

MOODY'S

INVESTORS SERVICE

Rating Action: Moody's assigns first-time Ba3 corporate family rating to Burford Capital Limited; outlook is positive

30 Oct 2019

New York, October 30, 2019 -- Moody's Investors Service ("Moody's") assigned a Ba3 corporate family rating to Burford Capital Limited ("Burford") and Ba3 ratings to the senior unsecured debt issued by subsidiaries Burford Capital Finance LLC and Burford Capital PLC. The rating outlook is positive. This is Moody's initial rating of Burford and its subsidiaries.

Assignments:

..Issuer: Burford Capital Finance LLC

.... Backed Senior Unsecured Regular Bond/Debenture, Assigned Ba3

..Issuer: Burford Capital Limited

.... Corporate Family Rating, Assigned Ba3

..Issuer: Burford Capital PLC

.... Backed Senior Unsecured Regular Bond/Debenture, Assigned Ba3

Outlook Actions:

..Issuer: Burford Capital Limited

....Outlook, Assigned Positive

..Issuer: Burford Capital Finance LLC

....Outlook, Assigned Positive

..Issuer: Burford Capital PLC

....Outlook, Assigned Positive

RATINGS RATIONALE

The assignment of a Ba3 corporate family rating reflects Burford's superior profitability, low leverage and strong liquidity position. The rating also takes into consideration the firm's high asset risk characteristics that could increase asset and earnings volatility, high growth, a less developed debt funding structure compared to many finance companies, and high expected investor confidence sensitivity associated with the company's specialized and opaque investment processes.

Burford's profitability, measured as net income to average managed assets, has ranged from 11% to 20% since 2016, a much higher level than the profitability of other rated specialty finance companies. Burford's strong competitive positioning in the litigation finance sector strengthens its business proposition in terms of the array of its product offerings, breadth of coverage, and access to information and potential clients, all of which support strong prospects for future profitability. Burford's experienced leadership and legal staff are also operating and underwriting strengths.

Burford maintains a strong capital position to buffer asset and earnings volatility that stems from its litigation investments. The company's ratio of tangible common equity to tangible managed assets was 60% at 30 June 2019, well above the average for other specialty finance subsectors. By maintaining high cash balances, employing low leverage and effectively laddering debt maturities, Burford also maintains a strong liquidity profile. Through its fund management strategies, Burford has expanded its access to capital to take advantage of scale opportunities while also diversifying its income sources and moderating earnings volatility.

Burford's Ba3 ratings also consider the credit challenges associated with the esoteric and illiquid nature of the company's litigation investments, which have indeterminate realization in terms of both timing and amount, contributing to high expected asset and earnings volatility. About half of the company's income consists of unrealized gains, which also contributes to volatility and weakens earnings quality. Burford's rapid growth adds to operational complexity and execution risk. While Burford's investment yields are strong on average over time, the range of possible outcomes, including total loss, and reliance on estimates of litigation outcomes, albeit rendered by highly experienced attorneys, warrants that the company operate with strong capital and liquidity positions.

Burford's access to debt capital is less developed than many finance companies. The company's niche business is based on specialized and opaque underwriting and investment management that instills a higher level of confidence sensitivity among debt and equity investors than is the case with more established specialty finance sectors. As an additional credit challenge, Burford's governance structure is in transition to better respond to investor concerns.

Burford's outlook is positive, based on Moody's expectation that Burford will diversify its revenues to reduce volatility, improve funding diversity, and strengthen governance while also maintaining strong margins and low leverage, over the next 12-18 months.

WHAT COULD CHANGE THE RATINGS UP/DOWN

Moody's could upgrade Burford's ratings if the company increases earnings and asset stability, including by diversifying income sources; diversifies and strengthens access to debt capital markets, while maintaining currently low leverage levels and strong liquidity; and strengthens governance by advancing planned transitions.

The positive outlook indicates that ratings downgrades are unlikely. However, Moody's could downgrade Burford's ratings if the company increases earnings and asset volatility through more aggressive investment selection; materially weakens liquidity, including by reducing cash balances; and materially increases leverage, narrowing the cushion versus the company's leverage covenant.

The principal methodology used in these ratings was Finance Companies published in December 2018. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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