FitchRatings

NON-RATING ACTION COMMENTARY

Fitch Ratings Affirms Debt Purchasers Following Peer Review

Feedback

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Fitch Ratings-London/Frankfurt am Main/New York-15 July 2021: Fitch Ratings has affirmed the following issuers as part of a peer review covering European and US debt purchasers and debt servicers:

-Encore Capital Group, Inc.: affirmed at 'BB+'/Stable
-Garfunkelux Holdco 2 S.A. (Lowell): affirmed at 'B+'; Outlook revised to Positive from Stable
-PRA Group, Inc.: affirmed at 'BB+'/Stable

The ratings of the remaining debt purchasers and debt servicers covered by Fitch are:

-DDM Holding AG: 'B'/Stable
-doValue S.p.A.: 'BB'/Stable
-Intrum AB (publ): 'BB'/Stable

For further information on the rationale for each rating action, please refer to the individual rating action commentaries available at www.fitchratings.com.

The rating affirmations primarily reflect Fitch's view that the ratings headroom above any leverage and liquidity downgrade triggers has improved since mid-2020. This is in line with a less challenging sector operating environment. The outlook on the operating environment scores is negative for some issuers – notably those with concentrated portfolios or material exposure to the US market where regulatory developments dampen our operating environment assessment. However, all rated issuers perform well under Fitch's base and downside cases for 2021 and 2022, with leverage and funding and liquidity ratios generally in line with current ratios over the two-year period.

Fitch believes that the risk of further portfolio impairments or downward revisions of estimated remaining collection (ERC) curves has abated in recent quarters. Collection performance in the US market remained strong throughout the pandemic, and collection performances of Europe-focused issuers have markedly recovered since mid-2020, with most issuers now collecting above their end-2019 static pools. Both issuers and public and private sector infrastructure, such as court systems, have adapted to remote working practices and therefore any further lockdowns should, in our view, not materially impair issuers' collection ability. While the phasing out of government support measures could put pressure on borrower affordability, automated collection in particular is generally affordability-tested, which should mitigate any negative impact.

Portfolio purchases in 2020 and, to a lesser extent, 1Q21 were lower yoy. However, in most cases they were sufficient to maintain ERCs and EBITDA levels. We expect the phasing-out of guarantee schemes and other support measures to lead to an increase in delinquencies and portfolio sales, although the timing is uncertain and large sales could be delayed to 2022.

We expect the consequences of the Covid-19 pandemic to bring about tighter consumer protection legislation across many markets, exposing debt purchasers to additional regulatory risks. This would affect US purchasers in particular, as the Consumer Financial Protection Bureau (CFPB) is undergoing a leadership change and is in the midst of promulgating new rules on collection and disclosure practices. We believe the largest debt purchasers are well equipped to absorb any increase in compliance- or enforcement-related costs resulting from tighter regulation, both in the US and Europe.

Under its base rating case, Fitch has generally made the following assumptions:
- 2021 revenue either unchanged or slightly down yoy, and 5% higher yoy in 2022;
- Modest improvements in cost to collect ratios in 2021 and 2022;
- No material impairments, reflecting generally recovered collection rates;
- No material increases in interest expenses, reflecting the issuers' long-dated and partly fixed-rate funding profile, and;
- Unchanged gross debt in 2021 followed by a 5% increase in 2022.

Fitch's downside case assumed a 10% yoy decline in revenue from the base case in 2021, followed by a 5% yoy decline in 2022 (revenue net of impairment charges where relevant). It also assumed a flat or slightly worsening cost to collect ratios in 2021 and 2022, with other assumptions broadly in line with the relevant base case.

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