FitchRatings

RATING ACTION COMMENTARY

Fitch Assigns Sherwood Financing Plc's 2029 Notes Final 'B+' Rating

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Fitch Ratings - London - 10 Dec 2024: Fitch Ratings has assigned Sherwood Financing Plc's recent issues of 2029 senior secured notes - EUR397.1 million at a floating rate, EUR250 million at 7.625% and GBP250 million at 9.625% - each a final 'B+' rating.

The final ratings are in line with the expected ratings Fitch assigned to the notes on 21 November 2024 (see 'Fitch Rates Sherwood Financing Plc's Senior Secured Notes 'B+ (EXP)'' on www.fitchratings.com for further details).

KEY RATING DRIVERS

Equalised with Long-Term IDR: The notes are guaranteed by Sherwood Parentco Limited (Arrow) among other group entities. As the senior secured notes in aggregate represent the majority of the group's debt, Fitch has equalised the notes' ratings with Arrow's Long-Term Issuer Default Rating (IDR), indicating average recoveries for the notes. The new notes extend the average tenor of the group's borrowings, with only a small increase in leverage.

Equal Rank with Other Notes: The notes are principally being used to refinance previous issues of senior secured notes due in 2026 and 2027. Following the transaction, Arrow will have a total of EUR965 million of 2029 floating-rate notes, as the EUR397.1 million of new notes are supplemented by EUR567.9 million issued in exchange for previous notes. Small amounts of the earlier maturity notes will remain in place and rank equally with the new notes within the senior secured debt class.

Shift Towards Capital-Light Model: Arrow is a UK-based investor in non-performing loans and other non-core assets. For the past several years, it has been transitioning away from deploying its own balance sheet to primarily managing funds that invest in similar asset classes, with Arrow acting as their servicer.

Leverage Constrains Rating: Arrow's IDR reflects its continued material leverage, which weighs on its financial metrics in the current interest rate environment, even as it expands its fund management-based business model. The IDR also reflects its developing investor franchise and the long-term benefits expected from shifting to an asset-light strategy, setting it apart 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 at 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 business.

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 progress towards pre-tax profitability

--Material collection underperformance, particularly if it leads to substantial 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

Date of Relevant Committee

20 November 2024

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.

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			PRIOR
Sherwood Financing Plc				
senior secured	LT	B+	New Rating	B+(EXP)

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

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

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Sherwood Financing Plc	UK Issued, EU Endorsed
Sherwood Parentco Limited	UK Issued, EU Endorsed

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