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B2 Impact ASA

Primary Credit Analyst:
Olivia K Grant, Dubai +971 56 680 1008; olivia.grant@spglobal.com

Secondary Contacts:
Heiko Verhaag, CFA, FRM, Frankfurt + 49 693 399 9215; heiko.verhaag@spglobal.com
Laura Jimenez, London +44 2071760839; laura.jimenez@spglobal.com

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B2 Impact ASA

Credit Highlights

Issuer Credit Rating
B+/Positive/--

Overview	
Key strengths	**Key risks**
Good geographical diversification and strong market positions in northern, central, and eastern Europe.	Active in the highly competitive distressed debt purchasing market, implying heavy reliance on proper pricing.
Resilient business strategy given improved pricing discipline and strong collection performance.	A leverage profile exposed to higher interest rates.
Reliable support from Nordic banks in its revolving credit facility (RCF).	Investment risk in secured claims, despite carve-out into nonrecourse special purpose vehicle (SPV).

Performance in 2023 will remain relatively strong even with macroeconomic headwinds. B2's conservative pricing policy over the last two years has supported overperformance of both secured and unsecured collections, despite a weaker operating climate. We expect cash revenue and EBITDA to increase 9%-10% and 5%-6%, respectively, in 2023 because of higher portfolio investments and improved secured collections. As of the third quarter of 2023, investments amounted to Norwegian krone (NOK) 1.9 billion (about €163 million), which is in line with the company's stated target of NOK2 billion–NOK3 billion per year. We expect portfolio acquisitions to remain at this level for 2024.

B2's strategic partnership with PIMCO will likely support revenue developments. Over the past two years, B2 has worked to establish a partnership with investment manager PIMCO by carving out a portion of secured assets to back a special purpose vehicle (SPV) that provides financing for portfolio purchases. A cross-border master servicer, Veraltis AM, was also set up to provide collection services for the SPV assets, which will likely further support growth for servicing revenues. The revised strategy should also boost B2's scale, improve revenue diversification, and, because of improved earnings stability, bridge the gap with larger peers.

Interest coverage could come under pressure given higher interest rates. While we expect strong cash-adjusted EBITDA generation to mitigate some of the effects of increased interest rates, a slight decline in coverage is anticipated for 2023, though a rebound to about 5.0-5.5x is likely in 2024. Similarly, leverage should also decrease from 3.0x in 2022 and move toward 2.5x-2.75x by year-end 2024 given our earnings projections. We recognize that weaker macroeconomic conditions could stall collections performance, and negative revaluations could impact real-estate owned (REO) and secured asset values. Nevertheless, the conservatism in pricing observed over the last several quarters should help limit this risk. Furthermore, a decreasing share of distressed REO assets will likely also limit B2's exposure to real estate in the medium term, further supporting earnings stability.

We expect B2 to proactively manage its upcoming maturity in May 2024 and sustain debt levels. B2 has a track record of smooth maturity management. For example, the refinancing of its 2023 bond via a September 2026 bond earlier this year, and that of its revolving credit facility (RCF) with three Nordic banks that included no change to the interest terms. We expect B2 to implement a viable solution for the refinancing ahead of the upcoming maturity either though the market or via an extension of the current facilities. We note that the sale of its Bulgarian operations (NOK460 million), in addition to cash raised because of a larger secured claim in Croatia (of around €500 million), only partially covers the upcoming €200 million bond maturity (around NOK2 billion).

Outlook

The positive outlook reflects our expectation that B2 will show largely resilient earnings performance over the next 12-18 months, despite the weak environment in many European markets, and proactively manage its liquidity needs for the upcoming debt maturities.

Upside scenario

We could consider an upgrade over the next 12 months if we continue to see B2 deliver stable earnings, indicating that improved pricing discipline has minimized negative revaluation risks, and that strategic initiatives, including the PIMCO partnership and Veraltis structure, are supportive of revenue generation. At the same time, an upgrade is conditional on B2 refinancing its 2024 maturity while maintaining S&P Global Ratings-adjusted leverage below 3.0x and EBITDA interest coverage above 4.0x.

Although less likely, we could also consider an upgrade if the future focus on unsecured collections and servicing leads to a better leverage profile, with S&P Global Ratings-adjusted gross leverage improving sustainably to below 2.5x.

Downside scenario

We could lower the rating on B2 if liquidity became constrained over the coming months, which could occur if the company fails to refinance its upcoming maturity via the wholesale funding markets or the bank RCF.

We could also lower the rating if we observe a marked deterioration in secured or unsecured collections, or negative revaluations, leading to diminishing coverage. This would indicate tighter headroom to covenants, which would hinder B2's financial flexibility.

Our Base-Case Scenario

Assumptions

- Annual portfolio acquisitions of about NOK2 billion-NOK3 billion in 2023 and 2024, financed with operating cashflow.
- Strong collection rates that lead to cash revenue growth of about 9%-10% in 2023 and 7%-8% in 2024.
- Costs to collect are stable at about 25%-27% over the next 24 months.
- S&P Global Ratings-adjusted cash EBITDA to reach NOK4 billion in 2024, leading to an EBITDA margin of 61%-63% over the forecast horizon.
- Gross debt stable at about NOK10.0 billion-NOK 10.5 billion.

Key metrics

B2 Impact ASA--Key metrics*

	--Fiscal year ended Dec. 31--			
(Mil. NOK)	**2021a**	**2022a**	**2023e**	**2024f**
Revenue	5,210.0	5,400.0	5850-5950	6300-6400
Debt-to-EBITDA (x)	2.6	3.0	2.5-3.0	2.5-3.0
Debt-to-EBITDA (x)**	6.8	8.4	>5.0	>5.0
EBITDA interest coverage (x)	5.7	5.1	4.5-5.0	5.0-5.5
EBITDA interest coverage (x)**	2.4	1.8	1.5-2.0	2.0-2.5

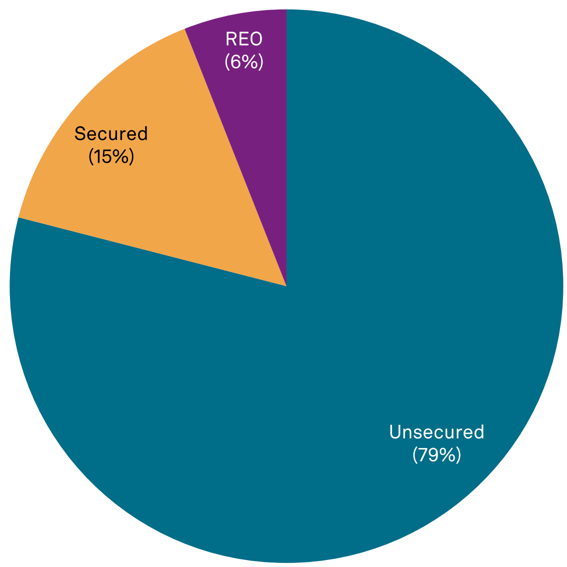
All figures adjusted by S&P Global Ratings. *EBITDA excluding the add-back for portfolio amortization. a--Actual. e--Estimate. f--Forecast. NOK--Norwegian krone.

Company Description

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, 2023, estimated remaining collections (ERC) was reported at NOK22.9 billion (see chart 2).

Chart 1

Composition of Estimated Remaining Collections (ERC)
As of Q3 2023



REO--Real-estate owned assets. Sources: Company report. Q32023 presentation.

Peer Comparison

Table 1

B2 Impact ASA--Peer comparison

	--Fiscal year ended Dec. 31, 2022--				
(Mil. NOK)	**B2 Impact ASA**	**Intrum AB (publ)**	**Garfunkelux HOLDCO 2 S.A.**	**Axactor ASA**	**Kruk S.A.**
EBITDA*	3,430.0	12,262.1	5,719.0	2,281.0	4,148.3
Funds from operations (FFO)	2,709.0	8,748.1	3,914.0	1,629.6	3,570.5
Adjusted ratios					
Debt/EBITDA (x)*	3.0	4.4	5.5	4.4	2.1
FFO/debt (%)	26.1	16.1	12.6	16.2	40.2
EBITDA interest coverage (x)*	5.1	5.0	3.5	3.7	10.7

*Cash adjusted EBITDA reflected. NOK--Norwegian krone. Source: S&P Global Ratings.

B2's peer group includes other distressed debt purchasers we rate: Intrum AB (publ) (BB/Negative/B); Garfunkelux Holdco 2 S.A. (the holding company of Lowell group; B+/Stable/B); Sherwood Parentco Ltd. (holding company of Arrow Global (B+/Stable/--); and KRUK S.A. (BB-/Stable/--). We also compare B2 with smaller entities in the peer group: AnaCap Financial Europe S.A. (CCC/Negative/--); iQera Group SAS (B/Stable/--); and Axactor ASA (B/Stable/--).

In its peer group, B2 compares well with better leverage and coverage ratios than most peers and positive tangible equity. B2 is, however, a smaller player relative to Intrum and Lowell, which are the largest debt collection companies in Europe and in our rated universe. This scale and pricing power provides both companies with business volumes predictability. Furthermore, Intrum has a more balanced revenue mix, with about half of revenue generated via capital-light servicing.

Business Risk

In our assessment of B2's business risk profile, we view the broad geographical diversification of purchased portfolios as a key strength. This enables B2 to be selective in its capital deployment across markets and reduce any vulnerability to potentially poor collections in single markets. While the decentralized business model has allowed the company to benefit from local knowledge and relationships, the shift toward a more cohesive brand under the B2 Impact name may prove supportive for operating efficiency over time.

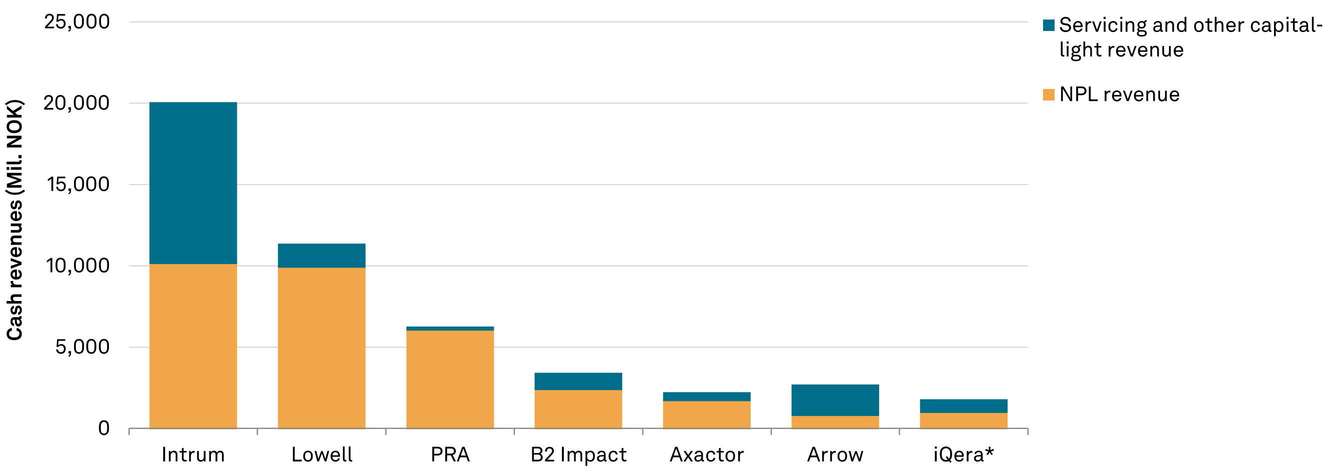
We expect that Poland, Northern Europe, and Central Europe (including Croatia) will contribute the majority of cash EBITDA in 2023. Poland and northern Europe alone contribute more than 50% of expected remaining collections. Following years of very strong growth, reducing their footprint is part of B2's revised strategy, as confirmed by their work to exit Bulgaria, Montenegro, Bosnia Herzegovina, and Hungary. This is expected to streamline the company to focus on cost efficiency and investments to improve automation, data analytics, and self-servicing capabilities.

B2 has managed to sustain adequate operating efficiency, supported by synergies from the PIMCO partnership, and the combination of a semi-decentralized operating model with the centralization of back-office and the investment center role in Luxembourg. This investment center gathers and analyses data from B2 operations in the different markets and uses the results to enhance efficiency. We expect B2's cost to collect to remain between 25% and 27% (measured as operating expenses to S&P Global Ratings'-adjusted revenues) over 2024-2025.

The company's geographical strength is offset by concentrated revenue streams from its purchased loan portfolios. The share of fee income, mainly from servicing third-party portfolios, has increased toward 25%-30%, but has historically been below 15% of revenue. With the establishment of Veraltis, there has been an increase in the share of recurring servicing revenue, which indicates a shift toward that of certain diversified peers that have seen servicing represent around 30%-50% of cash revenues (see chart 2). Similarly, the PIMCO partnership has introduced some diversification into asset-light servicing revenues. However, we note B2's size and income diversification are behind peers such as Intrum or Lowell. For now, B2s business model is considered susceptible to the debt-portfolio-selling behaviors of financial services companies and corporate vendors, as well as competitors' aggressive pricing actions.

Chart 2

Revenue scale and diversification remain behind rated peers
9-months, Jan.-Sept. 2023



*As of H1 2023. NOK--Norwegian krone. NPL--Non-performing loan. Sources: Company reports. S&P Global Ratings.

Financial Risk

Our view of B2's aggressive financial risk profile factors in various leverage and debt-servicing metrics over 2022-2024. Despite the drag presented by the macroeconomic environment on credit metrics in 2022, B2's S&P Global Ratings-adjusted leverage profile remains among the best in the sector. This considers our expectation that cash-adjusted leverage will be at 2.5-3.0x over 2023-2024, compared to above 3.0x historically and 5.7x peer average as of FY2022. Also, cash-adjusted EBITDA interest coverage is expected to decline to around 4.5-5.0x in 2023 but to rebound and to remain above 5.0x from 2024 onwards.

Despite these solid cash-adjusted metrics, we believe that, on balance and over the cycle, an aggressive financial risk profile score is still warranted and supported by B2's unadjusted metrics. Notably, the cash-adjusted EBITDA measure may overstate the true cash available to repay debt. B2's unadjusted statutory leverage and cash flow metrics imply a highly leveraged financial risk profile, with statutory leverage expected well above 5x and EBITDA interest coverage at 1.5-2.0x at year-end 2023.

Depending on B2's investment pipeline and funding availability over 2024, leverage metrics could vary. However, we positively note B2's public commitment to a leverage target below 3.0x.

B2 stands out among its peers for having material positive tangible equity, which provides a balance-sheet buffer against unexpected losses. Its debt to tangible equity was 2.3x at year-end 2022. While there is some minor sensitivity to foreign exchange rates, most of this is hedged to minimize earnings volatility.

Financial summary

Table 2

B2 Impact ASA--Financial summary

Industry sector: Finance company

	--Fiscal year ended Dec. 31--				
(Mil. NOK)	**2022**	**2021**	**2020**	**2019**	**2018**
Revenue	5,400.0	5,210.0	5,254.0	5,515.8	4,375.8
EBITDA	3,430.0	3,635.0	3,567.0	3,861.8	2,987.4
Funds from operations (FFO)	2,709.0	2,900.0	2,719.0	2,930.8	2,279.8
Interest expense	673.0	639.0	796.0	801.8	617.2
Cash interest paid	577.0	582.0	736.0	737.1	531.9
Cash flow from operations	3,142.0	3,505.0	3,248.0	2,872.3	2,323.6
Capital expenditure	27.0	50.0	46.0	52.3	92.6
Free operating cash flow (FOCF)	3,115.0	3,455.0	3,202.0	2,819.9	2,231.1
Discretionary cash flow (DCF)	2,772.0	3,363.0	3,202.0	2,635.3	2,108.8
Cash and short-term investments	1,176.0	376.0	423.0	355.9	397.7
Gross available cash	1,176.0	376.0	423.0	355.9	397.7
Debt	10,375.0	9,577.0	11,656.0	11,939.1	11,121.2
Equity	5,217.0	4,993.0	4,719.0	4,236.8	4,355.5
Adjusted ratios					
EBITDA margin (%)	63.5	69.8	67.9	70.0	68.3
Return on capital (%)	20.2	22.4	20.6	23.2	22.7
EBITDA interest coverage (x)	5.1	5.7	4.5	4.8	4.8
FFO cash interest coverage (x)	5.7	6.0	4.7	5.0	5.3
Debt/EBITDA (x)	3.0	2.6	3.3	3.1	3.7
FFO/debt (%)	26.1	30.3	23.3	24.5	20.5
Cash flow from operations/debt (%)	30.3	36.6	27.9	24.1	20.9
FOCF/debt (%)	30.0	36.1	27.5	23.6	20.1
DCF/debt (%)	26.7	35.1	27.5	22.1	19.0

NOK--Norwegian krone.

Reconciliation

Table 3

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

	--Fiscal year ended Dec. 31, 2022--					
B2 Impact ASA reported amounts						
	Debt	**Shareholders' equity**	**Revenue**	**EBITDA**	**Operating income**	**S&P Global Ratings' adjusted EBITDA**
Reported	10,217.0	5,216.0	3,377.0	1,212.0	1,029.0	3,430.0
S&P Global Ratings' adjustments						
Cash taxes paid	--	--	--	--	--	(144.0)
Cash interest paid	--	--	--	--	--	(577.0)
Reported lease liabilities	151.0	--	--	--	--	--

Table 3

B2 Impact ASA--Reconciliation of reported amounts with S&P Global Ratings' adjusted amounts (Mil. NOK) (cont.)						
Dividends received from equity investments	--	--	--	295.0	--	--
Income (expense) of unconsolidated companies	--	--	--	(100.0)	--	--
Nonoperating income (expense)	--	--	--	--	(2.0)	--
Noncontrolling interest/minority interest	--	1.0	--	--	--	--
Debt: Workers compensation/self insurance	7.0	--	--	--	--	--
Revenue: Other (situational)	--	--	2,023.0	2,023.0	2,023.0	--
Total adjustments	158.0	1.0	2,023.0	2,218.0	2,021.0	(721.0)
S&P Global Ratings' adjusted amounts						
	Debt	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Funds from operations**
Adjusted	10,375.0	5,217.0	5,400.0	3,430.0	3,050.0	2,709.0

NOK--Norwegian krone.

Liquidity

We assess B2's liquidity as adequate, since we estimate sources will exceed uses 1.2x in the 12 months from Sept. 30, 2023.

Although B2 is a nonoperating holding company and does not generate any cash flows, we do not factor structural subordination into our rating. This is because we do not perceive any material barriers to cash flows within the group or any significant issues regarding the transfer of capital between the parent company and its subsidiaries. For B2's joint venture investments, we consider actual cash distributions to B2 as part of its EBITDA. That said, while the PIMCO co-investment structure is fully consolidated, we note that liquidity within this structure is not directly available to B2. This somewhat distorts the consolidated liquidity view we take below.

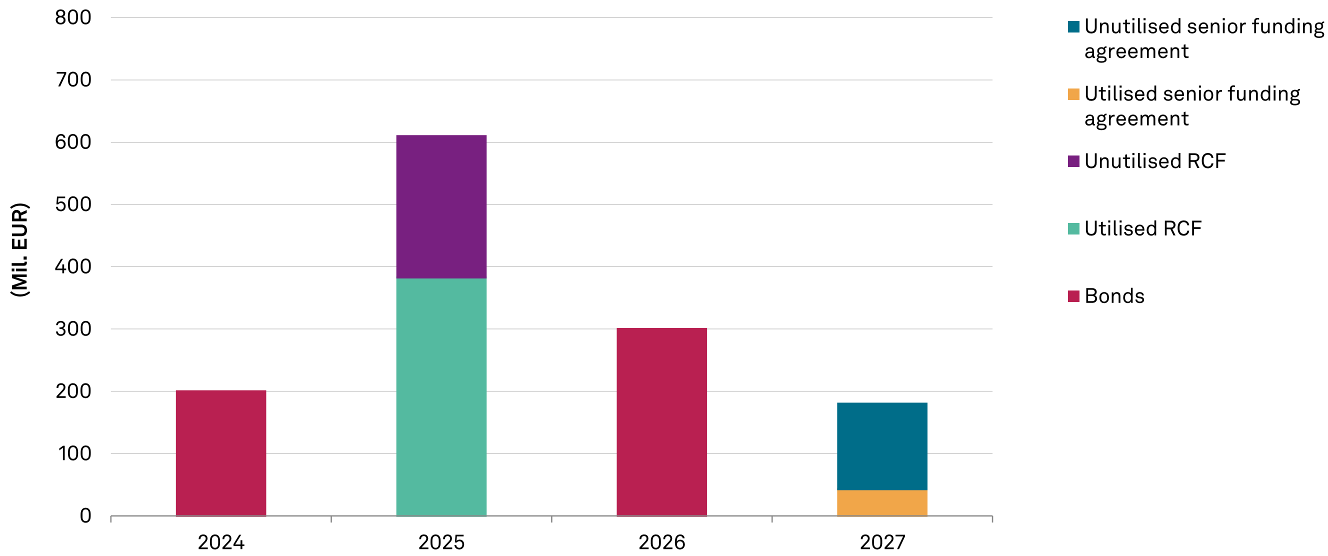
Principal liquidity sources over the 12 months from Oct. 1, 2022, include:	Principal liquidity uses for the same period include:
• A cash balance of about NOK0.9 billion, including the unrestricted cash balance and short-term deposits. • The undrawn portion of the RCF, totaling about NOK2.6 billion. • Cash funds from operations of about NOK3.2 billion.	• Short-term debt maturities of about NOK2 billion (May 2024). • Some minor working capital and maintenance capital outflows. • Portfolio investments and other capital expenditure of about NOK2 billion-NOK3 billion, subject to market conditions and investment opportunities. • Shareholder remuneration of about NOK165 million.

Debt maturities

Chart 3

B2's maturity profile

As per September 2023



RCF--Revolving cash flow. Source: Company's financials.

Covenant Analysis

B2 is subject to maintenance covenants under its bond and RCF documentation. We expect it will maintain ample headroom.

RCF covenants

- Net interest coverage ratio: Greater than 4.0x (5.0x as of third-quarter 2023).
- Leverage ratio: Less than 4.0x (2.0x as of third-quarter 2023).
- Equity ratio: Greater than 25% (33% as of third-quarter 2023).
- Secured loan-to-value ratio: Less than 65% (41% as of third-quarter 2023).
- Total loan-to-value ratio: Less than 75% (68% as of third-quarter 2023).

Bond covenants

- Net interest coverage ratio: greater than 4.0x (5.0x as of third-quarter 2023).
- Leverage ratio: less than 4.0x (2.15x as of third-quarter 2023).
- Secured loan-to-value ratio: less than 65% (26% as of third-quarter 2023).

Comparable Ratings Adjustment

We adjust our 'bb-' anchor down by one notch to arrive at our 'b+' stand-alone credit profile and 'B+' rating. This considers that B2 is in the process of reviewing funding sources ahead of their May 2024 maturity. The company can draw on their RCF, which would imply a greater reliance on secured bank financing, in addition to using their ancillary facility that also is in place. Further, B2 may consider refinancing through the wholesale funding market depending on the interest rate level. Although we are confident that the company will manage their refinancing need, we acknowledge that market conditions could prove challenging in the coming months.

We also recognize that historical missteps had raised concerns around asset quality compared to peers, predominantly in its secured book. As of Q3 2023, REO assets represented around 10% of the NPL book, and are largely related to real estate in central and eastern Europe. In our view, these assets expose B2 to revaluation risk should the economic environment lead to real estate price reductions. Nevertheless, we expect the share of the REO portfolio to gradually decline over the medium term.

Issue Ratings--Recovery Analysis

Key analytical factors

- The issue rating on B2's €200 million and €300 million senior unsecured bonds due in 2024 and 2026 is 'B+' with a recovery rating of '4', indicating our expectation of meaningful recovery (30%-50%; rounded estimate: 45%) in an event of default.
- In our default scenario, we contemplate a default in 2027, 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 year-end 2022, 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.
- Given the carve-out of the secured portfolio (which remains fully consolidated) and its underlying nonrecourse financing structure with PIMCO, we exclude the carved-out assets from our analysis and do not consider the funding received from PIMCO on the debt side.
- In addition, we consider the material volume of REOs and apply a more conservative 45% haircut. This reflects some remaining doubts on the valuation of this real estate.

Simulated default assumptions

- Year of default: 2027
- Jurisdiction: Norway

Simplified waterfall

- Gross enterprise value at default: €896 million
- Administrative costs: 5%
- Net enterprise value after administrative costs: €851 million
- Prior ranking claims: About €538 million under the RCF.
- Senior unsecured debt claims: About €684 million
- Recovery expectations: 30%-50% (rounded estimate: 45%)

Note: Debt amounts include six months of accrued interest that we assume will be owed at default. Collateral value includes asset pledges from obligors (after priority claims) plus equity pledges from non-obligors. We generally assume usage of 85% for the cash flow and 60% for the asset-based lending RCFs at default.

Ratings Score Snapshot

Issuer Credit Rating: B+/Positive/--

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)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Negative (-1 notch)

Stand-alone credit profile: b+

Related Criteria

- 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
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Norway-Based Debt Purchaser B2 Impact ASA Outlook Revised To Positive On Strong Performance; 'B+' Rating Affirmed, Oct. 26, 2023
- Economic Outlook Eurozone Q4 2023: Slower Growth, Faster Tightening, Sept. 25, 2023
- B2Holding's Refinancing Of May 2023 Bond Via Tap Issuance Is In Line With Expectations, Jan. 25, 2023
- Europe's Distressed Debt Purchasers Face Mounting Risks Amid Tough Economic Conditions, Jan. 24, 2023
- B2Holding ASA, Dec. 8, 2022
- B2Holding ASA Outlook Revised To Stable From Positive On Macroeconomic Uncertainty; 'B+' Rating Affirmed, Oct. 26, 2022

Ratings Detail (As Of December 19, 2023)*	
B2 Impact ASA	
Issuer Credit Rating	B+/Positive/--
Senior Unsecured	B+
Issuer Credit Ratings History	
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

Ratings Detail (As Of December 19, 2023)*(cont.)

debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.