Research Update:

B2 Impact ASA Upgraded To 'BB-' On Improved Financial Profile; Outlook Stable

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Rating Action Overview

- The financial profile of Norwegian debt collector B2 Impact ASA (B2) improved throughout 2023 as it maintained a steady competitive position with solid investment performance.
- In addition, B2's refinancing risk decreased when it issued a €100 million bond and prepaid its €200 million May 2024 maturity at the beginning of 2024.
- As a result, we raised to 'BB-' from 'B+' our long-term ratings on B2 and its senior unsecured notes. The recovery rating on the notes is unchanged at '4', indicating our expectation of average recovery (30%-50%, rounded average 40%) in the event of a payment default.
- The stable outlook indicates that we expect B2 to maintain sound collection levels and stable cash-adjusted EBITDA levels.

Rating Action Rationale

A steady competitive position, solid investment performance, and reduced refinancing risk have improved B2's credit quality. The solid performance that B2 had both in its secured and unsecured portfolio through 2023 resulted in higher-than-expected revenue. The company managed to increase revenue by 15%, excluding income from joint ventures. The company's conservative pricing policy partly explains this surge in income as B2 managed to sell its largest secured claim, a hotel in Croatia, above the value it had initially registered the asset for. The increase in the company's top line also resulted in cash-adjusted EBITDA levels 22% higher than the previous year. Even if we expect that recoveries from its secured portfolio will continue, we forecast they will be lower than this year's, given the recovery volume obtained with the sale of the Croatian hotel.

We consider that B2 will focus its growth efforts on its unsecured portfolio for the next 12 months as it takes advantage of the current market dynamics within the distressed debt purchaser (DDP) industry and B2's present light balance sheet. The latter, coupled with lower refinancing risk after prepaying its May 2024 maturity for €200 million, leaves the company in a better financial position to increase its investment volumes with higher internal rates of return (IRR) compared with many of its peers with higher leverage.

We expect leverage ratios to remain moderate. Following a year with increased cash-adjusted EBITDA levels and conservative debt volumes, B2 benefits from leverage ratios that compare favorably with those of its industry peers. As of December 2023, the company's adjusted leverage ratio stood at 2.3x, and we think it will stay moderate, with debt-to-cash-adjusted EBITDA levels between 2.5x and 2.7x (unadjusted leverage 7.5x-7.7x), despite a likely increase in investments.

Liquidity will remain sound, mainly supported by B2's funds from operations (FFO). Improved collections in 2023 also bolstered B2's liquidity position, increasing its cash and equivalents by nearly 20% year on year. For the refinancing of the May 2024 maturity, B2 only issued €100 million to the market, and it prepaid the remaining €100 million using cash and the revolving credit facility (RCF) in equal amounts. We expect the company to proactively extend its RCF maturing in 2024 and note absence of other maturities in 2024-2025.

Outlook

The stable outlook reflects our view that, for the next 12 months, B2 will maintain sound collection levels that will translate into stable cash-adjusted EBITDA levels with margins around 60%. We also consider that the company will maintain its competitive position within the European debt collection market and continue proactive liquidity management.

Downside scenario

We could lower the rating on B2 if the company is overly aggressive in its growth plans and exceeds our leverage expectations for the next 12 months. While less likely, this could also happen if B2's collections deteriorate materially due to weaker macroenvironment or if the company recognizes any substantial negative revaluation within its portfolio affecting its cash-adjusted EBITDA levels.

Upside scenario

Over the medium term, we could raise the rating on B2 if its competitive position materially improved and it established itself as one of the top distressed debt collectors within the European market or in case of material reduction in leverage.

Company Description

Founded in 2011 and domiciled in Norway, B2 has quickly become a well-established pan-European debt purchaser. 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 in 21 countries across Europe with a book value of about Norwegian krone (NOK)11.5 billion, on which it expects to collect NOK22.5 billion (about €2 billion, including joint ventures) as of Dec. 31, 2023.

Our Base-Case Scenario

Assumptions

- Estimate eurozone GDP growth of 0.6% for 2023, then forecast to rise slightly to 0.8% in 2024. Collection and nonperforming loan acquisitions are expected to pick up across the debt-purchasing industry in 2024.
- B2 to increase its investment appetite to take advantage of current market dynamics.
- B2's 2024 revenue to remain at similar levels as the past few years, compensating for the Croatian hotel income by increasing its unsecured collections, followed by a 5% increase in 2025.
- Cash EBITDA margins to remain broadly stable at 60%-62% in 2024-2025, slightly below its three-year average of 63%.
- NOK3 billion budgeted for new investments, as the company intensifies its investment particularly in unsecured loans.

Key metrics

B2 Impact ASA--Forecast Summary

	--Fiscal year ended Dec. 31--				
	2022a	2023a	2024f	2025f	2026f
Debt to EBITDA (x)	2.7	2.3	2.7	2.8	3
Debt to EBITDA (x)*	7.6	6.1	7.5	7.7	7.8
EBITDA interest coverage (x)	5.7	4.4	5.5	5.4	4.9
EBITDA interest coverage (x)*	2	1.6	3.7	3.7	3.4

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

Liquidity

We assess B2's liquidity as adequate, since we estimate sources will exceed uses by more than 1.2x in 2024. We note that apart from the RCF and the bond maturing in May 2024, that's already prefinanced, the company doesn't have maturities in 2024-2025. We expect the company to proactively extend or refinance its RCF maturing in 2024.

Principal liquidity sources over the 12 months started Jan. 1, 2024, include:

- Cash balance of about NOK1.2 billion, including the unrestricted cash balance and short-term deposits.
- The undrawn portion of the RCF and bridge facility of NOK1.8 billion.
- Cash FFO of about NOK3.2 billion.

- The issuance of NOK1,1140 million (€100 million).

Principal liquidity uses for the same period include:

- Some minor working capital and maintenance capital expenditure outflows.
- Debt maturities (in May 2024) of about NOK2 billion.
- Portfolio investments of NOK2 billion-NOK3 billion, which are subject to market conditions and investment opportunities.
- Shareholder remuneration of about NOK165 million.

Covenants

B2 is subject to maintenance covenants under its bond and RCF documentation, under which we expect the company will maintain ample headroom.

RCF covenants:

- Net interest coverage ratio: Greater than 4.0x (4.4x as of December 2023 pro-forma adjusted).
- Leverage ratio: Less than 4.0x (1.9x as of December 2023 pro-forma adjusted).
- Equity ratio: Greater than 25.0% (32.6% as December 2023).
- Secured loan-to-value ratio: Less than 65% (43% as of second-quarter 2023 per the restricted group that excludes the PIMCO loan and relevant secured assets).
- Total loan-to-value ratio: Less than 75% (66.2% as of December 2023).

Bond covenants:

- Net interest coverage ratio: Greater than 4.0x (4.4x as of December 2023).
- Leverage ratio: Less than 4.0x (1.9x as of December 2023).
- Secured loan-to-value ratio: Less than 65% (43% as of second-quarter 2023 per the restricted group that excludes the PIMCO loan and relevant secured assets).

Issue Ratings--Recovery Analysis

Key analytical factors

- The issue rating on B2's €300 million senior unsecured bonds due in 2026 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 NOK610 million (€53 million) senior RCF.
- In our default scenario, we contemplate a default during the second 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 year-end 2023, 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

- Year of default: 2028
- EBITDA multiple: 5x
- EBITDA value at emergence: NOK156 million
- Jurisdiction: Norway

Simplified waterfall

- Gross enterprise value (EV) at default: NOK739.6 million
- Admin. costs: 5%
- Net EV after admin. costs: about NOK702.6 million
- Super-senior RCF debt claims: about NOK537.9 million
- Collateral value available to senior unsecured creditors: NOK164.7 million
- Senior unsecured debt claims: NOK421.5 million
- --Recovery expectations: 30%-50% (rounded estimate: 40%)

Note: All debt amounts include six months of prepetition interest.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	**BB-/Stable/-**	**B+/Positive/-**
Business risk:	Fair	Fair
Country risk	Intermediate	Intermediate
Industry risk	Moderately high	Moderately high
Competitive position	Fair	Fair
Financial risk:	Aggressive	Aggressive

	To	From
Issuer Credit Rating	**BB-/Stable/-**	**B+/Positive/-**
Cash flow/leverage	Aggressive	Aggressive
Anchor	bb-	bb-
Modifiers:		
Diversification/Portfolio effect	Neutral (no impact)	Neutral (no impact)
Capital structure	Neutral (no impact)	Neutral (no impact)
Financial policy	Neutral (no impact)	Neutral (no impact)
Liquidity	Adequate (no impact)	Adequate (no impact)
Management and governance	Fair (no impact)	Fair (no impact)
Comparable rating analysis	Neutral (no impact)	Negative (-1 notch)
Stand-alone credit profile:	bb-	b+

Related Criteria

- 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: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Full Analysis: B2 Impact ASA, Dec. 19, 2023
- Norway-Based Debt Purchaser B2 Impact ASA Outlook Revised To Positive On Strong Performance; 'B+' Rating Affirmed, Oct. 26, 2023

Ratings List

Upgraded; Outlook Action

	To	From
B2 Impact ASA		
Issuer Credit Rating	BB-/Stable/--	B+/Positive/--
Senior Unsecured	BB-	B+
Recovery Rating	4(40%)	4(45%)

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.