APS

APS in COVID-19 Times:
A Threat Turned into an Opportunity

Difficult First Half of 2020

As many others during the first half of 2020, the APS Group has encountered countless challenges triggered by COVID-19 pandemic turbulences – fluctuations in the market, drops is debt recovery and collection rates, legal obstacles and regulations, and a general investment activity slow-down. However, the outlook of the Group remains strong and the general economic cooldown is expected to bring a surge in profitable business to APS operations as soon as in 2021.

The COVID-19 pandemic presents an unprecedented challenge to markets in which APS is active. In response to the medical situation, governments around the world imposed strict citizen lockdowns and business restrictions that had a significant impact on the world economy. Travel, hospitality, accommodation, event management, aviation, renting connected with business buildings, business connected with business suites and accessories, automotive and public services immediately suffered the most, be it from mandated closures or from the sudden absence of buyers. To mitigate the economic shock affecting the aggregate demand, governments resorted to moratoria on loan payments, provided payment holidays to debtors, suspended litigation and enforcement processes, and promoted spending across the services sector.

The combined effect of mandated closures, restriction of movement, legal moratoria, and diversion of cash into the consumption, further amplified by uncertainty and media panic fueled by the disease, weakened the position of creditors with respect to debt collectors, resulting in reduced income streams, dropping recovery rates, and negative client behaviors – in such times of insecurity, most companies and individuals alike chose to limit their cash outflow rather than honor their debt payment schedules.

At the time of writing, it is still difficult to assess fully the depth of the economic plunge in the terms of GDP impacts. It is however fair to expect that the economic slump will take years to recover from.

APS Response to the COVID Threat

The APS Group has not been passive in waiting for the situation to evolve. A business continuity plan was activated in early March, initially with ‘Stand-by Measures’ but quickly elevating to the highest ‘Extended Duration Measures (Medical)’ level by mid March.

Early into the medical crisis, the Group underwent a restructuring exercise, cutting on central overheads and implementing a number of business efficiency measures to ensure that the Group will be well prepared for the slow-down in CEE/SEE economies in which the Group is present. Several key business processes were digitized and turned into automated or semi-automated processing.

Local APS subsidiaries operated on war-footing during March-May 2020, employing reduced teams working from home and ensuring business continuity and ongoing collections throughout the critical months. Some offices took use of mitigation measures provided by local governments, suspending part of their workforce through technical unemployment, short-time working schemes and similar. Most APS offices were restored to full operations in May, ensuring high degree of health safety and disease spread prevention in their day-to-day business functioning.

APS 2020 Mid-Year Results

While the 2020 business plan as set in Q4 2019 is for obvious reasons not feasible and had to be adjusted to the new realities of post-COVID world, the restructuring and efficiency measures executed in March/April 2020 (along with an ever-continuing business in APS Recovery subsidiaries) is showing that APS is in a strong position for the second half of the year, competitive and well positioned for the future growth of the Recovery business expected in 2021 and beyond.

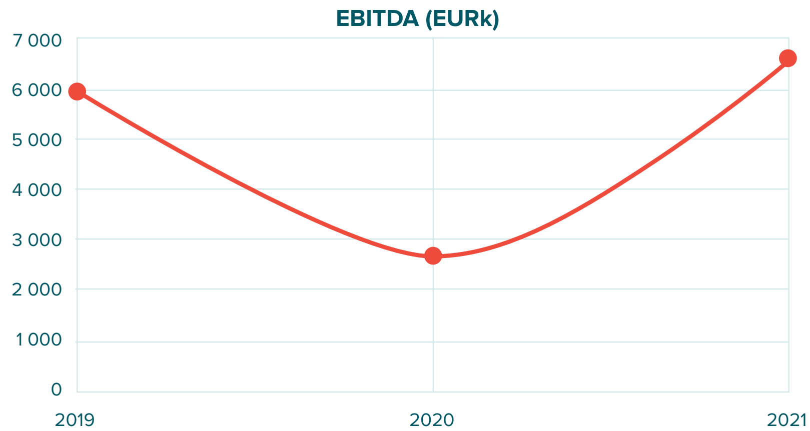
- Volume of collections is planned at 73% of the 2020 YTD plan
- Costs are at 78% of the original 2020 budgeted expenditures
- Positive EBIDTA of EUR 2.7 milion at the end of the 2020 financial year which was significantly impacted by world wide COVID measures
- A strong Pipeline of opportunities in the nominal value over EUR 800 millions in the horizont of following several months

In August 2020, APS paid off the tranche of bond payments in the total amount of EUR 3.4 million.

Forecasting into 2021 - we plan positive EBIDTA of EUR 6.4 million in 2021.

APS	2019	2020	2021
Revenues*	40 823	30 920	35 740
Costs*	34 704	28 180	29 326
EBITDA*	6 119	2 740	6 414

*EURk



Recent Major Achievements

— APS-advised Loan Management III fund got fully invested; the fund allocated a total of EUR 87 million across sixteen well-diversified transactions. The portfolio is expected to reach a ROI milestone in the course of this year.

— The APS Cypriot operation proved extraordinarily successful. Since January 2017 when the joint venture between APS and Hellenic Bank came into being, the amount of non-performing loans at Hellenic Bank was reduced by half.

- Hellenic Bank and APS sign an agreement in July allowing Hellenic Bank to obtain control of the board of directors of APS Debt Servicing Cyprus Ltd. whilst APS will retain the majority share and provide ongoing management expertise.
- Both the Bank and APS see this transaction as a favourable step benefiting both parties.
- The overall transaction has been valued at EUR 4,75 million.

— Looking back at FY2019 (in which the company celebrated its 15 years in existence), APS seems to be going in the right direction, strengthening its position as a regional leader in CEE/SEE. The number of managed portfolios increased by eight to 94 in total, with the total sum of assets under management at EUR 9.4 billion.

2021 Prospects

APS sees the current economic slowdown as an opportunity that can unlock exciting future opportunities in APS lines of business, i.e. Investment Advisory, Special Situations and Single Credits, NPLs and Distressed Real Estate. As observed during the previous major economic instability between 2008-2010, behaviors of Banks change during the crisis – as bad debts and defaults accumulate on their books, they would start releasing to the market first single-ticket special situations, and later on bundles of sub-performing and non-performing loans and other bad debt.

The APS business strategy built in the background of a strong and solid on-going NPL business is based on capturing early opportunities in the special situations market as early as in 1H 2021.

- Loans that banks have provided to companies are now sometimes distressed and expected to lose a significant portion of their value.
- It is the strategic goal of APS to purchase assets of such companies on a secondary market with a great discount.
- Provided that the reason the debtors' situation worsened as a result of the pandemics rather than deeper economic troubles, and given proper care and crisis management that APS can provide, the financial health of such companies will recover.
- Once the distressed assets regain their value, APS would sell them with profit; we expect that the value of such assets would grow very quickly sometimes within months.
- APS is ready to create a special-purpose single-credit fund for handling these kinds of assets.

The special-situation approach is nothing new for APS as it is consistent in principle (if not in execution) with our NPL core business that we have a lot of experience with. The company can however benefit from the sudden bonanza of opportune single-ticket transactions.

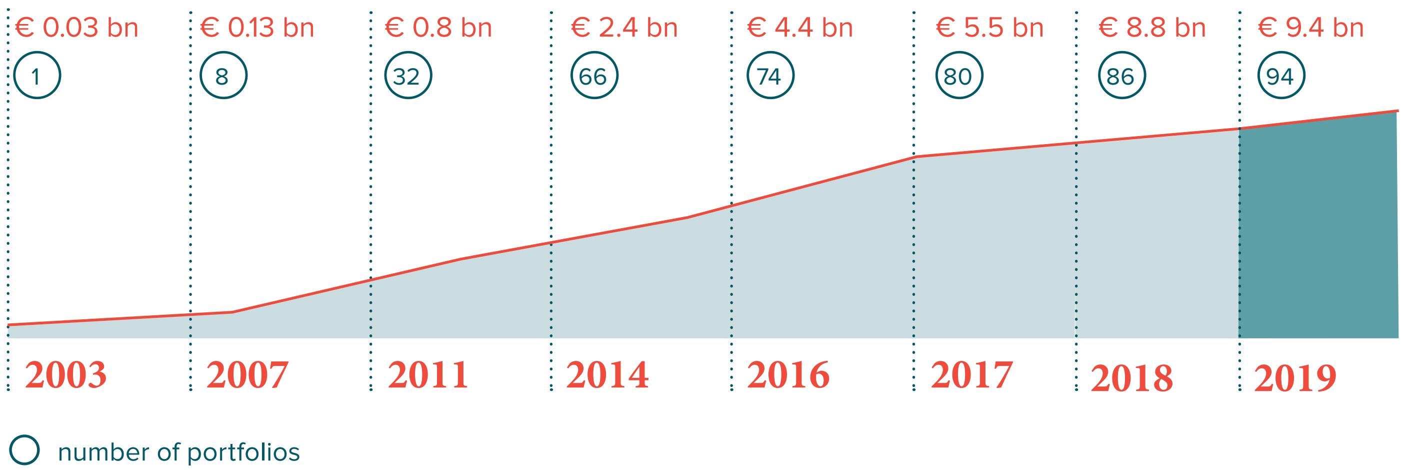
It is expected that later in 2021 and into 2022, the banks will increase their NPL portfolio transactions as well, providing a range of differentiated investment and servicing opportunities to APS businesses in the existing CEE/SEE countries; it is well possible that in that time APS will resume its geographical expansion strategy (currently slowed down) and would opportunistically open new offices in new countries in Europe and elsewhere.

Restoring faltering companies to full health will not only bring profit to investors but also boosts the ailing economy. Our activities help banks decrease the amount of necessary provisions for arrears, allowing them to cater their cash reserves to their main activities, i.e. providing funding to households and businesses as well.

In Closing

COVID-19 has brought economic instability, however, with the right handling, APS can turn it into the opportunity. With a clear vision, strong execution and inspiring management, supported by the efficiency brought about in the restructuring and digitization efforts of 2020, the company will emerge from the economic crisis stronger and on even sounder footings.

Total Cumulative of Managed Assets



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