S&P Global
Ratings

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Various Rating Actions Taken On Distressed Debt Purchasers On New Criteria And Sector Review; Ratings Removed From UCO

April 26, 2024

Overview

- The April 4, 2024, publication of our revised criteria, "Criteria | Corporates | General: Sector-Specific Corporate Methodology," affected our view of revenue and calculation of EBITDA for the nine distressed debt purchasers (DDPs) we rate.
- Implementation of the revised criteria indicated that financial leverage at Garfunkelux Holdco 2 S.A. (Lowell) and Sherwood Parentco Ltd. exceeded the level at other companies rated 'B+'. We have lowered our long-term issuer credit ratings on these companies to 'B' from 'B+'. We also affirmed our 'BB-' rating on KRUK S.A. These ratings are no longer under criteria observation.
- Industry conditions remain difficult and refinancing risks have increased. Therefore, we also reviewed our ratings on companies in the sector that had not been placed under criteria observation after we published the revised criteria.
- We lowered our ratings on iQera Group SAS and its senior secured notes to 'CCC+' from 'B' because the group recently announced that it is assessing its options, which we consider indicates a higher probability of a distressed exchange.
- We have affirmed our ratings on PRA Group Inc., B2 Impact ASA, Axactor ASA, and AFE S.A.
- Our rating on Lowell has a negative outlook because of its growing refinancing risk; our rating on iQera is negative because we see a higher likelihood of a distressed exchange; and our rating on Intrum is still on Credit Watch negative. All other ratings in the sector have a stable outlook.

PARIS (S&P Global Ratings) April 26, 2024--S&P Global Ratings today took the following rating actions. We:

- Downgraded Garfunkelux Holdco 2 S.A. (Lowell) to 'B' from 'B+', with a negative outlook;
- Downgraded Sherwood Parentco Ltd. (Arrow) to 'B' from 'B+', with a stable outlook; and
- Affirmed our 'BB-' rating on KRUK S.A.

These ratings are no longer under criteria observation.

We also lowered our ratings on iQera Group SAS and its senior secured notes to 'CCC+' from 'B', with a negative outlook.

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Finally, we affirmed our ratings on:

- AFE S.A.;
- Axactor ASA;
- B2 Impact ASA; and
- PRA Group Inc.

The revision of our methodology affects our approach to calculating revenue and EBITDA for the DDP sector. The industry reports in terms of cash EBITDA, which adds back to EBITDA the principal collected that flows through the cash flow accounts. We consider that this approach overestimates the capacity of a DDP to repay debt because they need to continue to invest in new portfolios to replenish their estimated remaining collections and maintain their business model. The past 12 months, during which the industry achieved only modest debt reduction, despite increasing refinancing risk, offers a good illustration. A key difference between DDPs and other corporates is that DDPs do not need to sell a product or service to generate cash flow; instead, they collect unpaid debts from thousands of clients. Moreover, given the generally high levels of cash generated, we consider that in a stress scenario DDPs could use a significant part of this cash toward debt repayment. Therefore, we adjust revenue and EBITDA by adding back 50% of principal collected as the portfolio amortizes (market practice, as described above, is to add back 100%).

In our view, this change makes it easier to compare metrics on DDPs with those in the rest of the corporate sector. Furthermore, we clarified that for DDPs we do not typically deduct accessible cash and liquid investments from debt. We view these funds as transitory and typically expect them to be allocated to new portfolio investments. That said, if management clearly earmarks cash for debt repayment, we would deduct it from debt.

After implementing the change to our methodology, we lowered our ratings on Arrow Global and Lowell by one notch. Compared with the rest of the industry and the broader corporate sector, we now see their financial positions as weaker than we previously thought. We forecast that S&P Global Ratings-adjusted debt to EBITDA will remain high in 2024, at 7.0x-7.5x for Lowell and 6.5x-7.0x for Arrow.

Table 1

S&P Global Ratings-adjusted debt to EBITDA (x)

	--Fiscal year ended Dec.31--			
	2022a	2023a	2024f	2025f
AFE S.A.	5.3	8.2	5.5-6.0	5.5-6.0
Axactor ASA	5.7	5.4	5.0-5.5	5.0-5.5
B2 Impact ASA	4.0	3.5	4.0-4.5	4.0-4.5
Garfunkelux Holdco 2 S.A. (Lowell)	8.5	8.3	7.0-7.5	7.0-7.5
Intrum AB	5.5	6.7	7.0-7.5	6.0-6.5
iQera Group SAS	13.0	9.2	>10.0	>10.0
KRUK S.A.	3.0	3.6	4.0-4.5	4.0-4.5
PRA Group	4.1	5.4	4.2-4.7	4.0-4.5

Table 1

S&P Global Ratings-adjusted debt to EBITDA (x) (cont.)

	--Fiscal year ended Dec.31--			
	2022a	2023a	2024f	2025f
Sherwood Parentco Ltd. (Arrow Global Group)	8.5	11.4	6.5-7.0	6.0-6.5

*All figures adjusted by S&P Global Ratings. a--Actual. f--Forecast.

Industry conditions for DDPs are tough as we flagged before (see "Europe's Distressed Debt Purchasers Face Mounting Risks Amid Tough Economic Conditions," published on Jan. 24, 2023). Most European economies achieved a soft landing and employment remains strong, limiting the supply of nonperforming loans. At the same time, borrowing costs have surged due to higher interest rates, creating a material drag on profitability in this capital-intensive sector. In light of industry conditions, we revised down our business risk assessments on two companies: iQera to weak from fair and Intrum to fair from satisfactory.

DDPs that had high leverage before interest rates increased now face multiple obstacles. Acquiring new portfolios is capital-intensive and, in recent years, consolidation in the industry has often been debt-funded; both tend to increase leverage. The recent spike in interest rates, combined with reduced investor appetite for speculative-grade issuers has exacerbated risks for players that were already highly leveraged. In addition, companies have been unable to fully offset the higher cost of capital and debt by generating higher returns on their acquired portfolios.

Some DDPs are questioning their whole business model and have limited or even halted investments in new portfolios. Arrow Global has already switched to an alternative fund management business model for its operations. Intrum emphasized in its strategy update that it targets a more capital-light model and has sold a large part of its assets to Cerberus. Moreover, as increasingly negative investor sentiment and higher scrutiny forces players to reduce leverage, their capacity to invest in new portfolios is also reduced (as is the case for iQera, Intrum, and Lowell), just when returns are seeming to increase for new vintages. In our view, if DDPs fail to replenish their estimated remaining collections, they will erode their prospective EBITDA, and thus the efficiency and profitability of their whole business.

In our view, companies that have less leverage and that focused on organic growth over the past five years, rather than undertaking mergers and acquisitions, are now better positioned. Companies such as B2 Impact and Kruk, for example, are likely to have more financial flexibility. This will enable them to continuously invest in more-profitable portfolios, as competition for unsecured portfolios starts to diminish. We anticipate that they will therefore show higher growth and profitability, relative to peers.

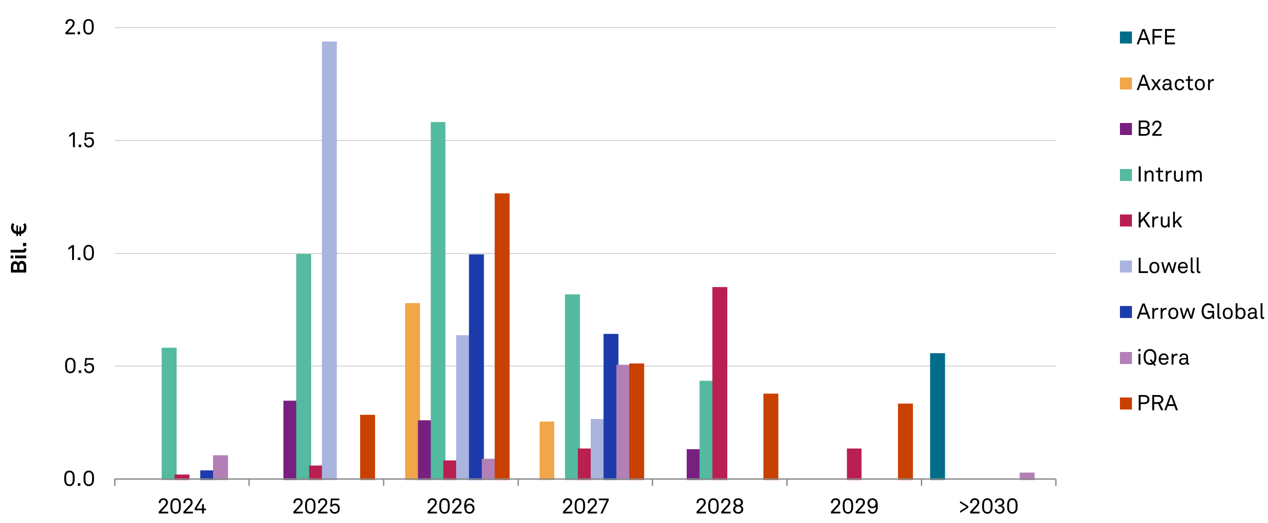
In the current environment, we see refinancing risk as key. In addition to higher base interest rates, investors in the sector are demanding increased risk premiums, which puts further pressure on DDPs' ability to refinance. That said, the picture is not uniform; some companies have been able to issue new debt at decent spreads during 2023 and early 2024, while others with more leverage have seen a sharp increase in coupon or have chosen to delay their refinancing until market conditions are better. Companies may make this decision if the yield on their current bonds indicates that any new issuance would be too costly.

Debt maturity concentrations also raise concerns. The maturity concentrations at some companies shown in the chart below adds to refinancing risk. Recent announcements by Intrum and iQera exemplify the challenges faced by the industry; both have indicated that they are evaluating the long-term viability of their capital structure and exploring different options with the help of external consultants and legal advisors. This implies a higher risk of distressed exchange and prompted us to lower our ratings on these entities and assign negative outlooks or place ratings on CreditWatch with negative implications.

Chart 1

Some distressed debt purchasers have concentrated maturity profiles

Debt maturity profiles by issuer



Note: These figures reflect all outstanding bonds, bank debt, commercial paper, and revolving credit facilities. Source: S&P Global Ratings.

On a more-positive note, collections performance should remain resilient, with only some softening expected. Our economic base case still assumes that the U.S. and European economies in which our rated DDPs operate will see a soft landing in 2024. We also expect both labor markets to remain tight and that continuing disinflation will be positive for collections. Pockets of risk remain because inflation has a lagging effect and higher interest rates will feed through to asset quality and ultimate repayment capacity. That said, in the medium term, this phenomenon will have positive effect on future market supply for DDPs. Another specific downside risk for secured collections is that the real estate market could eventually freeze if investors delay purchases because central banks have postponed rate cuts .

AFE S.A.

Primary analyst: Dmitry Nazarov

After AFE completed its debt restructuring in February 2024, we saw a material improvement in its liquidity and debt maturity profile. Available liquidity increased by about €56 million and the company extended its earliest debt maturity to 2030. At the same time, the recapitalization increased AFE's debt by €94 million, adding to its already high leverage. Immediately after the recapitalization, we estimate that the company's gross debt to S&P Global Ratings-adjusted EBITDA ratio exceeded 9.0x and its gross loan-to-value (LTV) ratio was above 90%. This elevated level of leverage reflects both the higher amount of gross debt and AFE's weak collection performance over 2023.

In our view, despite the improved liquidity and enhanced capital structure, questions still remain regarding management's ability to restore AFE to a sustainable business model. AFE's management expects its collections to show a marked improvement in 2024, based on the planned realization of some real estate investments, combined with greater recovery from its NPL portfolios. Our base case includes core collections improving to €140 million-€150 million in 2024; we estimate that collections were about €93 million in 2023. The improvement would drive EBITDA growth and support deleveraging. That said, real estate assets are often illiquid and valuations can be uncertain. Therefore, collections from the real estate assets might be lower than expected and take longer to realize. Similarly, if the economy worsens, contrary to our expectations, collecting cash from secured NPLs may be delayed. In turn, this could lower the amount of cash that AFE has available to resume investments in new assets and reduce leverage.

Outlook

The stable outlook indicates that, having completed its comprehensive funding restructuring and recapitalization, we expect AFE to maintain adequate liquidity and improve the sustainability of its business through better collection performance over the next 12 months. We also expect it to accelerate investments and the pace of deleveraging.

Downside scenario: We could lower the rating if AFE fails to improve its collection performance and profitability. This would raise concerns regarding the ability of management and the shareholders to revive the company's business and to reduce leverage over time.

Upside scenario: We could raise the rating if we saw a substantial improvement in AFE's business and financial sustainability. This would depend on higher collections and earnings; increased investment in new assets, at least at replacement rate; and lower adjusted debt to EBITDA and LTV ratios.

AFE S.A.--Key Metrics*

	--Fiscal year end Dec. 31--			
	2022a	2023e	2024f	2025f
Debt to EBITDA (x)	5.3	8.2	5.5-6.0	5.5-6.0
Company-reported debt to cash EBITDA (x)	3.1	--	--	--
EBITDA interest coverage (x)	3.1	1.3	2.0-2.2	2.2-2.6

AFE S.A.--Key Metrics* (cont.)

	--Fiscal year end Dec. 31--			
	2022a	2023e	2024f	2025f
FOCF to debt (%)	1.2	11.5	5.0-6.0	3.0-4.0
Debt-to-tangible equity (x)	40	5.1	2.5-3.0	1.5-2.0

*All figures adjusted by S&P Global Ratings, except where noted. a--Actual. e--Estimate. f--Forecast. FOCF--Free operating cash flow.

Axactor ASA

Primary analyst: Alejandro Peniche

Axactor is smaller than other European DDPs, but its continued growth, supported by increased collections from its NPL portfolios is helping it to close the gap. Under our base case, the company's revenue growth is forecast to increase to close to 12% during 2024 as it builds on its new investments.

The company refinanced its 2024 maturity in the fourth quarter of 2023. As a result, Axactor now faces limited refinancing risk for the next 12-24 months; its next bullet payment is due in 2026. That said, we expect the company to continue to invest in new portfolios, such that its FOCF to debt will be close to nil. If Axactor wants its growth to outpace our base case, we anticipate that it will need to raise further debt. We currently assume that Axactor's debt profile will remain stable and its collections will support its cash flow profile. Therefore, we forecast stable adjusted debt to EBITDA ratios of 5.0x-5.5x over the next two years.

Outlook

The stable outlook indicates that we expect gross collections at Axactor to continue to grow over the next 12 months. This will enable it to sustain relatively stable adjusted debt to EBITDA of about 5.0x and to comply with its bond covenants while maintaining sufficient headroom. We also expect it to maintain an adequate liquidity profile with low refinancing risk.

Downside scenario: We could lower our ratings if the company's collection performance weakens or if it pursues a more-aggressive financial policy and higher leverage. This would happen if adjusted debt to EBITDA rose above 6x, or interest coverage were sustainably below 2x, or if we see pressure on covenants.

Upside scenario: We see limited upside for our ratings over the next 12 months. However, we could raise the rating if Axactor sustainably improves its leverage beyond our current expectations, such that it could sustain adjusted debt to EBITDA below 4.5x without jeopardizing future earnings potential. This implies portfolio acquisitions at least in line with its replacement rate. An upgrade would also depend on sufficient headroom under its covenants and no indications of asset quality problems.

Axactor ASA--Key Metrics*

	--Fiscal year end Dec. 31--			
	2022a	2023a	2024f	2025f
Debt to EBITDA (x)	5.7	5.4	5.0-5.5	5.0-5.5
Company-reported debt to cash EBITDA (x)	3.7	3.9	--	--
EBITDA interest coverage (x)	2.9	2.2	2.0-2.2	2.0-2.2
FOCF to debt (%)	(13.4)	(0.3)	(5.0)-(5.4)	(1.0)-0
Debt-to-tangible equity (x)	(1.0)	(1.0)	(1.0)-(2.0)	(1.0)-(2.0)

*All figures adjusted by S&P Global Ratings, except where noted. a--Actual. e--Estimate. f--Forecast. FOCF--Free operating cash flow.

B2 Impact ASA

Primary analyst: Alejandro Peniche

After a year in which it increased its cash-adjusted EBITDA and took a conservative approach to debt volumes, B2's leverage ratios compare favorably with those of its industry peers. Largely thanks to a significant one-off collection, adjusted debt to EBITDA was 3.5x in December 2023. We expect it to be 4.0x-4.5x for the next two years, given that B2 is likely to increase its investments.

Over the next 12 months, we anticipate that B2 will focus its growth efforts on its unsecured portfolio, taking advantage of the market dynamics within the DDP industry and its lower-than-peers financial leverage. The company prepaid its €200 million debt due in May 2024, thus reducing its refinancing risk. Combined with lower leverage, this has put the company in a favorable financial position to invest. We expect it to be able to increase investment volumes and to achieve higher internal rates of return than many of its peers.

In addition, we expect liquidity to remain sound, mainly supported by B2's strong funds from operations and improved collections in 2023. The latter also enabled B2 to increase cash and equivalents by nearly 20%, year on year. When it refinanced its May 2024 maturity, B2 issued only €100 million to the market; it prepaid 50% of the remaining €100 million using cash, and 50% from its revolving credit facility (RCF), which matures in 2025. We expect the company to proactively extend its RCF beyond 2025. B2 has no other maturities due in 2024 or 2025.

Outlook

The stable outlook indicates that we anticipate that B2 will maintain sound collection levels for the next 12 months. These will translate into stable adjusted EBITDA and EBITDA margins of around 60%. We also predict that the company will maintain its competitive position within the European debt collection market and will continue to actively manage its liquidity.

Downside scenario: We could lower the rating on B2 if the company is overly aggressive in its growth plans, so that its leverage approaches 5x. Although we consider the scenario less likely, we could also lower the rating if B2's collections deteriorate materially due to a weaker macroenvironment or if the company were to recognize substantial negative revaluations, indicating portfolio mispricing.

Upside scenario: We could raise the rating on B2 if we saw a material reduction in leverage to levels sustainably below 4x, with interest coverage above 3x. An upgrade would also depend on the company maintaining well-spread maturities and keeping its weighted-average maturities above two years. Further improvement in B2's competitive position would also support an upgrade.

B2 Impact ASA--Key Metrics*

	--Fiscal year end Dec. 31--			
	2022a	2023a	2024f	2025f
Debt to EBITDA (x)	4.0	3.5	4.0-4.5	4.0-4.5
Company-reported debt to cash EBITDA (x)	2.3	1.9	--	--
EBITDA interest coverage (x)	3.9	2.8	3.2-3.4	3.1-3.3
FOCF to debt (%)	9.2	15.5	1.3-1.9	(1.3)-(1.9)
Debt-to-tangible equity (x)	2.3	2.2	1.9-2.1	2.0-2.2

*All figures adjusted by S&P Global Ratings, except where noted. a--Actual. f--Forecast. FOCF--Free operating cash flow.

Garfunkelux Holdco 2 S.A. (Lowell)

Primary analyst: Dmitry Nazarov

Lowell's leverage is forecast to remain persistently high under our base case, with adjusted debt to EBITDA still close to 7.0x by the end of 2025. It is therefore in a more vulnerable position than higher-rated sector peers and other corporates rated 'B+'. Lowell's business model is very capital intensive and cash collections dominate its revenue mix. In our view, this constrains its ability to reduce its leverage; to achieve a material reduction in leverage, Lowell would need to rely on asset sales and reduce new investments.

We forecast that financial leverage under the new criteria will gradually converge to 7x, from 8.3x at year-end 2023. Lower investment volumes in 2023 and 2024 are likely to have a moderately negative effect on core collections, only partially offset by a growth in servicing income. Although operating efficiency is improving, supported by cost-control initiatives, we do not expect to see meaningful growth in adjusted EBITDA over the next two years. We forecast that management will continue making portfolio sales to generate liquidity and repay debt over 2024-2025. This strategy would allow Lowell to reduce leverage to some degree, especially this year, but we anticipate that leverage will remain high.

Lowell faces increasing refinancing risks in the coming months because its senior secured notes mature in November 2025. Although management still has time to refinance the notes, access to the financial market for highly leveraged distressed debt purchasers is complicated, in our view. In our base-case scenario, we assume that Lowell will be able to refinance, given its large scale and solid market position. However, an inability to refinance the note in the coming months could indicate an unsustainable capital structure, weigh on future liquidity, and prompt management to consider a distressed exchange. The negative outlook reflects these growing risks.

Outlook

The negative outlook signifies that Lowell faces increased refinancing risks, given its persistently high leverage and deteriorating investor sentiment toward European distressed debt purchasers. It also incorporates the risk that Lowell will prove unable to reduce leverage as we currently expect.

Downside scenario: We could lower the rating if Lowell fails to refinance its senior secured notes within the next three to six months. Such a scenario would increase the risk of a distressed debt exchange. We could also downgrade Lowell if, contrary to our base case, it is unable to reduce its adjusted debt to EBITDA below 7x within the next two years, or to increase interest coverage closer to 2x.

Upside scenario: We could revise the outlook back to stable if Lowell refinances its senior secured notes in the coming months without breaching their original terms, and if the expected reduction in leverage materializes.

Garfunkelux Holdco 2 S.A.--Key Metrics*

	--Fiscal year end Dec. 31--			
	2022a	2023e	2024f	2025f
Debt to EBITDA (x)	8.5	8.3	7.0-7.5	7.0-7.5
Company-reported debt to cash EBITDA (x)	4.0	3.7§	--	--
EBITDA interest coverage (x)	2.2	1.6	1.7-1.9	1.5-1.7
FOCF to debt (%)	(3.3)	6.4	8.0-9.0	5.0-6.0
Debt-to-tangible equity (x)	(3.3)	(4.4)	(2.0)-(3.0)	(2.0)-(3.0)

*All figures adjusted by S&P Global Ratings, except where noted. a--Actual. e--Estimate. f--Forecast. FOCF--Free operating cash flow.

Intrum AB

Primary analyst: Alejandro Peniche

Intrum recently announced that it is appointing two external advisors (Houlihan Lokey and Milbank) to help it evaluate alternative means of strengthening its capital structure. Although management didn't provide any guidance on the options to be considered, in our view, the appointment of external advisors implies an increased likelihood of a distressed debt exchange; previously, we considered this to be unlikely. Given the reaction of the equity and bond markets to the announcement, we consider Intrum's access to these markets to be impaired. This also increases the probability of a refinancing deal that seeks to extend existing finance.

Intrum's announcement may have other implications, which we are still assessing. Once the company has shared its complete refinancing plans, we will determine the effect on its capital structure and overall credit quality.

Despite the revised strategy and ongoing transition to a less capital-intensive business model, we consider that Intrum's business risk profile has deteriorated during the past couple of years. Several factors support our opinion:

- Profitability lags that of several peers because Intrum has a higher share of servicing than investing, compared with some peers--this gives it lower, but somewhat more predictable and stable margins;

- Some portfolios in Italy have been negatively revalued;
- We project that Intrum's scale, compared with others in the investing segment, will be reduced following the Cerberus deal; and
- The transitional risks inherent to the company's changes in strategy and management could hamper its operations while it moves away from a capital-intensive strategy toward one with a lighter balance sheet.

We consider that most of the risks we previously highlighted by applying a negative comparable adjustment have been encompassed in our revised assessment of Intrum's business risk profile. Therefore, we no longer apply this adjustment to our rating on Intrum. Finally, we expect Intrum's adjusted debt to EBITDA to be consistently above 6x, and that interest coverage will exceed 2x.

CreditWatch

We placed the rating on Intrum on CreditWatch with negative implications on March 18, 2024, to indicate the significant likelihood that we would lower the ratings on Intrum within the next 90 days if we considered that a distressed debt restructuring had become more likely (see "Intrum Downgraded To 'B' After The Announced Evaluation Of Its Capital Structure; Rating Placed On CreditWatch Negative"). We could remove our ratings from CreditWatch and affirm them if we considered the company more likely to achieve a conventional refinancing of its upcoming debt maturities.

Intrum AB--Key Metrics*

	--Fiscal year end Dec. 31--			
	2022a	**2023a**	**2024f**	**2025f**
Debt to EBITDA (x)	5.5	6.7	7.0-7.5	6.0-6.5
Company-reported debt to cash EBITDA (x)	4.1	4.4	--	--
EBITDA interest coverage (x)	5.0	2.2	1.9-2.1	2.0-2.2
FOCF to debt (%)	(1.6)	4.5	6.0-7.0	7.0-8.0
Debt-to-tangible equity (x)	(2.9)	(3.8)	(4.8)	5.2

*All figures adjusted by S&P Global Ratings, except where noted. a--Actual. e--Estimate. f--Forecast. FOCF--Free operating cash flow.

iQera Group SAS

Primary analyst: Thierry Chauvel

iQera recently announced that it was assessing its options to ensure its medium- and long-term development, with the assistance of its financial and legal advisers; this suggests a higher probability of a distressed exchange. Management didn't provide any information about the different options open to the group. Although iQera has sufficient liquidity to repay the upcoming September 2024 maturity, we see an increased likelihood of a distressed debt exchange because the company has to choose between short-term debt repayment and longer-term business viability. In our view, the company's capital structure is currently unsustainable given its very high leverage and growing interest burden. In addition, iQera had to move 77% of its estimated remaining collections into "co-investor structures," which effectively limit its near-term cash flow generation.

In the past, iQera has financed or refinanced the acquisition of new debt portfolios with the help of co-investor debt, using special-purpose vehicle (SPV) structures. This strategy has enabled iQera to buy larger and more profitable portfolios than it could have afforded on its own. However, use of such structures effectively means that third-party investors rank senior to iQera's equity tranche. SPV structures therefore offer a one-off positive liquidity effect; thereafter, they direct a large part of the cash flows from collections toward co-investors while iQera benefits only later.

Given the difficult market conditions over the past 12 months, iQera has been forced to increase its co-investor debt. On 22 April, iQera announced that after the asset-backed securitization it undertook in January 2024, 77% of its total estimated remaining collections were in portfolios funded by co-investor debt. This implies that its attributable collections from those portfolios will be further delayed and we now forecast that attributable collections and cash revenue will be lower in 2024 and 2025 than we previously expected. In turn, this will significantly reduce iQera's funds from operations and its ability to invest in new debt portfolios.

Unless it receives further shareholder support, iQera will have to decide in the coming weeks whether to repay the bond maturing in September 2024 or to restructure its debt. Repaying the bond would constrain its ability to invest in further portfolios, deplete its attributable estimated remaining collections and, in turn, decrease its future attributable collections. Restructuring would allow it to use the more-available cash to invest in new debt portfolios and so support its longer-term prospects. iQera has limited geographic diversification, is small in absolute terms, and is increasingly reliant on co-investor debt. These factors prompted us to revise its business risk profile to weak from fair.

Outlook

Our negative outlook indicates that we could lower the rating if we believed that a distressed exchange on its bond maturing in September 2024 was imminent.

Downside scenario: We could lower our ratings if a distressed exchange is announced by the company or appears inevitable.

Upside scenario: We could revise the outlook to stable if the company is able to improve its capital structure and liquidity while avoiding a distressed exchange; for example, through shareholder support.

iQera Group SAS--Key Metrics*

	--Fiscal year end Dec. 31--			
	2022a	2023e	2024f	2025f
Debt to EBITDA (x)	13.0	9.2	>10.0	>10.0
Company-reported debt to cash EBITDA (x)	3.8	4.2	--	--
EBITDA interest coverage (x)	1.3	1.4	<1.5	<1.5
FOCF to debt (%)	5.5	(10.0)	--	--
Debt-to-tangible equity (x)	(2.7)	(4.7)	--	--

*All figures adjusted by S&P Global Ratings, except where noted. a--Actual. e--Estimate. f--Forecast. FOCF--Free operating cash flow.

KRUK S.A.

Primary analyst: Thierry Chauvel

We expect Kruk to benefit from its elevated level of investment over the past three years, and to expand its collections and revenue base further in 2024. Kruk's improving market position, focus on operating efficiency, and financial leverage have made it well-placed to seize opportunities in the distressed debt market over the coming year. Although this will allow the company to increase its scale, it will also gradually worsen its financial profile this year.

Kruk has been rapidly increasing its scale--in 2023, estimated remaining collections reached €3.6 billion, from €2.7 billion in 2022. We project the group will continue to invest about €550 million-€650 million a year, which would make it one of the top DDPs we rate, by size, within a few years.

Kruk focuses on unsecured debt, which represented 90% of its purchased debt portfolios in 2023. Over the years, it has built a competitive advantage demonstrated by its high operating efficiency and strong profitability--its adjusted EBITDA margin was 56.9% in 2023. The group is diversifying its collections beyond Poland, focusing its investment in Italy and Spain. We expect a growing share of its revenue to come from those countries, accompanied by a slight deterioration in its adjusted EBITDA margin because the recovery process in Italy costs more than that in Poland.

The group is also exploring expanding its operations in France. It bought a forward flow contract to a large French bank in December 2023. We anticipate that the group will take a prudent approach; before investing more in France it is likely to ensure that its recovery process will be effective with French customers and that the supply of unsecured debt matches its expectations.

We forecast that Kruk's adjusted debt to EBITDA will increase to 4.0x-4.5x in 2024 from 3.6x in 2023. Given Kruk's persistently negative FOCF to debt, it is likely to use debt to finance its investment plan. That said, even if Kruk increases debt as we expect, its financial profile will still compare well with industry peers and we estimate that it could improve over the next two years if Kruk moderates the pace of its growth.

We expect liquidity to remain sound. The company has a high level of cash from operations and no significant maturities until 2028.

Outlook

The stable outlook indicates that we expect Kruk to continue investing in unsecured debt portfolios and expand its cash revenue in the near term. We anticipate that financial leverage will increase moderately as the company pursues its ambitious growth strategy.

Downside scenario: We could lower the rating over the next 12 months if the company is overly aggressive in its growth strategy so that its leverage is consistently above 5x and its coverage ratio below 3x. we could also lower the rating if Kruk's collection performance deteriorates.

Upside scenario: We could raise our rating on Kruk if we expect its financial leverage to fall sustainably below 4x. This could occur of collections performance remains strong and is paired with a slower growth trajectory that allows for a clear reduction in leverage. Although less likely, we could also raise our rating on the group if it materially diversifies by geography and business lines; for instance, into servicing.

KRUK S.A.--Key Metrics*

	--Fiscal year end Dec. 31--			
	2022a	2023a	2024f	2025f
Debt to EBITDA (x)	3.0	3.6	4.0-4.5	4.0-4.5
Company-reported debt to cash EBITDA (x)	2.1	2.4	--	--
EBITDA interest coverage (x)	6.9	5.2	3.4-3.8	3.6-4.0
FOCF to debt (%)	(19.8)	(20.2)	(15.0)-(16.0)	(6.5)-(7.5)
Debt-to-tangible equity (x)	1.3	1.5	1.3-1.5	1.1-1.3

*All figures adjusted by S&P Global Ratings, except where noted. a--Actual. f--Forecast. FOCF--Free operating cash flow.

PRA Group

Primary analyst: Pablo Mendez

In the first quarter of 2023, PRA Group's changes in expected recoveries dropped sharply, largely because a 2021 U.S. core vintage portfolio underperformed. The resulting decline in earnings caused adjusted debt to EBITDA for the year to rise above 5x. That said, the company has since consistently improved its changes in expected recoveries. Given PRA's market position in the U.S. and Europe, we anticipate that it will benefit from a continued uptick in supply, combined with improved pricing of NPL portfolios in both regions.

Unfavorable macroeconomic conditions are likely to fuel an increase in charge-offs in the U.S. and Europe over the next year. This should enable PRA to maintain adjusted debt to EBITDA of 4x-5x and debt to tangible equity of 3x-4x. Furthermore, we consider that PRA's cost management initiatives, firm market position, and seller relationships will position it to capitalize on improving trends in the distressed debt purchasers sector--these are typically boosted by a tougher macroeconomic landscape.

Outlook

The stable outlook indicates that we expect PRA to retain its leading market position and keep financial leverage below 5x. We also expect PRA to continue to optimize its funding profile by issuing incremental unsecured debt.

Downside scenario: We could lower the ratings if the company's financial profile deviates significantly from our base case, so that adjusted debt to EBITDA remains above 5x. We could also lower the ratings if PRA's collections performance deteriorates, or if its business operations or financial position are materially affected by new regulations.

Upside scenario: Although we see an upgrade as unlikely over the next 12 months, we could raise the rating on PRA if we anticipate further improvement in the company's market position and that it will sustain adjusted debt to EBITDA below 4x. An upgrade would also depend on us viewing its capital structure and financial policies as consistent with a higher rating.

PRA Group--Key Metrics*

	--Fiscal year end Dec. 31--			
	2022a	2023a	2024f	2025f
Debt to EBITDA (x)	4.1	5.4	4.2-4.7	4.0-4.5
Company-reported debt to cash EBITDA (x)	2.3	2.9	--	--
EBITDA interest coverage (x)	4.8	3.1	3.3-3.7	3.5-3.9
FOCF to debt (%)	37.6	26.8	35.5-36.5	39.0-41.0
Debt-to-tangible equity (x)	3.1	3.8	3.5-3.8	3.0-3.5

*All figures adjusted by S&P Global Ratings, except where noted. a--Actual. f--Forecast. FOCF--Free operating cash flow.

Sherwood Parentco Ltd. (Arrow)

Primary analyst: Dmitry Nazarov

By the end of 2023, Arrow's adjusted debt to EBITDA had increased to 11.4x from 8.5x in 2022, because of the expected lower collection performance and the significant investment needed to develop its investment management business. In 2023, Arrow divested some of its U.K. portfolios and used the proceeds to develop its fund management franchise. We do not include these proceeds in our EBITDA calculation, because we consider the divestment to be a one-off transaction. We understand that the company expects to realize some of the collections deferred last year during 2024. This could increase Arrow's adjusted revenue by about 30% in 2024 and would deliver a reduction in leverage.

We attribute Arrow's high level of collections volatility to its increased exposure to real estate and secured assets and anticipate that collections will remain volatile for the next two years. During this period, estimated remaining collections are likely to contribute more to revenue than income from fund and asset management services. We expect Arrow's investment management and servicing revenue to grow by about 20%-25% over 2024-2025. That said, this will only partially offset the expected decline in collections during 2025 caused by Arrow's low proprietary investments in its back book, given its shift to a more capital-light business model. Growing EBITDA and debt repayment of about £75 million-£100 million in 2024 and 2025 is likely to reduce Arrow's leverage over the period. Nevertheless, in our base case, we assume that debt to EBITDA will still exceed 5.5x by year-end 2025. Arrow is likely to invest some of free cash flow in developing its investment management franchise--potentially by making bolt-on acquisitions. This would slow the reduction in leverage going forward.

Given the significant progress Arrow has achieved in transitioning toward an investment management business model, we also compare it with alternative asset managers. Last year, the group's total assets under management increased by about 50% to €9.3 billion. Despite the strong growth, Arrow only started its transition to a fund manager in 2019--as such, it remains small in the context of the asset management space.

Revenue from the management and servicing business increased by 19.3% to €193.6 million(about 40% of Arrow's cash revenue). Arrow also increased its total origination to €1.2 billion from €0.8 billion and launched two new funds in real estate and direct lending. It continues to attract capital from new limited partners. These developments will allow Arrow to grow its future asset management revenue, as growth in fund management earnings will accelerate toward the end of the funds' life. They will also allow it to maintain proprietary investments at the current lower level while generating significant free operating cash flow (FOCF). Although Arrow's strategy allows it a path to significantly reduce its leverage, so far it has not made use of the benefits to improve its financial profile--management has prioritized reinvestment in its business over debt repayment.

In our view, Arrow maintains a comfortable debt maturity profile--its earliest maturity is the senior secured notes, which as due in 2026. We expect it to refinance these well in advance, although its high leverage may complicate the task.

Outlook

The stable outlook indicates that Arrow is likely to gradually reduce its leverage so that adjusted debt to EBITDA drops toward 6.0x over the next two years. Our key underlying assumption is that collections from the secured portfolios will recover in 2024 as collections deferred from 2023 are realized. The group's continued pivot toward fund management is expected to support this trend. We anticipate that management will refinance the senior secured notes maturing in November 2026 well in advance.

Downside scenario: We could lower the rating if we see a significant increase in refinancing risks. We could also lower the rating if financial leverage is persistently above 7x, or interest coverage falls below 2x.

Upside scenario: We could raise the rating if Arrow's adjusted debt to EBITDA falls below 5.0x and the group maintains its financial flexibility, with FOCF to debt above 15%. An upgrade would depend on the successful implementation of management's strategy to increase the scale of Arrow's investment management business, as well as a lack of significant refinancing needs.

Sherwood Parentco Ltd.--Key Metrics*

	--Fiscal year end Dec. 31--			
	2022a	**2023a**	**2024f**	**2025f**
Debt to EBITDA (x)	8.5	11.4	6.5-7.0	6.0-6.5
Company-reported debt to cash EBITDA (x)	4.1	3.9	--	--
EBITDA interest coverage (x)	2.1	1.2	2.1-2.3	2.3-2.5
FOCF to debt (%)	3.1	13.6	15.0-16.0	17.0-18.0
Debt-to-tangible equity (x)	(3.9)	(2.6)	(1.2)-(1.6)	1.4-1.8

*All figures adjusted by S&P Global Ratings, except where noted. a--Actual. e--Estimate. f--Forecast. FOCF--Free operating cash flow.

Ratings Score Snapshot

	Axactor ASA	**B2 Impact ASA**	**Garfunkelux Holdco 2 S.A.**	**Intrum AB**	**KRUK SA**	**PRA Group**	**Sherwood Parentco Ltd.**
Issuer Credit Rating	**B/Stable/--**	**BB-/Stable/--**	**B/Negative/B**	**B/Watch Neg/B**	**BB-/Stable/--**	**BB/Stable/--**	**B/Stable/--**
Business risk:	Fair	Fair	Fair	Fair	Fair	Satisfactory	Fair

	Axactor ASA	B2 Impact ASA	Garfunkelux Holdco 2 S.A.	Intrum AB	KRUK SA	PRA Group	Sherwood Parentco Ltd.
Issuer Credit Rating	**B/Stable/--**	**BB-/Stable/--**	**B/Negative/B**	**B/Watch Neg/B**	**BB-/Stable/--**	**BB/Stable/--**	**B/Stable/--**
Country risk	Low	Intermediate	Low	Low	Moderately high	Low	Intermediate
Industry risk	Moderately high	Moderately high	Moderately high	Moderately high	Moderately high	Moderately high	Moderately high
Competitive position	Fair	Fair	Fair	Fair	Fair	Satisfactory	Fair
Financial risk:	Highly leveraged	Aggressive	Highly leveraged	Highly leveraged	Aggressive	Aggresive	Highly leveraged
Cash flow/leverage	Highly leveraged	Aggressive	Highly leveraged	Highly leveraged	Aggressive	Aggressive	Highly leveraged
Anchor	b	bb-	b	b	bb-	bb	b
Modifiers:							
Diversification/Portfolio effect	Neutral (no impact)	Neutral (no impact)	Neutral (no impact)	Neutral (no impact)	Neutral (no impact)	Neutral (no impact)	Neutral (no impact)
Capital structure	Neutral (no impact)	Neutral (no impact)	Neutral (no impact)	Neutral (no impact)	Neutral (no impact)	Neutral (no impact)	Neutral (no impact)
Financial policy	Neutral (no impact)	Neutral (no impact)	FS-6 (no impact)	Neutral (no impact)	Neutral (no impact)	Neutral (no impact)	FS-6 (no impact)
Liquidity	Adequate (no impact)	Adequate (no impact)	Adequate (no impact)	Adequate (no impact)	Adequate (no impact)	Adequate (no impact)	Adequate (no impact)
Management and governance	Neutral (no impact)	Neutral (no impact)	Moderately negative (no impact)	Neutral (no impact)	Neutral (no impact)	Neutral (no impact)	Moderately negative (no impact)
Comparable rating analysis	Neutral (no impact)	Neutral (no impact)	Neutral (no impact)	Neutral (no impact)	Neutral (no impact)	Neutral (no impact)	Neutral (no impact)
Stand-alone credit profile:	b	bb-	b	b	bb-	bb	b

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016

- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

	To	From
*** * * * * * * * * * * * Garfunkelux Holdco 2 S.A. * * * * * * * * * * * ***		
Downgraded; Outlook Action; Ratings Affirmed		
Garfunkelux Holdco 2 S.A.		
Issuer Credit Rating	B/Negative/B	B+/Stable/B
Downgraded		
Garfunkelux Holdco 3 S.A.		
Senior Secured	B	B+
Recovery Rating	4(40%)	4(45%)
*** * * * * * * * * * * * * * * Intrum AB (publ) * * * * * * * * * * * * * ***		
Ratings Kept On CreditWatch		
Intrum AB (publ)		
Issuer Credit Rating	B/Watch Neg/B	
Senior Unsecured	B/Watch Neg	
Recovery Rating	4(40%)	
*** * * * * * * * * * * * * * * iQera Group SAS * * * * * * * * * * * * * ***		
Downgraded; Outlook Action		
iQera Group SAS		
Issuer Credit Rating	CCC+/Negative/--	B/Stable/--
Downgraded		
Senior Secured	CCC+	B
Recovery Rating	4(30%)	4(40%)
*** * * * * * * * * * * * * Sherwood Parentco Ltd. * * * * * * * * * * * * ***		
Downgraded; Outlook Action		
Sherwood Parentco Ltd.		
Issuer Credit Rating	B/Stable/--	B+/Stable/--
Downgraded		
Senior Secured	B	B+

Recovery Rating	4(40%)
*** * * * * * * * * * * * * * * * AFE S.A. * * * * * * * * * * * * * * * ***	
Ratings Affirmed	
AFE S.A.	
Issuer Credit Rating	CCC+/Stable/--
Senior Secured	CCC+
Recovery Rating	4(30%)
*** * * * * * * * * * * * * * * Axactor ASA * * * * * * * * * * * * * * ***	
Ratings Affirmed	
Axactor ASA	
Issuer Credit Rating	B/Stable/--
Senior Unsecured	B
Recovery Rating	3(60%)
*** * * * * * * * * * * * * * * B2 Impact ASA * * * * * * * * * * * * * * ***	
Ratings Affirmed	
B2 Impact ASA	
Issuer Credit Rating	BB-/Stable/--
Senior Unsecured	BB-
Recovery Rating	4(40%)
*** * * * * * * * * * * * * * * KRUK S.A. * * * * * * * * * * * * * * * ***	
Ratings Affirmed	
KRUK S.A.	
Issuer Credit Rating	BB-/Stable/--
Senior Unsecured	BB-
Recovery Rating	3(65%)
*** * * * * * * * * * * * * * * PRA Group Inc. * * * * * * * * * * * * * * ***	
Ratings Affirmed	
PRA Group Inc.	
Issuer Credit Rating	BB/Stable/--
Senior Unsecured	BB
Recovery Rating	4(35%)

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