RATING ACTION COMMENTARY

Fitch Affirms Sherwood Parentco Limited at 'B+'; Outlook Stable

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Fitch Ratings - London - 05 Jun 2025: Fitch Ratings has affirmed Sherwood Parentco Limited's (Arrow) Long-Term Issuer Default Rating (IDR) at 'B+' with Stable Outlook. Fitch has also affirmed Sherwood Financing Plc's senior secured debt, guaranteed by Arrow (among other Sherwood entities) at 'B+'.

Arrow is the parent company of Sherwood Acquisitions Limited, a UK-based entity set up by TDR Capital LLC (and owned by investment funds managed by TDR Capital LLP) to acquire Arrow Global Group, a European fund manager specialising in a range of distressed and performing assets.

KEY RATING DRIVERS

The ratings reflect the anticipated medium-term benefits from Arrow's asset-light strategy, progressively differentiating it from more direct investors in distressed assets, and its lack of refinancing need. The rating also takes into account Arrow's negative earnings and material leverage while it effects its business model transition.

Capital-Light Shift: Over the last five years, Arrow has greatly reduced its traditional debt purchasing, acting as a manager of funds investing in a wider range of distressed and performing assets, and as the servicer of those assets. Under the revised business model, its balance sheet usage reduces principally to co-investments in funds and decreased to 7% in its most recent real estate lending fund 'ALO1', having been 25% in its inaugural credit opportunities fund 'ACO1', launched in 2019. Arrow's 2024 asset purchases for its own balance sheet were only GBP156 million, far lower than pre-pandemic levels.

By end-1Q25, Arrow's funds under management (FUM) had increased to EUR10.6 billion. The long-term FUM growth rate remains sensitive to the performance of funds launched, none of which has completed its life cycle, as well as continued investor appetite for investments in non-performing and real estate assets.

Still Below Break-Even: Arrow's business generates material EBITDA, but net earnings remain negative since the adoption of its revised model, with a pre-tax loss of GBP70 million in 2024 (2023: GBP125 million), after accounting for high financing costs. Fitch expects Arrow to move towards profitability, as its FUM expand and its early co-investments deliver their returns.

Leverage Constrains Rating: Arrow retains large borrowings and its Long-Term IDR is constrained by associated material leverage, with a Fitch-calculated gross debt/adjusted EBITDA ratio of 4.2x at end-1Q25. Similar to many European distressed asset purchasers, the company's tangible equity is negative following material inorganic expansion, and this also weighs on our capitalisation and leverage assessment.

The management targets net cash flow leverage at 3.0x over the medium term and we expect leverage to benefit from rising revenue from integrated fund management. This may lead Fitch to adopt a hybrid approach to benchmarking leverage, once the EBITDA base has achieved a more even split between investment activities and fund management.

Refinanced Debt Structure: In 4Q24, Arrow refinanced its due 2026 and 2027 bonds, extending their maturities to December 2029. Additionally, the company replaced its existing GBP285 million revolving credit facility (RCF) with a new one for the same amount, now maturing in June 2029, to bolster liquidity. EBITDA interest coverage remains adequate for the current rating level. Fitch's assessment of Arrow's funding, liquidity and coverage profile also takes into account its predominantly secured and confidence sensitive wholesale funding sources.

Diversification of Income: Arrow's scale is below that of higher-rated alternative asset managers (measured by assets under management) and debt purchasers (measured by estimated remaining collections). However, the company's local presence in multiple European markets enables it to target smaller and often off-market transactions, which are typically less price sensitive than auction-led deals.

RATING SENSITIVITIES

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

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

Material underperformance in asset realisations, leading to large portfolio impairments.

Weakening of Arrow's corporate governance, or other evidence of increased risk appetite.

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

Sustained improvement in Arrow's gross leverage ratio to below 3.5x, alongside sound fund performance that generates co-investment profits and facilitates investor support for investment in future funds.

DEBT AND OTHER INSTRUMENT RATINGS: KEY RATING DRIVERS

Sherwood Financing Plc's GBP1.3 billion equivalent senior secured notes are guaranteed by Sherwood Parentco Limited. In December 2024, these notes were refinanced into three due December 2029 tranches: EUR965 million at a floating rate; EUR250 million at 7.625%; and GBP250 million at 9.625%. From the senior secured notes issued in 2021, EUR36 million of the EUR400 million 4.5% tranche due in 2026, GBP40 million of the GBP350 million 6% tranche due in 2026, and EUR33 million of the EUR640 million floating rate tranche due in 2027 remain outstanding.

As Arrow's senior secured notes are the company's main outstanding debt class (and effectively junior to the company's GBP285 million RCF, Fitch has equalised the notes' ratings with the Long-Term IDR, indicating average recoveries for the notes.

DEBT AND OTHER INSTRUMENT RATINGS: RATING SENSITIVITIES

A downgrade of the Long-Term IDR would likely be mirrored in a downgrade of the 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.

An upgrade of the Long-Term IDR would likely be mirrored in an upgrade of the 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.

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 importance 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 the company. 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 Parentco Limited	LT IDR	B+	Affirmed	B+
Sherwood Financing Plc				
senior secured	LT	B+	Affirmed	B+

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VIEW ADDITIONAL RATING DETAILS

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

Non-Bank Financial Institutions Rating Criteria (pub. 31 Jan 2025) (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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