MOODY'S RATINGS

CREDIT OPINION
24 January 2025

Update

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RATINGS

Sherwood Parentco Limited

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

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.

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CLIENT SERVICES

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

Sherwood Parentco Limited

Update following affirmation of B2, outlook changed to stable

Summary

The B2 corporate family rating (CFR) assigned to Sherwood Parentco Limited (Sherwood) reflects its strengthened liquidity and funding profile, following the successful refinancing and maturity extension of a vast majority of its notes and its revolving credit facility (RCF) to 2029. The CFR is constrained by modest cash flow, high leverage and a significant tangible equity deficit. We estimate a pro forma moderate interest coverage of around 2.9x based on its EBITDA as of the last 12 months and higher coupons following the bond exchange.

Although Sherwood continues to make progress in establishing its integrated fund management business, increased income contributions from this fee-based business will materialise only gradually over the coming quarters as the company continues to deploy the funds raised from investors in its integrated funds business. This is set against the backdrop of increased financing costs and a gradual expected reduction in borrowings over the coming years.

The B2 rating of Sherwood Financing plc's senior secured debt reflects its priorities of claims in its liability structure.

Credit strengths

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

» Sherwood has abundant liquidity availability under its RCF and medium-term debt maturities, with no significant near-term obligations due

Credit challenges

» Weak profitability and high debt/EBITDA leverage

» Weak capitalisation, with a tangible common equity deficit

» Modest cash flow because of gradual deployment of funds raised from its integrated fund management business

Rating outlook

The stable outlook on Sherwood's rating indicates our expectation that the company will continue to advance its shift towards an integrated fund management business model and increase its reliance on capital-light revenue. This strategy supports gradual leverage reduction, strengthening cash flow, and will help maintain future utilisation of the RCF at moderate levels.

Factors that could lead to an upgrade

- We could upgrade Sherwood's CFR if there is a sustained improvement in its profitability and interest coverage levels, alongside the expansion of its integrated fund management business. This will be dependent on the company achieving a debt/EBITDA leverage ratio of roughly 3.5x on a gross debt basis.
- An upgrade of Sherwood Financing plc's senior secured debt ratings could follow an upgrade of its CFR and no significant alteration in its liability structure that will substantially increase the amount of debt ranked senior to the notes.

Factors that could lead to a downgrade

- Conversely, we could downgrade Sherwood's CFR if it demonstrates continued high earnings volatility alongside a slower capital deployment in its discretionary funds, delaying expected leverage reduction and improvement in its cash flow.
- We could downgrade Sherwood Financing plc's senior secured ratings if the company significantly increases its 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]

	09-24[2]	12-23[2]	12-22[2]	12-21[2]	CAGR/Avg.[3]
Total managed assets (GBP Million)	1,854.5	1,950.6	2,155.6	2,204.2	(6.1)[4]
Total managed assets (USD Million)	2,487.5	2,486.6	2,593.0	2,974.9	(6.3)[4]
EBITDA (Finance) (GBP Million)	282.2	285.6	310.6	212.7	21.0[4]
EBITDA (Finance) (USD Million)	360.5	355.1	384.0	292.6	18.0[4]
Net Income / Average Managed Assets (%)	-2.3	-6.6	-3.9	-3.3	-4.0[5]
EBITDA / Interest Expense + Preferred Dividends	3.5x	2.8x	3.7x	5.4x	3.9x[5]
Tangible Common Equity (Finance) / Tangible Managed Assets (%)	-58.3	-51.3	-28.1	-22.3	-40.0[5]
Debt / EBITDA (Finance)	3.8x	5.1x	4.8x	6.9x	5.2x[5]
Debt Maturities Coverage (%)	1372.3	1655.0	1609.7	2080.9	1679.5[5]
FFO to Debt (%)	0.2	-5.7	-1.2	-8.7	-3.9[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: Company filings and Moody's Ratings

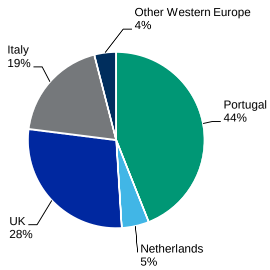
Profile

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

Compared with most other debt purchasers we rate, Sherwood has a more diversified business mix. This includes a sizeable asset management and fund management business and servicing (collectively, "integrated fund management") business; and its "balance sheet" business, where it predominantly invests in nonperforming loans (NPLs) and, increasingly, other asset classes, including real estate financing and outright real estate investments made via co-invested funds. 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, followed by its servicing business managing them.

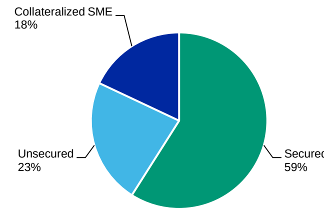
As of 30 September 2024, Sherwood had £1.2 billion of estimated remaining collections (ERCs)[1] (84-month basis), comprising mostly NPLs (Sherwood's ERCs also include investments in its own credit funds and a small amount of investments in real estate). As of 30 September 2024, Sherwood's 84-month ERCs were split among the UK (28%), Portugal (44%), Italy (19%), the Netherlands (5%), and Ireland (around 4%). Sherwood's secured ERCs represented 59% of the total ERC portfolio (84-month basis) as of 30 September 2024, and are predominantly concentrated in Italy and Portugal. The unsecured ERCs (23%) are primarily sourced from the UK, Netherlands and Portugal, and the remaining 18% are collateralized small and medium-sized enterprises (SMEs).

Exhibit 2
Sherwood has a geographically diverse asset mix
As of 30 September 2024, 84-month ERC by geography



Source: Company financials

Exhibit 3
Secured assets make up a greater proportion of ERCs
As of 30 September 2024, 84-month ERC by asset type



Source: Company financials

In addition, Sherwood had €10.5 billion of funds under management as of 30 September 2024, which mainly comprised third-party committed capital; 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) that closed €110 million of commitments in 2023 and a further €50 million in the first nine months of 2024. ACO 1 had total commitments of €1.7 billion, with €1.3 billion from third-party investments (final close in 2020), and ACO 2 completed fundraising in the first quarter of 2023, reaching its hard cap of €2.75 billion. Sherwood's co-investment percentage was 25% in ACO 1 and will be 10% in ACO 2 and AREO. In the nine months that ended 30 September 2024, origination volumes were €1.25 billion across the ACO and AREO funds. The company also raised €750 million for its 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

On 28 November 2024, Sherwood extended the maturities of Sherwood Financing plc's bonds through a new notes exchange offer at current market prices. The company extended its £350 million bond, with a 6% fixed rate due in November 2026, to £250 million by December 2029. Similarly, it extended its €400 million bond, with a 4.5% fixed rate due in November 2026, to €250 million by December 2029, and its €640 million floating rate bond, due in November 2027, to €965 million by December 2029. Concurrently, it refinanced its €285 million RCF and extended the maturity date to June 2029 from April 2026. The pickup rate was in excess of 90% of its bond exchange offer, which exceeded its minimum acceptance target and our expectation.

On 9 December 2024, iQera entered into a lock-up agreement where ACOII, which currently holds part of the notes, will become the controlling majority shareholder of iQera as a result of the partial equitization of the notes.

Detailed credit considerations

Profitability: Weakened profitability because of delays in generating income from Integrated Fund Management segment

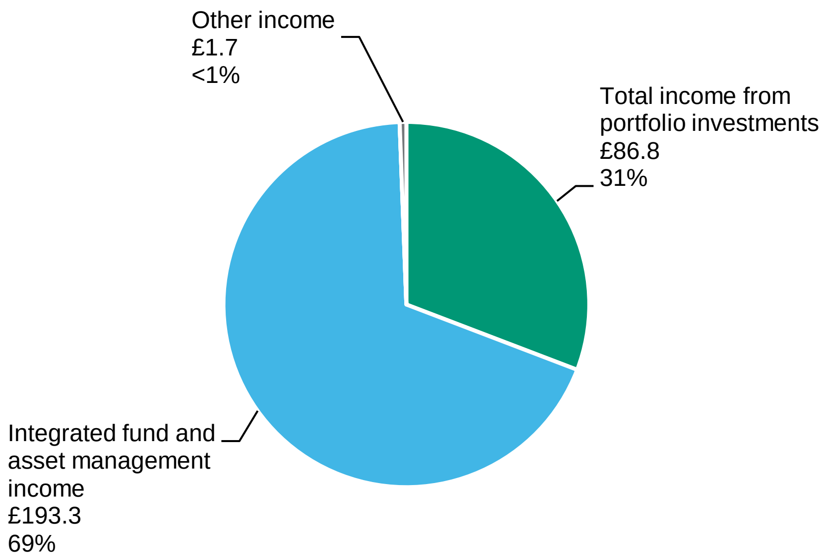
We assign a score of B3 to Sherwood's net income/tangible managed assets. The assigned score reflects its modest profitability and lumpy revenue generation. The company is transitioning to the integrated fund manager model and the investment costs incurred to scale that business has impacted profitability. Furthermore, the collection profile of the balance sheet business is lumpy due to the being RE secured. Our expectation is that Sherwood's profitability will gradually improve over the next 12-18 months, as capital raised in discretionary funds is deployed gradually, generating higher management fees. Also incorporated into the assigned score is our expectation that the increasing proportion of capital-light, recurring fee-based revenue sources will have a stabilising effect on the company's earnings, reducing their volatility in the long term.

In the first nine months of 2024, Sherwood recorded a pretax loss of £36.5 million, compared with a pretax loss of £86.4 million over the same period in 2023. When adjusted for £29 million of amortisation costs on intangible assets related to the firm's acquisition by TDR in 2021, Sherwood's underlying pretax loss was £7.4 million (Q3 2023: underlying pretax loss of £42.2 million).

Sherwood's capital-light income (revenue) from its Integrated Fund Management segment, which comprises investment and asset management, as well as servicing businesses, increased 41% to £220.5 million in the nine months that ended 30 September 2024, up from £156.6 million over the same period in 2023. The increase in capital-light income, notwithstanding the impact of the divestment of the UK servicing platforms, reflects increased management and servicing fees, driven by a 13% growth in funds under management from the deployment of the discretionary funds as of year-end 2023, as well as the continued expansion of the asset management and servicing businesses and growth in the firm's real estate offerings. Revenue from its capital-light business accounted for 69% of total income (revenue) in the first nine months of 2024, up from 65% in the year-earlier period.

Income from portfolio investments also increased to £90.2 million, up from £67.7 million over the same period in 2023, primarily reflecting net income of £8.9 million reported on 50% of the UK portfolios that were retained as part of the 50:50 profit-sharing arrangement with Intrum AB (Ca negative), completed in Q2 2023.

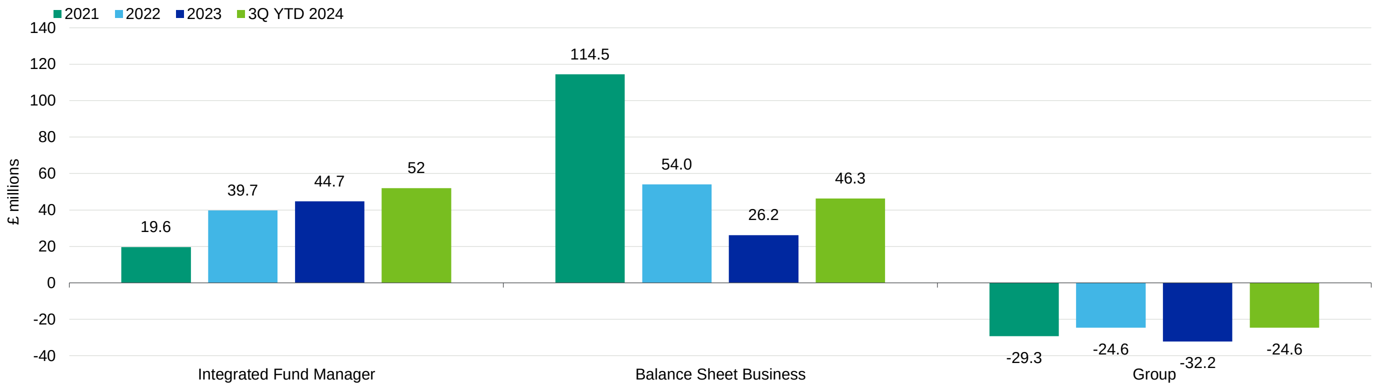
Exhibit 4
Capital-light business representing a greater proportion of revenue
Sherwood's revenue breakdown as of 30 September 2024



Revenue is after intra-segment elimination and adjusting items.
Source: Company financials

Sherwood's balance-sheet investments contributed £46.3 million to its EBITDA (before portfolio amortisation) as of the end of September 2024, up from £27.8 million a year earlier. This increase was mainly driven by £8.9 million of net income from the UK portfolio, which was up from £3.3 million recorded in Q3 2023. The Integrated Fund Management segment contributed £52 million of EBITDA, up from £29.1 million in the year-earlier, as higher fees were generated on the larger amounts of funds under management. During the same period, the segment's EBITDA margin expanded to 23.6%, from year-earlier, reflecting improved efficiencies in the business because of an increase in scale. The company expects its EBITDA margins to continue to widen as the business scales and its EBITDA contribution to remain greater than 50% of its total EBITDA in 2025.

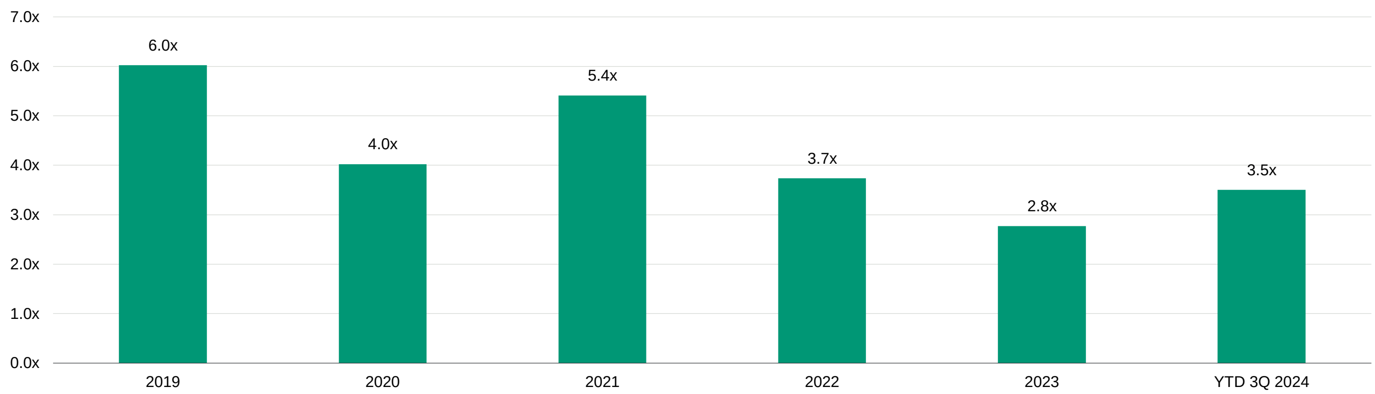
Exhibit 5
Sherwood's and Arrow's EBITDA by segment (before collections)



The comparative results (before Q4 2021) are for Arrow Global Group Limited (formerly plc), representing the consolidated results of Arrow before its acquisition by TDR.
Source: Company financials

We estimate a pro forma interest coverage of around 2.9x based on its EBITDA as of the last 12 months and higher coupons following the bond exchange, and assigned a B1 score for Sherwood's interest coverage ratio. The assigned score reflects the company's relatively steady interest servicing capacity, where the expected improvement in its EBITDA is likely to offset the increase in funding cost following the bond exchange.

Exhibit 6
Sherwood's interest coverage (EBITDA/interest expense)



The comparative results (before Q4 2021) are for Arrow Global Group Limited (formerly plc), representing the consolidated results of Arrow before its acquisition by TDR.
Sources: Company financials and Moody's Ratings

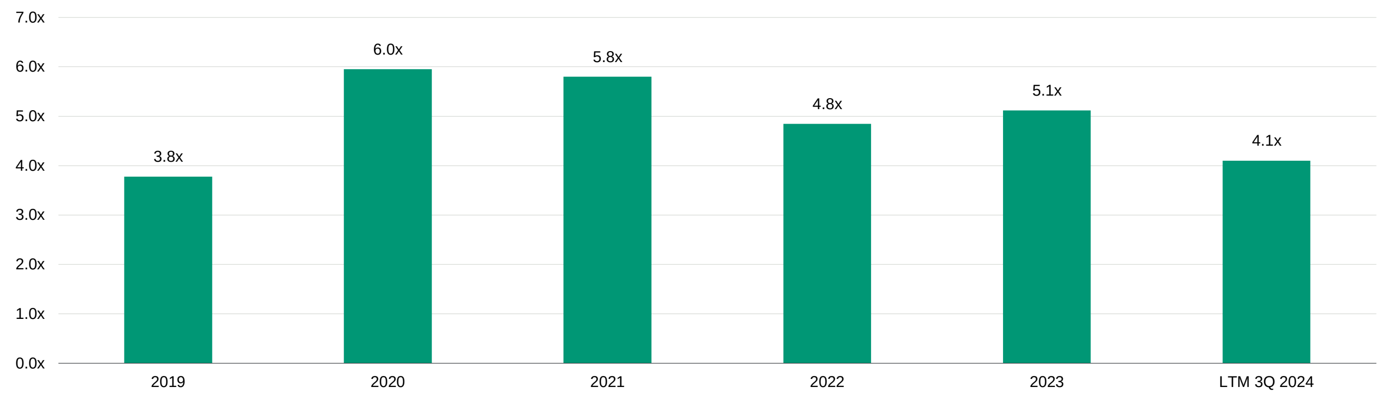
Capital Adequacy and Leverage: High leverage and weak capitalisation with a tangible common equity deficit

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 common equity deficit which stood at 58% of tangible assets as of 30 September 2024.

We assign a score of Ba2 to Sherwood's debt/adjusted EBITDA leverage metric. Moody's calculated gross leverage was 4.1x as of 30 September 2024, based on adjusted EBITDA as of the last 12 months, and 3.8x using annualised performance for the first three quarters of 2024, an improvement from 5.1x as of year-end 2023.

Sherwood's collections profile is considered 'lumpy' because of the predominantly secured nature of the assets in the portfolio. This can create some uncertainty around the timing of collections. In Q3 2024, Sherwood realised significant collections of £170 million, bringing its year-to-date collection as of the end of September 2024 to £298.1 million, which represented 107% of ERC. Collections for full-year 2024 are likely to be £376 million. We expect the firm's leverage to improve gradually to below 4x on a sustained basis, as the integrated fund management business continues to benefit from increased management and servicing fees as the business scales, and balances under RCF are kept at moderate levels, with the utilisation rate having been reduced recently. The company's medium-term leverage target is around 3x (net debt basis). As of 30 September 2024, it reported net leverage of 3.6x[2].

Exhibit 7
Sherwood's and Arrow's gross debt/EBITDA leverage



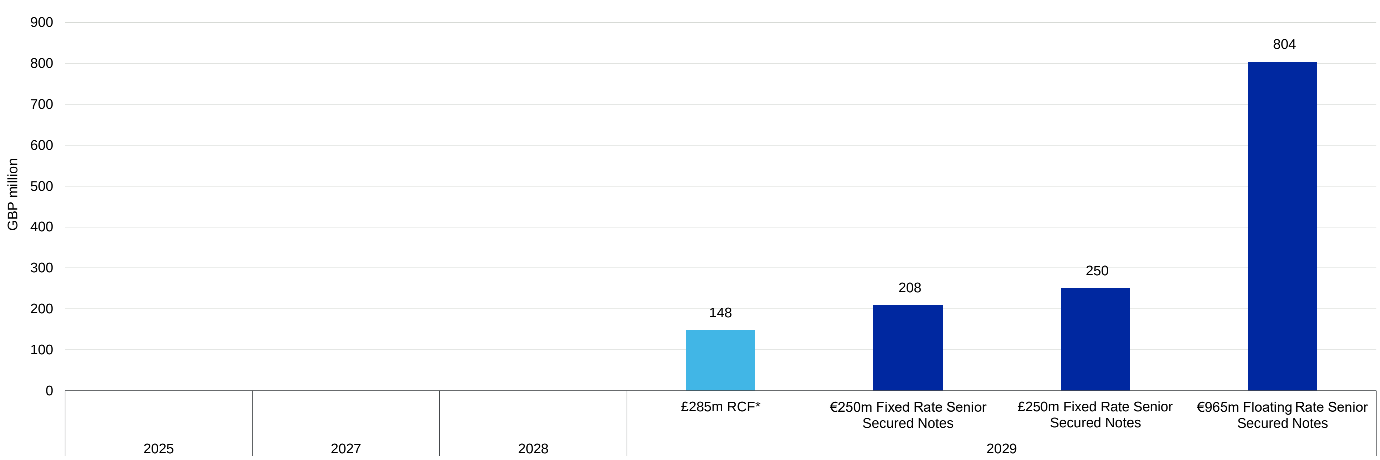
The comparative results (before Q4 2021) are for Arrow Global Group Limited (formerly plc), representing the consolidated results of Arrow before its acquisition by TDR.
Sources: Company financials and Moody's Ratings

Cash Flow and Liquidity: Refinancing risk addressed but cash flow generation remains difficult

Sherwood's liquidity score of Ba2 reflects the early refinancing and extension of most of its outstanding 2026 and 2027 bonds and RCF to 2029. The successful refinancing has lengthened Sherwood's maturity profile, eliminating any immediate refinancing risk. Furthermore, the company's overall utilised RCF amount was reduced, resulting in abundant availability under its RCF for its future funding needs. However, the limited laddering of debt maturities and the resulting concentration of these maturities in the coming years would continue to increase the refinancing risk in 2029.

Following the acquisition of Arrow by TDR, Sherwood's operating subsidiary Sherwood Financing plc issued three senior secured notes totalling £1.2 billion, with maturities over 2026-27. As of 30 September 2024, there was £148 million outstanding under Sherwood's £285 million RCF[3], leaving £129 million available for borrowing, which, together with a cash balance of £91 million, resulted in a total liquidity position of £220 million.

Exhibit 8
Sherwood's debt maturity profile
Pro forma for the refinancing completed on 28 November 2024



Amounts based on an exchange rate of 1.20 EUR/GBP.
Sources: Company financials and Moody's Ratings

We assigned a score of Caa1 to Sherwood's funds from operations (FFO)/total debt compared with the historical Ca score, reflecting the expected improvement in the entity's cash generation over the next 12-18 months as capital raised in discretionary funds is deployed, generating higher management fees and also facilitating leverage reduction.

Operating Environment

We assign a B1 operating environment score to debt purchasers. The assigned score reflects Sherwood's Home Country Environment Score of B2, which is based on the Industry Risk score of B, and our upward adjustment to the B1 score. The adjustment reflects our view that the sector's niche but stable product offering in the form of debt collections, which has a long-established track record, has a relatively low risk of obsolescence and event risk. In addition, although the regulatory environment for debt collections focuses on conduct risk related to fair treatment of customers and data protection, it is less complex than that of consumer lenders, which also face regulations around loan affordability and pricing. The scope of the regulatory framework for debt collection activities limits the sector's exposure to adverse regulatory changes. Sherwood's assigned B1 operating environment score considers the company's business diversification, comprising debt purchasing and servicing activities as direct investor as well as via its fund management business

Macro-level indicator

The Macro-Level Indicator receives no weight as it is higher than the Industry Risk score for all the countries in which the company operates. We use Sherwood's ERCs to determine the geographical mix of its Operating Environment profile. The portfolios are split among the Portugal (44%), the UK (28%), Italy (19%), Netherlands (5%), Other Western Europe (4%), resulting in a A1 weighted Macro-Level Indicator.

Industry Risk

We assign a B Industry Risk score to the debt purchasing sector. The sector's performance is sensitive to volatility in the availability of NPLs and is also affected by cyclical changes in collection patterns. A low supply of NPLs in recent years has resulted in highly competitive pricing, thus significantly reducing debt purchasers' profitability. The cyclicality of collections is mainly driven by the prevailing state of the economy and consumer affordability, reflecting the fact that debt purchasers' customers typically have weaker credit profiles or experience temporary financial difficulties. Further, during a downturn, cash flow is impacted by a slowdown in collection volumes, and companies' earnings can be hurt by revaluation losses because of the time value of money as collection curves shift into the future.

The debt purchasing industry has moderate barriers to entry. Accurately pricing NPL portfolios requires access to large amounts of data, which acts as a barrier to entry for new competitors. However, the industry is capital-intensive, requiring substantial financial resources to acquire NPLs and to establish and maintain operations. Debt purchasers and servicers also need to maintain relationships with NPL sellers (that is, banks and other lenders/providers) and to comply with their outsourcing and conduct guidelines. Regulation further increases barriers to entry through licensing applicable to servicing and compliance costs.

At the same time, the availability of alternative capital in the NPL market, such as from asset and investment management firms, has reduced debt purchasers' market share in this business and has further heightened the competitive pricing dynamics.

Business Profile and Financial Policy

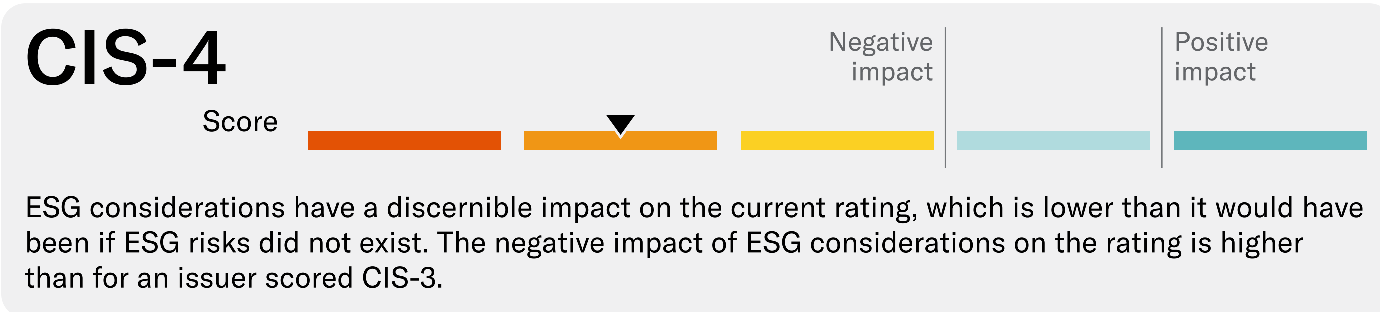
We make no qualitative adjustments to Sherwood's adjusted financial profile for business profile and financial policy.

ESG considerations

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

Exhibit 9

ESG credit impact score

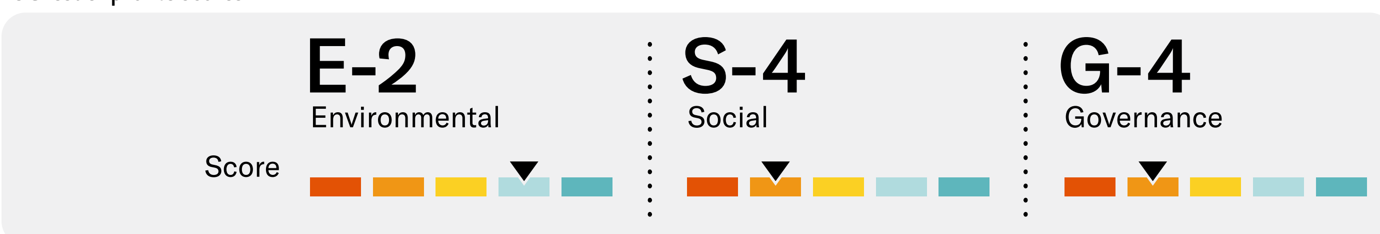


Source: Moody's Ratings

Sherwood's **CIS-4**, indicates a material impact of ESG considerations on the company's ratings, mostly because of high governance risks, mainly reflecting elevated leverage and weak cashflow generation as well as private equity ownership with limited board independence and the short track record under new ownership and management. Sherwood, like its peers, is exposed to high level of social risks reflecting risks inherent to the subprime debt purchasing and collection 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 negative tangible equity as well as its weak cash flow generation, due to delays in increased income contribution from its fee-based integrated fund management segment. 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 with good liquidity management practices. High governance risks also relate to the company's private equity ownership despite its 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 its priorities of claims and asset coverage in the company's capital structure.

Methodology and scorecard

Our scorecard is designed to capture, express and explain in summary form our rating committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may significantly differ from that suggested by raw data alone (although 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%	-58.27%	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	Ba2	Other adjustments	
FFO / Total Debt (%)	25%	-5.71%	Ca	Caa1	Expected trend	
Weighted Average Cash Flow and Liquidity Score			**B2**	**B3**		
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%		B			
Home Country Operating Environment Score			B2			
	Factor Weights			Score	Comment	
Operating Environment Score	**0%**			**B1**		
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	Stable
Corporate Family Rating	B2
SHERWOOD FINANCING PLC	
Outlook	Stable
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 Based on adjusted EBITDA as of the last 12 months.

3 In 2023, Sherwood entered a £1.5 million bank guarantee and an overdraft facility of £10 million, utilising the existing commitment under the RCF, reducing the commitments under the RCF by a total of £11.5 million.

REPORT NUMBER 1429417

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