S&P Global Ratings

Research

B2 Impact ASA

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B2 Impact ASA

Credit Highlights

Issuer Credit Rating
BB-/Stable/--

Overview

Key strengths	Key risks
Lower leverage than most competitors should enable better business dynamics for the next couple of years.	Highly competitive dynamics within the distressed debt purchasing (DDP) market, implying heavy reliance on proper pricing.
Sound geographical diversification and strong market positions in northern, central, and eastern Europe.	New investments are reliant on third parties and market dynamics.
Improved capital structure, after proactive refinancing, results in a comfortable yet still concentrated maturity profile.	Investment risk in secured claims, despite carve-out into nonrecourse special purpose vehicle (SPV).

B2 Impact (B2)'s more conservative leverage than other DDPs should benefit it, and result in increased business opportunities in the next couple of years. The DDP industry has been recently marked by uncertainty stemming from highly leveraged capital structures and high refinancing needs. However, we consider that B2 has been proactive in its leverage management and refinancing efforts. In this sense, we view the company as better positioned than other peers within the segment to take advantage of arising opportunities. This could result in B2 making increased investments at attractive pricing, translating into improving revenues and market position. This would help B2 maintain a stable EBITDA margin of around 60%. If the company manages to take advantage of these opportunities, it could narrow the gap that currently exists with market leaders within the DDP segment.

We expect B2's new investment levels to pick up for the rest of 2024 and during 2025, increasing to €250 million-€300 million per year. To match these volumes, the company will have to gradually increase its leverage to close to 4x S&P Global Ratings-adjusted debt to EBITDA, from a five-year low of below 3x during the third quarter of 2024.

Refinancing risk will remain low for B2 after its successful liability-management efforts throughout 2024. Amid a complicated refinancing environment for DDPs, B2 was able to tap into the debt markets to proactively refinance upcoming maturities while lowering its interest burden. The improved capital structure should reduce B2's interest cost to closer to 6% coming from just shy of 9%. This important reduction comes mainly from lower rates on its newly issued debt and greater usage of its revolving credit facility (RCF), which was also renewed during the year with improved terms.

During 2024 the company prepaid €500 million of unsecured bonds and issued €450 million of new bonds, including its latest tap in November. Following these transactions, B2 has no major maturity until 2027 when the RCF matures.

Liquidity will remain adequate despite extraordinary usage for debt repayment during the year. Liquidity dropped slightly because the company used some of its excess cash to repay a portion of its refinanced debt during the year. However, with its latest €100 million tap (November) its RCF usage decreased to around €360 million, from €395 million in 2023. This increases B2's financial flexibility and liquidity reserves, comprised mainly of cash on balance and the unutilized RCF. We expect the latter to remain above €200 million as the company gradually uses these resources to increase its portfolio investments.

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 this 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 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.

Our Base Case Scenario

Assumptions

- Increased NPL investment volumes of €250 million-€300 million per year financed with operating cash flows and increased leverage.
- Strong secured and unsecured collection performance slightly above 100%.
- EBITDA margins close to 60% with improved interest expenses.
- Gross debt levels gradually scaling as portfolio grows. Increasing by about NOK1,000 million per year.
- Dividend payout ratio of NOK1.3 per share.

Key metrics

B2 Impact ASA--Key metrics*			
	--Debt / S&P adjusted EBITDA (x)--		
	FY 2023a	**FY 2024f**	**FY 2025f**
Axactor ASA	5.4	5.0-5.5	5.0-5.5
B2 Impact ASA	3.3	4.0-4.5	4.0-4.5
Garfunkelux Holdco 2 S.A. (Lowell)	8.9	8.5-9.0	8.5-9.0
Intrum AB	6.7	7.0-7.5	6.0-6.5
KRUK SA	3.6	4.0-4.5	4.0-4.5
PRA Group	5.4	4.2-4.7	4.0-4.5
Sherwood Parentco Ltd. (Arrow Global)	11.4	6.5-7.0	6.2-6.8

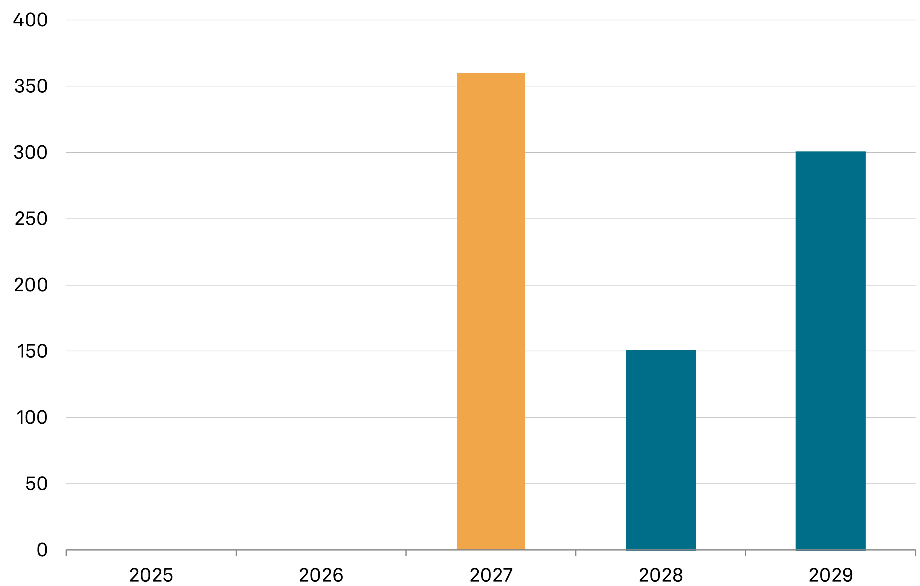
a--Actual. f--Forecast.

Company Descriptions

Founded in 2011 and domiciled in Norway, B2 Impact is considered a well-established pan-European debt purchaser active in 20 countries. It has expanded through a combination of organic growth and bolt-on acquisitions of local collection platforms. B2 owns unsecured, and to a lesser extent secured claims and REOs, with a book value of about NOK13.7 billion. As of Sept. 30, 2024, estimated remaining unsecured collections (ERC) was reported at NOK24 billion.

Chart 1

New updated capital structure



Source: S&P Global Ratings.

Peer Comparison

Other distressed debt purchasers (DDP) we rate include PRA Group (BB/Stable/--), Kruk (BB-/Stable/--), Garfunkelux Holdco 2 S.A. (the holding company of Lowell group; CCC+/Negative/C), Intrum AB (CC/Negative/C), Axactor ASA (B-/Negative/--), and Sherwood Parentco Ltd (B/Stable/--), the holding company of Arrow Global).

Business Risk

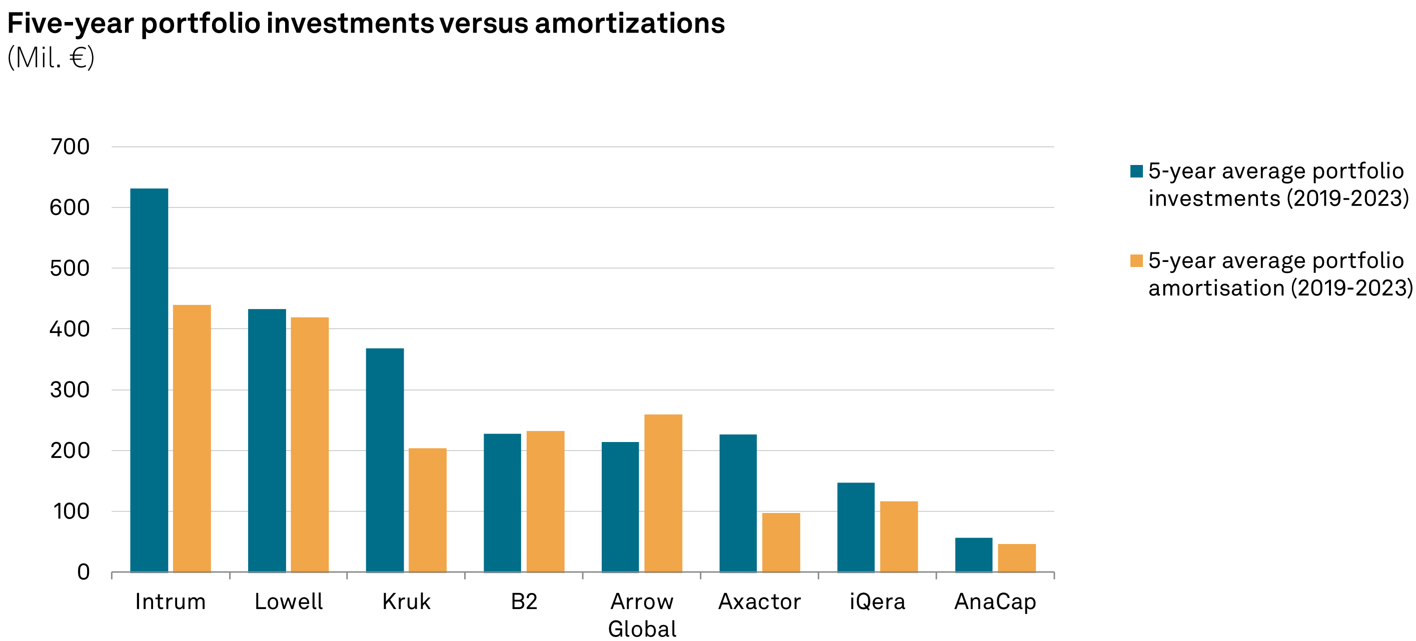
We view B2's sound revenue stability as a key rating strength. We also consider its extended footprint within the region to be positive. However, as it exits some nonstrategic geographies, that footprint will reduce accordingly. We also note the sound relationships and market positions the company holds within the DDP segments, which allows it to be selective with its capital deployment at attractive rates. Nonetheless, we consider that it still lacks the scale of other longer established players within the industry.

B2 plans to focus on its core markets within the unsecured segment. We expect Poland will remain key to the company, along with other Northern and Central European markets. The increased accretive investments within these countries will allow the company to bolster its collections while maintaining stable EBITDA of close to 60%.

We also recognize that the company is making substantial efforts to counterbalance macroeconomic and inflation pressures by controlling its operating costs and full time employee (FTE) base. During the past year, B2 has reduced its total FTE by nearly 11% in its core unsecured markets and 22% within Veraltis (secured claims). We are not expecting this trend to continue, which should result in stabilizing costs.

On the other hand, we also recognize that DDP companies need to continuously invest collected cash flows in new portfolios to maintain margin stability and EBITDA generation. In this sense, we expect B2 to invest above its maintenance capex levels to try and bolster its market position in particular geographies. If it did not do this, its operating margins could materially reduce because its cost base is less flexible than its revenue base.

Chart 2



Source: S&P Global Ratings.

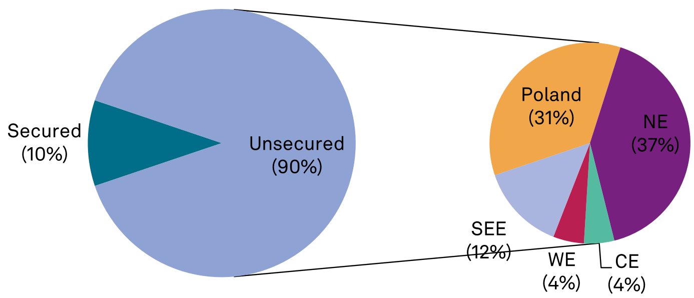
Financial Risk

During recent quarters, B2 has been conservative with its new investment levels and its financial leverage appetite, which has ultimately led to historically low S&P Global Ratings-adjusted debt to EBITDA of just below 3x as of third-quarter 2024. These levels compare favorably with the rest of the highly leveraged DDP industry--with levels hovering closer to 6.0x.

As new business opportunities arise within the market from the lack of participation of other players, we expect B2 will increase its loan portfolio purchases toward €250 million-€300 million per year. This will gradually increase the company's leverage to closer to 4x, still in line with our aggressive assessment for B2's financial risk profile.

Chart 3

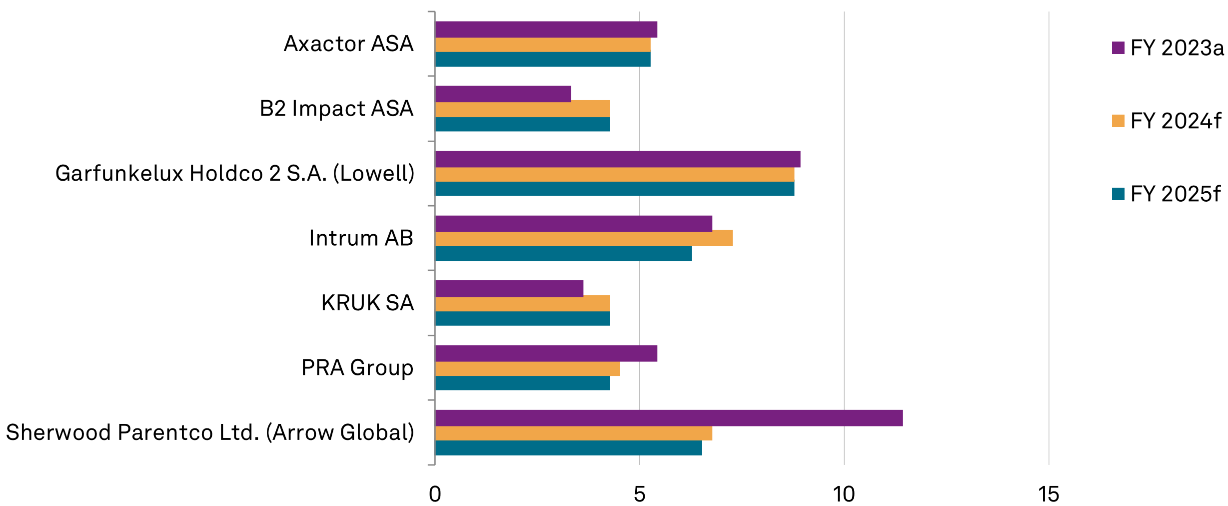
ERC distribution as of Q3



Q--Quarter. Source: S&P Global Ratings.

Chart 4

Leverage profile across DDP



f--Forecast. Source: S&P Global Ratings.

Financial summary

Table 1

B2 Impact ASA--Financial summary

Industry sector: Finance company					
	--Fiscal year ended Dec. 31--				
	2023	**2022**	**2021**	**2020**	**2019**
(Mil. NOK)					
Revenue	5,079.5	4,239.0	3,853.5	3,997.5	4,271.3
EBITDA	3,189.5	2,661.0	2,397.5	2,310.5	2,617.3
Funds from operations (FFO)	2,113.5	1,940.0	1,662.5	1,462.5	1,686.3
Interest expense	1,056.0	673.0	639.0	796.0	801.8
Cash interest paid	932.0	577.0	582.0	736.0	737.1
Cash flow from operations	4,290.0	3,142.0	3,505.0	3,248.0	2,872.3
Capital expenditure	2,651.0	2,184.0	1,242.0	1,802.0	3,169.3
Free operating cash flow (FOCF)	1,639.0	958.0	2,263.0	1,446.0	(297.0)
Discretionary cash flow (DCF)	1,438.0	615.0	2,171.0	1,446.0	(481.7)
Cash and short-term investments	1,404.0	1,176.0	376.0	423.0	355.9
Gross available cash	1,404.0	1,176.0	376.0	423.0	355.9
Debt	10,626.0	10,375.0	9,577.0	11,656.0	11,939.1
Equity	5,588.0	5,217.0	4,993.0	4,719.0	4,236.8

Table 1

B2 Impact ASA--Financial summary (cont.)

Industry sector: Finance company	--Fiscal year ended Dec. 31--				
	2023	**2022**	**2021**	**2020**	**2019**
Adjusted ratios					
EBITDA margin (%)	62.8	62.8	62.2	57.8	61.3
Return on capital (%)	19.5	15.1	14.4	12.9	15.3
EBITDA interest coverage (x)	3.0	4.0	3.8	2.9	3.3
FFO cash interest coverage (x)	3.3	4.4	3.9	3.0	3.3
Debt/EBITDA (x)	3.3	3.9	4.0	5.0	4.6
FFO/debt (%)	19.9	18.7	17.4	12.5	14.1
Cash flow from operations/debt (%)	40.4	30.3	36.6	27.9	24.1
FOCF/debt (%)	15.4	9.2	23.6	12.4	(2.5)
DCF/debt (%)	13.5	5.9	22.7	12.4	(4.0)

NOK--Norwegian krone.

Reconciliation

Table 2

B2 Impact ASA--Reconciliation of reported amounts with S&P Global Ratings' adjusted amounts (mil. NOK)

	--Fiscal year ended Dec. 31, 2023--					
B2 Impact ASA reported amounts						
	Debt	**Shareholders' equity**	**Revenue**	**EBITDA**	**Operating income**	**S&P Global Ratings' adjusted EBITDA**
Reported	10,440.0	5,587.0	3,906.0	1,683.0	1,577.0	3,189.5
S&P Global Ratings' adjustments						
Cash taxes paid	--	--	--	--	--	(144.0)
Cash interest paid	--	--	--	--	--	(932.0)
Reported lease liabilities	182.0	--	--	--	--	--
Dividends received from equity investments	--	--	--	202.0	--	--
Income (expense) of unconsolidated companies	--	--	--	(222.0)	--	--
Nonoperating income (expense)	--	--	--	--	5.0	--
Noncontrolling interest/minority interest	--	1.0	--	--	--	--
Debt: Workers compensation/self insurance	4.0	--	--	--	--	--
Revenue: Other (situational)	--	--	1,173.5	1,173.5	1,173.5	--
EBITDA: Other (situational)	--	--	--	353.0	353.0	--
Total adjustments	186.0	1.0	1,173.5	1,506.5	1,531.5	(1,076.0)

Table 2

B2 Impact ASA--Reconciliation of reported amounts with S&P Global Ratings' adjusted amounts (mil. NOK) (cont.)

S&P Global Ratings' adjusted amounts

	Debt	Equity	Revenue	EBITDA	EBIT	Funds from operations
Adjusted	10,626.0	5,588.0	5,079.5	3,189.5	3,108.5	2,113.5

Liquidity

Liquidity sources remain above 1.2x uses for the next 12 months, despite increased liquidity usage during this year. Liquidity dropped during the year as B2 used its excess cash to repay a portion of its refinanced debt. Additionally, as part of its refinancing effort, the company increased its RCF usage to close to 70%, from 64%. In our opinion, the compound effect of the transactions lowers B2's financial flexibility in the short-term but improves its capital structure and cost base, which will eventually compensate for the current liquidity reduction. We expect the company will maintain available liquidity of above €200 million considering the unused RCF plus cash on balance.

Despite B2 being a nonoperating holding company, we do not include any structural subordination in our rating because we consider that there are no material barriers for the cash flows from its subsidiaries.

Principal liquidity sources and uses over the next 12 months started Sept. 30, 2024, include:

Principal liquidity sources	Principal liquidity uses
• Cash balance around NOK0.6 billion • Undrawn RCF around NOK2.0 billion • Cash funds from operations just shy of NOK3 billion • New issuance money and RCF increased usage close to NOK6 billion.	• Debt repayments of NOK5.7 billion (€500 million) • New NPL investments of NOK3.5 billion, subject to market conditions and investment opportunities. • Cash dividends of NOK355 million. • Some minor working capital and maintenance capex outflows.

Covenant Analysis

B2 is subject to maintenance covenants under its bond and RCF documentation and we expect the company will maintain ample headroom. As of second-quarter 2024 the covenants' limits and breaching thresholds were:

- Net interest coverage ratio: Greater than 4.0x (5.3x pro forma adjusted).
- Leverage ratio: Less than 3.5x (1.7x pro forma adjusted).
- Equity ratio: Greater than 25% (35%).
- Secured loan-to-value ratio: Less than 65% (24%).

- Total loan-to-value ratio: Less than 75% (62%)

Environmental, Social, And Governance

ESG factors have no material influence on our credit rating analysis of B2. We consider that the company has well-placed policies to mitigate potential risks that could arise within an industry that is under constant scrutiny related to business ethics, data privacy, and security. However, we consider that these policies are broadly in line with other DDPs and are not a sufficiently differentiating factor to underscore against other rated peers.

Issue Ratings - Recovery Analysis

Key analytical factors

- The issue rating on B2's €200 million senior unsecured bonds due in 2029 is 'BB-'. The recovery rating is '4', indicating our expectation of meaningful recovery (30%-50%; rounded estimate: 40%) in an event of default.
- Our recovery estimate is somewhat constrained by the structural subordination of debt instruments to the NOK540 million (€47 million) senior RCF.
- In our default scenario, we contemplate a default during the first half of 2028, reflecting a significant decline in cash flow because of lost clients, difficult collection conditions, or greater competitive pressures, leading to the mispricing of portfolio purchases.
- We use a discrete asset-valuation approach, in line with other debt purchasers with revenue concentrated on own-debt collections.
- We consider the multi-currency senior secured RCF, with a current volume of €610 million. We assume 85% of the facility will be drawn.
- We take the company's portfolio as of Sept. 30, assume 70% of the undrawn RCF balance is used for portfolio purchases, and apply a 25% haircut to the total expected book value as an estimate of resale value in a liquidation.
- In addition, we consider the volume of real estate owned (REO) and apply a more conservative 45% haircut. This reflects some potential revaluations of these real estate assets.

Simulated default assumptions

- Simulated year of default: 2028
- Jurisdiction: Norway

Simplified waterfall

- Gross enterprise value at default: €765 million
- Administrative costs: 5%
- Net enterprise value after administrative costs: €727 million
- Prior ranking claims: About €538 million under the RCF.
- Senior unsecured debt claims: About €473 million

- Recovery expectations: 30%-50% (rounded estimate: 40%)

Note: Debt amounts include six months of accrued interest that we assume will be owed at default. We generally assume usage of 85% for cash flow and 60% for asset-based lending (ABL) revolving facilities at default.

Ratings Score Snapshot

Issuer Credit Rating: BB-/Stable/--

Business risk: Fair

- Country risk: Intermediate
- Industry risk: Moderately high
- Competitive position: Fair

Financial risk: Aggressive

- Cash flow/Leverage: Aggressive

Anchor: bb-

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Neutral (no impact)

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

- 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: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (As Of December 12, 2024)*	
B2 Impact ASA	
Issuer Credit Rating	BB-/Stable/--
Senior Unsecured	BB-
Issuer Credit Ratings History	
27-Feb-2024	BB-/Stable/--
26-Oct-2023	B+/Positive/--
26-Oct-2022	B+/Stable/--
15-Nov-2021	B+/Positive/--
12-Feb-2021	B+/Stable/--
15-Apr-2020	B+/Negative/--
Sovereign Rating	
Norway	AAA/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.