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CONTACTS

Hanna Sundqvist
 Head of Private Credit, Europe
 Asset Management
 +44 203 314 2217
 Hanna.Sundqvist@moodys.com

Joanna Su
 Asst Dir – Data Scientist
 Asset Management Research
 +1 212-553-0300
 Joanna.Su@moodys.com

David Hamilton
 Head of Asset Management
 Research
 +1 212-553-5931
 David.Hamilton@moodys.com

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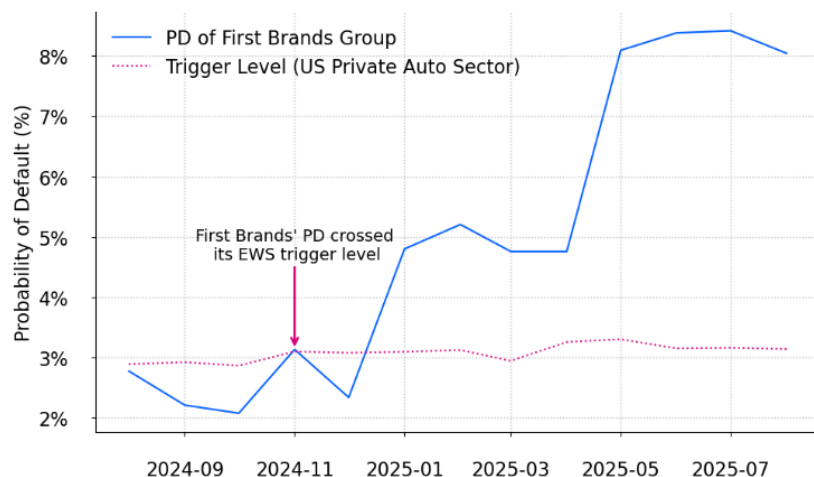
**First Brands Group's
 Bankruptcy Sends Shockwaves
 Across Private Credit Market**

Early Warning vs Market Pricing

First Brands Group, LLC, a U.S. automotive aftermarket supplier, filed for Chapter 11 on 28 September 2025, sending shockwaves across private credit and structured markets. The filing revealed more than \$10 billion in reported liabilities and reignited questions around transparency, hidden leverage, and the resilience of portfolio exposures. While First Brands' largest creditors are banks, BDCs reported positions in and CLOs reported exposure to the company's debt.

While market participants were still pricing First Brands as a performing credit well into 2025, Moody's EDF-X was already signalling distress. In early September 2025, the company's loans were quoted in the mid-90s cents on the dollar, values nowhere near distressed credit levels¹.

FIGURE 1 Crossing the line: First Brands breached its trigger level in November 2024



Source: EDF-X

Note: EDF-X Payment model incorporates trade payment data and is updated monthly.

¹ Stempel, J. (2025) *First Brands bankruptcy loan draws broad interest from creditors*. The Wall Street Journal, 12 September. Available at: <https://www.wsj.com/articles/first-brands-bankruptcy-loan-draws-broad-interest-from-creditors-d21ea6f2>

EDF-X Probability of Default told a different story, having raised red flags months earlier, signifying that the company was materially more risky than its peers and at high risk of experiencing a credit event. By January 2025, the increase in risk was undeniable. The Probability of Default (PD%) surged to 5.4%, driving an implied rating of Caa-C. That placed First Brands firmly in the extreme tail of the unlisted U.S. automotive sector peer group, where the median PD was 1.4%.

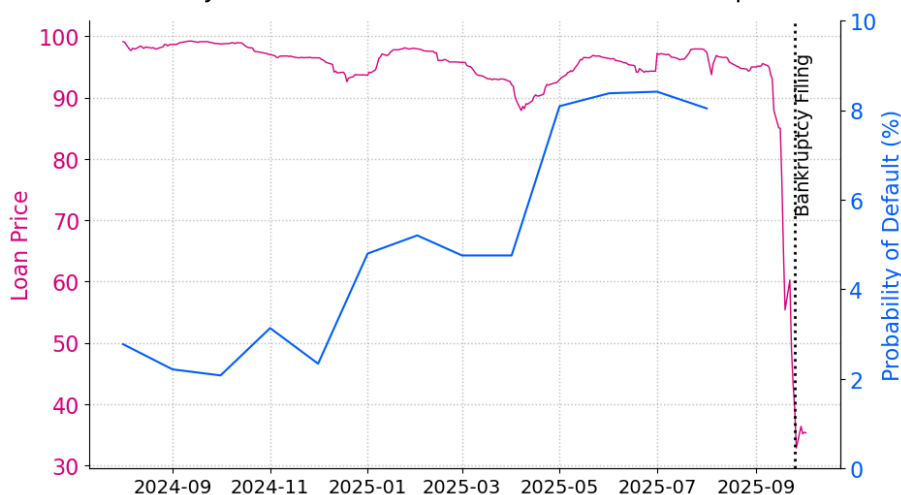
The EDF-X Payment Model² highlighted early signs of strain that were consistent with growing liquidity pressure at First Brands. By June 2025, the company's PD had risen to 10.5%, and much of that risk signal was linked to worsening payment dynamics. Overdue invoices, particularly those more than 30 and 90 days past due, accounted for more than half of the drivers, alongside weaker average payment performance and increasing volatility in spending and settlement behaviour. In essence, the model was capturing a company under pressure, leaning heavily on trade credit to survive. These were forward-looking signs of financial stress that traditional balance-sheet analysis would only have revealed much later.

From Par to Distress: A Market Slow to React

First Brands' 1st Lien Term Loan (original facility size \$1.7 billion, B1 assigned by Moody's Ratings³) continued to trade close to par well into 2025, with prices in the mid-90s cents on the dollar as late as September. Market pricing suggested relative stability, despite mounting operational and liquidity strains beneath the surface.

EDF-X risk measures, however, painted a different picture. The probability of default began rising sharply in early 2024, well before prices adjusted. By mid-2025, the PD had climbed above 10%, placing First Brands in the extreme tail of its sector peer group. Only in the weeks leading up to the September Chapter 11 filing did loan prices collapse, falling to the mid-30s by October 2.

FIGURE 2 Moody's EDF-X PD doubled twice before material price declines



Source: EDF-X

² Moody's EDF-X solution is a suite of forward-looking credit risk models that estimate the probability of default across public and private firms. The platform integrates diverse data sources including company financial statements, market-implied indicators, and trade payment behaviour to quantify credit deterioration in real time. The EDF-X Payment Model specifically captures transactional stress through patterns in payment timeliness, volatility, and delinquency, providing an empirical signal of liquidity strain and off-balance-sheet risk not observable in traditional financial reporting

³ The Snr Secured Bank Credit Facility (Domestic Currency) was subsequently downgraded to Caa1 on Sep 22nd 2025 and then Ca on Sep 26th 2025 https://www.moodys.com/research/Moodys-Ratings-downgrades-First-Brands-CFR-to-Caa1-outlook-negative-Rating-Action--PR_513027 and https://www.moodys.com/research/Moodys-Ratings-downgrades-First-Brands-CFR-to-Ca-outlook-remains-Rating-Action--PR_513445

Deep CLO Footprint

The scale of First Brands' failure matters not only because of its size, but because of where its debt sits. Moody's Structured Finance Portal⁴ shows just how embedded the name is across the CLO universe - First Brands was not a marginal credit; it represents \$2.6 billion of debt distributed across more than 1,100 CLO vehicles, managed by 80+ different managers.

Beyond the sheer numbers, First Brands' presence across so many CLO portfolios illustrates how a single default can ripple through structured finance markets in ways that go beyond credit loss alone. CLOs are built on diversification, but when a widely syndicated issuer like First Brands deteriorates, it becomes a common point of stress across vehicles and managers. Portfolio construction decisions, secondary market trading, and even manager performance metrics are suddenly linked to the same credit event.

While the ultimate recovery and portfolio-level impacts remain uncertain, this highlights why defaults of large, syndicated borrowers carry systemic resonance. For market participants, this is where forward-looking tools like EDF-X add value: by providing early visibility into outlier risks, enabling investors to understand where concentrations may exist, and supporting informed decision-making before systemic knock-on effects cascade through CLO structures.

Conclusion

The First Brands case shows how conventional approaches often lag when stress begins to build in widely held credits. EDF-X did not just raise an early flag; it provided the context that markets did not. Peer benchmarking placed the company squarely in the extreme tail of its sector, quantifying the extent of its divergence from the median and giving investors a structured view of how far risk had shifted. For CLO managers, that perspective is critical – it moves the discussion from isolated red flags to relative positioning within a portfolio, where the magnitude of outlier risk can be compared across hundreds of issuers.

Equally important was the transparency EDF-X brought to the underlying causes of deterioration. The payment data revealed a clear story of liquidity strain: rising delinquencies, volatility in settlement patterns, and weakening payment averages. This direct attribution to behavioural drivers stood in contrast to the lagging signals from financial statements, offering a forward-looking lens on hidden leverage and off-balance-sheet financing stress. Taken together, peer benchmarking and driver transparency show why EDF-X is more than an early warning tool, but also a decision-support framework – helping investors act before risks crystallise into defaults.

⁴ <https://www.moodys.com/web/en/us/capabilities/structured-finance.html>

CONTACT US

AMERICAS

+1.212.553.1653

clientservices@moodys.com

EMEA

+44.20.7772.5454

clientservices.emea@moodys.com

ASIA (Excluding Japan)

+852.3551.3077

clientservices.asia@moodys.com

JAPAN

+81.3.5408.4100

clientservices.japan@moodys.com

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