

## RATING ACTION COMMENTARY

# Fitch Rates Sherwood Financing Plc's Senior Secured Notes 'B+(EXP)'

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Fitch Ratings - London - 21 Nov 2024: Fitch Ratings has assigned a 'B+(EXP)' expected long-term rating to Sherwood Financing Plc's proposed issues of senior secured notes due 2029, guaranteed by Sherwood Parentco Limited (Arrow) among other group entities. The assignment of a final issue rating is contingent on the receipt of final documents conforming to the information already received.

Arrow is the parent company of Sherwood Acquisitions Limited, a UK-based entity set up in 2021 by TDR Capital LLC (and owned by investment funds managed by TDR Capital LLC) to acquire Arrow Global Group, a UK-based debt purchaser and investor in non-performing loans (NPLs) and other non-core assets.

## KEY RATING DRIVERS

**Equal Rank with Existing Notes:** The new notes issues will be accompanied by exchange and tender offers for the group's existing senior secured notes due 2026 and 2027. Existing notes not exchanged will remain in place and rank pari passu with the new notes within the senior secured debt class.

**Equalised with Long-Term IDR:** Arrow has a GBP285 million super-senior revolving credit facility, but no material unsecured debt. As the senior secured notes in aggregate represent the majority of the company's debt, Fitch has equalised the notes' ratings with Arrow's Long Term Issuer Default Rating (IDR), indicating average recoveries for the notes. Fitch expects the refinancing to have no material net impact on total leverage, but to extend the average tenor of the group's borrowings.

**Shift Towards Capital-Light Model:** For several years, Arrow has been transitioning away from traditional debt purchasing towards acting primarily as a manager of funds. The funds invest in non-performing loan (NPL) portfolios and other distressed and performing assets, with Arrow acting as their servicer.

**Leverage Constrains Rating:** Arrow's IDR reflects its continued material leverage, which weighs on its financial metrics amid current interest rates, while it grows its fund management-based business model. The IDR also reflects its developing investor franchise and the longer term benefits expected from shifting to an asset-light strategy, which differentiates it from traditional debt purchasers.

**Reducing Leverage Expectation:** Fitch-calculated gross debt/adjusted EBITDA ratio was 3.7x at end-3Q24 (net leverage as calculated by Arrow: 3.6x). Arrow targets net cash flow leverage of 3.0x over the medium term. Fitch expects leverage to benefit from growing revenue in the company's integrated fund management segment.

**Growing EBITDA:** Management-reported EBITDA grew by 8% in 9M24 to GBP282.5 million, and the company reported an operating profit as opposed to a loss in the prior year period. The pre-tax result remained negative, but at a reduced level of GBP36.5 million (9M23: GBP86.4 million).

## **RATING SENSITIVITIES**

### **Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

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

--Inability to keep leverage (gross debt/adjusted EBITDA) below 4.5x, or to demonstrate movement towards pre-tax profitability.

--Material collection underperformance, in particular if leading to meaningful portfolio impairments.

--Material increase in Arrow's risk appetite or weakening of its corporate governance.

### **Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade**

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

--Sustained improvement in Arrow's gross leverage ratio to below 3.5x, alongside sound fund performance that facilitates ongoing investor support for investment in future

funds, could lead to an upgrade of the IDR.

## 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

Sherwood Parentco Limited 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.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

## RATING ACTIONS

ENTITY / DEBT ⚡

RATING ⚡

Sherwood Financing Plc

senior secured

LT B+(EXP) Expected Rating

[VIEW ADDITIONAL RATING DETAILS](#)

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**APPLICABLE CRITERIA**

[Non-Bank Financial Institutions Rating Criteria \(pub. 17 Jan 2024\) \(including rating assumption sensitivity\)](#)

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Sherwood Financing Plc  
Sherwood Parentco Limited

UK Issued, EU Endorsed  
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