

**Rating Action: Moody's assigns B1 rating to Sherwood's GBP1.2 billion senior secured notes, outlook stable**

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25 Oct 2021

London, 25 October 2021 -- Moody's Investors Service ("Moody's") today assigned a B1 corporate family rating ("CFR") to Sherwood Parentco Limited ("Sherwood") and B1 senior secured rating to the euro fixed and floating rate and sterling fixed rate senior secured notes, in the aggregate amount of approximately GBP1.2 billion-equivalent, to be issued out of Sherwood Financing plc. The outlook is stable for both entities.

In the same rating action, Moody's withdrew the Ba3 corporate family rating and negative outlook of Sherwood's predecessor entity Arrow Global Group PLC ("Arrow"), which was acquired by the private equity firm TDR Capital on 11 October 2021.

**RATINGS RATIONALE**

The B1 CFR assigned to Sherwood Parentco Limited ("Sherwood") reflects the financial profile of the new entity, which has been created by the acquisition of Arrow Global Group PLC ("Arrow") by the private equity firm TDR Capital, and Sherwood's expected performance in the next 12-18 months. Specifically, the assigned CFR of B1 for Sherwood reflects the expected increase in Debt/EBITDA leverage at the time of the acquisition, which Moody's estimates will be approximately 5x on a pro-forma basis, based on Arrow's annualised EBITDA for H1 2021 and the announced amount of the debt offering. In addition, the CFR of B1 reflects moderate interest coverage, with EBITDA/Interest Expense of approximately 4x on a pro-forma basis, according to Moody's calculations, meaningfully below the predecessor entity's pre-pandemic interest coverage of 6x. At the same time, the CFR incorporates Moody's expectations that Sherwood's leverage and interest coverage will improve in the next 12 months, as collections from new portfolio purchases boost Sherwood's EBITDA.

The B1 CFR also reflects the diversified business model of the predecessor entity Arrow, which Moody's expects Sherwood to retain and develop further. In addition to the direct investment business, Sherwood will maintain capital-light, fee-based fund and investment management and asset management and servicing businesses. The new entity will also retain a relatively large exposure to the countries in Southern Europe (47% of Estimated Remaining Collections as of June 2021) that have been particularly affected by the coronavirus crisis.

Finally, the B1 CFR reflects the absence of the immediate refinancing risk of the new entity, given that the earliest anticipated maturity of the new notes will be 5 years from the transaction closing, as well as Sherwood's weak capitalisation, with a tangible equity deficit, and the regulatory risk inherent to the debt collection business.

The senior secured debt rating reflects the application of Moody's Loss Given Default for Speculative-Grade Companies methodology and the priorities of claims in Sherwood's liability structure.

**RATIONALE FOR STABLE OUTLOOK**

The stable outlook reflects Moody's expectation that the newly formed entity will generate solid profitability and demonstrate strong collection activity in all key regions in the next 12-18 months, which will enable it to de-lever, while improving its interest coverage ratio.

**FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS**

Sherwood's CFR could be upgraded if the company improves its interest coverage and leverage ratios to the predecessor entity's pre-pandemic level, while demonstrating solid and consistent profitability.

Sherwood's CFR could be downgraded if the company's profitability weakens, leading to a deterioration in interest coverage and leverage. Sherwood's senior secured ratings could be downgraded if the company's usage of its secured credit facility proves to be substantially higher than anticipated.

Sherwood's senior secured ratings could be upgraded/downgraded with a corresponding change in the CFR.

## PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Finance Companies Methodology published in November 2019 and available at [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_1187099](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1187099) . Alternatively, please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

## REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

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