MOODY'S
INVESTORS SERVICE

CREDIT OPINION
10 October 2023

Update

Send Your Feedback

RATINGS

B2 Impact ASA

Domicile	Norway
Long Term Rating	Ba2
Type	LT Corporate Family Ratings
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Anna Stark +49.69.86790.2107
AVP-Analyst
anna.stark@moodys.com

Arif Bekiroglu +44.20.7772.1713
VP-Senior Analyst
arif.bekiroglu@moodys.com

Laurie Mayers +44.20.7772.5582
Associate Managing Director
laurie.mayers@moodys.com

» Contacts continued on last page

B2 Impact ASA

Update following upgrade to Ba2

Summary

On 29 September 2023, we upgraded the corporate family rating (CFR) of B2 Impact ASA (B2 Impact) — formerly B2Holding ASA — to Ba2 from Ba3 and the senior unsecured rating to Ba3 from B1 previously. The issuer outlook is stable.

B2 Impact's Ba2 CFR reflects the company's solid and continuous profitability, leverage below the sector's average, strong equity buffers and diminishing liquidity pressures. B2 Impact's financial profile has been stable since 2019, despite pandemic-related challenges and a highly competitive operating environment in the debt purchasing segment. B2 Impact's management has also ensured timely refinancings and adequate back-up facilities in order to mitigate refinancing risks during periods of potentially constrained capital market access. We also take into consideration that, given a low current leverage level and sufficient headroom under its financial covenants, B2 Impact is well positioned to continue its moderate but profitable growth path.

The Ba3 senior unsecured debt rating reflects B2 Impact's Ba2 CFR and the company's capital structure, specifically the priorities of claims and asset coverage in the company's current liability structure. In particular, the total size of B2 Impact's secured €610 million revolving credit facility (RCF) indicates higher loss given default for senior unsecured creditors, leading to the positioning of the senior unsecured rating one notch below the company's Ba2 CFR.

Credit strengths

» Strong capitalisation and leverage metrics compared with those of its peers

» Good profitability

» Low leverage and strong interest coverage compared with those of its peers

» Diversified portfolio of secured and unsecured debt, supported by third-party servicing revenue

Credit challenges

» Inflationary pressure on operating costs

» High interest rates, which could increase funding costs and constrain borrowers' debt servicing capacity

» Evolving liquidity and funding, with strong reliance on a secured credit facility

Outlook

The stable rating outlook reflects our view that, over the next 12-18 months, B2 Impact will be able to maintain its credit profile commensurate with that of a Ba2 CFR despite current macroeconomic challenges, and continue to ensure sufficient liquidity to seize purchasing opportunities while safeguarding sufficient covenant buffer.

Factors that could lead to an upgrade

We could upgrade B2 Impact's CFR if the company further improves its profitability while maintaining low leverage and adequate interest coverage, and demonstrates strong liquidity management, proactively refinancing upcoming debt maturities.

An upgrade of B2 Impact's CFR would likely result in an upgrade of the senior unsecured debt rating. B2 Impact's senior unsecured rating could also be upgraded because of an improvement in its debt capital structure that would increase the recovery rate for senior unsecured debt classes.

Factors that could lead to a downgrade

We could downgrade B2 Impact's CFR if the company's capitalisation weakens significantly, profitability and leverage metrics deteriorate substantially, or if the improved liquidity position weakens significantly.

A downgrade of B2 Impact's CFR would likely result in a downgrade of the senior unsecured debt rating. B2 Impact's long-term ratings could also be downgraded if the company were to significantly increase the utilisation of its RCF, which is senior to the company's senior unsecured liabilities.

Key indicators

Exhibit 1

B2Holding ASA (Consolidated Financials) [1]

	06-23[2]	12-22[2]	12-21[2]	12-20[2]	12-19[2]	CAGR/Avg.[3]
Total managed assets (NOK Million)	18,759.0	16,500.0	15,315.0	17,169.0	16,941.6	3.0[4]
EBITDA (Finance) (NOK Million)	2,097.0	3,708.0	4,109.0	4,107.0	4,028.4	1.0[4]
Net Income / Average Managed Assets (%)	3.4	2.6	3.6	1.7	0.6	2.4[5]
EBITDA / Interest Expense + Preferred Dividends	4.0x	6.3x	7.2x	5.1x	5.1x	5.5x[5]
Tangible Common Equity (Finance) / Tangible Managed Assets (%)	28.2	27.8	28.2	23.1	20.6	25.6[5]
Debt / EBITDA (Finance)	2.8x	2.8x	2.3x	2.8x	2.9x	2.7x[5]
Debt Maturities Coverage (%)	118.7	263.7	90.5	169.4	153.3	159.1[5]
FFO to Debt (%)	6.5	3.7	2.6	-2.6	1.3	2.3[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] IFRS [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime.
Sources: Moody's Investors Service and company filings

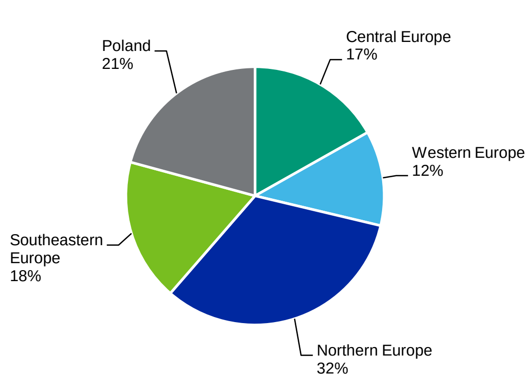
Profile

B2 Impact ASA is a pan-European debt purchasing company, with portfolios in 21 countries, predominantly focused on the Nordics, Eastern Europe and Southern Europe. The company acquires nonperforming loans (NPLs), both secured and unsecured, and provides debt collection for third-party lenders, with banks and other financial institutions accounting for most of its clients. B2 Impact has operated in its current form since November 2011 and has been listed on the Oslo Stock Exchange since June 2016.

Since 2022, B2 Impact has started to reduce its footprint in countries where it has insufficient scale, thus initiating the sale of its subsidiary in Bulgaria and initiating a discontinuation and sale of operations in Montenegro, Bosnia-Herzegovina and Hungary.

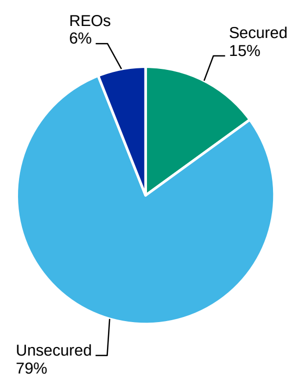
In 2022, B2 Impact announced that it started a co-investment scheme with Pacific Investment Management Company LLC (PIMCO) for some of its back book secured assets and a reorganisation programme, which aims to de-risk its own balance sheet by reducing the share of secured assets and increasing the share of servicing revenue. In Q2 2022, B2 Impact sold its subsidiary in Bulgaria and established a servicing subsidiary, Veraltis Asset Management (Veraltis), with a presence in France, Italy, Greece, Croatia, Slovenia, Cyprus, Romania, Bulgaria and Serbia. The closing of the sale in Bulgaria will be finalised in Q3 2023.

Exhibit 2
Geographical distribution of estimated remaining collection (ERC) as of Q2 2023



Sources: Company and Moody's Investors Service

Exhibit 3
Asset class distribution of ERC as of Q2 2023



Sources: Company and Moody's Investors Service

Detailed credit considerations

Profitability: B2 Impact profitability remains strong despite inflationary pressure and higher funding costs

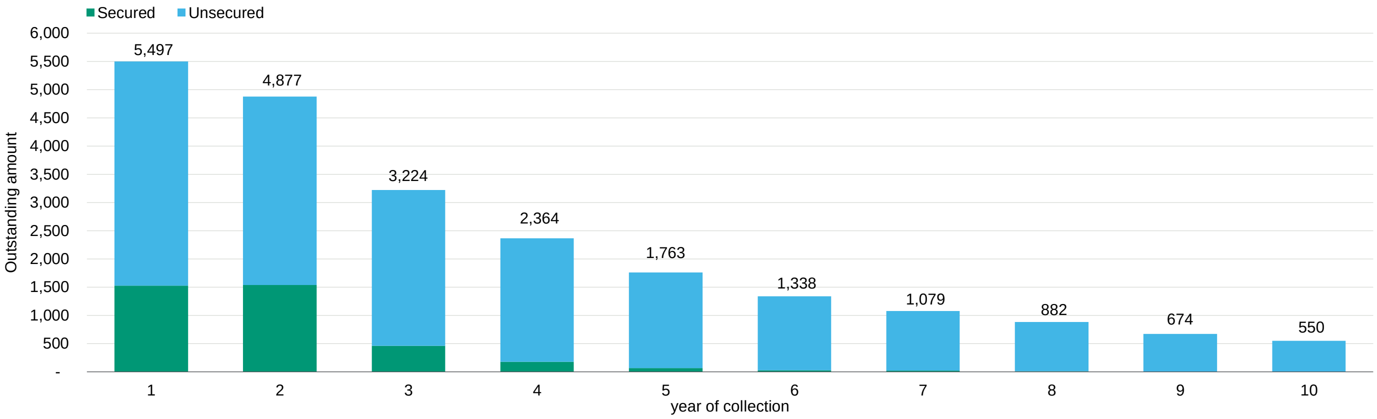
We assign a Baa3 Weighted Average Profitability score to B2 Impact, three notches below the initial scorecard-indicated outcome of A3 to reflect the inherent volatility of the debt purchasing sector, which is also sensitive to revaluations. The weighted average score Profitability score consists of a Baa1 Profitability score and a Ba1 Interest Coverage score.

B2 Impact is one of the most geographically diversified debt purchasers we rate, besides Intrum AB (publ), with a footprint spanning 21 countries. However, the company has started to implement a strategy focusing on its core markets where it has sufficient scale, while expanding co-investment and partnerships, increasing asset under management volume for its servicing platform Veraltis and exiting less profitable markets. However, even after reducing its geographical diversification, B2 Impact will still be able to shift its investment focus to markets that offer better pricing conditions or greater growth opportunities, reducing the need to invest in high-priced assets to maintain its collection pipeline.

While B2 Impact is focusing on unsecured debt, particularly in its core markets, secured debt, which accounted for 15% of B2 Impact's ERC in Q2 2023, provides good asset class diversification and shorter collection periods. While the diversification between secured and unsecured debt is positive, the secured debt portfolio usually contains higher balances per debtor and collection through a court process is common. Therefore, the collection profile of these portfolios is somewhat more volatile and faces revaluations more often (both negative and positive) than the unsecured debt portfolios. The share of secured debt in B2 Impact's portfolio has gradually reduced over the past few years to around 15% until Q2 2023 from around 23% in December 2020 and will eventually reduce further, as B2 Impact carved out its secured assets into a special purpose vehicle structure in 2022, funded by PIMCO and serviced by B2 Impact via its subsidiary Veraltis.

Exhibit 4

Secured debt has a significantly shorter estimated collection curve than unsecured debt (as of Q2 2023)
120-month ERC curve

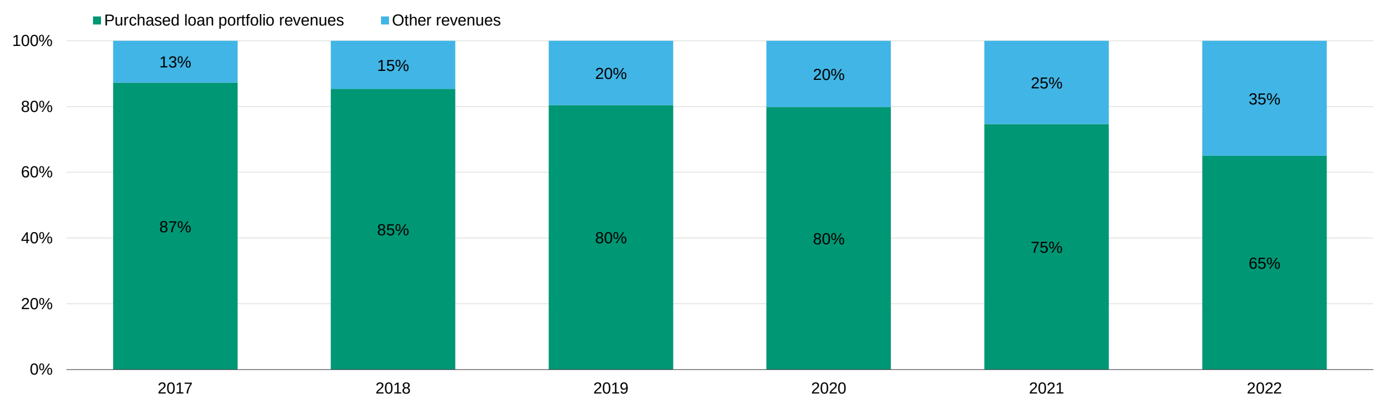


Sources: Company and Moody's Investors Service

Purchased loan portfolios accounted for 65% in 2022 (see Exhibit 5). The company also offers third-party servicing and provides a small amount of direct lending in Poland, as well as credit information services in Latvia. The share of third-party servicing and other non-NPL revenue increased to 35% as of year-end 2022 from around 13% in 2017. This increase, however, includes a large share of third-party servicing of co-owned portfolios through Veraltis.

Exhibit 5

B2 Impact's revenue was historically concentrated in collection from purchased loan portfolios, but the share of servicing revenue has increased
Revenue breakdown for 2016-22



Sources: Company and Moody's Investors Service

In 2022, cash EBITDA was NOK3,996 million, 6% higher than that in 2021, driven by strong collections and strong REO (Real Estate owned) sales. Following the resumption of portfolio purchases in 2022, B2 Impact invested NOK2,165 million during the year, well above the NOK1,202 million invested in 2021. B2 Impact's cost-to-collect ratio worsened slightly to 22% in 2022 from 19% for 2021. However, it is one of the lowest among its peers that we rate. Nevertheless, B2 Impact launched cost efficiency measures in Q1 2023 to soften the increasing inflationary pressure on operating costs and increased funding costs.

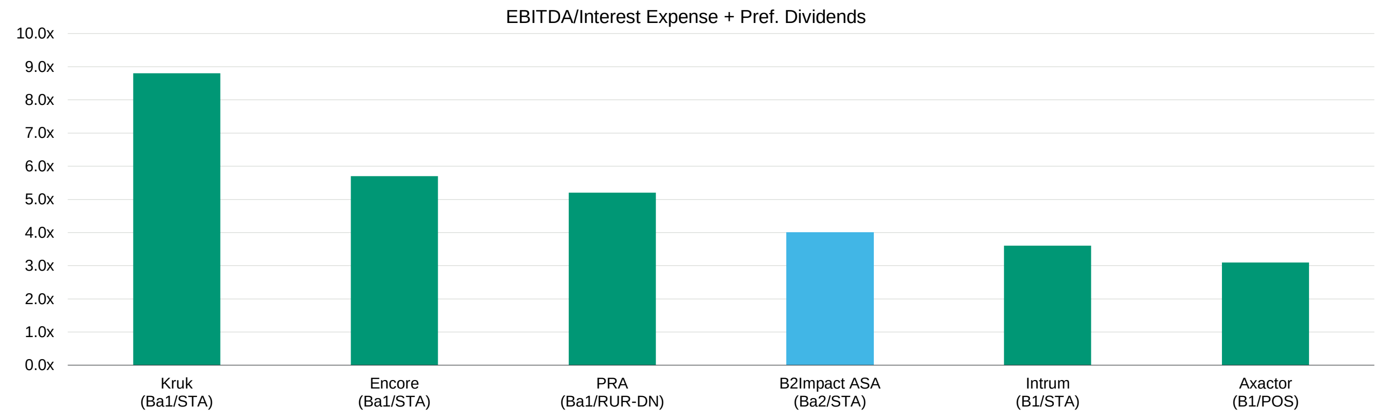
B2 Impact's bottom-line profitability (profit after tax) was NOK326 million in 2022, down from NOK573 million in 2021, because of nonrecurring expenses related to the reorganisation programme, divestment of the subsidiary in Bulgaria and the establishment of a servicing subsidiary. Additionally, an impairment of NOK100 million burdened B2 Impact's profitability in 2022.

In Q2 2023, collections and total revenue were above the Q2 2022 levels, with cash collections increasing by 21% to NOK1,513 million (NOK1,246 million in Q2 2022) and total revenue amounting to NOK1,102 million (NOK825 million in Q2 2022). Despite higher operating and funding costs in 2023, cash EBITDA of NOK1,151 million (NOK949 million in Q2 2022) and net profit of NOK163 million (NOK25 million in Q2 2022) were above Q2 2022 results, reflecting the impact of cost reduction measures and also of higher collections.

The interest coverage ratio dropped to 4.0x of Moody's-adjusted EBITDA from over 6x as of year-end 2023, reflecting the effect of increased interest rates and of higher hedging costs on the funding mix and thus increasing blended funding rates. In order to reflect the currently higher interest rate environment, we have lowered the assigned Interest Coverage score to Ba1.

Exhibit 6

Selected rated peers' adjusted EBITDA/interest expense
As of Q2 2023



Sources: Company and Moody's Investors Service

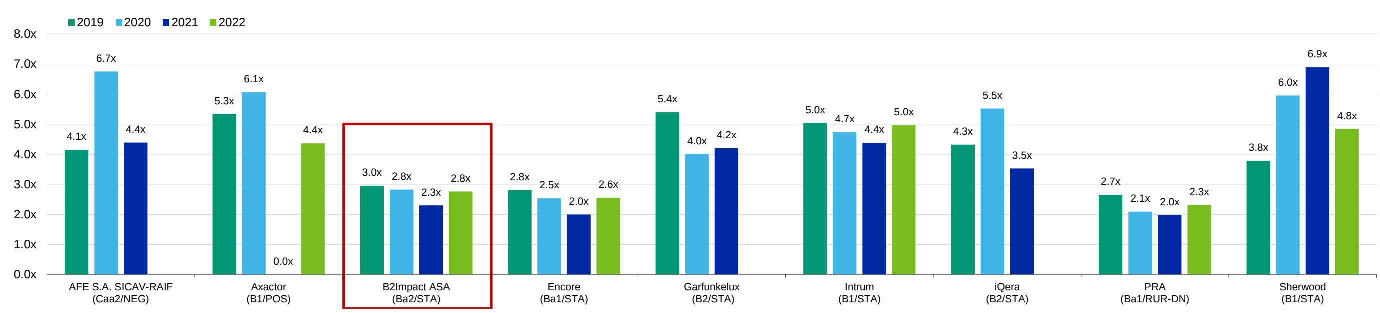
Capital adequacy and leverage: Strong capitalisation and favourable leverage metrics compared with those of its peers

We assign an A3 Weighted Average Capital Adequacy and Leverage score to B2 Impact, one notch below the scorecard-indicated outcome of A2, reflecting our expectation that Moody's-adjusted gross leverage will remain in the 2.5x-3.0x range over the 12-18-month outlook period, and that the company will maintain strong capitalisation. The Weighted Average Capital Adequacy and Leverage score consists of an assigned capital score of Aaa and a Baa2 leverage score.

B2 Impact has historically reported significantly stronger capitalisation and leverage metrics than those of most of its European peers. We calculate that B2 Impact's gross debt remained stable at 2.8x of its Moody's-adjusted EBITDA as of Q2 2023, similar to that at year-end 2022, despite portfolio investments of NOK1,562 million in H1 2023.

Exhibit 7

B2 Impact's leverage remains well below that of its European peers we rate
Rated peers' leverage, measured as gross debt/EBITDA, as of year-end 2022



Sources: Company and Moody's Investors Service

B2 Impact, similar to other European debt purchasers, had limited new investments and reduced forward flow agreements at the outset of the pandemic. Given B2 Impact's improved liquidity, we expect the company's purchasing activity to continue in 2023 at a comparable level as in 2022, when the company had resumed investments.

B2 Impact's financial covenants, limiting net debt/cash EBITDA at 3.5x, will continue to contribute to the company's prudent leverage management and disciplined approach to investments. Although the RCF leverage covenant takes into account pro forma adjustments when new portfolios are bought, resulting in additional flexibility, the covenants could limit financial flexibility during times of stress (see the "Cash flow and liquidity section" below) or when considering debt-funded acquisitions.

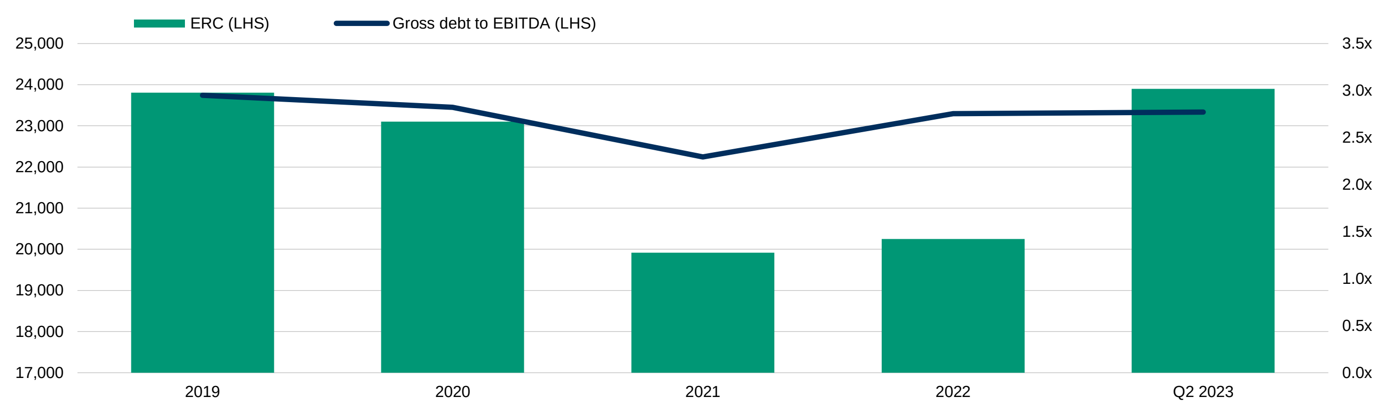
The company also had strong tangible common equity (TCE)/tangible assets ratio of 28.2% as of Q2 2023, well above that of its peers we rate, which mostly have negative TCE because of high goodwill positions resulting from acquisitions. B2 Impact's high level of tangible equity provides additional protection for debtholders through loss absorption by equity in the unlikely event of a default.

We expect TCE/tangible assets to remain well above 25% over the next 12-18 months, supported by B2 Impact's cautious capital policies and a minimum equity ratio covenant in its RCF.

Exhibit 8

B2 Impact's leverage has remained at moderate levels since 2014, despite rapid balance-sheet growth

Gross debt/EBITDA and ERC



Sources: Company and Moody's Investors Service

Cash flow and liquidity: Timely refinancing reduces liquidity risk

We assign a B2 Weighted Average Cash Flow and Liquidity score to B2 Impact, one notch below the scorecard-indicated initial score of B1. The Weighted Average Cash Flow and Liquidity score consists of the assigned Ba3 Debt Maturity Coverage score and a B3 Funds from operations (FFO) to total debt score.

Given B2 Impact's rapid growth in the early years since its inception in 2011, its financing needs have been high. Historically, the company has consumed its liquidity quickly. As B2 Impact has amended its strategy towards a rather moderate growth plan, especially pausing investments in 2020 and 2021, its liquidity consumption has slowed down. Furthermore, B2 Impact's RCF banks have been supportive. In May 2022, the banks granted a two-year extension to the €510 million RCF which was increased with additional €100 million in Q3 2023; the RCF now matures in 30 June 2025. €200 million of the RCF can be carved out as an ancillary bridge facility which serves as a backup facility for B2 Impact to refinance its upcoming bond maturity in 2024, in case of need.

As of Q2 2023, B2 Impact had NOK1,157 million of cash on balance sheet and available unused RCF liquidity reserves of €128 million. We therefore consider the current liquidity situation of B2 Impact to be adequate. After the refinancing in September 2022 and early 2023, liquidity risk has reduced, although the markets remain volatile, posing refinancing risks during times of disruptions in the capital markets. The next upcoming maturity is the €200 million bond (B2H05) maturing in May 2024.

Besides the RCF and unsecured bonds, B2 impact also has a €180 million non-recourse senior financing facility with PIMCO in place, which serves as a co-investment facility for B2 Impact's back book in secured assets and helps reduce the drawings under the company's senior secured RCF. This senior facility is fully securitised and has no recourse to B2 Impact.

The underlying Moody's-adjusted FFO ratio takes into consideration our assumption that the amortisation of purchased loans is a proxy for the replacement rate for the amount of NPL portfolios B2 Impact would need to acquire to keep its ERC constant. B2 Impact's rapid growth during 2014-19 depressed its historical FFO because the recently acquired NPL portfolios have generated only limited cash flow while contributing to a higher estimated replacement rate. B2 Impact's underlying FFO/total debt has improved, as the company's NPL portfolio growth slowed in 2020-21 because of the pandemic, but the ratio could weaken again when portfolio growth accelerates and collections eventually lag investment.

Operating environment

We assign a Ba3 score to B2 Impact's Operating Environment, based on the industry risk of European debt purchasers. Debt purchasers offer a niche product but with relatively low risk of obsolescence. The track record of the debt purchasing industry varies by market, depending on the market's maturity. Northern and Western European markets, such as the Nordics and the UK, have decades of history in this industry. On the other hand, certain Central Eastern European (CEE) and Southeastern European (SEE) markets — for example, Poland and Romania — have only started seeing significant volumes of debt sales in recent years. Because of this, we adjust the Operating Environment score to Ba3 for companies with a strong focus in CEE/SEE. The Macro-Level Indicator does not have any weight in the scorecard because this score is higher than the Industry Risk score for all the regions B2 Impact operates in.

The Ba3 Operating Environment score is below B2 Impact's Ba1 Financial Profile score. Therefore, we constrain the adjusted financial profile by weighting the Operating Environment score at 60% and the Financial Profile score at 40%, which results in an Adjusted Financial Profile of Ba2.

Macro-level indicator

We use the ERC of B2 Impact's loan portfolios to determine the geographical split when assigning the Macro-Level Indicators. The portfolios are split among Northern Europe (33%), Central Europe (17%), Poland (20%), Southeast Europe (19%) and Western Europe (11%).

Industry risk

We assign a Ba Industry Risk score for most European debt purchasing markets. Barriers to entry in the European debt purchasing space are moderately high. Accurately pricing unsecured NPL portfolios requires access to large amounts of data, which acts as a barrier to entry for potential new competitors.

Industry cyclicality is somewhat high. In an unexpected downturn scenario, such as the one in 2020, we expect cash flow to decline because of lower collection volumes and the companies to record revaluation losses as collection curves shift into the future.

Debt purchasers offer a niche product but with relatively low risk of obsolescence. However, the track record of the debt purchasing industry varies by market, with decades of history in the Northern and Western European markets, such as the Nordics and the UK, while certain Eastern European and SEE markets, such as Romania and Greece, have only started seeing significant volumes of debt sales recently. Because of this, we adjust the Operating Environment score to Ba3.

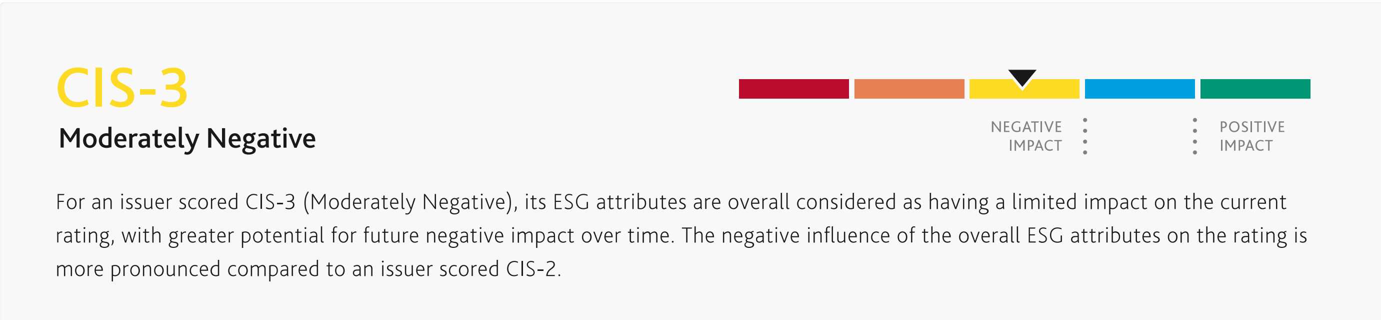
Business profile and financial policy

We removed the -1 negative notch for Corporate Behavior and Risk Management for B2 Impact, which we had previously assigned to reflect potential risks arising from debt-funded rapid growth and rapid liquidity consumption.

ESG considerations

B2 Impact ASA's ESG Credit Impact Score is Moderately Negative CIS-3

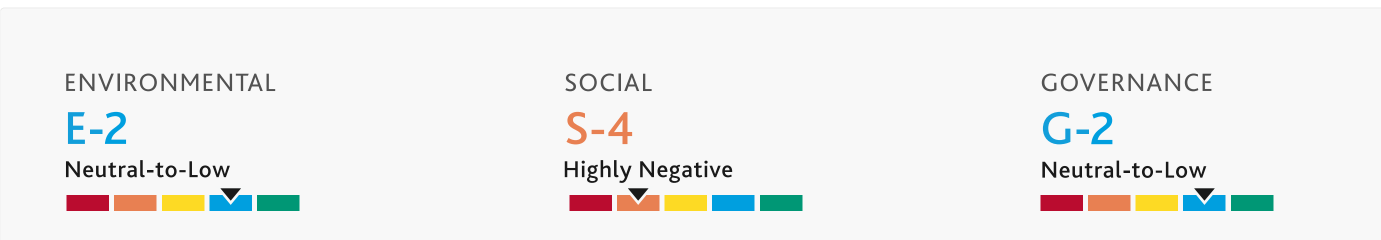
Exhibit 9
ESG Credit Impact Score



Source: Moody's Investors Service

B2 Impact ASA's **CIS-3** score reflects the limited impact of ESG risks on the company's current ratings B2 Impact, like its peers, is exposed to a high level of social risks reflecting the risks inherent to the subprime debt purchasing and collection business.

Exhibit 10
ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

B2 Impact faces low environmental risks because it only has indirect exposure to industries facing carbon transition risks and faces low other environmental risks, such as physical climate risks, water risks, waste and pollution, and natural capital risks.

Social

B2 Impact faces high social risks, which are associated with consumer protection legislation and the fair treatment of customers during the collection process. These risks are mitigated by well-developed policies and procedures. High cybersecurity and personal data risks are mitigated by advanced technology solutions, ongoing IT investments and organizational measures to prevent data breaches. The company's established governance practices, extensive knowledge of respective legislation and good track record help to mitigate but not eliminate these risks.

Governance

B2 Impact faces no material governance risks. Since its inception in 2011, the company has established a sound track record of successful operational and financial performance, particularly following a period of rapid growth between 2014 and 2018. Since 2020 B2 Impact demonstrates conservative financial policy as reflected in its stable financial profile with a leverage level below the most industry peers, solid equity buffers and solid profitability track record. Compliance and reporting are consistent with industry best practices, which is essential because of high regulatory scrutiny. Governance risks are also mitigated by corporate governance and compliance practices of a publicly listed company and an independent, diversified board with expertise spanning across different professional sectors.

Compliance and reporting are consistent with industry best practices, which is essential because of high regulatory scrutiny. Governance risks are also mitigated by corporate governance and compliance practices of a publicly listed company and an independent, diversified board with expertise spanning across different professional sectors.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Structural considerations

B2 Impact's issuer and senior unsecured ratings reflect the priorities of claims and asset coverage in the company's capital structure. The size of B2 Impact's senior secured RCF indicates higher loss given default for senior unsecured creditors, leading to a one-notch differential with B2 Impact's Ba2 CFR, thus resulting in a Ba3 senior unsecured rating.

Methodology and scorecard

About Moody's Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Overall, the scorecard-indicated standalone assessment range for B2 Impact is ba1-ba3. The company's assigned ba2 standalone assessment is positioned at the midpoint of the indicated range. B2 Impact's assigned CFR of Ba2 is consistent with our finance company scorecard-indicated standalone credit assessment.

Rating methodology and scorecard factors

Exhibit 11

B2 Impact ASA

B2 Impact ASA						
Financial Profile	Factor Weights	Historic Ratio	Initial Score	Assigned Score	Key driver #1	Key driver #2
Profitability						
Net Income / Average Managed Assets (%)	10%	2.64%	A3	Baa1	Expected trend	
EBITDA / (Interest Expense & Preferred Dividends) (x)	20%	6.20x	A3	Ba1	Expected trend	
Weighted Average Profitability Score			**A3**	**Baa3**		
Capital Adequacy and Leverage						
Tangible Common Equity / Tangible Managed Assets (%)	10%	28.16%	Aaa	Aaa	Expected trend	
Debt / EBITDA (x)	25%	2.76x	Baa1	Baa2	Expected trend	
Weighted Average Capital Adequacy and Leverage Score			**A2**	**A3**		
Cash Flow and Liquidity						
Debt Maturities Coverage (%)	10%	263.66%	A2	Ba3	Other adjustments	
FFO / Total Debt (%)	25%	3.70%	Caa1	B3	Pro-forma adjustments	
Weighted Average Cash Flow and Liquidity Score			**B1**	**B2**		
Financial Profile Score	**40%**		**Baa2**	**Ba1**		
Operating Environment						
Home Country	Factor Weights	Sub-factor Score	Score			
Macro Level Indicator	0%		Aa2			
Economic Strength	25%	aa3				
Institutions and Governance Strength	50%	aaa				
Susceptibility to Event Risk	25%	baa				
Industry Risk	100%		Ba			
Home Country Operating Environment Score			Ba2			
	Factor Weights			Score	Comment	
Operating Environment Score	**60%**			**Ba3**		
ADJUSTED FINANCIAL PROFILE				Score		
Adjusted Financial Profile Score				**Ba2**		
Financial Profile Weight	40%					
Operating Environment Weight	60%					
Business Profile and Financial Policy				Adjustment	Comment	
Business Diversification, Concentration and Franchise Positioning				0		
Opacity and Complexity				0		
Corporate Behavior / Risk Management				0		
Liquidity Management				0		
Total Business Profile and Financial Policy Adjustments				**Ba2**		
					Comment	
Sovereign or parent constraint				**Aa2**		
Standalone Assessment Scorecard-indicated Range				ba1 - ba3		
Assigned Standalone Assessment				ba2		

Source: Moody's Investors Service

Exhibit 12

B2 Impact ASA

Instrument Class	Assigned Standalone Assessment	Affiliate Support Notching	Government Support Notching	Individual Debt Class Notching	Assigned Rating
LT Corporate Family Ratings	ba2	0	0		Ba2
Senior Unsecured (Operating Company)	ba2	0	0	-1	Ba3

Source: Moody's Investors Service

Ratings

Exhibit 13

Category	Moody's Rating
B2 IMPACT ASA	
Outlook	Stable
Corporate Family Rating	Ba2
Senior Unsecured	Ba3

Source: Moody's Investors Service

REPORT NUMBER 1383707

Contacts

Sarah Sorek +49.69.70732.116
Associate Analyst
sarah.sorek@moodys.com

MOODY'S INVESTORS SERVICE