CREDIT OPINION
16 July 2024

Update

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RATINGS

Sherwood Parentco Limited

Domicile	United Kingdom
Long Term Rating	B2
Type	LT Corporate Family Ratings
Outlook	Negative

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Arif Bekiroglu +44.20.7772.1713
VP-Senior Analyst
arif.bekiroglu@moodys.com

Carola Schuler +49.69.70730.766
MD-Banking
carola.schuler@moodys.com

Christopher Tucker +44.20.7772.1357
Sr Ratings Associate
christopher.tucker@moodys.com

Sherwood Parentco Limited

Update following rating downgrade to B2, outlook changed to negative

Summary

The B2 CFR assigned to Sherwood Parentco Limited ("Sherwood") reflects the weakened financial performance, characterized by reduced collections from the balance sheet business and delays generating higher levels of income contribution from the fee-based capital-light integrated fund management model, which have been further exacerbated by the increased cost of funding. Contrary to our previous expectations, Sherwood's deleveraging has been further delayed, driven by lower EBITDA and lack of a reduction in borrowings as further investments in the fund manager business were prioritised. Whilst Sherwood continues to make progress in developing its integrated fund management business, its gross leverage remains elevated. Furthermore, the company's interest coverage deteriorated during the same period. The company has continued to report financial losses, which further widened its significant tangible equity deficit.

At the same time, the B2 CFR incorporates our expectations for improvement in Sherwood's EBITDA, which should lead to a decline in gross leverage, as well as for improvement in its interest coverage ratio. This expectation is subject to the company continuing to expanding its diversification, complementing its non-performing loan (NPL) investments segment by accelerating successfully its co-investing with the managed funds business, supported by the firm's asset management and servicing capabilities. Furthermore, the B2 CFR reflects no imminent refinancing needs, but also its material debt maturity concentrations in 2026 and 2027, which are elevating its refinancing risk.

The rating of B2 assigned to Sherwood's senior secured debt reflects their priorities of claims in Sherwood's liability structure.

Credit strengths

» Growing proportion of capital-light fund business, expected to support more stable earnings and facilitate deleveraging as it grows proportionately relative to direct investments

» Adequate liquidity profile, with substantial availability under the credit facility; no immediate refinancing risk, given absence of debt maturities until 2026/2027

Credit challenges

» Weak profitability and elevated Debt/EBITDA leverage

» Weak capitalisation, with a tangible common equity deficit

» Debt maturity concentrations in coming years which elevates refinancing risk

» High volume of RCF with first priority of claim relative to senior secured

Rating outlook

The negative outlook reflects uncertainties related to Sherwood's deleveraging and pace of growth in its less capital intensive, fee-based integrated fund management business in the currently challenging operating environment, characterized by increased refinancing costs and stiff competition in the NPL investment and servicing sector, particularly given its upcoming debt maturities in 2026.

Factors that could lead to an upgrade

» Given the negative outlook, there is no upward pressure on Sherwood's ratings.

» However, positive pressure on the ratings could develop if the firm's profitability and interest coverage levels sustainably improve as it continues to expand its integrated fund management business, while achieving Debt/EBITDA leverage of approximately 3.5x on a gross debt basis and successfully refinances its RCF and 2026 bond maturities at least twelve months prior to due date.

» Sherwood Financing plc's senior secured ratings could be upgraded following an upgrade of the CFR and changes to the liability structure that would decrease the amount of debt considered senior to the notes

Factors that could lead to a downgrade

» Sherwood's CFR could be downgraded if the firm continues to exhibit high earnings volatility in combination with slower deployment of capital in its discretionary funds, thereby delaying the anticipated deleveraging. Further downward pressure could develop from the company's other asset classes, including real estate assets, which in our opinion could present additional credit risks given these assets' characteristics, that may not be commensurate with the B2 rating. The ratings could also be downgraded if Sherwood does not extend its RCF at least 12 months prior to its maturity in April 2026.

» Sherwood Financing plc's senior secured ratings could be downgraded if the firm does not reduce relative volume of debt that is considered senior to the notes or its CFR is downgraded.

Key indicators

Exhibit 1

Sherwood Parentco Limited (Consolidated Financials) [1]

	03-24[2]	12-23[2]	12-22[2]	12-21[2]	CAGR/Avg.[3]
Total managed assets (GBP Million)	1,925.2	1,950.6	2,155.6	2,204.2	(5.8)[4]
Total managed assets (USD Million)	2,432.0	2,486.6	2,593.0	2,974.9	(8.6)[4]
EBITDA (Finance) (GBP Million)	49.1	285.6	310.6	212.7	(2.6)[4]
EBITDA (Finance) (USD Million)	62.3	355.1	384.0	292.6	(5.2)[4]
Net Income / Average Managed Assets (%)	-2.1	-6.6	-3.9	-3.3	-4.0[5]
EBITDA / Interest Expense + Preferred Dividends	1.8x	2.8x	3.7x	5.4x	3.4x[5]
Tangible Common Equity (Finance) / Tangible Managed Assets (%)	-53.4	-51.3	-28.1	-22.3	-38.8[5]
Debt / EBITDA (Finance)	7.5x	5.1x	4.8x	6.9x	6.1x[5]
Debt Maturities Coverage (%)	1354.7	1655.0	1609.7	2080.9	1675.1[5]
FFO to Debt (%)	1.9	-5.7	-1.2	-8.7	-3.4[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] IFRS [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime.

Sources: Moody's Ratings and company filings

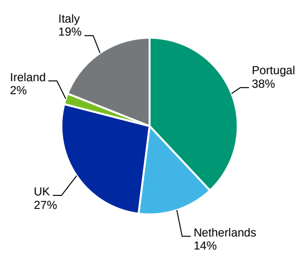
Profile

Sherwood Parentco Limited is the special purpose entity that was set up to acquire Arrow Global Group plc (“Arrow”) by the private equity firm TDR Capital LLP (“TDR”) in October 2021. Arrow's shares were subsequently delisted.

As compared to most other rated debt purchasers, Sherwood has a more diversified business mix, comprising a sizable asset management and fund management business and servicing (collectively, "Integrated Fund Management" business), in addition to its "Balance Sheet" business, where it predominantly invests in non-performing loans (NPLs) and, increasingly, other asset classes, including real estate financing and outright real estate investments made via the funds with a co-invest alongside. This business mix underscores Sherwood's strategy of being an "integrated fund manager", where its fund management business originates new investment opportunities, in which its direct balance sheet business co-invests into and its servicing business can then service.

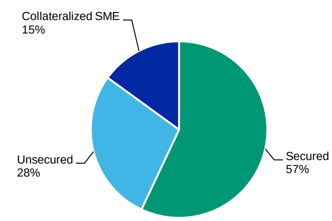
As of 31 March 2024, Sherwood had £1.2 billion of Estimated Remaining Collections (ERCs)[1] (84-month basis), comprising mostly NPLs (Sherwood's's ERCs also include investments in its own credit funds and a small amount of investments in real estate). As of 31 March 2024, Sherwood's 84-month ERCs were split between the UK (27%), Portugal (38%), Italy (19%), the Netherlands (14%), and Ireland (2%). Sherwood's secured ERCs represented 57% total ERC portfolio (84-month basis) as of 31 March 2024, and are predominantly concentrated in Italy and Portugal. The unsecured ERCs (28%) are primarily sourced from the UK, Netherlands, and Portugal and the remaining 15% are collateralized SMEs.

Exhibit 2
Sherwood has a geographically diverse asset mix
31 March 2024 84-month ERC by geography



Source: Company financials

Exhibit 3
Unsecured assets make up a greater proportion of ERCs
31 March 2024 84-month ERC by asset type



Source: Company financials

In addition, Sherwood had €9.3 billion of funds under management as of 31 March 2024, which mainly comprised third-party committed capital and Sherwood's discretionary closed-end funds Arrow Credit Opportunities 1 (ACO 1) and Arrow Credit Opportunities 2 (ACO 2) and a recently established discretionary Real Estate Equity Fund (AREO), which closed €110 million of commitments in 2023. ACO 1 had total commitments of €1.7 billion, with €1.3 billion from third-party investments (final close in 2020) and ACO 2 fundraising completed in 1Q 2023, reaching its hard cap of €2.75 billion. Sherwood's co-investment percentage has been 25% in ACO 1 and will be 10% in ACO 2 and AREO. In 2023, origination volumes were €1.2 billion across the ACO and AREO funds. Sherwood have also been fundraising for their Real Estate Lending strategy (ALO 1) which will focus on originating and structuring Real Estate financing solutions including bridge lending and development finance.

Recent Developments

In the first quarter of 2024, Sherwood acquired Amitra Capital Limited (a Spanish master servicer with €4.5 billion of assets under management) from Canada Pension Plan Investment Board (CPP Investments), expanding Sherwood's operational footprint into Spain.

The consideration for the platform was €0.3 million, an additional €4.5 million was paid for a portfolio investment of a 1% stake in Amitra's Spanish and Portuguese loan portfolios and provides a foundation for future collaboration with Canadian Pension Plan Investment Board.

On 3 June 2024, Sherwood announced the acquisition of Interboden GmbH & Co KG (Interboden), a German Real Estate developer.

Detailed credit considerations

Profitability: Weakened financial performance from delays generating income from Integrated Fund Management segment

We assign a score of B3 to Sherwood's Net Income / Tangible Managed Assets. The assigned score incorporates the deterioration in Sherwood's profitability as the transition towards the Integrated Fund Manger model and the investments made to scale that business has impacted profitability as well as the lumpier collections profile from the balance sheet business arising from more of the book being secured. Our expectation is that Sherwood's profitability will gradually improve in the next 12-18 months, as capital raised in discretionary funds is deployed, generating higher management fees. Also incorporated in the assigned score is our expectation that the increasing proportion of capital-light, recurring fee-based revenue sources will have a stabilising effect on Sherwood's earnings, reducing their volatility in the long term.

In 2023, Sherwood recorded a pre-tax loss of £125.3 million, as compared to a pre-tax loss of £83.7 million in 2022. When adjusted for £29 million of amortisation costs on intangible assets related to the firm's acquisition by TDR in 2021, a £2.9 million negative impact related to the sale of the UK assets to Intrum (representing operations held for sale result of £14.8 million, net of £11.9 million of profit on disposal of held for sale assets and liabilities) and also for £26.4 million of acquisition costs related to the acquisition of Maslow[2], Sherwood's underlying pre-tax loss was £67.1 million (2022: underlying pre-tax loss of £33.4 million).

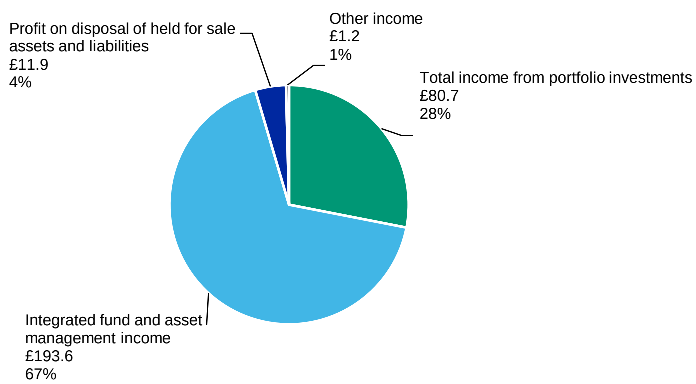
Sherwood's capital-light income (revenues) from its Integrated Fund Management segment, which comprises investment and asset management, as well as servicing businesses, increased to £220.9 million, from £207.3 million in 2022. The increase in capital-light income, notwithstanding the impact of the divestment of the UK servicing platforms, reflected increased management fees as funds under management from the deployment of the discretionary funds continued to grow, as well as by continued expansion of asset management and servicing businesses and growth in the firm's real estate offerings. In contrast, income from portfolio investments declined to £86.9 million in 2023 from £135.7 million in 2022, primarily reflecting the divestment of the UK portfolio (no income or costs on the divested portfolios, including the retained portion, is recognized in the segments results).

The capital-light business's contribution increased to 71% of total income (revenues)[3] in 2023 from 55% a year ago, primarily reflecting a decline in Sherwood's portfolio income due to the divestment of the UK portfolio.

Exhibit 4

Capital-light business representing a greater proportion of revenues

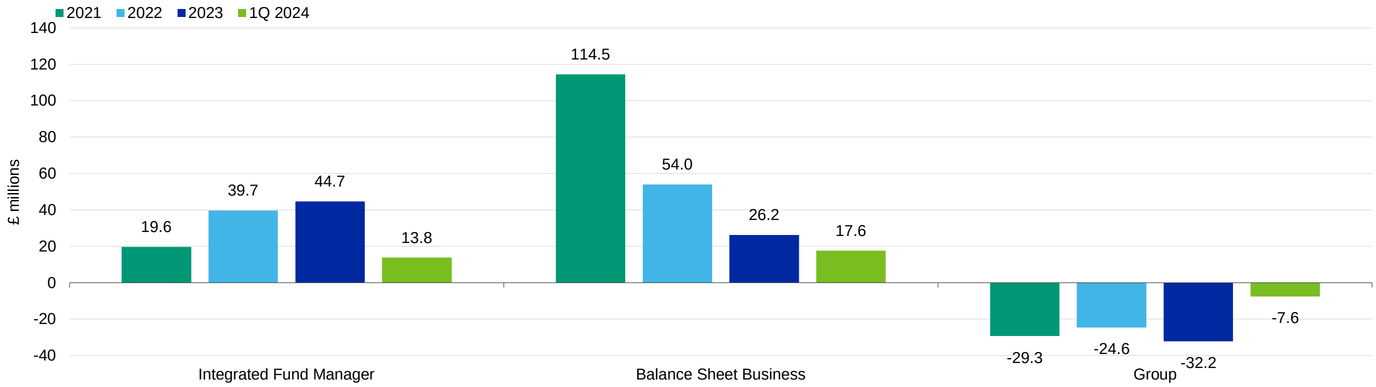
Sherwood's revenue breakdown as of 31 December 2023



Source: Company financials

Sherwood's balance sheet investments contributed £26.2 million of EBITDA (before portfolio amortisation) during 2023, down from £54.0 million a year ago, mainly due to the divestment of the UK portfolio (EBITDA on the 50% of the retained portfolios in 2023 was approximately £7.3 million, versus £16.4 million recognized on 100% of the divested portfolios in 2022). The Integrated Fund Management segment contributed £44.7 million of EBITDA in 2023, up from £39.7 million a year ago, reflecting higher fees on larger amounts of funds under management. The segment's EBITDA margin expanded to 20.2%, from 19.2% in 2022, reflecting improved efficiencies in the business due to increased scale. The company expects EBITDA margins to continue to widen as the business scales and its EBITDA contribution to increase to greater than 50% of total EBITDA by 2025.

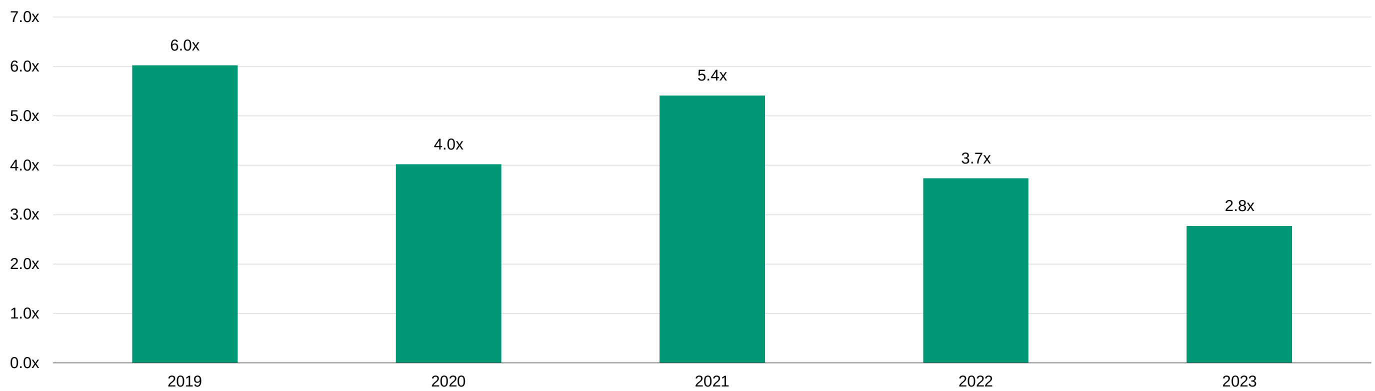
Exhibit 5
Sherwood's and Arrow's EBITDA by segment (before collections)



The comparative results (prior to 4Q 2021) are for Arrow Global Group Limited (formerly plc), representing the consolidated results of Arrow prior to its acquisition by TDR.
Source: Company financials

Moody's assigned score for Sherwood's interest coverage ratio, measured as EBITDA to interest expense, is B1. Sherwood's interest coverage in 2023 was 2.8x, which corresponds to a score of B1 under Moody's Finance Company Methodology. The assigned score reflects the expected improvement in the company's EBITDA, facilitated by the anticipated increase in cash flows from the deployment of capital in discretionary credit funds, as well as by the continued expansion of the asset management and servicing businesses.

Exhibit 6
Sherwood's Interest Coverage (EBITDA/Interest Expense)



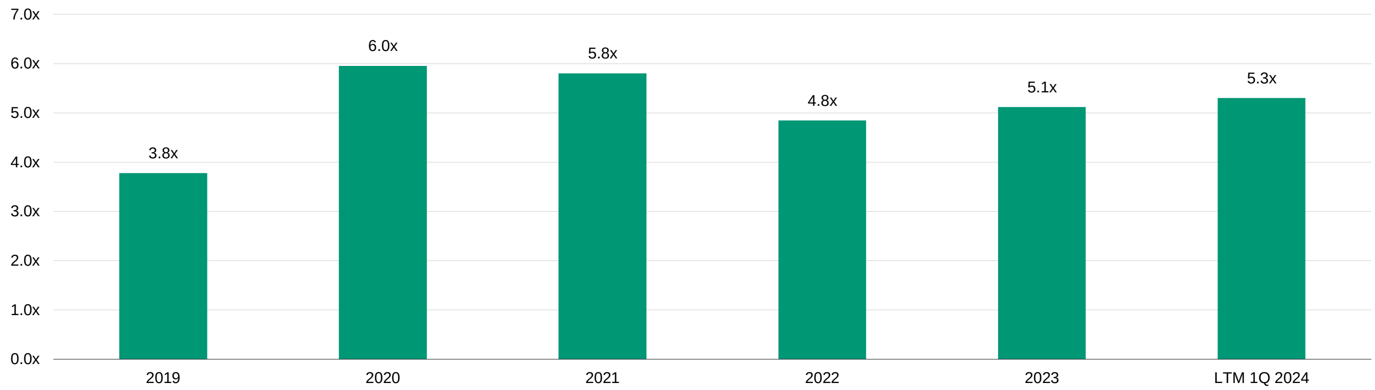
The comparative results (prior to 4Q 2021) are for Arrow Global Group Limited (formerly plc), representing the consolidated results of Arrow prior to its acquisition by TDR.
Source: Company financials and Moody's Ratings

Capital Adequacy and Leverage: Elevated leverage and weak capitalisation with a tangible common equity deficit

We assign a score of Ca to Sherwood's capitalisation, reflecting our expectation that its tangible capitalisation will remain negative in the foreseeable future, given the large amount of tangible equity deficit. As of 31 March 2024 Sherwood's negative tangible common equity deficit represented approximately 53% of its tangible assets.

We assign a score of Ba2 to Sherwood's Debt/Adjusted EBITDA leverage metric. Moody's calculation of Sherwood's leverage was 5.3x as of 31 March 2024, based on last twelve month adjusted EBITDA, a deterioration from 4.8x at year-end 2022. Sherwood's deleveraging has been slower than we anticipated due to a continued investments to scale the business and associated costs creating a drag on EBITDA. We expect the firm's leverage to improve meaningfully by the end of 2024 (below 4x) as the IFM business benefits from increased management and servicing fees as the business has scaled and balances under the RCF are paid down. Sherwood's medium-term leverage target is approximately 3x (net debt basis). As of 31 March 2024, the firm reported net leverage of 4.2x[4].

Exhibit 7
Sherwood's and Arrow's Debt/EBITDA leverage



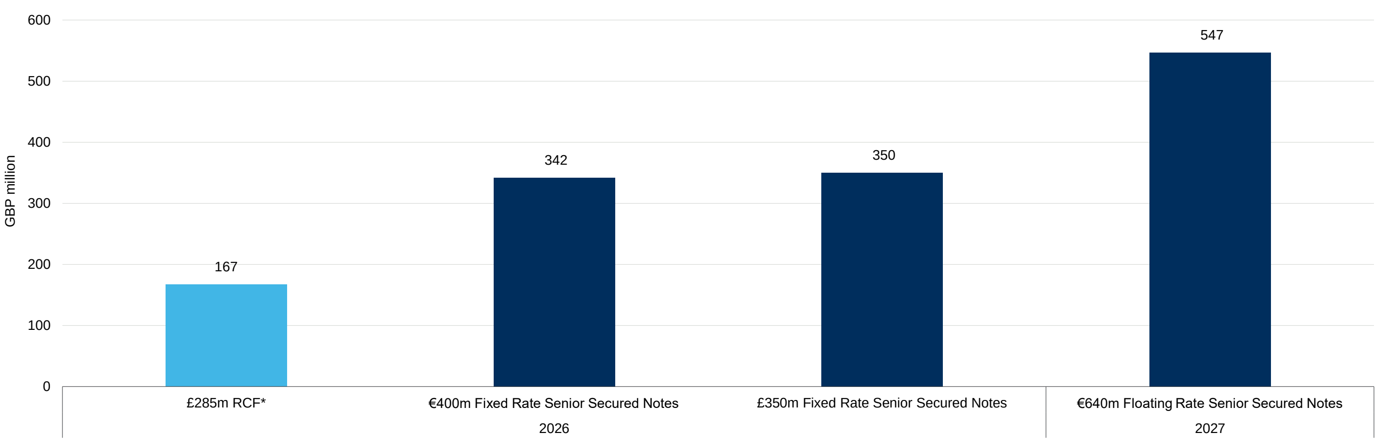
The comparative results (prior to 4Q 2021) are for Arrow Global Group Limited (formerly plc), representing the consolidated results of Arrow prior to its acquisition by TDR.
Source: Company financials and Moody's Ratings

Cash Flow and Liquidity: Expected improvement in cash flows but concentration of maturities in coming years elevates refinancing risk

The assigned score to Sherwood's liquidity is B1, reflecting limited laddering of debt maturities and the resulting concentration of these maturities in coming years, which elevates the refinancing risk and our expectations that they are to be refinanced at least 12 months before due dates.

Following the acquisition of Arrow by TDR, Sherwood's operating subsidiary Sherwood Financing plc issued three senior secured notes in the aggregate equivalent amount of £1.2 billion, with maturities of 2026-2027. As of 31 March 2024, there was £167 million outstanding under Sherwood's £285 million revolving credit facility, leaving £107 million available for borrowing, which together with a cash balance of £101 million, resulted in a total liquidity position of £208 million.

Exhibit 8
Sherwood's debt maturity profile



Source: Company financials

Moody's assigns a score of B3 to Sherwood's FFO/Total Debt ratio, reflecting the expected improvement in the entity's profitability in the next 12-18 months as capital raised in discretionary funds is deployed, generating higher management fees and also facilitating deleveraging.

Sherwood Financing plc's bonds amounting to £350 million at a 6% fixed rate and €400 million at a 4.5% fixed rate are due in November 2026, and its €640 million floating rate bond is due in November 2027. Its £285 million revolving credit facility (RCF) has a maturity in April 2026.

Operating Environment

We assign a Ba2 score to Sherwood's operating environment, reflecting the industry risk of European debt purchasers and servicer. The macro-level indicator does not have any weighting in the scorecard since this score is higher than the industry risk score for all countries Arrow operates in.

The operating environment score has no impact on Sherwood's financial profile and results in a B2 adjusted financial profile.

Macro-level Indicators

We use Sherwood's geographic split of its 84-month ERC to determine the geographical split of the business mix when assigning macro-level indicators.

Industry Risk

We assign a Ba industry risk score for most European debt purchasers and servicers. Barriers to entry in the European debt purchasing space are moderately high. Accurately pricing unsecured non-performing loan (NPL) portfolios requires access to large amounts of data, which acts as a barrier to entry for potential new competitors.

Cyclicality is somewhat elevated. In a downturn scenario, such as is being experienced due to the coronavirus outbreak, many EMEA debt purchasers and servicer' cash flows declined due to lower collection volumes in particular regions, such as Southern Europe, resulting in companies recording revaluation losses owing to time value of money, as collection curves shift into the future as well as competitive dynamics in the servicing sector.

Debt purchasers offer a niche product, but with relatively low risk of obsolescence. However, the track-record of the debt purchasing industry varies by market, with decades of history in Northern and Western European markets, such as the Nordics and the United Kingdom, while certain Eastern European and Southeastern European markets, such as Romania and Greece, have only started seeing material volumes of debt sales recently. For Sherwood, the result of the weighted average industry risk score is Ba.

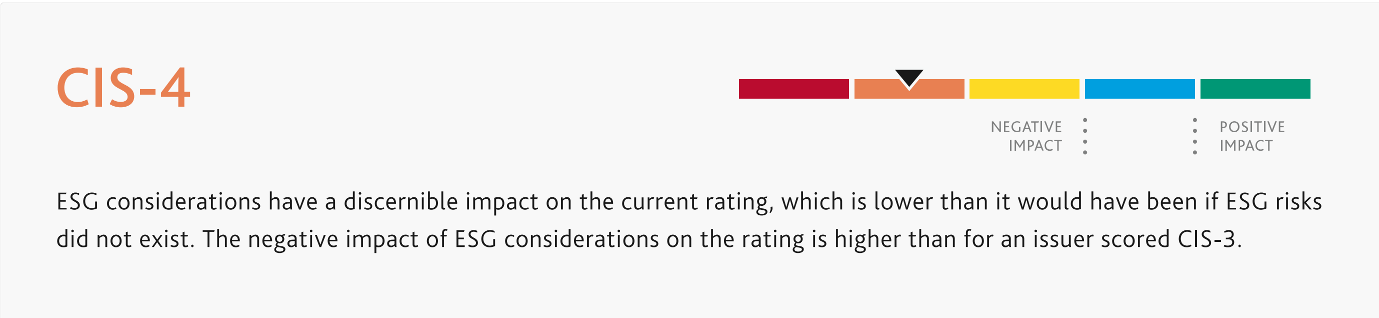
Business Profile and Financial Policy

We make no qualitative adjustments to Sherwood's adjusted financial profile for business profile and financial policy.

ESG considerations

Sherwood Parentco Limited's ESG credit impact score is CIS-4

Exhibit 9
ESG credit impact score



Source: Moody's Ratings

Sherwood's Credit Impact Score is (**CIS-4**), primarily reflecting its elevated leverage, private equity ownership, minimal presence of independent directors on its board, as well as the short track record under new ownership and management, mitigated to some extent by the presence of an experienced management team and owners' long track record of acquiring and overseeing portfolios of companies. Furthermore, the assigned score reflects the impact of high social risks on Sherwood's current ratings, driven by high exposure to conduct risk related to fair treatment of customers. The score also reflects Sherwood's track record of operating performance, including its successful expansion into the fund management business.

Exhibit 10
ESG issuer profile scores

Source: Moody's Ratings

Environmental

Sherwood faces low environmental risk because its debt purchases and collections are predominantly focused on unsecured consumer loans and residential real estate assets.

Social

Sherwood faces high social risk because of conduct risks related to the fair treatment of customers during the collection process, which is heavily regulated.

Governance

Sherwood's governance risk is high, reflecting its elevated leverage and private equity ownership, with minimal presence of independent directors on its board. Whilst Sherwood continues to make progress in developing its integrated fund management business, there is uncertainties related to Sherwood's deleveraging and pace of growth in its less capital intensive, fee-based integrated fund management business. These considerations are partly mitigated by Sherwood's experienced management team and owners' long track record of acquiring and overseeing portfolios of companies.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Notching considerations

Sherwood's senior secured debt ratings of B2 reflect theirs priorities of claims and asset coverage in the company's capital structure.

Rating methodology and scorecard factors

Our scorecard is designed to capture, express and explain in summary form our rating committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Exhibit 11
Rating Factors

Sherwood Parentco Limited						
Financial Profile	**Factor Weights**	**Historic Ratio**	**Initial Score**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Profitability						
Net Income / Average Managed Assets (%)	10%	-6.59%	Ca	B3	Expected trend	
EBITDA / (Interest Expense & Preferred Dividends) (x)	20%	2.77x	B1	B1	Expected trend	
Weighted Average Profitability Score			**B3**	**B2**		
Capital Adequacy and Leverage						
Tangible Common Equity / Tangible Managed Assets (%)	10%	-53.36%	Ca	Ca	Expected trend	
Debt / EBITDA (x)	25%	5.62x	B2	Ba2	Expected trend	
Weighted Average Capital Adequacy and Leverage Score			**B3**	**B1**		
Cash Flow and Liquidity						
Debt Maturities Coverage (%)	10%	1655.05%	Aaa	B1	Other adjustments	
FFO / Total Debt (%)	25%	-5.71%	Ca	B3	Expected trend	
Weighted Average Cash Flow and Liquidity Score			**B2**	**B2**		
Financial Profile Score	**100%**		**B3**	**B2**		
Operating Environment						
Home Country	**Factor Weights**	**Sub-factor Score**	**Score**			
Macro Level Indicator	0%		A1			
Economic Strength	25%	a1				
Institutions and Governance Strength	50%	a1				
Susceptibility to Event Risk	25%	baa				
Industry Risk	100%		Ba			
Home Country Operating Environment Score			Ba2			
	Factor Weights			**Score**	**Comment**	
Operating Environment Score	**0%**			**Ba2**		
ADJUSTED FINANCIAL PROFILE				**Score**		
Adjusted Financial Profile Score				**B2**		
Financial Profile Weight	100%					
Operating Environment Weight	0%					
Business Profile and Financial Policy				**Adjustment**	**Comment**	
Business Diversification, Concentration and Franchise Positioning				0		
Opacity and Complexity				0		
Corporate Behavior / Risk Management				0		
Liquidity Management				0		
Total Business Profile and Financial Policy Adjustments				**B2**		
					Comment	
Sovereign or parent constraint				**Aa3**		
Standalone Assessment Scorecard-indicated Range				b1 - b3		
Assigned Standalone Assessment				b2		

Source: Moody's Ratings

Overall, the scorecard calculated standalone assessment range for Sherwood is b1 – b3. The company's assigned b2 standalone assessment is in the middle of the range.

Ratings

Exhibit 12

Category	Moody's Rating
SHERWOOD PARENTCO LIMITED	
Outlook	Negative
Corporate Family Rating	B2
SHERWOOD FINANCING PLC	
Outlook	Negative
Senior Secured	B2

Source: Moody's Ratings

Endnotes

1 ERCs represent the expected future balance sheet collections on portfolio investments. An increasing proportion of collections are reported on a net basis, after servicing costs.

2 Maslow is a real estate development finance business currently focused on the UK market.

3 Excluding the £11.9 million profit on disposal of held for sale assets and liabilities and £1.2 million of other income.

4 On a last twelve month adjusted EBITDA basis.

REPORT NUMBER 1410514

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454