

New Issue: RAC Bond Co. PLC

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Ratings Detail

Anchor		+	Resilience score		>	Resilience-adjusted anchor		+	Qualitative adjustments		>	Rating	
Class A4	bbb		Class A4	Strong		Class A4	a-		Modifiers	-1 notch		Class A4	BBB (sf)
									Comp. ratings	-1 notch			
Minimum base case DSCR range			Minimum downside case DSCR range			Related criteria							
Class A4	1.40x - 3.25x(M)		Class A4	1.80x - 4.00x		Counterp. risk	A+						
Business volatility score		+				Eligible invest.	BBB+						
3													
Business risk profile													
Satisfactory													

DSCR--Debt service coverage ratio. Comp.--Comparable. Counterp.--Counterparty. Invest.--Investments.

Rating

Class	Rating*	Balance (mil. £)	Interest rate before EMD (%)	Interest rate after EMD (%)	EMD	Legal final maturity
A4	BBB (sf)	400.0	5.75	6.25	November 2029	May 2046

*Our rating on the class A4 notes addresses timely payment of interest and ultimate payment of principal on the legal final maturity date. The class A notes rank pari passu among themselves and with the working capital and senior term facilities. EMD--Expected maturity date.

Executive Summary

S&P Global Ratings today assigned its 'BBB (sf)' credit rating to RAC Bond Co. PLC's class A4 notes.

The class A4 notes' expected maturity date (EMD) is in November 2029. At closing, the proceeds from the class A4 notes issuance were used to partly redeem the £485 million class A2 notes with an EMD in May 2026. The remaining balance of £85 million was funded using RAC Bidco Ltd.'s (RAC) own funds.

Total debt leverage post the class A4 notes' issuance and considering the 2025 senior term facility (2025 STF) and 2025 private placement (2025 PP) issuance due in June 2025 (see "Refinancing activities since class A3 notes issuance" below) has reduced to 5.74:1 from 6.4:1, based on financial year (FY) 2024 S&P Global Ratings-adjusted EBITDA.

Under the refinancing, the senior debt's cost has increased. This is due to increased interest and hedging costs, although the increase to senior debt's cost was partially offset by debt deleveraging using RAC's own cash.

RAC Bond Co. is a whole business securitization of RAC's operating businesses. RAC Bond Co.'s financing structure blends a corporate securitization of RAC's U.K. operating business with a subordinated high-yield issuance. The transaction is backed by the operating businesses' future cash flows, which include roadside and insurance, but exclude RAC Insurance Ltd. and RACMS (Ireland) Ltd.

In our opinion, the transaction will likely qualify for the appointment of an administrative receiver under the U.K. insolvency regime. An obligor default would allow the noteholders to gain substantial control over the charged assets before an administrator's appointment, without necessarily accelerating the secured debt, both at the issuer and borrower level.

Refinancing activities since class A3 notes issuance: In January 2024, RAC executed and drew £205 million senior term facility (2024 STF) to refinance the existing £141 million 2020 STF maturing in January 2025. The rest of the proceeds drawn on the 2024 STF together with the surplus cash from the class A3 notes' issuance were used to partially redeem £115 million of the existing class A2 notes. The class A2 notes balance was reduced to £485 million at that time.

In January 2025, RAC executed a £50.0 million private placement (2025 PP), which is expected to be issued in June 2025. The 2025 PP notes will rank senior in the waterfall, pari passu with the class A notes and with the STFs. The 2025 PP notes will be subject to a fixed interest rate of 6.49% and will mature on June 2, 2030.

In February 2025, RAC also executed a £40.0 million STF, which is expected to be fully drawn in June 2025 (2025 STF). This, along with the 2025 PP notes, will be used to partially refinance the £170.0 million 2021 STF (A) maturing in June 2025. The remaining balance of £80.0 million will be funded using RAC's own funds.

Each of the 2024 STF and the 2025 STF is subject to a variable interest rate of Sterling Overnight Index Average (SONIA) plus a margin of 3.00% per year. Both facilities mature in May 2029. Given the proximity of the class A4 notes issuance and refinancing of the 2021 STF(A), we factored 2025 STF and 2025 PP into our analysis.

Although £655 million of debt has been replaced with £490 million, the overall cost of the senior debt has increased. This is due to the higher coupon and increased hedging costs. Total debt leverage post refinancing in June 2025 is expected to have reduced to 5.74:1 from 6.4:1 based on FY 2024 S&P Global Ratings-adjusted EBITDA.

Our base-case forecasts of cash flow available for debt service (CFADS) reflect our higher revenue and EBITDA expectation. We have assumed revenue growth of about 7% in FY2025. This will be supported by continued member growth as part of the subscription-based business model, benefiting from stable retention rate, new member acquisition and pricings. We also forecast the company will improve its S&P Global Ratings-adjusted margins toward 33%-34% over our forecast horizon, thanks to robust cost control, pricing actions, and operational efficiencies.

Our higher adjusted EBITDA expectations are coupled with higher capital expenditure (capex) expectations (excluding customer acquisition costs), increased investment in working capital, and higher tax expectations. The net effect improves our projected CFADS compared with our previous projections (see "New Issue: RAC Bond Co. PLC", Oct. 13, 2023).

Consequently, our minimum debt service coverage ratio (DSCR) in our base case has improved slightly compared with

previous projections and remains in the middle of the 1.40x-3.25x range.

Long term, our higher EBITDA expectation means marginally higher average DSCRs in both the base-case and downside-case scenarios when compared to our previous projections. That said, they remain above middle range for a 'bbb' anchor in our base-case analysis, and above the breakpoint between a strong and excellent resilience score in our downside analysis. Our satisfactory business risk profile (BRP) remains unchanged.

The long-term issuer credit ratings on the counterparties—including the liquidity facility, derivatives, and bank account providers—do not constrain our rating on the class A4 notes.

Under the transaction documents, the counterparties can invest cash in short-term investments with a minimum required rating of 'BBB+'. Given the substantial reliance on excess cash flow as part of our analysis and the possibility this could be invested in short-term investments, the transaction can only fully rely on excess cash flows in rating scenarios up to 'BBB+' (see "Related Criteria").

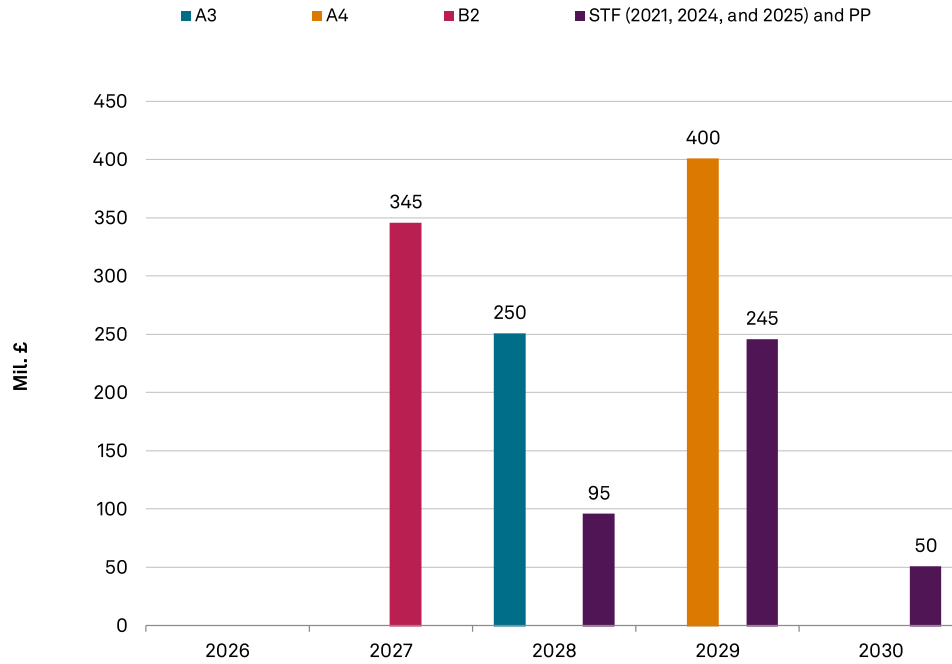
Overview Of New Issuance

On the issue date, the issuer issued new class A4 notes totaling £400.0 million. The class A notes rank pari passu among themselves and with the working capital, 2025 PP notes, and STFs. The class A4 notes bear a fixed interest rate, which will step up following their EMD in November 2029. Our rating on these senior notes addresses timely payment of interest and ultimate payment of principal.

Sources and uses of funds			
Sources	Mil. £	Uses	Mil. £
New class A4 notes	400.0	Redemption of A2 notes (including make whole)	485.0
Cash from balance sheet	88.0	Financing fees	3.0
Total sources	488.0	Total uses	488.0

Chart 1

Expected maturity profile post-refinancing



STF--Senior term facility. PP--Private placement. Source: S&P Global Ratings.
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Summary of Capital Structure Post-Issuance

Capital structure pre- and post-refinancing

Class	Balance pre refinancing (mil. £)	Balance post refinancing (mil. £)	Leverage pre/post refinancing *	Interest rate before EMD (%)	Interest rate after EMD (%)	EMD	Legal final maturity
WCF	50.0	50.0		SONIA plus 3.0	SONIA plus 3.0	N/A	January 2029
2021 STF (A)	170.0	0.0		SONIA plus 1.8	4.695	N/A	June 2025
2021 STF (B)	95.0	95.0		SONIA plus 2.5	4.695	N/A	June 2028
2024 STF	205	205		SONIA plus 3.0	4.695	N/A	January 2029
2025 STF	0.0	40		SONIA plus 3.0	4.695	N/A	January 2029
2025 PP	0.0	50.0		6.49	6.49	June 2030	June 2030
A2	485.0	0.0		4.870	5.370	May 2026	May 2046
A3	250.0	250.0		8.25	8.75	November 2028	May 2046

Capital structure pre- and post-refinancing (cont.)

Class	Balance pre refinancing (mil. £)	Balance post refinancing (mil. £)	Leverage pre/post refinancing *	Interest rate before EMD (%)	Interest rate after EMD (%)	EMD	Legal final maturity
A4	0.0	400.0		5.75	6.25	November 2029	May 2046
Total senior debt	1,255	1,090	5.02:1/4.36:1				
B2-Dfrd†	345.0	345.0		5.250	4.750	November 2027	November 2046
Total debt	1,600	1,435	6.4:1/5.74:1				

*(Senior or total debt) / (FY2024 EBITDA as adjusted by S&P Global Ratings). †Unlike the senior notes, the class B2-Dfrd notes step down after their EMD. WCF--Working capital facility. EMD--Expected maturity date. SONIA--Sterling Overnight Index Average. N/A--Not applicable. STF--Senior term facility.

Strengths, Concerns, And Mitigating Factors

Strengths

- RAC maintains a leading market position in the U.K.'s roadside breakdown services industry, which has relatively high barriers to entry.
- The membership-based business model and steady renewal rates foster cash flow visibility.
- The obligor group's ability to generate cash flows remains robust and with EBITDA adjusted margins still above 30%, profitability remains strong.
- Restrictive covenants on the obligors' financial profiles and activities.
- Performance covenants lead to a dividend lock-up and appointment of an administrative receiver.
- A £100 million liquidity facility spanning the issuer- and borrower-level, with an available amount covering 18 months of peak debt service costs, for senior payments and the class A notes and senior term facility (2021, 2024, 2025 STFs', and 2025 PP notes)'s interest which remains available to the issuer should the borrower go into insolvency or default on the STFs.
- Clear intercreditor arrangements--all debt, including the borrower's bank debt, must be governed by the security trust and intercreditor deed. If a class A issuer-borrower loan is not repaid by its EMD, then a class A loan default event will occur, and the class A noteholders may enforce and/or accelerate the repayment of the loan according to the transaction documents. However, an issuer-borrower loan defaulting would not be a default event for the corresponding notes.
- The borrower's floating-rate STFs are hedged in accordance with the policy, with an interest rate swap that ranks pari passu with the class A loans owed to the issuer and will benefit from a liquidity facility.

Concerns and mitigating factors

- RAC derives revenue solely in the U.K., mainly in the roadside segment. RAC is therefore relatively small and undiversified compared with some peers from across other business services sectors. We also consider the group's exposure to the more competitive and fragmented insurance brokerage market as higher risk and more volatile compared to the roadside assistance segment, although it currently contributes only a limited proportion of revenues to the overall group (9% in FY2024).

- In addition to the issuer-borrower loans, the borrower has obligations in the form of floating-to-fixed-rate STFs (2021, 2024, and 2025) as well as fixed-rate 2025 PP notes that rank pari passu with the class A notes, a working capital facility (currently undrawn post-issuance), and an interest rate hedge, that all rank pari passu with the class A notes. Nonpayment on any of the senior term facilities on their final maturity date would trigger a default event. However, the decision to accelerate rests with the class A noteholders, the controlling class. The senior term facilities only receive interest until their maturity date. RAC already secured funding for the partial refinancing/redemption of the 2021 STF four-year tranche (maturing in June 2025), which we factored into our analysis.
- Similarly, the class A notes only receive interest until their EMDs, principal and interest thereafter. However, the notes do not amortize or receive principal before their EMDs, unlike many other corporate securitizations with amortization schedules or a synthetic debt service amount. This feature dampens the effectiveness of the class A DSCR financial covenants, in our view, as the covenants effectively test only interest coverage. Offsetting this is a cash sweep to repay any class A debt outstanding beyond its expected maturity date, while potentially defeasing cash for the repayment of class A debt that has not reached its maturity date. This may result in a cash sweep if the senior term loan is not refinanced on its maturity date, thereby repaying the class A notes as soon as possible.

Notable Features

Transaction key features	
Initial closing date	May 6, 2016
Note payment frequency	Semiannually (May and November)
Class A notes' repayment profile	Soft bullet (cash sweep mechanism: If not repaid on their respective EMDs, any excess cash would be used to redeem pro rata any of the senior debts that are beyond their EMDs).
Collateral	Advances made by the issuer to the borrower. The borrower's primary source of funds for ongoing payments is cash flow from the existing operations of the subsidiaries of RAC Bidco Ltd.'s operating businesses in the U.K.
Liquidity facility size	£100 million that covers 18-months' peak debt service costs, renewed annually.
Revenue contributions in FY2024*	Breakdown services (91%) and insurance (9%).
EBITDA contributions in FY2024*	Breakdown services (87%) and insurance (13%).
Security	The notes benefit from a shared security, ultimately benefiting under the loan agreements from first-ranking security fixed and floating rate charges over the obligor's properties, shares, and accounts. The notes also benefit from the obligor security trustee's ability to appoint an administrative receiver for the assets in the ringfenced structure.
Domicile	U.K.

*Excluding contribution from RAC Insurance Ltd. (RACIL) and before head office costs. EMD--Expected maturity date. FY--Financial year.

Liquidity facility

Both RAC Bond Co. and RAC Ltd. are party to a single liquidity facility agreement that covers a minimum of 18 months of expected debt service. The borrower may draw amounts to pay senior costs, expenses, and interest due on the term loan, except for principal amounts due under a working capital facility; hedge SONIA exposure; bullet principal payments; and hedge break costs due to optional early termination of a hedge. The issuer may draw amounts to pay senior costs, expenses, and interest due on the notes, except for outstanding principal on the final maturity date of the notes.

If the borrower fails to repay the STFs on their respective maturity dates (as described above), a default event under

the liquidity facility agreement will occur, with the borrower being the affected party. Following the default event, the affected party will have its portion of the commitment cancelled and any outstanding liquidity drawings or standby drawing will be immediately due and payable. However, the portion of the liquidity facility commitment available to the issuer will be unaffected following a default event caused by the borrower.

We understand the liquidity facility will be subject to renewal by the counterparty annually at the borrowers' request. However, under the terms of the facility agreement, if the counterparty does not confirm that the facility will be renewed, the liquidity facility borrower will request drawing the available commitment and the funds will be held in a standby account with a bank specified under the account bank agreements. For us to give credit to the liquidity facility in our analysis, we look for a commitment from the liquidity facility borrower to make a drawdown if the counterparty does not renew the facility.

Business Risk Profile

We applied our corporate securitization criteria as part of our rating analysis on the notes in this transaction. Our view of the borrowing group's potential to generate cash flows is informed by our base-case operating cash flow projection and our assessment of its BRP, which is derived using our corporate methodology (see "Corporate Methodology," published on April 17, 2025).

We continue to assess RAC Bidco's, the borrower's, BRP as satisfactory.

Industry Overview

The U.K. roadside breakdown services market, which accounts for most of the group's activities, is dominated by the AA Intermediate Co. Ltd. (the AA) and the RAC, whose combined market share is approximately 75% by number of policies. We view their longstanding brand names, membership-based business model, strong customer loyalty, and the well-established route density as relatively high barriers to entry. We note that Green Flag, the third-largest player, entered the market in 1971 and since then no other large competitor has emerged. We consider the breakdown services industry as relatively non-cyclical and effectively a form of insurance. The membership cost is low compared to the total cost of owning and maintaining a car, hence this type of service benefits from relatively low-price elasticity. Moreover, there is a partial macroeconomic hedge as consumers tend to keep their vehicles longer during periods of economic decline, which makes them more susceptible to requiring breakdown cover.

Business Description

The RAC also offers roadside assistance services indirectly through partnership agreements with major companies. RAC also has an insurance brokerage segment that contributed 9% of total turnover in FY2024.

Key Credit Considerations

Key credit considerations	
Market position	The RAC operates the U.K.'s second-largest car breakdown service in terms of EBITDA. It benefits from national scale and coverage, with economies of scale supported by approximately 2.7 million individual members and about 11.1 million indirect members through corporate partnership agreements.
Membership-based business model	The membership-based operating model benefits from consistently high member renewal rates and the perception of many clients that membership costs are to some extent nondiscretionary. The group's operational performance, typically defined in terms of its ability to repair car faults at the roadside when called out by customers, supports customer satisfaction and renewal rates, which provides good cash flow visibility.
Relatively high barriers to entry	The RAC's brand name dates back to 1897. Strong customer loyalty and retention rates, as well as its national roadside assistance fleet, create relatively high barriers to entry.
Strong profitability	Strong operating margins, with adjusted EBITDA-to-sales margins consistently above 30%, are underpinned by a consistent record of tight cost management. Despite inflationary cost pressure and continued digital investment, RAC maintained its S&P Global Ratings-adjusted EBITDA margin at 31.9% in FY2024. Supported by the strength of its subscription-based business model, robust cost control, pricing actions, and operational efficiencies, we forecast the company will improve its adjusted margins toward 33%-34% over our forecast horizon.
Limited scale	The maturity of the individual membership U.K. roadside assistance market is linked to demographic and car ownership trends, and we do not expect it to expand over the near term. Despite the significant advantage in terms of size relative to the RAC's direct competitors, we consider its customer base to be relatively small compared with peers in other business services sectors.
Limited-service diversification and weak geographic diversification	The RAC also offers breakdown services directly to individual members and indirectly through partnership agreements with major companies, for a combined contribution of 91% of turnover in FY2024. RAC also has an insurance (brokering) segment (9% of revenues). RAC derives its revenues solely in the U.K.
Moderate customer concentration	The lower-margin corporate partnerships business has some client concentration risk. These partnerships are with individual car manufacturers, fleet managers, and major financial services firms, and include several contracts that were renewed over the last 18 months.

RAC Insurance Ltd.

RAC Insurance Ltd. (RACIL) is a subsidiary of RAC Bidco and is a U.K. authorized insurance underwriting company. Since it is a subsidiary, it sits within Holdco's ringfenced operations. However, its regulation and supervision by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) means that security and a guarantee will not be granted for the secured creditors' benefit, which precluded us from giving credit to the operational cash flows at a stress that is commensurate with our rating. However, RACIL's operating cash flows have been negligible, with operating profit largely offset by negative working capital. Therefore, our view of the obligors' underlying creditworthiness is unchanged because we do not consider RACIL in our analysis. Each member of the Holdco group, other than RACIL, that contributes about 2% of the total group's EBITDA would be required, under the transaction documents, to become an obligor.

Recent Performance

RAC continued to demonstrate strong trading momentum, with revenue up by 9.3% in FY2023 and 8.8% in FY2024. Amid macroeconomic challenges, the company improved S&P Global Ratings-adjusted EBITDA margin to 31.9% in FY2024, thanks to the strength of RAC's subscription-based business model, robust cost control, pricing actions, and operational efficiencies.

Historical trading performance (excluding RACIL)

	2024	2023	2022	2021	2020	2019	2018
Revenue (mil. £)	783§	720§	659§	653§	609§	618§	579§
Reported EBITDA (mil. £)	295	272	260.0	254.0	241.0	226.0	207.0
S&P Global Ratings-adjusted EBITDA (mil. £)	250†	222†	188†	225†	216†	199†	183†
S&P Global Ratings-adjusted EBITDA margin (%)	31.9	30.8	28.5	34.5	35.5	32.2	31.6
Individual member retention rate (%) *	84.0	85.9	85.8	85.5	85.0	84.4	79.0
Breakdowns attended (mil.)	2.4	2.6	2.4	2.3	2.2	2.4	2.4

*The proportion of individual members at the end of the period, versus the number of members at the start of the period plus acquisitions during the period. §Excludes RAC Insurance Ltd.'s contribution. †After exceptional items and customer acquisition costs.

Structural Enhancements

The structural features and credit enhancements are generally consistent with other recently rated corporate securitizations.

Selected structural enhancements

Financial events of default	Failure to pay by an obligor; class A FCF DSCR < 1.10:1; and class B FCF DSCR < 1.00:1
Required minimum maintenance capex spend	£8.0 million per year.
Trigger events	The amount of the available commitment under the liquidity facility at any time and/or the amount credited to a debt service reserve account is in aggregate less than the liquidity required amount; the class A FCF DSCR falls below the 1.35:1 (trigger event ratio); there is a drawdown (other than a standby drawing) under the liquidity facility or drawing from the debt service reserve account to meet a liquidity shortfall; a CTA event of default has occurred and is continuing following the expiry of any applicable grace or remedy period; and failure to deliver a compliance certificate for the relevant half-yearly period within the prescribed times.
Hedging policy	75% minimum, 105% maximum fixed or index-linked hedging; foreign exchange hedging of 100%; minimum counterparty rating at inception in line with class A rating; and no super senior hedging.
Permitted disposals	Disposal of permitted businesses are limited such that the proceeds must be either used to reinvest in another permitted business or applied to repay the secured liabilities.
Restricted transactions	Permitted loan made to RACIL; permitted guarantee granted in respect of the obligations of RACIL; permitted disposal made to RACIL; permitted share issue made by RACIL; or capped at an aggregate amount of £15 million.
Additional indebtedness conditions (refinancing)	No CTA event of default outstanding; class A FCF DSCR above 1.35:1 (no trigger event); and rating agency confirmation rating is at least the lower of the current rating and the initial rating on the class A notes.
Additional indebtedness condition (incremental)	Class A net debt to EBITDA below 5.75:1
Permitted acquisitions	Acquisition of other companies/businesses limited to arm's length acquisition of/investment in any permitted business, subject to a negative earnings restriction in aggregate of £5 million over a three-year period (considering any cost savings).
Independent director	At least one independent non-executive director on the board of the issuer.
Permitted business	(a) Roadside assistance; (b) motoring services; (c) media and advertising; (d) insurance broking; (e) home emergency services; (f) financial services intermediation; and (g) activities that are deemed by the borrower's directors to be aligned to the borrower's brand and/or the Holdco Group's strategic objectives. This is provided that the activities would not result in Holdco Group's general business substantially changing at closing. Provided that the activities set out in paragraphs (a) to (g) above shall be undertaken solely by entities established in the U.K. and Ireland and if undertaken outside of the U.K. and Ireland, by entities established in the U.K.

FCF DSCR--Free-cash-flow debt service coverage ratio. Capex--Capital expenditures. CTA--Common terms agreement.

Payment Priority

The following table summarizes the issuer pre-acceleration priority of payments.

Simplified payment priority	
Priority	Issuer priority of payments
1	Pari passu and pro rata, of all amounts due to the issuer security trustee and note trustee (and any receiver in the case of the post-acceleration priority of payments).
2	Pari passu and pro rata, amounts incurred under the issuer corporate services, the agency, the issuer bank account, and the issuer cash management agreements.
3	Amounts incurred as part of the issuer's business, amounts due to the stock exchange where the notes are listed and the listing agent, and any corporation tax on the issuer's profits.
4	Amounts due under the liquidity facility agreement (other than any liquidity subordinated amounts payable by the issuer).
5	Pari passu and pro rata, interest due to the class A notes and scheduled amount due under the issuer hedging agreement (other than termination and exchange payments on cross-currency swaps).
6	Pari passu and pro rata, principal due to the class A notes and all termination payments (excluding termination payments arising from the hedge counterparty being the defaulting party).
7	Interest due on the class B2-Dfrd notes
8	Principal due on the class B2-Dfrd notes
9	Pari passu and pro rata, all subordinated liquidity amounts due under the liquidity facility agreement and subordinated hedge amounts due under the hedge agreements.
10	Any remaining amount by way of rebate of facility fees to the borrowing group.

Rating Rationale For The Class A4 Notes

RAC Bond Co.'s primary sources of funds for principal and interest payments on the class A notes are the loan interest and principal payments from the borrower and amounts available from the liquidity facility, which is shared with the borrower to service the 2021, 2024, and 2025 STFs as well as to service the 2025 PP notes.

Our rating on the class A notes address the timely payment of interest and the ultimate payment of principal due. They are based primarily on our ongoing assessment of the borrowing group's underlying BRP, the integrity of the transaction's legal and tax structure, and the robustness of operating cash flows supported by structural enhancements.

Our cash flow analysis serves to both assess whether cash flows will be sufficient to service debt through the transaction's life and to project minimum DSCRs in base-case and downside scenarios. In our analysis, we excluded any projected cash flows from the underwriting part of the RAC's insurance business, which is not part of the restricted borrowing group (only the insurance brokerage part is).

As discussed in our criteria, we typically consider that liquidity facilities and trapped cash (either due to a breach of a financial covenant or following an expected repayment date) must be kept in the structure if: (1) the funds are held in accounts or may be accessed from liquidity facilities; and (2) we view it as dedicated to service the borrower's debts, specifically that the funds are exclusively available to service the issuer/borrower loans and any senior or pari passu debt, which may include bank loans.

In this transaction, we gave credit to trapped cash in our DSCR calculations as we concluded it is required to be kept

in the structure and is dedicated to debt service.

Although both the borrower and issuer may draw on the liquidity facility, our treatment of the liquidity facility differs from other transactions where the liquidity facility covers both borrower and issuer shortfall amounts. In the case of RAC Bond Co., although the borrower and issuer share the liquidity facility, the borrower's ability to draw is limited to liquidity shortfalls related to the 2025 PP notes and STFs (2021, 2024, and 2025) and does not cover the issuer/borrower loans. This is why we do not give credit to the liquidity facility in our base-case DSCR analysis for RAC Bond Co, while we do give credit to it in other transactions where the borrower may draw on the liquidity facility to service issuer/borrower loans as well.

Cash flow assumptions			
Base-case scenario			
Item	Initial growth period		Beyond growth period
Criteria	Our base-case EBITDA and operating cash flow projections in the short-term rely on our corporate methodology. We gave credit to growth through the end of FY2025.		Beyond FY2025, our base-case projections are based on our methodology and assumptions for corporate securitizations, from which we then apply assumptions for capex, change in working capital, and taxes to arrive at our projections for the cash flow available for debt service.
Maintenance capex	£9.0 million for FY2025.		The minimum requirement of £8.0 million considered as per the transaction documents.
Customer acquisition costs	We forecast £46.1 million for FY2025 of capitalized customer acquisition costs.		We forecast £33.4 million of capitalized customer acquisition costs beyond FY2025 (based on the company guidance).
Development capex	£25.9 million for FY2025.		Nil
Change in working capital	£11.0 million outflow for FY2025.		£11.0 million outflow.
Pension contributions	£0.00 million for FY2025.		Nil
Tax	£41.0 million for FY2025.		£41.0 million thereafter.
Amortization profile	Interest only		The transaction structure includes a cash sweep mechanism for the repayment of principal following an EMD on each class of notes. Therefore, in line with our corporate securitization criteria, we assumed a benchmark principal amortization profile where each class A note is repaid over 15 years following its respective EMD based on an annuity payment that we include in our calculated DSCRs.
Cumulative decline (%)			
Asset cash flow category	Base case	Downside case	Description
Roadside assistance	0	30	Determined under appendix B of our corporate securitization criteria. Segment is part of the business and consumer services industry.
Insurance brokering	0	30	Same as above.
Driving services	0	30	Same as above.
Liquidity facility at the issuer level			
	Base-case	Downside case	Description
Consideration in the DSCR	No	Yes	Our downside DSCR analysis tests whether the issuer-level structural enhancements improve the transaction's resilience under a stress scenario.

Cash flow assumptions (cont.)

Capex--Capital expenditure. EMD--Expected maturity date. DSCR--Debt-service coverage ratio.

Our specific conclusions for each of the five analytical steps in our ratings process for the class A notes are provided in the following table.

Credit rating step

Step	Result	Comment
Step 1		
Eligibility conditions	Met	This transaction continues to meet the eligibility conditions, which include bankruptcy remoteness and asset isolation, replaceability of the management team, compatibility with long-term cash flow projections, sufficient liquidity, and isolation from refinancing risk. This allows us to rate through the insolvency of the operating company and differentiate the rating on the corporate securitization debt from the creditworthiness of the operating company.
Step 2		
Business risk profile (BRP)	Satisfactory	Our current satisfactory BRP on the borrowing group reflects our view of RAC's strengths, including the company's high-retention, membership-based operating model, its national scale, strong brand recognition in the U.K., and above-average profitability for the services sector. These are counterbalanced by RAC's limited-service diversification, with about 87% of EBITDA coming from roadside assistance, and weak geographic diversification, with virtually all revenues generated in the U.K.
Business volatility score (BVS)	3*	The borrowing group's BRP maps to an unadjusted BVS of '3'*
Base-case cash flow assumptions	See table above	
Step 3		
Min. base-case DSCR range	Middle of 1.40x-3.25x	Principal and interest are fully paid in this scenario according to the terms of the transaction.
Anchor	bbb	Determined as per table 1 of our corporate securitization criteria, "Global Methodology And Assumptions For Corporate Securitizations" published June 22, 2017.
Min. downside case DSCR range	1.8x-4.0x	Principal and interest are fully paid in this scenario according to the transaction terms.
Resilience score	Strong	Determined as per table 3 of our corporate securitization criteria.
Resilience-adjusted anchor	a-	Determined as per table 4 of our corporate securitization criteria.
Liquidity adjustment	No adjustment	The £100 million liquidity facility balance represents about 9.6% of the total senior debt, including the senior term facility, which is below the 10% threshold we typically consider for significant liquidity support. Therefore, we have not considered any further uplift adjustment to the resilience-adjusted anchor for liquidity.
Step 4		
Modifier analysis	-1 notch	Considering the proximity of the EMDs for the existing notes and legal final maturity for the STFs, the issuer has a near-term refinancing need. In our view, this could potentially lower our base-case DSCR or result in senior debt with an EMD that is more than seven years in the future. To account for this and given that our current base-case DSCR is at the lower end of the range for a 'bbb' anchor, we maintained a one-notch adjustment to the resilience-adjusted anchor.

Credit rating step (cont.)**Step 5**

Comparable rating analysis	-1 notch	Under our corporate securitization criteria, we considered comparable peers' credit characteristics in the business sector and by structure type (cash-sweep transactions). RAC is the second-largest U.K. car breakdown services provider in terms of EBITDA, after its main competitor, the AA. Together they represent about 75% of the market by revenue share while both transactions have similar repayment structures. RAC generates 25% less EBITDA than the AA and its adjusted EBITDA margin is about the same as AA. We considered the smaller EBITDA scale of the business for RAC compared with market leader AA. Overall, we decreased by one notch our resilience-adjusted anchor on the class A notes' rating as part of the comparable rating analysis.
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*The mappings from BRP to BVS are: Excellent=1; Strong=2; Satisfactory=3; Fair=4; Weak=5; and Vulnerable=6. DSCR--Debt service coverage ratio. EMD--Expected maturity date.

Counterparty Risk

Our ratings on the counterparties—including the liquidity facility, derivatives, and bank account providers—do not constrain our 'BBB (sf)' rating on the class A notes.

Eligible Investments

Under the transaction documents, the counterparties are allowed to invest cash in short-term investments with a minimum required rating of 'BBB+'. Given the substantial reliance on excess cash flow as part of our analysis and the possibility that this could be invested in short-term investments, full reliance can be placed on excess cash flows only in rating scenarios up to 'BBB+'.

Outlook

A negative change in our assessment of the company's BRP would likely lead to a rating action on the class A notes as we would require higher DSCRs for a weaker BRP to achieve the same anchor.

Upside scenario

For the class A notes, we do not see any upside scenario relating to the borrowing group's creditworthiness, as it is constrained by financial policy, and our assessment of the borrowing group's BRP. The BRP is constrained by the group's limited geographic and service diversification, and its exposure to the insurance broker business. Furthermore, our rating on the class A notes would be limited to 'BBB+ (sf)' under our eligible investments criteria.

Downside scenario

We could lower our anchor or the resilience-adjusted anchor for the class A notes, if we revise the borrowing group's BRP to fair from satisfactory.

We could also lower our anchor or the resiliency-adjusted anchor for the class A notes if the business' minimum projected DSCR falls in the lower range of 3.25x-1.40x in our base-case DSCR analysis, or 1.8:1 in our downside scenario. This could also happen if a deterioration in trading conditions reduces cash flows available to the borrowing group to service its rated debt.

Surveillance

We will maintain active surveillance on the rated notes until the notes mature or are retired. The purpose of surveillance is to assess whether the notes are performing within the initial parameters and assumptions applied to each rating category. The transaction terms require the issuer to supply periodic reports and notices to S&P Global Ratings for maintaining continuous surveillance on the rated notes.

We view the RAC's performance as an important part of analyzing and monitoring the performance and risks associated with the transaction. While company performance will likely influence the transaction, other factors, such as cash flow, debt reduction, and legal framework, also contribute to our overall analytical opinion.

Transaction participants	
Topco	RAC Midco II Ltd.
Holdco	RAC Bidco Ltd.
Borrower	RAC Ltd.
Obligors	The borrower and RAC Bidco Ltd., RAC Group Ltd., RAC Motoring Services (Holdings) Ltd., RAC Motoring Services, RAC Financial Services Ltd., Risk Telematics UK Ltd., RAC Cars Ltd., and RAC Brand Enterprises LLP.
Equity sponsors	Silver Lake, CVC Capital Partners L.P., and GIC Private Ltd.
Lead arranger (current)	Barclays Bank PLC
Book runners	Barclays Bank PLC, Deutsche Bank AG, Bank of America Europe DAC, and NatWest Markets PLC
Note trustee, class A note trustee, and obligor security trustee	Deutsche Trustee Company Ltd.
Liquidity facility providers	Barclays Bank PLC, Deutsche Bank Luxembourg S.A., HSBC Bank PLC, Bank of America Europe DAC, Banco Santander, S.A. - London branch
Hedge provider	Banco Santander, S.A. - London branch, Barclays Bank PLC
Working capital facility lenders	Banco Santander S.A., London branch, Barclays Bank PLC, Deutsche Bank Luxembourg S.A., HSBC UK Bank Plc, National Westminster Bank PLC
Senior term loan lenders	Banco Santander, S.A. (London branch), Barclays Bank PLC, BNP Paribas Fortis SA/NV, Deutsche Bank Luxembourg S.A., HSBC UK Bank PLC, JPMorgan Chase Bank N.A., London branch, and National Westminster Bank PLC
Senior term facility	Bank of America Europe DAC, The Bank of East Asia Ltd (London branch), Qatar National Bank (Q.P.S.C.) (London branch), Raiffeisen Bank International AG, and Banco Santander, S.A. (London branch)
Issuer bank account provider and borrower bank account provider	Barclays Bank PLC
Paying agent and calculation agent	Deutsche Bank AG, London branch
Issuer cash manager and cash manager	RAC Group Ltd.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Criteria | Structured Finance | General: Methodology To Derive Stressed Interest Rates In Structured Finance, Oct.

18, 2019

- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | ABS: Global Methodology And Assumptions For Corporate Securitizations, June 22, 2017
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- General Criteria: Methodology Applied To Bank Branch-Supported Transactions, Oct. 14, 2013
- Criteria | Structured Finance | General: Global Derivative Agreement Criteria, June 24, 2013
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Global Credit Conditions Special Update: Ongoing Reshuffling, April 11, 2025
- U.K. Economic Outlook Q2 2025: Recovery In Consumption Slows As Inflationary Pressure Returns, March 25, 2025
- Global Nonfinancial Corporate Medians History And Outlook 2025, Dec. 4, 2024
- Credit Conditions Europe Q1 2025: Fusion or Fission?, Dec. 3, 2024
- New Issue: RAC Bond Co. PLC, Oct. 13, 2023
- Transaction Update: RAC Bond Co. PLC, Aug. 18, 2023
- Rating Assigned To U.K. Corporate Securitization RAC Bond Co.'s Class B1 Notes; Outstanding Ratings Affirmed, July 14, 2017
- Preliminary Rating Assigned To U.K. Corporate Securitization RAC Bond Co.'s Class B1 Notes, July 6, 2017
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- European Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016

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