MOODY'S
INVESTORS SERVICE

CREDIT OPINION
13 July 2022

Update

RATINGS

Axactor ASA

Domicile	Oslo, Norway
Long Term Rating	B1
Type	LT Corporate Family Ratings
Outlook	Positive

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Axactor ASA

Update to credit analysis

Summary

The B1 corporate family rating (CFR) assigned to Axactor ASA (Axactor) reflects the company's evolution since 2015 as one of the top five nonperforming debt collection companies, measured as estimated remaining collections (ERC) volume in Europe; efficient cost structure; and strong capitalisation. At the same time, the B1 CFR takes into account its still-limited operating track record and financial history since its inception in 2015, and the inherent risks related to rapid growth; its evolving liquidity and funding profiles, with strong reliance on a secured credit facility; and the current operating environment for debt purchasers and the risks inherent to the debt collection business with volatile supply of nonperforming loans (NPLs), risks of mispricing and an evolving regulatory environment.

The B3 issuer rating assigned to Axactor reflects the application of our Loss Given Default for Speculative-Grade Companies rating methodology, the company's capital structure and particularly the priorities of claims and asset coverage in its current liability structure. The size of Axactor's secured revolving credit facility (RCF) indicates higher loss given default for senior unsecured creditors, leading to an issuer rating two notches lower than the company's B1 CFR.

Credit strengths

» Lower cost-to-collect ratio than that of its peers

» Focus on less-risky, medium-sized ticket, unsecured consumer debt collections

» Revenue diversification with complementary third-party servicing

» Strong equity buffer

» Public listing, which diversifies funding sources and increases transparency

Credit challenges

» Limited operating track record and limited financial history

» Risks related to rapid growth

» Earnings volatility

» Evolving liquidity and funding profiles, with reliance on the secured credit facility

Outlook

The positive rating outlook reflects our expectation that Axactor will reach a sustainable profitability level while at the same time the company's maintains its solid equity buffer and continues to reduce leverage.

Factors that could lead to an upgrade

Axactor's CFR could be upgraded if it demonstrates strong financial performance over the next 12-18 months, including an improvement in profitability and a reduction in leverage, and maintains a strong equity buffer while it continues to increase its scale and establish a track record.

An upgrade of Axactor's CFR would likely result in an upgrade of the issuer ratings. The company's issuer ratings could also be upgraded following a positive change in its debt capital structure, which would increase the recovery rate for the senior unsecured debt class.

Factors that could lead to a downgrade

Axactor's CFR could be downgraded if the company's financial performance deteriorates to below our forward-looking expectations over the next 12-18 months.

A downgrade of Axactor's CFR would likely result in a downgrade of the issuer ratings. The issuer ratings could also be downgraded if the company were to significantly increase its secured RCF, which ranks structurally above the senior unsecured liabilities.

Key indicators

Exhibit 1

Axactor ASA (Consolidated Financials) [1]

	03-22[2]	12-21[2]	12-20[2]	12-19[2]	12-18[2]	CAGR/Avg.[3]
Total managed assets (EUR Thousands)	1,361,130.0	1,293,175.0	1,363,627.0	1,371,556.0	1,107,903.0	6.5[4]
EBITDA (Finance) (EUR Thousands)	48,101.0	172,327.0	155,222.0	175,211.0	78,278.0	25.2[4]
Net Income / Average Managed Assets (%)	2.2	-3.5	-2.5	1.7	0.2	-0.4[5]
EBITDA / Interest Expense + Preferred Dividends	3.6x	3.2x	2.4x	3.4x	2.3x	3.0x[5]
Tangible Common Equity (Finance) / Tangible Managed Assets (%)	24.5	25.1	17.6	15.7	18.4	20.3[5]
Debt / EBITDA (Finance)	4.5x	4.9x	6.1x	5.3x	9.4x	6.1x[5]
Debt Maturities Coverage (%)	--	--	13.3	15.2	39.9	22.8[5]
FFO to Debt (%)	9.0	3.4	3.4	12.7	10.5	7.8[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] IFRS [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime.
Sources: Moody's Investors Service and company filings

Profile

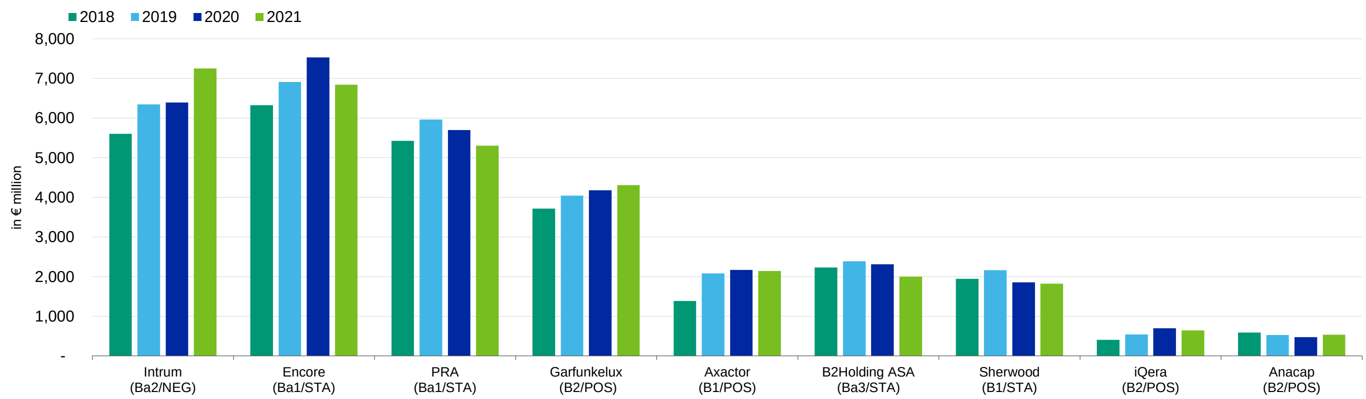
Axactor ASA (Axactor) is a European debt collection and third-party servicing company. The company was established in 2015, is listed on the Oslo Stock Exchange, and has operations in six countries, namely Norway, Sweden, Finland, Germany, Italy and Spain. The company is headquartered in Oslo, Norway, and has 1,229 full-time employees. In May 2022, Axactor was converted into a Norwegian Allmennaksjeselskap (ASA) from a Societas Europea (SE).

With an estimated remaining amount of NPLs to collect (ERC) of €2.3 billion as of the end of March 2022, Axactor is the fifth-largest debt purchasing company in Europe by ERC volume. Its core segments are: purchase of NPLs mostly from financial institutions and collection of outstanding amounts; collection of outstanding debt on behalf of third parties (3PC); and real estate-owned (REO) acquisitions and realization of real estate assets. The REO portfolio has been significantly reduced since year-end 2018 and the remaining portfolios are in run-off until presumably 2023. As of the end of the first quarter of 2022, the NPL collection segment accounted for 76% of total income, and 3PC for 24%, while REO is treated as discontinued operations starting in 2022.

Exhibit 2

Peer comparison

Estimated remaining collections of debt-purchasing companies we rate



84 months ERC curve for AnaCap and Sherwood. 120 months ERC curve for B2Holding, Garfunkelux and iQera. 180 months ERC curve for Axactor and Intrum. Total estimated collections for Encore and PRA.

Sources: Company reports and Moody's Investors Service

Detailed credit considerations

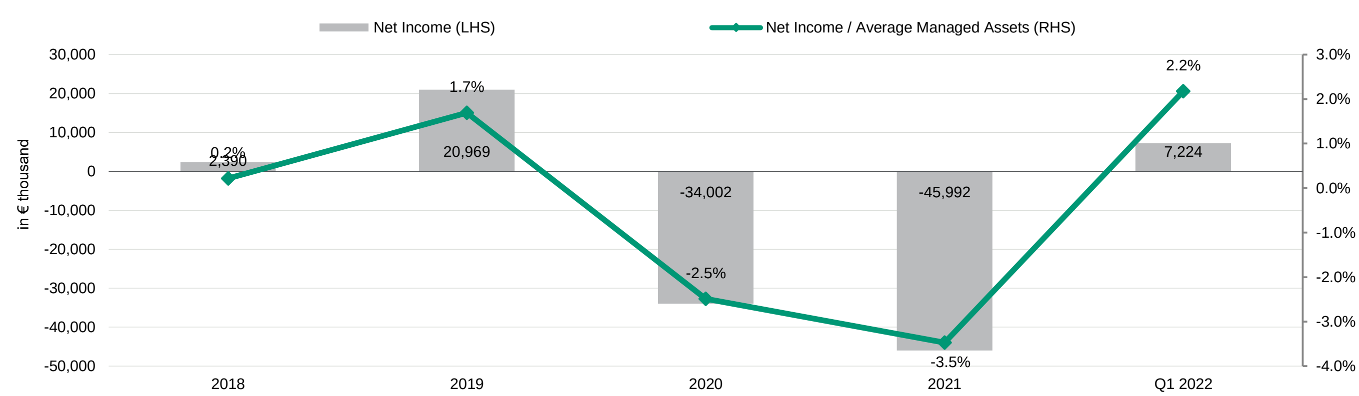
Profitability remains volatile

We assign a Ba1 score to the Net Income/Average Managed Assets subfactor, nine notches above the initial score for 2021, reflecting our expectation of sustainable recovery in profitability in 2022 as indicated by Axactor's first quarter performance. In the first three months of 2022, profitability improved to 2.2% of net income/average managed assets (excluding discontinued REO operations) from -1.0% for the year-earlier period, corresponding to an initial score of Baa1. In Q1 2022, Axactor reported €7.2 million net income from continued operations, significantly above Q1 2021 (loss of €0.3 million). The gain was driven by higher income in both NPL and 3PC segments, complemented by lower operating expenses. The discontinuation of REO portfolio, which is reported separately, caused a net loss of €1.6 million (loss of €3 million in Q1 2021), resulting in €5.7 million total net income for Axactor.

We expect the phasing out of the REO segment in 2022 to make Axactor less vulnerable to real estate impairments and losses. Axactor's low cost-to-collect platform should have a visible margin benefit in absence of further impairments after the revaluations in Q4 2021. Additionally, a margin improvement following the replacement of portfolios with a lower internal rate of return (IRR), bought in 2016-18, with portfolios with higher IRRs, will positively contribute to future profitability. Resumed NPL investments at above average IRRs, which grew to €79.6 million in Q1 2022 after only moderate investments in 2021, will support Axactor's profitability trend and help profitability remain sustainably above 1% in 2022 and commensurate with our Ba1 subfactor score.

Exhibit 3

Axactor's net income and return on assets improved in Q1 2022

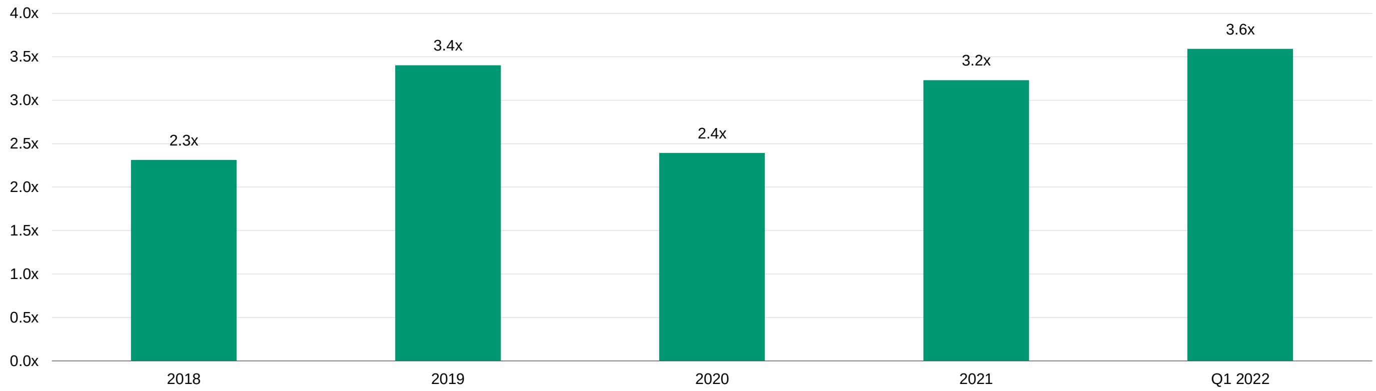


Sources: Company data and Moody's Investors Service

We assign a Ba3 score to the EBITDA Interest Coverage subfactor, one notch above the initial score of B1 (based on the average of the three most recent fiscal years). In Q1 2022, EBITDA interest coverage reached 3.6x, in line with our expectation that interest coverage will sustainably improve to above 3.0x. The interest coverage improvement is driven by higher EBITDA and also by the initial impact of reduced financing costs after successful refinancing in 2021.

Exhibit 4

Axactor's interest coverage (EBITDA/interest expense) remains above 3.0x



Sources: Company data and Moody's Investors Service

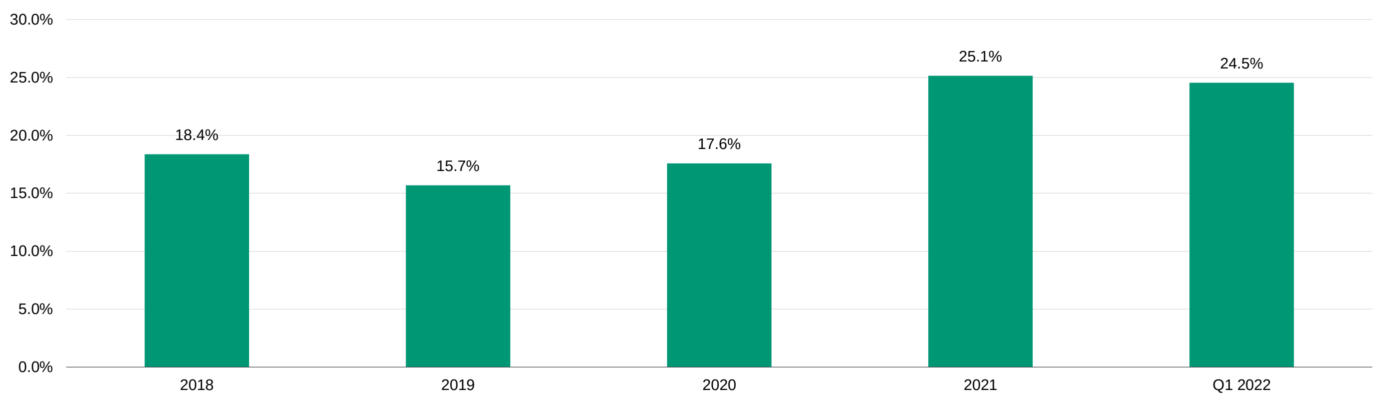
Capital adequacy and leverage

We assign an Aa2 score to the Tangible Common Equity (TCE)/Tangible Managed Assets (TMA) subfactor, two notches below the initial score of Aaa. Axactor benefits from its focus on organic growth and having made only small add-on platform acquisitions in the past (for example, the acquisition of Credit Recovery Service in Italy in Q3 2021). The ratio slightly decreased to 24.5% in Q1 2022 from 25.1% at the end of 2021 as a result of the losses incurred by the portfolio revaluations in 2021 and increased goodwill following the acquisition of Credit Recovery Service.

We expect the ratio to remain in the range commensurate with the TCE/TMA score of Aa2 after taking into account potential organic balance-sheet growth projections.

Exhibit 5

Axactor's TCE/TMA

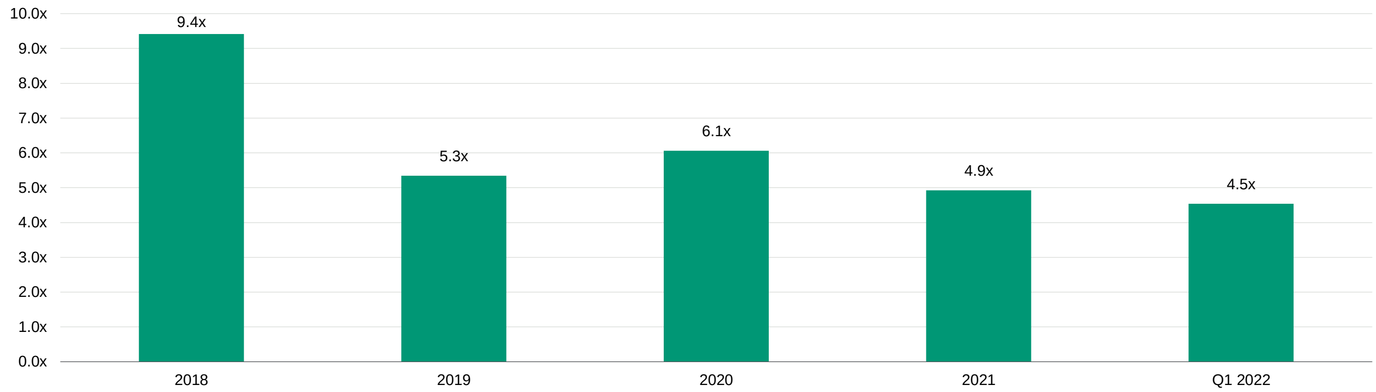


Sources: Company and Moody's Investors Service

We assign a B2 score for the Debt/EBITDA subfactor, in line with its initial B2 score — a substantial improvement from Caa1 in 2020. The B2 score reflects the reduction in leverage to below 5.0x in 2021 from 6.1x in 2020 and reflects our expectation that the company will be able to sustain leverage at less than 5.0x Moody's-adjusted debt/EBITDA in 2022.

Exhibit 6

Axactor's debt/EBITDA has significantly declined in 2021



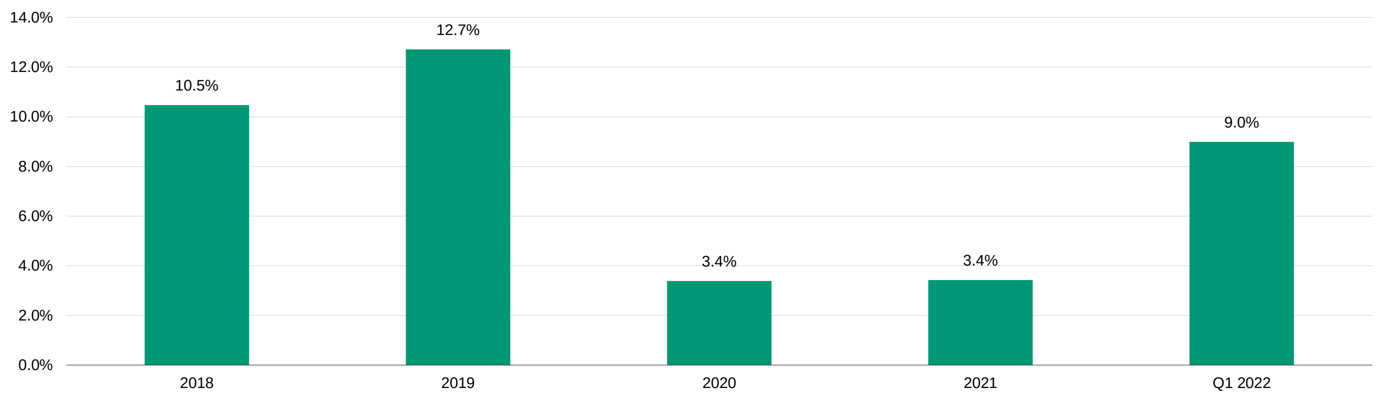
Sources: Company and Moody's Investors Service

Cash flow and liquidity

We assign a B3 score to the Funds from Operations (FFO)/Total Debt subfactor, one notch above the initial score of Caa1, reflecting the company's improved FFO/total debt of 9% in Q1 2022 and our expectation that the ratio will remain sustainably above 5% during the next 12-18 months.

Exhibit 7

Axactor's FFO/total debt



Sources: Company and Moody's Investors Service

Funding structure and maturities coverage

We raised the score for Debt Maturities Coverage to Ba1 from Ba3 to reflect for the company's improved maturity profile following the refinancing measures in Q1 2021 and following the issuance of a €300 million bond in Q3 2021. Following the refinancing, Axactor has no near-term bond maturities, but will need to address the refinancing of the RCF maturity later this year as the facility matures in December 2023. The company is in compliance with all covenants and has adequate headroom under the covenants and significant headroom in unutilised credit lines.

Operating environment

The Operating Environment score of Ba2 reflects the Industry Risk score of Ba, which is assigned to all rated debt purchasers. The Macro-Level Indicator does not have any weight in the scorecard because it is higher than the Industry Risk score for all countries that Axactor operates in. We use Axactor's ERCs to determine the geographical mix of its operating environment profile.

The Ba2 Operating Environment score is above Axactor's Ba3 Financial Profile score. Therefore, we constrain the adjusted financial profile by weighting the Operating Environment score at 0% and the financial profile at 100%, resulting in an Adjusted Financial Profile score of Ba3.

Industry Risk score

We assign a Ba Industry Risk score for most European debt purchasers. Barriers to entry in the European debt purchasing space are moderately high. Accurate pricing of unsecured NPL portfolios requires access to large amounts of data, which acts as a barrier to entry for potential new competitors.

Cyclicality is somewhat high. In a downturn scenario, such as the one in 2020, we expect cash flow to decline, because of lower collection volumes, and the companies to record revaluation losses because of the time value of money, as collection curves shift into the future.

Debt purchasers offer a niche product, but with relatively low risk of obsolescence. However, the track record of the debt-purchasing industry varies by market, with decades of operating history in the Northern and Western European markets, such as the Nordics and the UK, while certain Eastern European and Southeastern European markets, such as Romania and Greece, have started recording significant volumes of debt sales only recently.

Business profile and financial policy

We adjust Axactor's Ba3 Adjusted Financial Profile score downward by one notch to B1 to incorporate a qualitative assessment pertaining to corporate behaviour and risk management.

Axactor is a rather young company with limited financial history and limited operational track record. Additionally, its rapid growth is a key source of risk, with the company's assets growing to nearly €1.4 billion since its inception in 2015. The rapid growth exposes the company to risks stemming from potentially unknown markets, stretched management resources and rapid liquidity consumption. While the impact of Axactor's limited track record is mitigated by an experienced management team, our ratings also reflect the fact that the company has not operated through a full business cycle.

ESG considerations

AXACTOR's ESG Credit Impact Score is Highly Negative CIS-4

Exhibit 8
ESG Credit Impact Score

CIS-4

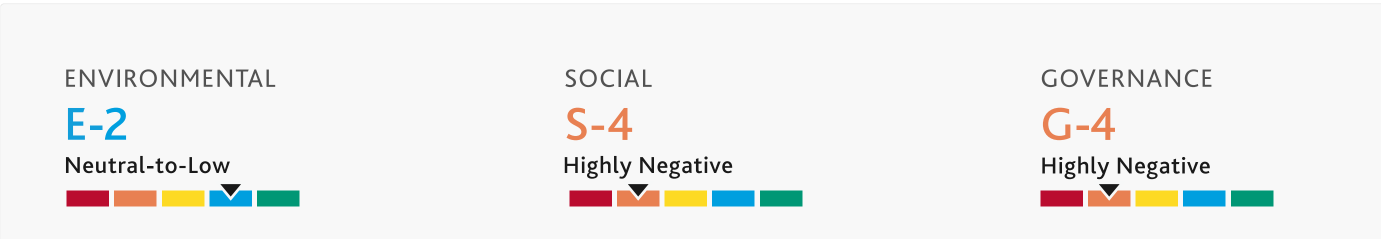
Highly Negative

For an issuer scored CIS-4 (Highly Negative), its ESG attributes are overall considered as having a discernible negative impact on the current rating. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-3.

Source: Moody's Investors Service

Axactor's ESG Credit Impact Score is highly negative (**CIS-4**) reflecting the impact of governance and social risks on the firm's final ratings. Environmental factors have a limited impact on Axactor's credit profile. Social risks have a highly negative impact on the current rating and reflect the risks inherent to the subprime debt purchasing and collection business. Governance risks, which mainly stem from the company's limited operational track record, since its inception in 2015, also have a highly negative impact.

Exhibit 9
ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

Axactor faces low environmental risks because it only has indirect exposure to industries facing carbon transition risks and faces low other environmental risks, such as physical climate risks, water risks, waste and pollution, and natural capital risks.

Social

Axactor faces high social risks, which are associated with consumer protection legislation and the fair treatment of customers during the collection process. These risks are mitigated by well-developed policies and procedures. High cybersecurity and personal data risks are mitigated by advanced technology solutions, ongoing IT investments and organizational measures to prevent data breaches.

Governance

Axactor faces high governance risks that are reflected in a negative qualitative adjustment for corporate behaviour in the CFR assigned to the firm. The adjustment reflects that since its inception in 2015 the company has not operated through a full business cycle and thus is exposed to risks associated with rapid growth and strategy execution. In addition, governance risks also reflect the company's board structure and policies, as these have to balance the influence of the major shareholder with the interests of other shareholders. These risks are mitigated by corporate governance and compliance practices of a publicly listed company and an independent, diversified board with expertise spanning across different professional sectors.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Notching considerations

Axactor's B3 issuer rating reflects the results of our Loss Given Default model and the priorities of claims and asset coverage in the company's capital structure. The size of the senior secured RCF of €545 million (plus an accordion option of €75 million) relative to the €500 million senior unsecured bonds indicates higher loss given default for senior unsecured creditors, leading to a two-notch differential with Axactor's B1 CFR.

About Moody's Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Overall, the scorecard-calculated standalone assessment range for Axactor is ba3-b2. The company's assigned b1 standalone assessment is at the midpoint of the range.

Methodology and scorecard

Axactor's assigned CFR of B1 is consistent with the estimated standalone credit assessment using our Finance Companies rating methodology.

Exhibit 10
Axactor ASA

Axactor ASA						
Financial Profile	Factor Weights	Historic Ratio	Initial Score	Assigned Score	Key driver #1	Key driver #2
Profitability						
Net Income / Average Managed Assets (%)	10%	-3.47%	Ca	Ba1	Expected trend	Earnings volatility
EBITDA / (Interest Expense & Preferred Dividends) (x)	20%	3.01x	B1	Ba3	Expected trend	
Weighted Average Profitability Score			**B3**	**Ba2**		
Capital Adequacy and Leverage						
Tangible Common Equity / Tangible Managed Assets (%)	10%	24.54%	Aaa	Aa2	Other adjustments	
Debt / EBITDA (x)	25%	5.44x	B2	B2	Expected trend	
Weighted Average Capital Adequacy and Leverage Score			**Ba1**	**Ba2**		
Cash Flow and Liquidity						
Debt Maturities Coverage (%)	10%	-	-	Ba1	Other adjustments	
FFO / Total Debt (%)	25%	3.43%	Caa1	B3	Expected trend	
Weighted Average Cash Flow and Liquidity Score			**Ba2**	**B2**		
Financial Profile Score	**100%**		**Ba3**	**Ba3**		
Operating Environment						
Home Country	Factor Weights	Sub-factor Score	Score			
Macro Level Indicator	0%		Aa2			
Economic Strength	25%	aa3				
Institutions and Governance Strength	50%	aaa				
Susceptibility to Event Risk	25%	baa				
Industry Risk	100%		Ba			
Home Country Operating Environment Score			Ba2			
	Factor Weights			Score	Comment	
Operating Environment Score	**0%**			**Ba2**		
ADJUSTED FINANCIAL PROFILE				Score		
Adjusted Financial Profile Score				**Ba3**		
Financial Profile Weight	100%					
Operating Environment Weight	0%					
Business Profile and Financial Policy				Adjustment	Comment	
Business Diversification, Concentration and Franchise Positioning				0		
Opacity and Complexity				0		
Corporate Behavior / Risk Management				-1		
Liquidity Management				0		
Total Business Profile and Financial Policy Adjustments				**B1**		
					Comment	
Sovereign or parent constraint				**Aa2**		
Standalone Assessment Scorecard-indicated Range				ba3 - b2		
Assigned Standalone Assessment				b1		

Instrument Class	Assigned Standalone Assessment	Affiliate Support Notching	Government Support Notching	Individual Debt Class Notching	Assigned Rating
LT Corporate Family Ratings	b1	0	0		B1
Senior Unsecured (Holding Company)	b1	0	0	-2	B3

Source: Moody's Investors Service

Ratings

Exhibit 11

Category	Moody's Rating
AXACTOR ASA	
Outlook	Positive
Corporate Family Rating	B1
Issuer Rating	B3
Senior Unsecured	B3

Source: Moody's Investors Service

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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