



RATING ACTION COMMENTARY

Fitch Assigns Sherwood Financing Plc's Senior Secured Debt Final 'BB-' Rating

Tue 16 Nov, 2021 - 09:09 ET

Fitch Ratings - London - 16 Nov 2021: Fitch Ratings has assigned Sherwood Financing Plc's GBP1.2 billion equivalent senior secured notes a final long-term rating of 'BB-'. The notes are guaranteed by Sherwood Parentco Limited (Arrow; BB-/Stable) and have been issued to acquire Arrow Global Plc. The final rating is in line with the expected rating assigned on 25 October 2021.

Proceeds of the notes (a EUR640 million floating rate tranche maturing in 2027, a EUR400 million 4.5% tranche due 2026 and a GBP350 million 6% tranche maturing in 2026) have principally been used to refinance bridge facilities put in place to acquire 100% of Arrow's share capital. Arrow was de-listed from the London Stock Exchange on 12 October. It is a UK-based debt purchaser and investor in non-performing loans.

KEY RATING DRIVERS

LONG-TERM IDR AND SENIOR SECURED DEBT

As Arrow's senior secured notes are the company's main outstanding debt class (and effectively junior to Arrow's sizeable revolving credit facility, RCF), Fitch has equalised the notes' ratings with the Long-Term IDR, indicating average recoveries for the notes.

Arrow's Long-Term IDR is constrained by high cash flow leverage with a gross debt/adjusted EBITDA ratio as calculated by Fitch of around 5.8x at end-1H21 (based on annualised 1H21 adjusted EBITDA), equating to a capitalisation and leverage score

of 'b' and below'. Fitch expects cash flow leverage as of end-2021 to improve to around 5x, largely as a result of improving cash EBITDA on the back of resilient collections and improving revenue in the fund management and servicing segments.

Arrow's Long-Term IDR also considers the company's credible franchise, diversification benefits from its recently launched fund- and investment-management business line, long-dated post transaction funding profile and Fitch's expectation that Arrow's governance will following its de-listing remain broadly in place, supporting our view of the company's risk and corporate governance (see 'Fitch Rates Sherwood Parentco 'BB-' /Stable on Arrow Acquisition; Senior Debt 'BB-(EXP)' published on 25 October 2021 for a full list of key rating drivers).

RATING SENSITIVITIES

LONG-TERM IDR

Factors that could, individually or collectively, lead to positive rating action/upgrade:

As Arrow's Long-Term IDR is currently constrained by leverage, any positive rating action would require a material and sustained improvement in the gross leverage ratio to well within Fitch's 'bb' benchmark range (gross debt/adjusted EBITDA between 2.5x and 3.5x). In addition, an upgrade could be supported by a successful implementation of Arrow's capital-light asset management strategy, for instance, through a successful rollout of the follow-on fund to ACO 1 in 2022.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

Material delays in rolling out its capital-light strategy (including delays in anticipated fundraising or capital deployment in follow-on funds), in particular if impairing Arrow's deleveraging potential or indicative of general collection under-performance, would put pressure on Arrow's ratings.

Inability to meet its 2023 leverage guidance of net leverage (net debt/ adjusted EBITDA) of 3.0x to 3.5x, could also put pressure on ratings.

Material collection under-performance, in particular, if it leads to further meaningful portfolio impairments, could be rating-negative. A material increase in risk appetite or weakening of risk or corporate governance, following its delisting, albeit not expected by Fitch, would also put pressure on ratings.

SENIOR SECURED DEBT

Factors that could, individually or collectively, lead to positive rating action/upgrade:

The senior secured notes' rating is principally sensitive to a change in Arrow's Long-Term IDR and an upgrade of the Long-Term IDR would likely be mirrored in an upgrade of the notes. In addition, improved recovery expectations, for instance, through a larger layer of junior debt, could lead Fitch to notch up the notes from Arrow's Long-Term IDR.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

A downgrade of the Long-Term IDR would likely be mirrored in a downgrade of the notes. In addition, worsening recovery expectations, for instance, through a larger layer of structurally senior debt, could lead Fitch to notch down the notes from the Long-Term IDR.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit

<https://www.fitchratings.com/site/re/10111579>

DATE OF RELEVANT COMMITTEE

15 October 2021

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Arrow has an ESG Relevance Score of '4' for 'Financial Transparency' due to the significance of internal modelling to portfolio valuations and associated metrics such as estimated remaining collections. However, this is a feature of the debt-purchasing sector as a whole, and not specific to Arrow. This has a moderately negative impact on the credit profile, and is relevant to the rating in conjunction with other factors.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
Sherwood Financing Plc		
senior secured	LT BB-	BB-(EXP)
	New Rating	

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Non-Bank Financial Institutions Rating Criteria \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)

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[Solicitation Status](#)

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Sherwood Financing Plc

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Sherwood Parentco Limited

UK Issued, EU Endorsed

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Non-Bank Financial Institutions Europe United Kingdom
