28 March 2024

NewDay BondCo plc

Group results for the financial year ended 31 December 2023

The information in this announcement relates to the consolidated financial results of NewDay Group (Jersey) Limited ("NewDay", together with its subsidiaries and subsidiary undertakings, the "Group") - a wholly owned subsidiary of Nemean TopCo Limited and indirect parent company of NewDay BondCo plc. As a result, it excludes the financial results of Pay4Later Limited (trading as Deko).

NewDay, a leading digital consumer credit business in the UK, has today released its financial results and annual report for the financial year ended 31 December 2023 which can be found on the Group's website www.newday.co.uk/investors.

Highlights

- £207 million Underlying Profit before Tax, up 2% (2022: £203 million) against a challenging macroeconomic environment.

- £4.3 billion of Gross Receivables, up 1% in a year when new customer growth was deliberately constrained. Interest bearing balances represented a consistent c.65% of Gross Receivables in 2023.

- 395k new customers (2022: 1.3 million). The reduced new customer cohort reflects a strategic decision to constrain growth and maintain credit discipline to protect profitability. The prior year includes the onboarding of more than 630k John Lewis & Partners ('JLP') customers.

- 10.8% Underlying Risk-Adjusted Margin (2022: 12.3%). The year-on-year reduction was primarily driven by higher funding costs and higher non-interest bearing balances in the prime JLP portfolio.

- 29.0% Cost:Income ratio (2022: 29.1%). Despite significant inflationary pressures in the economy, the business maintained cost discipline.

- £1.5 billion (2022: £1.4 billion) of headroom in committed facilities providing the Group with a strong funding and liquidity position.

- £128 million of Free cash flow available for growth and debt service (2022: £136 million). The Group redeemed its £61m outstanding 2024 High Yield Bond.

- As at 31 December 2023, the Group's Net corporate Senior Secured Debt / Adjusted EBITDA ratio(1) was -0.3x (2022: -0.1x) and interest cover(2) was 6.9x (2022: 5.9x).

Notes:

(1) *Represents ratio of net corporate senior secured debt to adjusted EBITDA excluding funding overlaps.*
(2) *Represents ratio of adjusted EBITDA to pro forma cash interest expense.*

Outlook

2023 presented a challenging backdrop with significantly higher interest and funding rates, higher inflation, and uncertainty in many areas of the economy. Against this backdrop, NewDay took a cautious underwriting stance and curtailed new customer growth.

The outlook for 2024 is more stable and the Group intends to return to historical levels of new customer acquisition and credit expansion.

It is expected that this return to growth will impact profitability in the first half of 2024 as the accounting consequences of an acceleration in new customer acquisition manifest in the P&L.

Commenting on performance for the period, John Hourican, CEO said:

"We posted a solid set of results in 2023 whilst navigating an uncertain and evolving macroeconomic environment. We continued to support our customers through challenging times and made progress against our strategic priorities. We adapted our business to a significantly higher interest rate environment, and we continued to invest significantly in our technology platform to position the business for the long term and new sources of growth.

At the start of 2024 we made some organisational changes to our business, bringing together our Direct to Consumer and Merchant Offering credit businesses into a single business unit and separating out our technology platform. This reorganisation will simplify our business; intensify our focus on our customers; enable capability to be shared across our brands and enhance our cost-control.

I am excited about the opportunity that is in front of us for 2024. We are intending to invest to grow our customer acquisition activity. Amongst other things, we are due to launch an important technology and lending partnership with Lloyds Banking Group. We also plan to launch a technology partnership with Boohoo Group.

At NewDay, our purpose is central to everything we do. We believe in credit as a force for good and we help people move their lives forward through responsible access to credit."

Summary of financial performance

£m	Year ended 31 December 2023	2022	Variance (%)
Interest income	1,032.1	884.1	17%
Cost of funds	(256.0)	(124.3)	(106%)
Fee and commission income	84.2	67.0	26%
Net revenue	**860.3**	**826.8**	**4%**
Impairment	(403.6)	(382.6)	(5%)
Underlying risk-adjusted income	**456.7**	**444.2**	**3%**
Servicing costs	(119.4)	(108.4)	(10%)
Change costs	(40.3)	(43.3)	7%
Marketing and partner payments	(43.6)	(45.5)	4%
Collection fees	25.3	30.2	(16%)
Contribution	**278.7**	**277.2**	**1%**
Salaries, benefits, and overheads	(71.4)	(73.8)	3%
Underlying profit before tax	**207.3**	**203.4**	**2%**
Add back: depreciation and amortisation	12.0	11.6	3%
Adjusted EBITDA	**219.3**	**215.0**	**2%**
Senior Secured Debt interest and related costs	(37.7)	(30.3)	(24%)
PPI	-	1.2	100%
Platform development costs	(10.4)	(9.3)	(12%)
Restructuring costs	(10.9)	-	-
Other	-	(0.8)	100%
Depreciation and amortisation including amortisation of intangible assets arising on the Acquisition	(62.6)	(65.9)	5%
Statutory profit before tax	**97.7**	**109.9**	**(11%)**

Selected Alternative Performance Measures and Operational Metrics

£m	Year ended 31 December 2023	2022	Variance (%)
Gross Receivables (£m)	4,309	4,252	1%
Average Gross Receivables (£m)	4,220	3,601	17%
Net Revenue Margin (%)	20.4%	23.0%	
Impairment Rate (%)	9.6%	10.6%	
Charge-off Rate (%)	9.4%	9.1%	
Underlying Risk-Adjusted Margin (%)	10.8%	12.3%	
Underlying Cost:Income Ratio (%)	29.0%	29.1%	
Servicing Costs Margin (%)	2.8%	3.0%	
Number of accounts (m)	3.7	4.9	(24%)

New accounts (000s)	395	1,337	(70%)
Advance Rate (%)[1]	91.4%	92.9%	
Net Debt / Adj. EBITDA[2]	-0.3x	-0.1x	
Interest cover[3]	6.9x	5.9x	

Notes:
(1) *Reflects FX hedged view which has also adjusted the prior year comparator.*
(2) *Represents ratio of net corporate senior secured debt to adjusted EBITDA excluding funding overlaps.*
(3) *Represents ratio of adjusted EBITDA to pro forma cash interest expense.*

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Results presentation

A webcast for analysts and investors will be held at 10:30am (UK Time) on 28 March 2024. For video / listen-only, and to ask written questions please access via:

Issuer Services | London Stock Exchange | NewDay Annual Results (lsegissuerservices.com)

If you wish to view the presentation and participate in Q&A with management, please access via Zoom with the link below:

https://newday-fy-results-march2024.open-exchange.net/registration

The presentation can be found at: http://www.newday.co.uk/investors

About NewDay

NewDay is a leading provider of unsecured consumer credit in the UK, providing technology-enabled, highly flexible and innovative products directly to consumers and via its merchant relationships. The Group's product offering includes credit cards and digital revolving credit both incorporating BNPL and instalment finance functionality.

NewDay operates multiple direct-to-consumer products through well-known brands such as Aqua, Fluid, Marbles and Bip – the UK's first digital only credit "card".

NewDay also offers white-labelled credit cards in partnership with well-known brands such as John Lewis & Partners and Argos. The Group's underwriting capability and over 20 years of experience allow it to responsibly say yes to more customers in the UK, making NewDay a merchant partner of choice for leading brands.

NewDay has a clear purpose: to help people move forward with credit. It provides close to 4 million customers with responsible access to credit. NewDay's leading, highly scalable digital platform alongside its proprietary credit decisioning capability allows it to continually innovate within the UK consumer finance sector, unlocking competitive advantage and developing products that meet customer and merchants' changing needs.

Chief Executive Officer's Review

2023 was a year of solid progress for our business. We continued to support customers through challenging times and deliver on strategic priorities. We exercised discipline in underwriting credit for working Britain and we encouraged financial responsibility. We adapted our business to a higher interest rate environment and we continued to invest in our technology platform to support a better business primed for future growth. Overall, 2023 was a successful year in which we delivered for all our stakeholders and generated decent returns.

Delivering our strategy

We have continued to invest in building our technology platform and in deploying a suite of compelling products. These actions helped NewDay to continue to be a leading near-prime lender in the UK and look to accelerate the delivery of our strategy.

We reported a 6.2%[1] (2022: 6.6%) share of UK credit card receivables as at 31 December 2023 and in the year 5.7%[1] (2022: 3.8%) of all UK credit card spend was made using our products.

At NewDay, we use sophisticated credit underwriting models to make individual lending decisions. This allowed us to continue welcoming new customers throughout the year, despite exercising heightened caution against a backdrop of persistent economic uncertainty. In the Direct to Consumer business, we opened 0.2m (2022: 0.5m) new customer accounts and gross receivables increased to £2.5bn (2022: £2.4bn).

The higher interest rate environment that existed throughout the year made us reflect afresh on where we add value across our merchant partner business. Our modern products, loyalty programmes and seamless integration make NewDay a valued partner to retailers of all sizes. The John Lewis & Partners programme, whilst seeing good customer adoption and spend, has been commercially challenging due to the prime nature of the portfolio and the higher funding cost environment. Accordingly, we are working with John Lewis & Partners to put the programme on a sustainable long-term trajectory.

We are well equipped to provide access to credit to customers who are underserved by high street banks and we will continue to target this customer segment. This focus has led NewDay to enter into an exciting technology and embedded finance partnership with Lloyds Banking Group. We will offer our Newpay product across Lloyds Banking Group's extensive merchant network with NewDay lending to customers fitting our credit risk profile and Lloyds Banking Group lending to prime customers. This is due to launch in 2024.

Monetising our core platform

Our technology platform is a key differentiator in the marketplace and allows us to provide best-in-class customer journeys. Through our platform-as-a-service offering we aim to monetise the technology and create a growing complementary revenue stream. In 2023, we delivered three exciting new partner wins, each using our proprietary technology:

- a significant embedded finance partnership with Lloyds Banking Group due to launch in 2024 covering both lending and technology;
- a global retailer, Boohoo Group, will utilise our end-to-end technology proposition to underpin a brand new digital financial product due to launch in 2024; and
- providing a large international bank, through a strategic reseller partnership, data transformation, credit data modelling and reporting capabilities to aid the migration of a significant portfolio of an acquired credit cards business.

Our teams worked tirelessly during the year to deliver truly innovative solutions and to build proprietary technology. It is pleasing to see their efforts rewarded with these wins.

Towards the end of 2022, we launched a partnership with Antelope Loans to originate unsecured personal loans. In 2023, we took steps to broaden this offering and processed £31m of loans, providing even more people with responsible access to credit.

Resilient financial performance

Our financial performance in 2023 was impacted by the economic environment. As cost-of-living pressures emerged, we saw customers react responsibly and reduce interest-bearing balances where possible. We saw a modest increase in delinquency in the first half of the year and an increasing use of our short-term payment support options, most notably payment holidays. Simultaneously, our business faced increased funding costs and inflationary pressures.

NewDay is lean and resilient. We adapted to the challenges. We passed on the majority of interest rate rises to customers and hedged our residual interest rate exposure, whilst exercising cost control. This translated into a solid performance for 2023. We reported a statutory profit before tax of £98m (2022: £110m) and an underlying profit before tax of £207m[2] (2022: £203m). Our underlying result absorbed £94m (2022: £110m) of costs incurred investing in acquiring new customers with the aim of generating long-lasting mutually beneficial relationships. Our existing customers generated £304m (2022: £315m) of underlying profit.

Gross receivables closed at £4.3bn (2022: £4.3bn) and customer spend increased to £15.0bn (2022: £9.1bn). The growth in spend was primarily attributable to the full-year impact of the John Lewis & Partners programme.

Cost-of-living pressures unsurprisingly led to higher credit losses. Losses peaked during the year before returning to more normal levels by the year end. These losses were factored into the expected credit loss (ECL) allowance built in previous years and consequently our accounting impairment charge for 2023 remained within expected levels. By the year end, delinquency levels fell and this is a testament to the effectiveness of credit tightening measures implemented in recent years. Accordingly, the ECL allowance naturally reduced and represented 12.0% (2022: 13.8%) of gross receivables at the year end.

The business generated £128m (2022: £136m) of free cash flow available for growth and debt service and we also returned £61m of cash to our investors through repaying the remaining Senior Secured Debt due to mature in 2024. We remained active in funding markets and raised £0.6bn through two asset-backed term debt deals. We started 2024 with £1.5bn of funding facility headroom to use for refinancing and future growth.

Where next?

As we begin 2024, we are cautiously optimistic that the UK economic outlook will be more stable and that cost-of-living stresses will continue to abate. Against this backdrop, we are deliberately increasing our appetite for new customer acquisitions and this will naturally depress accounting profitability in the first half of 2024 as we incur investment cost in acquiring such customers.

Towards the end of 2023, we also took the opportunity to optimise our structure to drive growth. Effective from 1 January 2024, we simplified the Group by bringing our credit risktaking businesses into one business unit, Credit, and separated our platform capability into another business unit, Platform.

The Credit business' vision is to become the leading provider of near-prime credit in the UK. The business will support working Britain, whether directly through our own brands or through partnerships. We will leverage our advanced credit scoring models and deep data insights to grow and accelerate new customer acquisitions in a controlled and sustainable manner.

The Platform business provides core parts of technology for our Credit business and its vision is to ultimately become a leading consumer credit platform provider. We will progress our technology roadmap and build on the strong foundations put in place over recent years. I am excited to launch our platform with Lloyds Banking Group and Boohoo Group and seek new opportunities to further expand our platform-as-a-service reach.

NewDay's purpose will always be customer-centric. We help people move their lives forward through responsible access to credit. This is our guiding light and shapes the decisions we make. All our colleagues are invested in this and the management team extend our thanks for all they do for our business, customers and partners.

Notes:

(1) Receivables and spend share metrics calculated as total NewDay volumes (including Newpay) as a proportion of Bank of England data credit card volumes.
(2) Our underlying performance excludes certain items included within the statutory result. A reconciliation between our underlying and statutory result is shown in note 3 of our 2023 Annual Report and Financial Statements.

Financial Review

We progressed the delivery of our strategy in 2023 and reported another good year. We leveraged operational flexibility to continue our focus of balancing controlled growth with progressive profitability and cash generation. We welcomed 0.4m (2022: 1.3m) new customer accounts. Gross receivables closed at £4.3bn (2022: £4.3bn) and spend increased to £15.0bn (2022: £9.1bn). The growth in spend and fewer new customer account volumes was primarily attributable to the John Lewis & Partners programme which launched in Q3 2022.

Cost-of-living pressures and rising interest rates shaped our financial performance during the year. It was encouraging to see customers adapt their spend behaviours and pay down interest-bearing balances where possible in order to manage short-term stresses, which is an industry-wide trend[1]. Whilst this was great for our customers and limited impairment losses, it naturally had a drag on performance. 2023 was also a transitional year for our Merchant Offering business with a shift in mix to prime customers following the launch of the John Lewis & Partners programme in 2022 and the higher interest rate environment squeezing margins. The Direct to Consumer business saw contribution increase by £37m but this was offset by a £35m reduction in contribution from Merchant Offering driven primarily by the John Lewis & Partners programme.

Credit losses reduced from their peak in the middle of the year but our impairment charge only marginally increased because these losses were anticipated through an ECL allowance build in previous years. As we ended the year, delinquency levels continued to reduce as inflationary pressures eased and the impact of credit tightening performed in recent years materialised.

We generated £128m (2022: £136m) of free cash flow available for growth and debt service. We returned £61m of cash to our investors through repaying the remaining Senior Secured Debt due to mature in 2024 and finished the year with £589m (2022: £382m) of cash. We started 2024 with £1.5bn of funding facility headroom available for future growth and refinancing maturing deals.

Against this backdrop, we are pleased with how resiliently our business performed. We adapted, exercised control and reported £98m (2022: £110m) statutory profit before tax and £207m (2022: £203m) underlying profit before tax.

The table below reconciles the statutory profit before tax to the underlying profit before tax, with an explanation of significant reconciling items following the table.

	Year ended 31 December	
£m	**2023**	**2022**
Statutory profit before tax	**97.7**	**109.9**
Senior Secured Debt interest and related costs	37.7	30.3
Platform development costs	10.4	9.3
Restructuring costs	10.9	-
Payment protection insurance (PPI)	-	(1.2)
Other	-	0.8
Amortisation of intangible assets arising on the Acquisition[2]	50.6	54.3
Underlying profit before tax	**207.3**	**203.4**

Senior Secured Debt interest and related costs include the interest charge and other costs associated with the issuance and servicing of the Senior Secured Notes by NewDay BondCo plc (the Senior Secured Debt) and the Super Senior Revolving Credit Facility (the Revolving Credit Facility). In 2023, we repaid £61m of Senior Secured Debt and finished the year with £238m[3] (2022: £299m) of Senior Secured Debt outstanding which is due to mature in 2026. This debt does not finance the Group's gross receivables and consequently its costs have been excluded from underlying performance.

Platform development costs are expenses incurred to enhance the capabilities of our in-house operating platform. These costs relate to a one-off project and are excluded from underlying performance because they do not represent our underlying operational costs.

Restructuring costs represent redundancy and related costs associated with the realignment of our operating structure at the end of the year and effective from 1 January 2024.

Amortisation of intangible assets arising on the Acquisition relates to the amortisation of the purchase price that was attributed to intangible assets arising on completion of the Acquisition.

Notes:

1) *Industry data sourced from UK Finance Card Spending Update.*
2) *On 26 January 2017, NewDay Group (Jersey) Limited acquired NewDay Group Holdings S.à r.l. and its subsidiaries (the Acquisition).*
3) *This represents the nominal value of the debt and excludes accrued interest and other accounting adjustments.*

Management basis income statement

£m	Year ended 31 December							
	2023				2022			
	Direct to consumer	Merchant Offering	Platform Services	Group	Direct to consumer	Merchant Offering	Platform Services	Group
Interest income	**748.1**	**284.0**		**1,032.1**	**640.3**	**243.8**		**884.1**
Cost of funds	(152.3)	(103.7)		(256.0)	(78.0)	(46.3)		(124.3)
Net interest income	**595.8**	**180.3**	**-**	**776.1**	**562.3**	**197.5**	**-**	**759.8**
Fee and commission income	39.9	40.8	3.5	84.2	44.3	21.3	1.4	67.0
Net revenue	**635.7**	**221.1**	**3.5**	**860.3**	**606.6**	**218.8**	**1.4**	**826.8**
Impairment losses on loans and advances to customers	(301.3)	(102.3)	-	(403.6)	(302.0)	(80.6)	-	(382.6)
Underlying risk-adjusted income	**334.4**	**118.8**	**3.5**	**456.7**	**304.6**	**138.2**	**1.4**	**444.2**
Servicing costs	(65.2)	(52.6)	(1.6)	(119.4)	(56.5)	(51.5)	(0.4)	(108.4)
Change costs	(17.8)	(18.1)	(4.4)	(40.3)	(23.4)	(16.6)	(3.3)	(43.3)
Marketing and partner payments	(10.2)	(33.2)	(0.2)	(43.6)	(24.2)	(21.1)	(0.2)	(45.5)
Collection fees	17.5	7.8	-	25.3	21.3	8.9	-	30.2
Contribution	**258.7**	**22.7**	**(2.7)**	**278.7**	**221.8**	**57.9**	**(2.5)**	**277.2**
Salaries, benefits and overheads				(71.4)				(73.8)
Underlying profit before tax				**207.3**				**203.4**
Add back: depreciation and amortisation				12.0				11.6
Adjusted EBITDA				**219.3**				**215.0**
Senior Secured Debt interest and related costs				(37.7)				(30.3)
PPI				-				1.2
Platform development costs				(10.4)				(9.3)
Restructuring costs				(10.9)				-
Other				-				(0.8)
Depreciation and amortisation including amortisation of intangible assets arising on the Acquisition				(62.6)				(65.9)
Profit before tax				**97.7**				**109.9**

For internal management reporting purposes, in preparing the management basis income statement certain items are presented differently to the statutory income statement. A reconciliation to the statutory income statement is detailed in note 3 of the 2023 Annual Report and Financial Statements. Additionally, gross receivables disclosed in this section exclude the ECL allowance and effective interest rate adjustments included within loans and advances to customers as shown in the Financial Statements. A reconciliation of gross receivables to loans and advances to customers as presented in the 2023 Annual Report and Financial Statements is detailed in note 3 of the report.

Group performance

Higher average gross receivables combined with the impact of passing on base rate increases to the majority of customers resulted in increased interest income. However, this was offset by higher funding costs and more transacting customers in the Merchant Offering business paying off in full. Consequently net interest income growth was limited. Our in-depth data insight allowed us to confidently underwrite credit and the impairment charge remained well controlled. Underlying risk-adjusted income was £457m (2022: £444m) for the year. A continuous focus on cost control resulted in an improvement in the underlying cost-income ratio to 29.0% (2022: 29.1%) against a backdrop of significant inflationary pressures and higher costs incurred to service the John Lewis & Partners portfolio. These factors combined to generate statutory profit before tax of £98m (2022: £110m) and an underlying profit before tax of £207m (2022: £203m).

Interest income increased by 17% to £1,032m (2022: £884m) and was driven by higher average gross receivables and Bank of England base rate increases which, in most instances, we have the contractual right to pass on to customers. The increase in interest income was almost entirely offset by an increase in cost of funds.

Funding costs more than doubled to £256m (2022: £124m) and was driven primarily by higher base rates and increased borrowings to fund gross receivables growth.

Fee and commission income increased by 26% to £84m (2022: £67m) and resulted from increased spend activity year-on-year.

These combined factors resulted in net revenue increasing by 4% to £860m (2022: £827m), with a net revenue margin of 20.4% (2022: 23.0%).

The impairment charge increased by 5% to £404m (2022: £383m). As at 31 December 2023, the ECL allowance was £515m (2022: £586m) and represented 12.0% (2022: 13.8%) coverage of gross receivables. The reduction in coverage was primarily driven by underlying performance and an improving economic outlook, combined with higher forward flow prices on certain charged-off debt which arose from new contracts with third party debt purchasers. The judgements and estimates used in ECL (including post model adjustments), which impact the Group's performance, are disclosed in note 2.3 of the 2023 Annual Report and Financial Statements. The impairment rate for the year reduced to 9.6% (2022: 10.6%).

The proportion of gross receivables 90 days or more in arrears increased marginally over the last year to 3.2% (2022: 3.1%) in Direct to Consumer. This remains well below pre-pandemic levels of 3.7% at the end of 2019 as a result of a tightened risk appetite deployed in recent years. We also supported our customers in dealing with cost-of-living pressures by extending more payment holidays (and similar temporary support) during the year which has proven to be an effective way for customers to manage short-term financial difficulties and prevent delinquency. In Merchant Offering, the rate improved to 1.1% (2022: 1.2%) reflecting the higher credit quality of the John Lewis & Partners portfolio.

Servicing costs increased by 10% to £119m (2022: £108m) primarily resulting from one-off expenditure and higher costs arising from the John Lewis & Partners programme. However, through operational efficiencies, our servicing costs margin improved to 2.8% (2022: 3.0%).

Change costs reduced to £40m (2022: £43m) resulting from fewer core initiatives and tighter cost control.

Marketing and partner payment costs reduced by 4% to £44m (2022: £46m) driven by lower new customer marketing activity partly offset by higher partner payments arising from the John Lewis & Partners portfolio.

Collection fees reduced by 16% to £25m (2022: £30m) due to fewer fees charged on late payments.

Salaries, benefits and overheads reduced by 3% to £71m (2022: £74m) reflecting higher interest income earned on bank deposits partly offset by salary increases.

With higher net revenue and tight cost control, the underlying cost-income ratio improved to 29.0% (2022: 29.1%). The equivalent statutory cost-income ratio was 41.7% (2022: 40.5%).

As a result of these factors, we reported a £98m (2022: £110m) statutory profit before tax and a £207m (2022: £203m) underlying profit before tax.

Direct to Consumer performance

	Year ended 31 December	
£m	**2023**	**2022**
Interest income	741.8	640.3
Cost of funds	(152.3)	(78.0)
Fee and commission income	39.9	44.3
Net Revenue	**629.4**	**606.6**
Impairment	(295.0)	(302.0)
Underlying Risk-Adjusted Income	**334.4**	**304.6**
Servicing costs	(65.2)	(56.5)
Change costs	(17.8)	(23.4)
Marketing costs	(10.2)	(24.2)
Collection fees	17.5	21.3
Contribution	**258.7**	**221.8**
Average gross receivables	2,421	2,292
Closing gross receivables	2,465	2,418
Net Revenue Margin (%)	26.0%	26.5%
Impairment rate (%)	12.2%	13.2%
Underlying RAM (%)	13.8%	13.3%

Our Direct to Consumer segment opened 202k (2022: 526k) new customer accounts in the year and customer accounts totalled 1.7m (2022: 2.0m) as at 31 December 2023. The reduction in new accounts resulted from a strategic decision to balance growth with profit and cash generation. Total customer accounts decreased due to an exercise to close inactive accounts. Gross receivables increased to £2.5bn (2022: £2.4bn) and spend reduced to £3.8bn (2022: £3.9bn).

Net interest income increased by 6% to £596m (2022: £562m). This was driven primarily by gross receivables growth which were 6% higher on average across the year.

Fee and commission income reduced by 10% to £40m (2022: £44m) principally reflecting lower spend activity and fewer overlimit fees.

Impairment reduced marginally to £301m (2022: £302m). As at 31 December 2023, the proportion of gross receivables in delinquency increased slightly to 11.1% (2022: 10.8%). Payment holidays have been effective in supporting customers to manage short-term difficulties and preventing delinquency, which has resulted in a charge-off rate of 12.6% (2022: 10.8%) compared to pre-pandemic levels of 15.1% in 2019. The closing ECL allowance was £401m (2022: £475m) and represented 16.3% (2022: 19.6%) coverage of gross receivables. The reduction in coverage was driven by underlying performance, an improving economic outlook and improved forward flow prices on charged-off debt which arose from new contracts with third party debt purchasers. The segment's impairment rate for the year reduced to 12.4% (2022: 13.2%), which remains significantly below pre-pandemic levels of 15.6% in 2019.

Servicing costs increased by 15% to £65m (2022: £57m) principally due to one-off, non-recurring expenditure on cloud platforms.

Change costs reduced by 24% to £18m (2022: £23m) due to prioritising delivery of the Lloyds Banking Group partnership and platform-as-a-service initiatives rather than projects specific to Direct to Consumer.

Marketing costs reduced by 58% to £10m (2022: £24m) due to fewer new accounts and related expenditure.

Collection fees reduced by 18% to £18m (2022: £21m) as a result of fewer fees arising from late payments.

The segment reported an increased contribution of £259m (2022: £222m) for the year.

Merchant offering performance

	Year ended 31 December	
£m	**2023**	**2022**
Interest income	281.5	243.8
Cost of funds	(103.7)	(46.3)
Fee and commission income	40.8	21.3
Net Revenue	**218.6**	**218.8**
Impairment	(99.8)	(80.6)
Underlying Risk-Adjusted Income	**118.8**	**138.2**
Servicing costs	(52.6)	(51.5)
Change costs	(18.1)	(16.6)
Marketing costs	(33.2)	(21.1)
Collection fees	7.8	8.9
Contribution	**22.7**	**57.9**
Average gross receivables	1,789	1,309
Closing gross receivables	1,844	1,833
Net Revenue Margin (%)	12.2%	16.7%
Impairment rate (%)	5.6%	6.2%
Underlying RAM (%)	6.6%	10.6%

Our Merchant Offering segment opened 193k (2022: 811k) new customer accounts in the year and customer accounts totalled 2.0m (2022: 2.9m) as at 31 December 2023. Gross receivables closed at £1.8bn (2022: £1.8bn) and spend levels more than doubled year-on-year to £11.2bn (2022: £5.2bn). The growth in spend, and fewer new customer account volumes, was attributable to the John Lewis & Partners programme which launched in Q3 2022. Total customer accounts decreased due to the closure of inactive accounts as well as the run-off of the Amazon portfolio.

The John Lewis & Partners programme, whilst seeing good customer adoption and spend, has been commercially challenging due to the prime nature of the portfolio and the higher funding cost environment. Accordingly, we are working with John Lewis & Partners to put the programme on a sustainable long-term trajectory.

Net interest income reduced by 9% to £180m (2022: £198m) primarily because of both the dynamics of the John Lewis & Partners portfolio, with lower levels of interest-bearing balances, and balances reducing on closed partnerships including Amazon.

Fee and commission income increased by 92% to £41m (2022: £21m) as a result of the higher spend activity.

Impairment increased by 27% to £102m (2022: £81m) and was driven primarily by charge-offs which peaked midway through the year as a result of cost-of-living stresses before falling back to more normal levels by the year end. Due to the higher credit quality of the John Lewis & Partners portfolio, the proportion of gross receivables in delinquency reduced to 3.9% (2022: 4.1%) and the charge-off rate reduced to 5.2% (2022: 6.1%). The closing ECL allowance was £114m (2022: £112m) which represented 6.2% (2022: 6.1%) coverage of gross receivables. The segment's impairment rate for the year reduced to 5.7% (2022: 6.2%) primarily due to the impact of the John Lewis & Partners portfolio. Excluding the John Lewis & Partners portfolio, the charge-off rate was 9.0% (2022: 6.9%) and the impairment rate was 8.8% (2022: 6.7%).

Servicing costs increased to £53m (2022: £52m) with efficiency savings offsetting higher John Lewis & Partners programme costs.

Change costs increased by 9% to £18m (2022: £17m) as the segment continued to invest in its digital capabilities including delivery of the Lloyds Banking Group partnership.

Marketing and partner payment costs increased by 57% to £33m (2022: £21m) reflecting increased partner payments primarily related to interchange fees arising from the John Lewis & Partners portfolio.

Collection fees were broadly flat at £8m (2022: £9m).

As a result of the factors above, Merchant Offering contribution reduced to £23m (2022: £58m).

Platform Services performance

This segment provides digital platform solutions for end-to-end servicing of unsecured credit products financed and owned by third parties, together with certain other capital-light activities. The segment continued to invest in change projects required to develop the business and consequently reported negative contribution of £3m (2022: £3m).

Our investment in this business is starting to show returns with the following three new partner wins in 2023:

- a significant embedded finance partnership with Lloyds Banking Group due to launch in 2024 covering both lending and technology;
- a global retailer, Boohoo Group, will utilise our end-to-end technology proposition to underpin a brand new digital financial product due to launch in 2024; and
- providing a large international bank, through a strategic reseller partnership, data transformation, credit data modelling and reporting capabilities to aid the migration of a significant portfolio of an acquired credit cards business.

Capital and liquidity

We generated £128m (2022: £136m) of free cash flow available for growth and debt service. After repaying £61m of Senior Secured Debt, we finished the year with £589m (2022: £382m) of cash. The following table reconciles adjusted EBITDA to the net movement in cash.

	Year ended 31 December	
£m	**2023**	**2022**
Adjusted EBITDA	**219.3**	**215.0**
Change in ECL allowance	(71.3)	18.5
Adjusted EBITDA excluding change in ECL allowance	**148.0**	**233.5**
Change in working capital	34.3	(42.8)
Platform development and other costs	(10.4)	(10.1)
PPI provision utilisation	(4.8)	(1.5)
Capital expenditure	(30.0)	(21.9)
Tax paid	(9.2)	(21.7)
Free cash flow available for growth and debt service	**127.9**	**135.5**
Increase in gross loans and advances to customers	(40.2)	(980.7)
Net financing cash flow (excluding funding overlap and Senior Secured Debt cash flows)[1]	9.6	997.4
Free cash flow available for Senior Secured Debt servicing	**97.3**	**152.2**
Senior Secured Debt interest paid	(35.1)	(31.1)
Senior Secured Debt and Revolving Credit Facility net repayment and discount paid on the new Notes	(60.9)	(264.1)
Senior Secured Debt issuance (net of £8m discount to nominal value arising under IFRS)	-	229.4

Return paid on loan from immediate parent company	(8.2)	(18.5)
Increase in restricted cash	5.7	9.9
(Decrease)/Increase in cash excluding funding overlap	**(1.2)**	**77.8**
Funding overlap	208.3	-
Increase in cash	**207.1**	**77.8**
Ratio of net corporate Senior Secured Debt and Revolving Credit Facility to adjusted EBITDA[2]	(0.3x)	(0.1x)
Ratio of adjusted EBITDA to pro forma cash interest expense	6.9x	5.9x

Funding

We proactively manage funding requirements and aim to refinance maturing debt through new deals and/or existing variable funding note (VFN) facilities in advance of their maturity. If new funding cannot be obtained we can, if required, exercise an option at our own discretion to extend the maturity date on all asset-backed term debt and VFNs by one year (where not already exercised). In 2023, we completed the following financing deals:

- a £350m issuance of asset-backed term debt from the Merchant Offering securitisation programme (of which £19m was retained within the Group);
- a £350m issuance of asset-backed term debt from the Direct to Consumer securitisation programme (of which £39m was retained within the Group) with $75m raised from US capital markets;
- a £61m repayment of Senior Secured Debt; and
- converted our first master trust VFN to achieve STS (simple, transparent, standardised) status, with associated funding cost benefits.

As at the year end, we reported funding facility headroom of £1.5bn (2022: £1.4bn) and, after adjusting for debt that has been refinanced through funding overlaps, only 18% of our borrowings will be due for repayment in less than one year, 32% will be due in one to two years and 50% will be due in over two years. The average maturity of funding facilities was two years as at the year end. We retain the right to extend the maturity of all asset-backed debt by one year (where not already executed).

Our gross receivables are funded primarily through debt and the blended advance rate as at 31 December 2023 was 91.0%[3] (2022: 92.0%), being the total asset-backed securities (at hedged exchange rates) and drawn VFNs as a proportion of gross receivables. For Direct to Consumer the rate was 87.9%[3] (2022: 87.8%) and for Merchant Offering it was 95.0% (2022: 97.4%).

Notes:

1) *Funding overlaps are temporary increases in our cash and debt balances which arise when we issue new funding in advance of the maturity of the debt it is replacing.*
2) *Represents Ratio of net corporate Senior Secured Debt and Revolving Credit Facility to adjusted EBITDA excluding funding overlaps.*
3) *Excluding funding overlaps. At unhedged exchange rates the blended advance rate as at 31 December 2023 was 91.4% (2022: 92.9%) and for Direct to Consumer it was 88.6% (2022: 89.4%).*

Cash flows

As at the year end, we reported a cash balance of £589m (2022: £382m). This included £74m (2022: £68m) of restricted cash relating to ring-fenced cash for credit balances on gross receivables and cash restricted due to covenants in place in accordance with our funding structure. Additionally, cash held outside of the securitisation structures or not held for specific funding activities was £62m (2022: £60m) after full repayment of the remaining Senior Secured Debt maturing in 2024. The following table summarises our cash flows during the year.

	Year ended 31 December	
£m	**2023**	**2022**
Net cash generated from/ (used in) operating activities	91.1	(841.7)
Net cash used in investing activities	(30.0)	(21.9)
Net cash generated from financing activities	146.0	941.4
Net increase in cash and cash equivalents	**207.1**	**77.8**
Cash and cash equivalents at the start of the year	382.2	304.4
Cash and cash equivalents at the end of the year	**589.3**	**382.2**

Net cash generated from operating activities was £91m (2022: £842m used in) and was primarily driven by cash generated from the Group's profits. The prior year comparative included cash used to fund gross receivables growth.

Net cash used in investing activities of £30m (2022: £22m) represents investment in intangible assets and property and equipment.

Net cash generated from financing activities of £146m (2022: £941m) primarily consists of the issuance and repayment of asset-backed securities, and drawdowns and repayments of VFNs. These cash flows fund gross receivables. Also included in this balance is a funding overlap of £208m, a £61m repayment of Senior Secured Debt and an £8m payment to the Group's immediate parent company.

Capital requirements

There is no regulatory capital requirement for any subsidiary other than NewDay Ltd owing to its status as an Authorised Payment Institution. As at 31 December 2023, the levels of capital for NewDay Ltd exceeded the minimum capital requirement with headroom of £23m.

We are subject to various requirements and covenants related to levels of capital and liquidity. We regularly monitor compliance with these requirements and covenants to ensure they are met at all times where necessary.