for the first time.

Repair and claims costs decreased by £4.3m, or 2.4%, to £171.7m. Repair and claims costs as a percentage of revenue have decreased by 2.5% to 40.2%, reflecting the lower claims made both in the UK and International businesses due to the COVID-19 pandemic lockdown. For our fixed margin accounts, the decrease in the claims costs has been offset by an increase in acquisition costs. However, since the end of September we have seen an increase in claims. This is as a result of two broad factors, including the unwind of pent up demand along with pressure within the supply chain for replacement products and parts.

Acquisition costs, comprising commission and marketing fees, increased by £15.8m, or 15.7%, to £116.2m. Expressed as a proportion of revenue, acquisition costs have increased by 2.8 percentage points to 27.2% due to the mechanics within our fixed margin contracts associated with lower claims.

Investment income decreased by £1.0m, to a loss of £0.4m for the period ended 30 September 2020, following the liquidation of investments into cash in Q1 as we took a prudent approach to investment risk during the macro economic uncertainty at the start of the pandemic. We consistently monitor our policy in this area to ensure we are making the right choices.

Operating expenses increased by £2.1m, or 2.8%, to £77.0m for the period ended 30 September 2020, as we continue to manage the level of costs incurred across the business.

Depreciation and amortisation decreased by £0.1m, or 0.5%, to £19.8m for the period ended 30 September 2020. The amortisation of acquired intangible assets has decreased by £0.8m to £10.8m reflecting certain elements of the customer relationships intangible asset being fully amortised, while the amortisation of software assets has increased by £0.7m following capital investment in our IT infrastructure as we build our digital capability.

Non-trading items of £3.1m for the period ended 30 September 2020 relate to costs incurred in preparing our International business for Brexit. The comparative period included advisory and corporate costs incurred as part of a strategic review by the Group's shareholders to review their ownership (which is now complete) as well as costs incurred for our US launch.

Finance Costs increased by £1.6m, or 5.7%, to £29.6m for the period ended 30 September 2020. This is attributable to the increased leverage of the Group as a result of the debt refinancing in July 2019 and the additional private placement debt taken out in July 2020.

Group EBITDA increased by 4.4% for the six-month period ended 30 September 2020 to £59.1m (30 September 2019: £56.6m), driven by the embedded revenue growth from high renewal ratios in our UK portfolio, stable cost ratios and predictable claims and acquisition costs.

Cash flow

Free cash flow conversion in the period ended 30 September 2020 increased to 76.1% of adjusted EBITDA (H1 2019: 56.4%) and remains strong whilst we continue to invest in growing the business.

Unregulated business working capital inflow increased by £37.2m to £13.7m for the six-month period ended 30 September 2020 (H1 2019 outflow of £23.5m). This increase is attributable to actions to preserve short-term liquidity, including time-to-pay arrangements with HMRC under COVID-19 support measures and the deferral

of bonus payments. The working capital benefit of these actions is expected to unwind over the next two quarters. Q1 FY20 included working capital outflows associated with our Customer First programme as we transition from cash business to subscription products.

Tax payments decreased by £10.2m for the six-month period ended 30 September 2020 to an inflow of £1.6m (H1 2019 outflow of £8.6m), driven by a refund in the current period in relation to FY19.

Leverage/capitalisation

| | Q2 FY21 | | | Q1 FY21 | | | |
|-------------------------------------|--------------|--------------------|------------------|--------------|--------------------|----------|------------------|
| | £m | Multiple of EBITDA | Price | £m | Multiple of EBITDA | Maturity | Price |
| Drawn Super Senior RCF | 0.0 | - | 3m LIBOR + 3.00% | 77.2 | 0.7x | Apr-26 | 3m LIBOR + 3.00% |
| Senior Secured FRN (€200m) | 180.6 | 1.7x | Euribor + 5.00% | 180.6 | 1.7x | Jul-26 | Euribor + 5.00% |
| Senior Secured Notes | 405.0 | 3.8x | 6.50% | 305.0 | 2.8x | Jul-26 | 6.50% |
| Total Super and Senior Secured Debt | 585.6 | 5.4x | | 562.7 | 5.2x | | |
| Senior Notes | 150.0 | 1.4x | 9.25% | 150.0 | 1.4x | Jul-27 | 9.25% |
| Total Bonds | 735.6 | 6.8x | | 712.7 | 6.6x | | |
| Lease liabilities | 8.5 | | | 9.9 | | | |
| Total Gross Debt | 744.1 | 6.9x | | 722.6 | 6.7x | | |
| Unrestricted cash reserves | (129.2) | | | (121.4) | | | |
| Total Net Debt | 614.9 | 5.7x | | 601.2 | 5.6x | | |
| Undrawn Super Senior RCF | 100.0 | | | 0.0 | | Apr-26 | |

Total gross debt has increased to £744.1m (31 March 2020: £723.7m) due to the additional private placement debt taken out in July 2020 which was used to repay off the drawn revolving credit facility balance (see below for details). Net debt has remained stable at £614.9m (31 March 2020: £624.6m). The gross and net debt balances include the €200m Floating Rate Senior Secured Note that has been translated at transaction date spot rate as this currency exposure is fully hedged.

On 31 July 2020, the Group closed a private placement add-on of £100m. Most of the proceeds from the private placement were used to repay the drawn RCF balance of £77.1m on 6 August 2020.

The revolving credit bank facility has a final maturity date of 1 May 2026, of which £30m (31 March 2020: £nil) is allocated to letters of credit callable on demand that support the backing of the Group's Ancillary Own Funds (AOF) and a further £5.0m (31 March 2020: £5.0m) is allocated to a letter of credit pledged as an asset to a trust for UK service plan customers in line with British Retail Consortium guidelines (which expired in October 2020). £65m (31 March 2020: £nil) of the £100m facility was undrawn on 30 September 2020.

Solvency

| £m | At 30 September | | |
|---------------------------------|-----------------|------|----------|
| | 2020 | 2019 | % Change |
| Solvency II Capital resources | 161.1 | 83.2 | 93.7% |
| Solvency II Capital requirement | 75.6 | 51.4 | 47.0% |
| Solvency ratio | 213% | 162% | |

The qualifying capital resources of £161.1m (2019: £83.2m) held by the regulated business at the end of the quarter comfortably exceeded its capital requirements of £75.6m (2019: £51.4m), a regulatory solvency ratio of 213% (2019: 162%).

Management adheres to a voluntary policy of maintaining a prudential buffer of at least 30% of capital requirements in assessing distributions from the regulated business.

Brexit

We have established an insurance entity in Germany, which has been licenced by BaFin, and started to write all new European business from 1st November 2019 in this entity. Existing EU customers, and the renewals related to these customers, are still insured by Domestic & General Insurance PLC and will be migrated through a Part VII transfer to our new German entity and the full transfer is expected by 1 January 2021. Whilst there will be an

increase in the capital required by the new entity, we expect to mitigate part of the impact with the reinsurance arrangements currently in place and the agreement of Undertaking Specific Parameters with BaFin, with approval expected in July 2021.

4. PRESENTATION OF FINANCIAL INFORMATION

Cross reference

In certain areas, reference has been made to the 'Offering Memorandum'. In all cases, this refers to the offering memorandum of Galaxy Bidco Limited and Galaxy Finco Limited dated July 17, 2019 located at the following link <https://investors.domesticandgeneral.com/media/1232/emerald-efinal-bmk.pdf>

Financial Information

Galaxy Finco Limited was formed in August 2013 by funds advised by CVC Advisers Limited, a leading global private equity investor, to acquire D&G Group Holdings Limited and its subsidiary companies, and to manage the business of the Group.

The Group is a portfolio company of CVC Advisers Limited as defined by the 'Guidelines for Disclosure and Transparency in Private Equity' published by David Walker in November 2007 (the 'Walker Report').

Galaxy Finco Limited is required to prepare consolidated financial statements in accordance with IAS 1 Presentation of Financial Statements.

The financial information discussed within this financial review has been prepared in accordance with the basis of preparation as described in the unaudited consolidated financial statements of Galaxy Finco Limited for the six-month period ended 30 September 2020 included herein.

The financial review should be read in conjunction with the audited consolidated financial statements of Galaxy Finco Limited for the year ended 31 March 2020.

Refer to pages xiv – xx and pages 239 - 276 '*Certain Definitions*' in the Offering Memorandum for a list of terms and abbreviations used throughout this financial review.

Alternative Performance Measures ('APMs')

In this financial review, we present certain financial measures that are not required by or presented in accordance with IFRS because we believe they provide investors with useful additional information to measure our performance (including Underlying Revenue, Underlying Acquisition Costs, Adjusted EBITDA and Underlying Adjusted EBITDA) or liquidity (including Free Cash Flow).

Refer to pages x – xiii '*Non-IFRS Financial Measures*' in the Offering Memorandum for a description of these items.

Net leverage, net leverage ratio and Underlying Adjusted EBITDA measures presented in this financial report are not the same as Consolidated Net Leverage, Consolidated Net Leverage Ratio or Consolidated EBITDA as defined in our revolving credit facility agreement and bond indentures and should not be used for the purposes of the covenants thereunder.

Information Regarding Forward-Looking Statements

This financial review includes 'forward-looking statements', within the meaning of the U.S. securities laws and certain other jurisdictions, based on our current expectations and projections about future events.

All subsequent written and oral forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by the cautionary statements referred to in the sections entitled '*Forward-looking statements*' on pages xxi – xxii in the offering memorandum including those set forth under the sections thereof entitled '*Risk Factors*' on pages 34 – 70 in the Offering Memorandum.

Presentation

Rounding adjustments have been made in calculating some of the financial information included in this financial review. Figures shown as totals in some tables and elsewhere may not be exact arithmetic aggregations of the figures that precede them.

Non-GAAP alternative performance measures reconciliation

The table below provides a reconciliation between GAAP and non-GAAP underlying performance measures.

| £m | For the period ended 30 September | | |
|---|-----------------------------------|-------|----------|
| | 2020 | 2019 | % Change |
| Operating profit | 39.3 | 36.7 | 7.1% |
| Amortisation of acquisition intangibles | 10.8 | 11.6 | (6.9%) |
| Depreciation and amortisation | 9.0 | 8.3 | 8.4% |
| EBITDA | 59.1 | 56.6 | 4.4% |
| Investment (loss)/income | (0.4) | 0.6 | N/A |
| Non-trading items * | 3.1 | 4.0 | (22.5%) |
| Adjusted EBITDA * | 61.8 | 61.2 | 1.0% |
| Adjusted EBITDA * | 61.8 | 61.2 | 1.0% |
| Holding company costs ** | 0.2 | (0.2) | N/A |
| Underlying adjusted EBITDA * | 62.0 | 61.0 | 1.6% |

*H1 2019 EBITDA has been restated to reflect the reclassification of initial launch costs for the US to Non-trading items

**CVC monitoring fee agreement was retrospectively terminated effective from 1 January 2019. The credit in the prior financial year relates to the reversal of the accrual for Q4 FY19 that is no longer required.

H2 includes negative investment income following significant de-risking of the investment portfolio due to the economic climate. Excluding investment income, group adjusted EBITDA increased by 2.6%

5. CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

GALAXY FINCO LIMITED

CONSOLIDATED INCOME STATEMENT FOR THE SIX-MONTH PERIOD ENDED 30 SEPTEMBER 2020

| | Note | Period ended 30 September 2020 (Unaudited) | | | Period ended 30 September 2019 (Unaudited) | | |
|---|------|---|---|--|--|--|--|
| | | Before Non-trading items and amortisation £m | Non-trading items and amortisation £m | After Non-trading items and amortisation £m | Before Non-trading items and Amortisation* £m | Non-trading Items And Amortisation* £m | After Non-trading items and amortisation £m |
| Revenue | 5 | 427.1 | - | 427.1 | 411.9 | - | 411.9 |
| Operating costs | | | | | | | |
| - Amortisation | 6 | - | (10.8) | (10.8) | - | (11.6) | (11.6) |
| - Other operating costs* | 6 | (374.4) | (3.1) | (377.5) | (359.4) | (4.0) | (363.4) |
| - Reversal of (impairment loss) on financial assets | | 0.5 | - | 0.5 | (0.2) | - | (0.2) |
| Operating profit | | 53.2 | (13.9) | 39.3 | 52.3 | (15.6) | 36.7 |
| Investment (loss)/income | | (0.4) | - | (0.4) | 0.6 | - | 0.6 |
| Finance costs | | (29.6) | - | (29.6) | (28.0) | - | (28.0) |
| Profit before taxation | | 23.2 | (13.9) | 9.3 | 24.9 | (15.6) | 9.3 |
| Income tax charge | 7 | (5.0) | 3.5 | (1.5) | (4.0) | 1.9 | (2.1) |
| Profit for the period | | | | 7.8 | | | 7.2 |

The total profit for the period is attributable to the equity shareholders of the Group. All business above is from continuing operations.

The accompanying notes form an integral part of these financial statements.

**US launch costs were reclassified from Other operating costs to Non-trading items in December 2019. For the comparative period above, £1.2m of these costs were reclassified.*

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX-MONTH PERIOD ENDED 30 SEPTEMBER 2020**

| | Period ended 30 September 2020 (Unaudited) £m | Period ended 30 September 2019 (Unaudited) £m |
|---|--|---|
| Profit for the period | 7.8 | 7.2 |
| Currency translation differences | 1.2 | 0.1 |
| Changes in fair value of investments through OCI | - | (0.1) |
| Effective portion of changes in fair value of cash flow hedges – hedging reserve | (0.4) | - |
| Total comprehensive income for the period | <u>8.6</u> | <u>7.2</u> |

The total comprehensive income for the period is attributable to the equity shareholders of the Group.

All components of other comprehensive income may be subsequently reclassified to profit or loss.

The accompanying notes form an integral part of these financial statements.

**CONSOLIDATED BALANCE SHEET
AT 30 SEPTEMBER 2020**

| | | 30 September 2020 (Unaudited) £m | 31 March 2020 (Audited) £m |
|-------------------------------------|----|---|----------------------------------|
| Assets | | | |
| Goodwill and intangible assets | | 475.3 | 482.9 |
| Property, plant and equipment | 8 | 19.2 | 21.7 |
| Deferred acquisition costs | | 256.2 | 250.9 |
| Financial investments | 9 | 152.6 | 75.9 |
| Trade and other receivables | | 701.4 | 699.9 |
| Current tax asset | | 3.0 | 7.8 |
| Cash and cash equivalents | 12 | 75.7 | 81.0 |
| Total assets | | <u>1,683.4</u> | <u>1,620.1</u> |
| Liabilities | | | |
| Loans and borrowings | 14 | 794.8 | 767.8 |
| Deferred tax liabilities | | 25.7 | 29.2 |
| Deferred income | | 786.0 | 776.1 |
| Claims and repair costs provision | 13 | 31.6 | 28.9 |
| Derivative financial instruments | 10 | 2.4 | 5.6 |
| Trade and other payables | | 198.6 | 176.8 |
| Total liabilities | | <u>1,839.1</u> | <u>1,784.4</u> |
| Equity | | | |
| Share capital | | 89.9 | 89.9 |
| Other reserves | | (0.3) | (1.1) |
| Accumulated loss | | (245.3) | (253.1) |
| Total equity | | <u>(155.7)</u> | <u>(164.3)</u> |
| Total equity and liabilities | | <u>1,683.4</u> | <u>1,620.1</u> |

The accompanying notes form an integral part of these financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED 30 SEPTEMBER 2020**

| | 30 September 2020 (Unaudited) | | | | |
|--|--|-----------------------------|--|--------------------------------|----------------------------|
| | Ordinary share capital £m | Share premium £m | Hedging and other reserves £m | Accumulated loss £m | Total equity £m |
| At 1 April 2020 | 0.9 | 89.0 | (1.1) | (253.1) | (164.3) |
| Profit for the period | - | - | - | 7.8 | 7.8 |
| Other comprehensive income for the period | - | - | 0.8 | - | 0.8 |
| Balance as at 30 September 2020 | 0.9 | 89.0 | (0.3) | (245.3) | (155.7) |

| | 30 September 2019 (Unaudited) | | | | |
|--|--|-----------------------------|--|--------------------------------|----------------------------|
| | Ordinary share capital £m | Share premium £m | Hedging and other reserves £m | Accumulated loss £m | Total equity £m |
| At 1 April 2019 | 0.9 | 89.0 | 0.2 | (204.6) | (114.5) |
| Profit for the period | - | - | - | 7.2 | 7.2 |
| Dividend Paid | - | - | - | (22.2) | (22.2) |
| Other comprehensive loss for the period | - | - | - | - | - |
| Balance as at 30 September 2019 | 0.9 | 89.0 | 0.2 | (219.6) | (129.5) |

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX-MONTH PERIOD ENDED 30 SEPTEMBER 2020**

| | | Period ended 30 September 2020 (Unaudited) £m | Period ended 30 September 2019 (Unaudited) £m |
|---|----|--|---|
| Profit before tax | | 9.3 | 9.3 |
| Adjustments for: | | | |
| Depreciation of owned property, plant and equipment | | 1.5 | 1.6 |
| Depreciation of leased, property, plant and equipment | | 1.8 | 1.5 |
| Amortisation of software | | 5.9 | 5.2 |
| Amortisation of acquired intangible assets | 6 | 10.8 | 11.6 |
| Interest expense | | 29.6 | 28.0 |
| Investment loss/(income) | | 0.4 | (0.6) |
| Non-trading items - other operating costs* | 6 | 3.1 | 2.8 |
| Reversal of (impairment loss) on financial assets | | (0.5) | 0.2 |
| | | 61.9 | 59.6 |
| Changes in working capital | | | |
| (Increase)/decrease in deferred acquisition costs | | (2.5) | 2.5 |
| Decrease/(increase) in trade and other receivables | | 0.9 | (36.2) |
| Increase in deferred income | | 1.0 | 11.6 |
| Increase in claims and repair costs provision | | 2.2 | 2.0 |
| Increase/(decrease) in trade and other payables | | 25.6 | (10.8) |
| Cash flows from operating activities | | 89.1 | 28.7 |
| Non-trading items* | | (6.6) | (9.2) |
| Investment (loss) /Interest received from cash and cash equivalents | | (0.2) | 0.4 |
| Interest paid | | (26.8) | (20.6) |
| Income tax paid | | (0.1) | (9.9) |
| Dividends paid | | - | (22.2) |
| Net cash from/(used in) operating activities | | 55.4 | (32.8) |
| Cash flows from investing activities | | | |
| (Losses)/gains on investments | | (0.2) | 0.3 |
| Acquisition of property, plant and equipment | | (2.9) | (2.7) |
| Acquisition of software | | (9.1) | (6.0) |
| Withdrawal from credit institutions | | 0.1 | 2.3 |
| (Deposit with)/withdrawal from money market funds | | (61.0) | 21.2 |
| (Investment in)/disposal of in financial instrument investments | | (11.1) | 58.2 |
| Net cash (used in)/from investing activities | | (84.2) | 73.3 |
| Cash flows from financing activities | | | |
| Redemption of Loan Notes | | - | (475.1) |
| Private debt placement and refinancing of Loan Notes | | 22.8 | 617.6 |
| Repayment of lease liability | | (0.9) | (1.8) |
| Amounts paid to to Group undertakings | | (1.5) | (194.5) |
| Net cash from/(used in) financing activities | | 20.4 | (53.8) |
| Net decrease in cash and cash equivalents | | (8.4) | (13.3) |
| Effects of exchange rates | | 3.1 | 0.9 |
| Cash and cash equivalents at beginning of the period | | 81.0 | 47.3 |
| Cash and cash equivalents at the end of the period | 12 | 75.7 | 34.9 |

The accompanying notes form an integral part of these financial statements

**US launch costs were reclassified from Other operating costs to Non-trading items in December 2019.*

For the comparative period above, £1.2m of these costs were reclassified.

NOTES TO THE FINANCIAL STATEMENTS

1. General information

Galaxy Finco Limited (the 'Company') is a private company incorporated in Jersey. These condensed consolidated interim financial statements of the Company are for the six-month period 1 April 2020 to 30 September 2020 and comprise the Company and its subsidiaries (together referred to as the 'Group').

2. Statement of Compliance

The Group condensed consolidated interim financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs').

3. Basis of preparation

The condensed consolidated interim financial statements for the six-month period ended 30 September 2020 have been prepared in accordance with IAS 34 Interim Financial Reporting. The financial information contained in these interim results does not constitute statutory accounts of Galaxy Finco Limited within the meaning of Section 105 of the Companies (Jersey) Law, 1991.

These condensed consolidated interim financial statements have been prepared by applying the accounting policies used in the 31 March 2020 Annual Report and Accounts, except for the adoption of new standards that have become effective, which were in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs'. At 30 September 2020, there were no unendorsed standards effective for the six-month period ended 30 September 2020 affecting these financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the Group.

The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 31 March 2020.

In order to assess the appropriateness of the going concern basis of accounting, particularly given the current uncertainty created by COVID-19, the Directors have considered the key factors in the business that could have an impact on trading and whether an adverse change in these could affect the Group's ability to meet its liabilities as they fall due.

The Directors prepared base case cash flow forecasts (that reflect the impact of COVID-19) for a period of at least 12 months from the date of approval of the audited 31 March 2020 year ended Group financial statements which indicate that, the Group and the Company will be able to operate with adequate levels of both liquidity and capital over that period.

The Directors have considered a severe but plausible downside scenario which incorporates the increased potential for reductions in sales and increases in cancellation rates which may arise if a second lock down was to occur toward the end of the 2021 financial year. The scenario assumes a gradual recovery following a second lock down, higher levels of churn driven by increased cancellations (ranging from -5% to -9%), and reductions in new business subscription (ranging from -22% to -28%) and cash sales (-46%). These assumptions have been tailored for the individual segments (UK and International) to reflect the different market dynamics. This scenario, which makes assumptions that are more severe than the outcomes experienced under the first lock down, also indicates that the Group and the Company will be able to operate with adequate levels of both liquidity and capital for a period of at least 12 months from the date of approval of the audited 31 March 2020 year ended Group financial statements.

The evolving COVID-19 pandemic has caused significant disruption to the economy and financial markets globally, and the full extent of the potential impacts of COVID-19 are not yet known. Whilst there are many unknowns and the future impact of the pandemic is difficult to predict, the Group and the Company are taking proactive action and have successfully implemented its Business Continuity Plan with all staff working from home with minimal disruption to its day-to-day operations.

After performing this assessment, the Directors have a reasonable expectation that the Group and the Company have adequate resources to meet their debt obligations and continue in operational existence for a period of at least 12 months from the date of approval of the audited 31 March 2020 year ended Group financial statements. There has been no changes at 30 September 2020 of this assessment and the Group and the Company therefore continue to adopt the going concern basis in preparing its financial statements.

4. New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 March 2020.

At 30 September 2020, there were no unendorsed standards effective for the six-month period ended 30 September 2020 affecting these financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the Group.

There were no new standards or amendments to standards that had an effect on these interim condensed consolidated interim financial statements.

5. Revenue

| | Period ended 30 September 2020 (Unaudited) | | |
|---------------------------------|---|-----------------|--------------|
| | Maintenance plans £m | Insurance £m | Total £m |
| Sales | 179.1 | 251.0 | 430.1 |
| Deferred income movement | 17.5 | (20.5) | (3.0) |
| Revenue | 196.6 | 230.5 | 427.1 |
| | Period ended 30 September 2019 (Unaudited) | | |
| | Maintenance plans £m | Insurance £m | Total £m |
| Sales | 179.6 | 243.9 | 423.5 |
| Deferred income movement | 47.9 | (59.5) | (11.6) |
| Revenue | 227.5 | 184.4 | 411.9 |

6. Non-trading items and amortisation of intangible assets

| | Period ended 30 September 2020 (Unaudited) £m | Period ended 30 September 2019 (Unaudited) £m |
|--|--|---|
| Amortisation of intangible assets acquired in a business combination | (10.8) | (11.6) |
| Brexit costs | (3.0) | (1.7) |
| Costs related to US launch* | - | (1.2) |
| Strategic projects | (0.1) | (1.1) |
| | <u>(13.9)</u> | <u>(15.6)</u> |

The amortisation charge relates to intangible assets recognised as a result of the acquisition of Domestic & General Group Holdings Limited in 2013.

*US launch costs were reclassified from Other operating costs to Non-trading items in December 2019. For the comparative period above, £1.2m of these costs were reclassified.

7. Taxation

| | Period ended 30 September 2020 (Unaudited) £m | Period ended 30 September 2019 (Unaudited) £m |
|--------------------------------------|--|---|
| Current tax on profit for the period | (5.0) | (4.0) |
| Deferred tax | 3.5 | 1.9 |
| Total income tax charge | <u>(1.5)</u> | <u>(2.1)</u> |

8. Property, plant and equipment

| | 30 September 2020 (Unaudited) £m | 31 March 2020 (Audited) £m |
|--|---|----------------------------------|
| Owner-occupied property measured at fair value | 3.1 | 3.1 |
| Other owned PPE | 10.4 | 11.1 |
| Other leased PPE | 5.7 | 7.5 |
| | <u>19.2</u> | <u>21.7</u> |

9. Financial investments

| | 30 September 2020 (Unaudited) | | | |
|--|--------------------------------------|---------------------|---------------------------|---------------------|
| | FVOCI* | FVTPL** | Amortised cost | Total |
| | £m | £m | £m | £m |
| Money market funds | - | 69.3 | - | 69.3 |
| Investment carried at fair value | 25.0 | - | - | 25.0 |
| Investments in unlisted investments | - | 58.2 | - | 58.2 |
| Deposits with credit institutions | - | - | 0.1 | 0.1 |
| | <u>25.0</u> | <u>127.5</u> | <u>0.1</u> | <u>152.6</u> |

| | 31 March 2020 (Audited) | | | |
|-----------------------------------|-------------------------|-------------|-------------------|-------------|
| | FVOCI* | FVTPL** | Amortised cost | Total |
| | £m | £m | £m | £m |
| Money market funds | - | 7.5 | - | 7.5 |
| Investment in unlisted securities | - | 55.7 | - | 55.7 |
| Investments carried at fair value | 12.5 | - | - | 12.5 |
| Deposits with credit institutions | - | - | 0.2 | 0.2 |
| | <u>12.5</u> | <u>63.2</u> | <u>0.2</u> | <u>75.9</u> |

* FVOCI - Fair value through other comprehensive income

** FVTPL - Fair value through profit or loss

Investments carried at fair value relate to fixed income related securities which are managed by an external fund manager within investment management terms that specify, amongst other things, minimum credit ratings and maximum duration. The fair values of these are based on quoted market prices.

Investments carried at fair value through profit and loss includes investment in preference shares issued by Galaxy Finco 2 Limited, a fellow subsidiary of the Group's immediate Parent, Galaxy Midco 2 Limited.

The Group's maximum exposure to credit risk for investments and receivables and other assets designated as fair value through profit or loss at the reporting date was equal to the carrying value of the asset.

The carrying value of financial investments at amortised cost and loans and receivables closely approximates fair value.

10. Derivative financial instruments

a) Derivative liability

The Group has entered into derivative financial instruments for the purpose of managing the Group's exposure to adverse movements in foreign exchange rates on €150m of the total €200m Floating Rate Senior Secured Notes issued in July 2019.

The carrying value of the Group's derivative financial instruments were:

| | 30 September 2020 (Unaudited) £m | 31 March 2020 (Audited) £m |
|-----------------------------------|---|----------------------------------|
| Cross Currency Interest Rate Swap | 2.4 | 5.6 |
| - Current liability | 1.6 | 2.4 |
| - Non-current liability | 0.8 | 3.2 |

The fair value of the derivative financial instruments is based on market quotations and the swaps are due to mature in July 2024.

b) Hedge accounting

The Group has elected to apply hedge accounting for those derivative instruments entered into for the purpose of managing the Group's exposure to currency fluctuations on its Euro denominated debt.

The Group has entered into the following cash flow hedge arrangements:

| <u>Hedged item</u> | Notional €m | Term (years) | Maturity date |
|--|--|-----------------|----------------------------|
| €150m of Floating Rate Senior Notes | 150 | 5 | 31 July 2024 |
| | 30 September 2020 (Unaudited) | | 31 March 2020 (Audited) |
| <u>Hedging instrument – derivative liability</u> | £m | | £m |
| €150m Cross Currency Interest Rate Swap | 2.4 | | 5.6 |

The above hedge mitigates the Group's exposure to adverse fluctuations in currency movements between GBP and EUR. Elements of the Group's loans and borrowings, as set out in note 14, are variable rate borrowings.

During the year the following amounts were recognised in profit or loss in relation to the cross-currency interest rate swaps (CCIRS):

| | Period ended 30 September 2020 (Unaudited) £m | Period ended 30 September 2019 (Unaudited) £m |
|---|--|---|
| Effective portion of cash flow hedge and costs of hedging included in finance costs | 4.5 | - |

The following table sets out movements in the Group's cash-flow hedge reserve:

| | 30 September 2020 (Unaudited) £m | 31 March 2020 (Audited) £m |
|--|---|----------------------------------|
| Balance at 1 April | (0.4) | - |
| Amount recognised in equity in the period/year | (0.4) | (0.4) |
| Cash flow hedge reserve as at period end | (0.8) | (0.4) |

11. Financial assets and financial liabilities

This note provides information about the Group's financial instruments, including:

- an overview of all financial instruments held by the group;
- classification type of the financial instrument;
- accounting policies; and
- information about determining the fair value of the instruments, including judgements and estimation uncertainty involved.

The Group holds the following financial instruments:

| 30 September 2020 (Unaudited) | | | | | |
|--|--|---|---|--|---------------------|
| | FVOCI* - designated on initial recognition £m | FVTPL** - designated on initial recognition £m | Financial assets held at amortised cost £m | Financial liabilities held at amortised cost £m | Total £m |
| Investments | 25.0 | 127.5 | 0.1 | - | 152.6 |
| Trade and other receivables | - | - | 701.4 | - | 701.4 |
| Cash and cash equivalents | - | - | 75.7 | - | 75.7 |
| Derivative liabilities | - | (2.4) | - | - | (2.4) |
| Loans and borrowings | - | - | - | (794.8) | (794.8) |
| Trade and other payables | - | - | - | (198.6) | (198.6) |
| | 25.0 | 125.1 | 777.2 | (993.4) | (66.1) |
| 31 March 2020 (Audited) | | | | | |
| | FVOCI* - designated on initial recognition £m | FVTPL** - designated on initial recognition £m | Financial assets held at amortised cost £m | Financial liabilities held at amortised cost £m | Total £m |
| Investments | 12.5 | 63.2 | 0.2 | - | 75.9 |
| Trade and other receivables | - | - | 699.9 | - | 699.9 |
| Cash and cash equivalents | - | - | 81.0 | - | 81.0 |
| Derivative liabilities | - | (5.6) | - | - | (5.6) |
| Loans and borrowings | - | - | - | (767.8) | (767.8) |
| Trade and other payables | - | - | - | (176.8) | (176.8) |
| | 12.5 | 57.6 | 781.1 | (944.6) | (93.4) |

* FVOCI - Fair value through other comprehensive income

** FVTPL - Fair value through profit or loss

a) Classification of financial assets at fair value through other comprehensive income (FVOCI)

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI.

Movements in the carrying amount of these financial assets are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. Financial assets at FVOCI comprise debt securities where the contractual cash flows are solely principal and interest and the objective of the group's business model is achieved both by collecting contractual cash flows and selling financial assets.

On disposal of these debt investments, any related balance within the FVOCI reserve is reclassified to profit or loss.

b) Classification of financial assets at fair value through profit or loss (FVTPL)

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within other gains/(losses) in the period which it arises.

c) Classification of financial assets at amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost.

The Group classifies its financial assets at amortised cost only if both of the following criteria are met:

- the asset is held within a business model whose objective is to collect the contractual cash flows, and
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

Due to the short-term nature of trade and other current receivables, their carrying amount is materially the same as the likely fair value.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

Information about the Group's exposure to credit risk, foreign currency risk, liquidity risk and interest rate risk can be found in note 34 of the Group's annual financial statements for the year ended 31 March 2020.

Valuation techniques and assumptions applied for the purpose of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on an active liquid market are determined with reference to quoted market prices.
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1, 2 and 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities; and
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable from the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| | 30 September 2020 (Unaudited) | | | |
|---|--------------------------------------|-----------------------|-----------------------|---------------------|
| | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
| Investments at fair value through profit and loss | - | 69.3 | 58.2 | 127.5 |
| Investments at fair value through other comprehensive income | - | (2.4) | - | (2.4) |
| Derivative financial instruments | - | 25.0 | - | 25.0 |
| | <u>-</u> | <u>91.9</u> | <u>58.2</u> | <u>150.1</u> |

| | 31 March 2020 (Audited) | | | |
|--|--------------------------------|-----------------------|-----------------------|---------------------|
| | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
| Investments at fair value through profit and loss | - | 7.5 | 55.7 | 63.2 |
| Investments at fair value through other comprehensive income | 2.9 | 9.6 | - | 12.5 |
| Derivative financial instruments | - | (5.6) | - | (5.6) |
| | <u>2.9</u> | <u>11.5</u> | <u>55.7</u> | <u>70.1</u> |

12. Cash and cash equivalents

| | 30 September 2020 (Unaudited) £m | 31 March 2020 (Audited) £m |
|--|---|---|
| Bank and cash balances | 57.0 | 32.4 |
| Call deposits and short-term bank deposits | 18.7 | 48.6 |
| | <u>75.7</u> | <u>81.0</u> |

13. Claims and repair costs provision

| | 30 September 2020 (Unaudited) £m | 31 March 2020 (Audited) £m |
|--|---|---|
| Balance at the start of the period/year | 28.9 | 26.3 |
| Amounts incurred during the period/year | 171.7 | 368.4 |
| Amounts paid during the period/year | (169.0) | (365.8) |
| Balance as at the end of the period/year | <u>31.6</u> | <u>28.9</u> |

All claims and repair cost provisions are expected to be settled within the next 12 months.

14. Loans and borrowings

The Group's interest-bearing borrowings, which are measured at amortised cost, are as follows:

| | 30 September 2020 (Unaudited) £m | 31 March 2020 (Audited) £m |
|---|---|----------------------------------|
| 6.5% Senior Secured Notes due 2026 | 405.0 | 305.0 |
| €200m Senior Secured Floating Rate Notes due 2026 | 181.4 | 176.9 |
| 9.25% Senior Notes due 2027 | 150.0 | 150.0 |
| Drawn Revolving Credit Facility (RCF) | - | 77.5 |
| 5.35% Loan due to Parent Company | 7.5 | 7.3 |
| 5.25% Loan due to Fellow Subsidiary Company | 61.0 | 59.4 |
| Total Principal | 804.9 | 776.1 |
| Financing costs* | (18.6) | (19.0) |
| Carrying amount | 786.3 | 757.1 |
| Lease liability | 8.5 | 10.7 |
| Loans and borrowings | 794.8 | 767.8 |

* Relates to financing fees amortised as part of the refinancing which will be amortised over the term of the loan notes

For more information about the Group's exposure to interest rate risk see note 34 of the Group's annual financial statements for 31 March 2020.

Terms and debt repayment schedule for Loan Notes

| | Nominal interest rate | Year of maturity | Principal £m | Carrying amount £m |
|---|--------------------------|---------------------|-----------------|--------------------------|
| 6.5% Senior Secured Notes | 6.50% | 2026 | 405.0 | 396.1 |
| €200m Senior Secured Floating Rate Notes | EURIBOR+5% | 2026 | 181.4 | 176.3 |
| 9.25% Senior Notes | 9.25% | 2027 | 150.0 | 145.4 |
| 5.35% Loan due to Parent Company | 5.35% | 2028 | 7.3 | 7.5 |
| 5.25% Loan due to Fellow Subsidiary Company | 5.25% | 2028 | 58.0 | 61.0 |
| | | | | <u>786.3</u> |

The entire balance of loans and borrowings is considered non-current, on the basis that repayment is not required until periods greater than 12 months from the balance sheet date. The majority of the Group's loans and borrowings is repayable entirely on this maturity date.

On 31 July 2020, the Group closed a fungible private placement add-on of £100m of 6.5% Senior Secured Notes due 2026 and increased the revolving bank facility by £15m to £100.0m (31 March 2020: £85.0m). The majority of the proceeds from the private placement were used to repay the drawn RCF balance of £77.1m on 6 August 2020.

The revolving credit bank facility has a final maturity date of 1 May 2026, of which £30m (31 March 2020: £nil) is allocated to letters of credit callable on demand that support the backing of the Group's Ancillary Own Funds (AOF) application and a further £5.0m (31 March 2020: £5.0m) is allocated to a letter of credit pledged as an asset to a trust for UK service plan customers in line with British Retail Consortium guidelines (which expired in October 2020). £65m (31 March 2020: £nil) was undrawn on 30 September 2020, and of this £3.0m (31 March 2020: £3.0m) is currently available as a same day drawdown money market facility.

15. Related parties

The nature of the related party transactions of the Group are consistent in nature and scope with those disclosed in note 31 of the Group's consolidated financial statements for the year ended 31 March 2020.

16. Financial risk management

The Group is exposed to financial risk through its financial assets and financial liabilities, and its appliance care service plans and insurance contracts. Risks include interest rate risk, credit risk, liquidity risk and foreign exchange risk.

The nature of these risks is disclosed in note 34 of the Group's consolidated financial statements for the year ended 31 March 2020.

Credit ratings of significant classes of financial assets

| | 30 September 2020 (Unaudited) | | | |
|-----------------------------------|---|---|---------------|--------------|
| | A rated (or above) Institutions £m | B rated (or below) Institutions £m | Unrated £m | Total £m |
| Cash and cash equivalents | 75.7 | - | - | 75.7 |
| Money market funds | 69.3 | - | - | 69.3 |
| Investments carried at fair value | 25.0 | - | - | 25.0 |
| Investment in unlisted securities | - | - | 58.2 | 58.2 |
| Deposits with credit institutions | 0.1 | - | - | 0.1 |
| Trade and other receivables | - | - | 701.4 | 701.4 |
| | 170.1 | - | 759.6 | 929.7 |
| | 31 March 2020 (Audited) | | | |
| | A rated (or above) Institutions £m | B rated (or below) Institutions £m | Unrated £m | Total £m |
| Cash and cash equivalents | 81.0 | - | - | 81.0 |
| Money market funds | 7.5 | - | - | 7.5 |
| Investments carried at fair value | 8.1 | 4.4 | - | 12.5 |
| Investment in unlisted securities | - | - | 55.7 | 55.7 |
| Deposits with credit institutions | 0.2 | - | - | 0.2 |
| Trade and other receivables | - | - | 699.9 | 699.9 |
| | 96.8 | 4.4 | 755.6 | 856.8 |