

MOODY'S

INVESTORS SERVICE

Rating Action: Moody's upgrades Burford Capital's long-term senior unsecured rating to Ba2 from Ba3; outlook is stable

25 Mar 2021

New York, March 25, 2021 -- Moody's Investors Service, ("Moody's") has upgraded to Ba2 from Ba3 the corporate family rating of Burford Capital Limited (Burford), a New York based litigation finance company, and the backed long-term senior unsecured ratings of subsidiaries Burford Capital Finance LLC and Burford Capital PLC. The outlook for the issuers was revised to stable from positive. Moody's has also assigned a backed Ba2 rating to the senior unsecured notes to be issued by new subsidiary Burford Capital Global Finance LLC and assigned a stable outlook.

Upgrades:

..Issuer: Burford Capital Limited

....LT Corporate Family Rating, Upgraded to Ba2 from Ba3

..Issuer: Burford Capital Finance LLC

....Backed Senior Unsecured Regular Bond/Debenture, Upgraded to Ba2 from Ba3

..Issuer: Burford Capital PLC

....Backed Senior Unsecured Regular Bond/Debenture, Upgraded to Ba2 from Ba3

Assignments:

..Issuer: Burford Capital Global Finance LLC

....Backed Senior Unsecured Regular Bond/Debenture, Assigned Ba2

Outlook Actions:

..Issuer: Burford Capital Limited

....Outlook, Changed To Stable From Positive

..Issuer: Burford Capital Finance LLC

....Outlook, Changed To Stable From Positive

..Issuer: Burford Capital PLC

....Outlook, Changed To Stable From Positive

..Issuer: Burford Capital Global Finance LLC

....Outlook, Assigned Stable

RATINGS RATIONALE

Moody's has upgraded Burford's ratings to reflect the company's success in improving its governance, partly in connection with it listing on the New York Stock Exchange in October 2020, as well as the company's strong operating performance during the economic downturn, continued strong liquidity and low leverage. The outlook was revised to stable from positive based on Moody's expectation that Burford will continue to maintain its overall strong, though potentially volatile earnings strength, and effectively manage liquidity and capital positions over the next 12 -- 18 months.

The backed Ba2 rating assigned to the new senior unsecured notes of Burford Capital Global Finance reflect

their senior priority in Burford's overall capital structure, including the unconditional guarantees of ultimate parent Burford and affiliates Burford Capital Finance LLC and Burford Capital PLC on a senior unsecured basis.

During the third quarter of 2020, Burford completed a series of steps that in Moody's view strengthened its governance arrangements, including changes in board composition that increased the number of independent directors, made to respond to listing rules and shareholder demands. This was in part connected to Burford's listing on the NYSE in October 2020, which subjects the company to the compliance requirements of the Securities and Exchange Commission (SEC). Moody's believes that the improvements provide more transparent and independent oversight of the company's operations and finances. Today's action reflects the governance improvements achieved by Burford. Governance remains a key rating consideration, given the company's specialized operating model and investments, under Moody's environmental, social and governance (ESG) framework.

Burford's profitability, measured as net income to average managed assets, declined to 7.2% in 2020 from a historical range of 11% to 20% from 2016 through 2019, but profitability remains much higher than most rated specialty finance companies. The company's 2020 performance was affected by a slowdown in new case investments due to the coronavirus pandemic, particularly during the first half of the year, but new investments increased in the second half of the year, and realizations were strong in the first half, generating significant cash flow. A significant portion of Burford's total income is unrealized gains (38% of consolidated total income in 2020), which are a lower quality source of income that results from Burford's accounting requirement to revise the fair value of investments when objective events make outcomes more predictable. But the company's record for realizing the increased value of investments has historically been strong. Additionally, adjusting for unrealized gains, Burford's profitability still compares very well with other rated specialty finance companies. Moody's expects that Burford's established competitive positioning in the litigation finance sector supports strong prospects for future profitability.

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 31 December 2020, well above the average for other specialty finance subsectors. However, the requirement that the company adjusts the carrying value of its assets to estimated fair values increases the volatility of the company's capital position.

By maintaining high cash balances, employing low leverage and effectively laddering debt maturities, Burford has effectively managed its liquidity risks. Burford's refinancing risk is low due to low leverage, though there is uncertainty regarding the timing of cash flows from the company's investments. The absence of committed revolving borrowing capacity is a credit negative for liquidity strength. 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 credit challenges include 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. Income typically includes material unrealized gains, which also contributes to volatility and weakens earnings quality. Burford's potential for 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.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Moody's could upgrade Burford's ratings if the company: 1) demonstrates strong management of inherently volatile investment income, including by maintaining a diverse investment portfolio and low investment concentrations; 2) diversifies funding while maintaining low leverage and strong liquidity; and 3) increases alternate liquidity in the form of committed revolving credit capacity.

Moody's could downgrade Burford's ratings if the company: 1) increases expected earnings, cash flow and asset volatility by increasing investment concentrations or through more aggressive investment selection; 2) materially weakens liquidity, including by reducing cash balances; 3) materially increases leverage, narrowing the cushion versus the company's leverage covenant.

The principal methodology used in these ratings was Finance Companies Methodology published in November 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1187099.

Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1243406.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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