Moody's INVESTORS SERVICE

CREDIT OPINION
5 October 2023

Update

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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 following rating affirmation

Summary

On 2 October 2023, we affirmed Axactor ASA's (Axactor) B1 corporate family rating (CFR) and B3 senior unsecured debt rating. The issuer outlook remains positive.

The B1 CFR captures the continuous improvement in Axactor's financial profile, which is demonstrated by its significantly improved profitability and progress in reducing leverage in 2022 and into 2023. Furthermore, the timely refinancing of its revolving credit facility (RCF) in the second quarter of 2023 and the issuance of a NOK2.3 billion bond, well ahead of the refinancing of the company's €200 million bond maturing in January 2024, ensure adequate liquidity for the next 18-24 months. The CFR also reflects Axactor's evolution since 2015 as one of the top six nonperforming debt collection companies, measured as estimated remaining collection (ERC) volume in Europe. Furthermore, it captures the company's evolving liquidity and funding profiles, with strong reliance on a secured credit facility; and the current unfavourable macroeconomic environment with rising interest rates and inflationary pressure on households' disposable income, in addition to an evolving regulatory environment for debt-purchasing companies.

The B3 senior unsecured rating reflects the application of Moody's Loss Given Default (LGD) analysis to the company's liability structure, which reflects the priorities of claims and asset coverage in the company's liability structure. The size of Axactor's secured RCF indicates higher loss-given default for senior unsecured creditors, leading to a senior unsecured rating two notches below Axactor's B1 CFR.

Credit strengths

» Improving profitability and visible progress on leverage reduction

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

» Strong equity buffer

» Public listing, which diversifies funding sources and increases transparency

» No upcoming debt maturities until 2026

Credit challenges

- Earnings volatility
- Concentrated maturities in 2026
- Evolving liquidity and funding profiles, with reliance on a secured credit facility

Outlook

The positive outlook reflects our expectation that over the outlook period of 12-18 months, Axactor will continue to confirm its positive track record and further improve its Moody's-adjusted gross debt/EBITDA, while safeguarding its profitability in the challenging operating environment, which is characterised by increased refinancing costs, stiff competition in the debt purchasing and servicing sector, and the impact of the macroeconomic deterioration in Europe.

Factors that could lead to an upgrade

Axactor's CFR could be upgraded if it keeps its financial performance solid over the next 12-18 months, including further reduction in leverage to less than 4.0x Moody's-adjusted gross debt/EBITDA, while maintaining healthy profitability and adequate interest coverage.

An upgrade of Axactor's CFR would likely result in an upgrade of the senior unsecured debt ratings by up to two notches because an upgrade of the CFR to Ba3 would also likely reduce the difference between the CFR and the senior unsecured debt rating.

Factors that could lead to a downgrade

Axactor's CFR could be downgraded if the company's financial performance, particularly leverage and EBITDA coverage, deteriorates 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 senior unsecured debt ratings. These 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]

	06-23[2]	12-22[2]	12-21[2]	12-20[2]	12-19[2]	CAGR/Avg.[3]
Total managed assets (EUR Thousands)	1,423,834.0	1,437,778.0	1,293,175.0	1,363,627.0	1,371,556.0	1.1[4]
EBITDA (Finance) (EUR Thousands)	112,978.0	218,816.0	189,091.0	155,222.0	175,211.0	6.6[4]
Net Income / Average Managed Assets (%)	2.6	3.0	-3.5	-2.5	1.7	0.3[5]
EBITDA / Interest Expense + Preferred Dividends	3.1x	3.7x	3.8x	2.4x	3.4x	3.3x[5]
Tangible Common Equity (Finance) / Tangible Managed Assets (%)	23.8	23.8	25.2	17.6	15.7	21.2[5]
Debt / EBITDA (Finance)	4.2x	4.4x	4.5x	6.1x	5.3x	4.9x[5]
Debt Maturities Coverage (%)	26.1	5.7	--	13.4	15.2	15.1[5]
FFO to Debt (%)	6.0	7.4	3.4	3.4	12.7	6.6[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

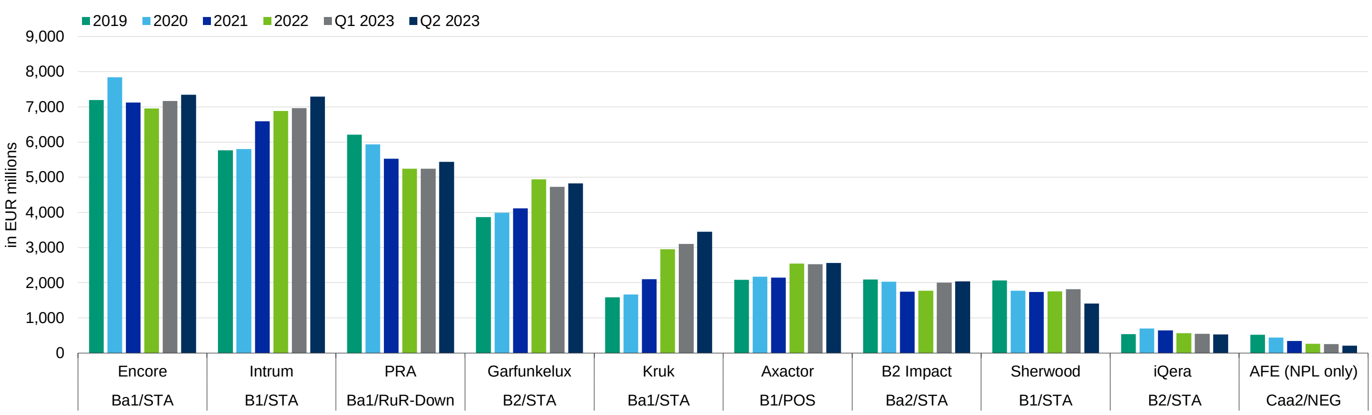
Axactor ASA is a European debt collection and third-party servicing company. Established in 2015, the company is headquartered in Oslo, Norway, and had 1,293 full-time employee equivalents as of June 2023. It is listed on the Oslo Stock Exchange, and has operations in six countries: Norway, Sweden, Finland, Germany, Italy and Spain. In May 2022, Axactor was converted into a Norwegian Allmennaksjeselskap (ASA) from a Societas Europea (SE).

With an estimated remaining amount of nonperforming loans (NPLs) to collect of €2.6 billion as of the end of June 2023, Axactor is the sixth-largest debt-purchasing company in Europe by Estimated Remaining Collections (ERC) volume. Its core segments are purchase of NPLs mostly from financial institutions and collection of outstanding debt on behalf of third parties. The real estate-owned (REO) portfolio has been significantly reduced since year-end 2018 and the remaining portfolios are in run-off until presumably 2023. As of June 2023, the NPL collection segment accounted for 80% of total income and third parties for 20%, while the REO portfolio is treated as discontinued operations.

Exhibit 2

Peer comparison

ERC of debt-purchasing companies we rate



Amounts of ERC are not directly comparable because of differences in individual disclosures. For PRA, Kruk and B2Holding, total ERCs are shown; for Axactor, Encore and Intrum, ERCs for 180 months are shown; for Garfunkelux and iQera, ERCs for 120 months are shown; and for Sherwood and AFE, ERCs for 84 months are shown.
Sources: Company reports and Moody's Investors Service

Detailed credit considerations

Profitability demonstrates a positive trajectory in 2023

We assign a Baa3 score to the Net Income/Average Managed Assets subfactor, eight notches above the initial score of Caa2 in 2022 (because of a still-negative three-year average of -1%), reflecting our expectation that the recovery in profitability will continue in H2 2023 and the three-year average will turn positive, when we take into account full-year 2023.

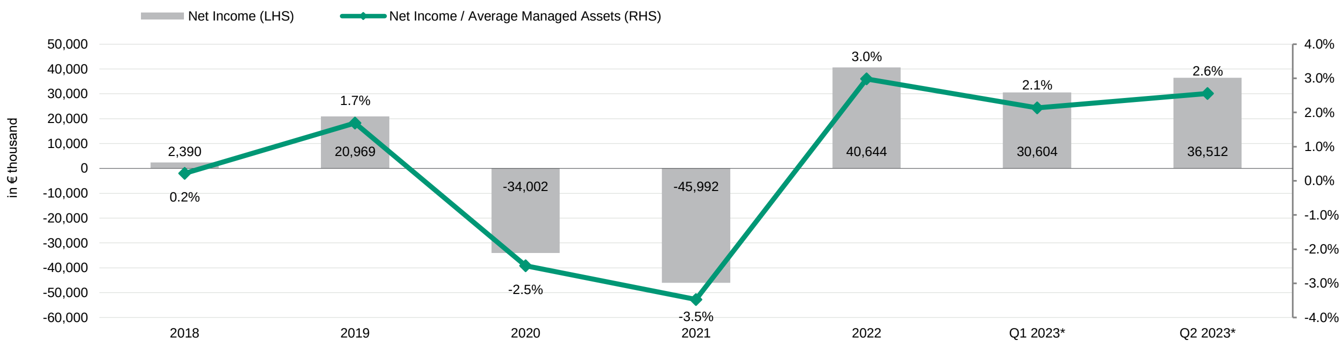
In 2022, profitability (net income/average managed assets) improved to 3.0% from negative 3.5% as of year-end 2021. In 2022, Axactor reported €40.6 million in net income from continued operations, significantly higher than that in 2021 (loss of €25.4 million). The gain was driven by higher income in both the NPL and third-party segments, complemented by lower operating expenses. The discontinuation of the REO portfolio, which is reported separately, caused a net loss of €8.1 million (loss of €20.6 million in 2021), resulting in €32.6 million of total net income for Axactor in 2022, including the effect from discontinued operations. In the absence of impairments, which hampered Axactor's profitability in 2021, the company's low cost-to-collect platform becomes more visible despite higher legal collection costs. Additionally, Axactor benefits from margin improvement following the replacement of portfolios with a lower internal rate of return (IRR), bought in 2016-18, with portfolios with higher IRRs. Resumed NPL investments at above-average IRRs, which grew to €288 million in 2022 after rather €114 million of moderate investments in 2021, support Axactor's profitability.

In H1 2023, Axactor's profitability has continued its positive trajectory despite increase in funding and operating costs. It has invested €73 million out of the planned €100-€150 million for 2023 at favourable IRRs of more than 30%. Its gross revenue in H1 2023 grew by 5.5% from H1 2022, while cash EBITDA grew by 4% over the same period. Its H1 2023 net income (from continuing operations) however was burdened by higher financing costs, amounting to €18.3 million in H1 2023 compared with €20.1 million in H1 2022.

While the NPL segment, which accounts for 80% of Axactor's revenue, performed well, the third-party servicing (3PC) segment was under pressure, because of fierce competition in the market. Thus, Axactor announced that it would exit the 3PC business in Sweden and review and terminate unprofitable contracts.

Exhibit 3

Axactor's net income and return on assets improved in 2022 and 2023 in the absence of impairments

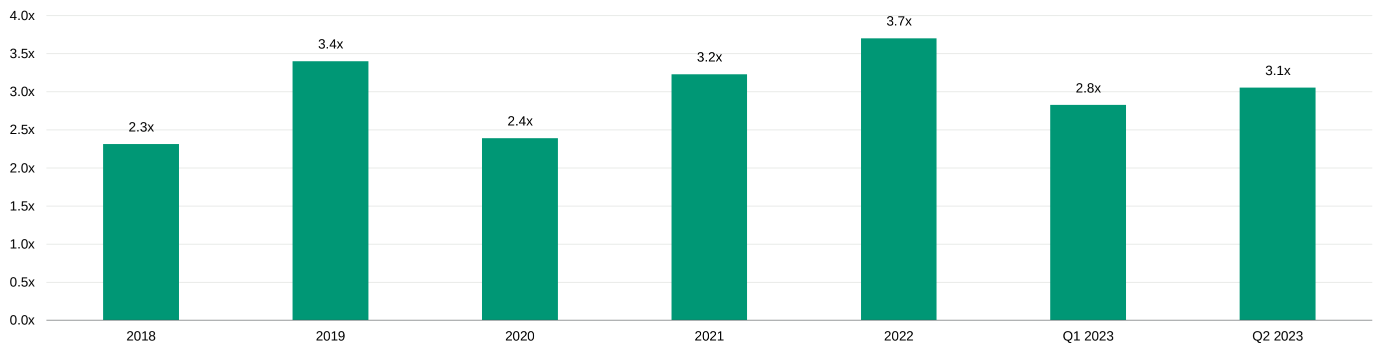


*Annualised values for Q1 2023 and Q2 2023.
Sources: Company data and Moody's Investors Service

We assign a B1 score to the EBITDA Interest Coverage subfactor, in line with the initial score of B1 (based on the average of the three most recent fiscal years). In 2022, EBITDA interest coverage reached 3.7x, meeting our expectation that interest coverage would sustainably improve above 3.0x. However, it weakened in 2023, in the higher interest rate environment. Axactor secures partial interest rate protection via hedging, thus mitigating the effect of rate fluctuations. In August 2023, Axactor renegotiated its bond covenants and lowered the interest covenant from 4.0x to 3.0x, ensuring adequate capacity to the covenant in a higher interest rate environment.

Exhibit 4

Axactor's interest coverage (EBITDA/interest expense)

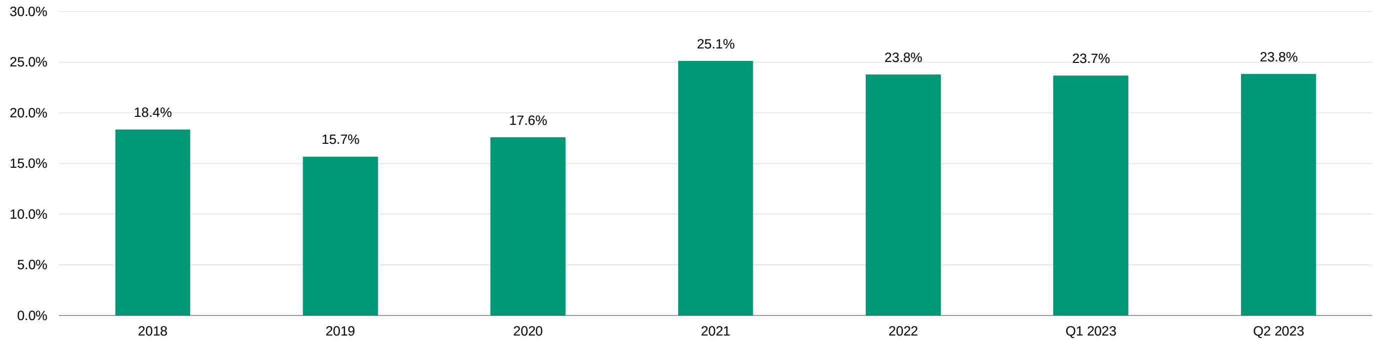


Sources: Company and Moody's Investors Service

Capital adequacy and leverage; strong equity buffer and reduced leverage

We assign a 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 the fact that it made only small add-on platform acquisitions in the past (for example, the acquisition of Credit Recovery Service in Italy in 2021). The ratio decreased slightly to 23.8% in 2022 from 25.1% as of year-end 2021 as a result of the losses incurred by the portfolio revaluations in 2021 and increase in 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. As of Q2 2023, the TCE/TMA ratio was 23.8%.

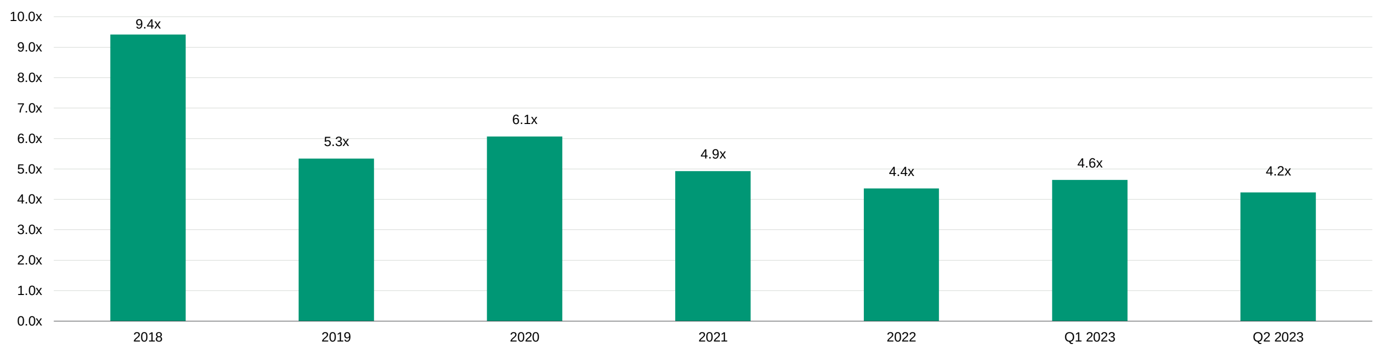
Exhibit 5
Axactor's TCE/TMA



Sources: Company and Moody's Investors Service

We assign a B1 score to the Debt/EBITDA subfactor, in line with the initial B1 score. The B1 score reflects the reduction in leverage to 4.4x in 2022 (Moody's-adjusted debt/EBITDA) from 6.1x in 2020 and our expectation that the company will be able to maintain leverage below 4.5x Moody's-adjusted debt/EBITDA in 2023 but also take into account the fact that the nominal debt volume remains high, at nearly €1 billion. In Q2 2023, the ratio decreased further to 4.2x Moody's-adjusted debt/EBITDA.

Exhibit 6
Axactor's debt/EBITDA has improved significantly since 2020



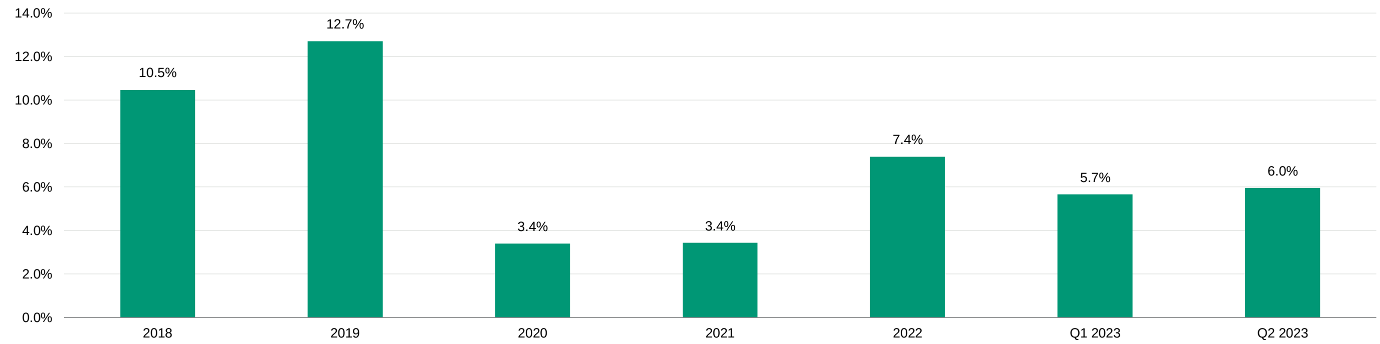
Sources: Company and Moody's Investors Service

Cash flow and liquidity; improved FFO/debt ratio and no upcoming maturities until 2026

We assign a B3 score to the Funds from Operations (FFO)/Total Debt subfactor, in line with the initial score of B3 as of year-end 2022 and in H1 2023, reflecting the company's improved FFO/total debt of 7.4% in 2022 and our expectation that the ratio will remain in the 5%-8% range, given Axactor plans to continue its controlled growth strategy in the next 2-3 years.

Exhibit 7

Axactor's FFO/total debt



Sources: Company and Moody's Investors Service

Funding structure and maturities coverage; timely refinancing of the RCF

We assign a Ba1 score for the Debt Maturities Coverage subfactor. After the refinancing of the RCF in Q2 2023 and the issuance of a NOK2.3 billion bond in September 2023 to refinance its ACR02 bond maturing in January 2024, Axactor has no near-term maturities until 2026. It has a concentrated maturity profile in 2026, when it will need to address the refinancing of the RCF and the €300 million bond. The company is in compliance with all the covenants and has adequate capacity under the covenants.

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 the 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 score 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, such as the one in 2020, we expect cash flow to decline because of decline in collection volumes. We also expect 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 have removed the negative corporate behaviour and risk management notch previously assigned to Axactor. Risks from Axactor's rapid growth following its inception phase in 2015 and risks related to its shorter track record than that of peers from the debt purchasing sector have not materialised. Since 2020, Axactor has successfully changed its approach to one of “controlled growth”, focusing on selective portfolio investments at adequate return rates while simultaneously reducing leverage.

ESG considerations

Axactor ASA's ESG Credit Impact Score is Moderately Negative CIS-3

Exhibit 8
ESG Credit Impact Score

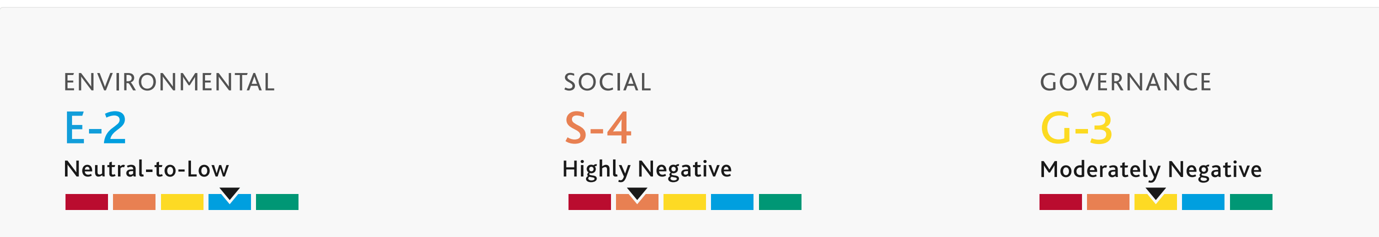
CIS-3
Moderately Negative

For an issuer scored CIS-3 (Moderately Negative), its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-2.

Source: Moody's Investors Service

Axactor's ESG Credit Impact Score **CIS-3** reflects the impact of governance and social risks on the firm's final ratings. Environmental factors have a limited impact on Axactor's credit profile. Axactor, like its peers, is exposed to a high level of social risks reflecting the risks inherent to the subprime debt purchasing and collection business. Remaining governance risks mainly stem from the potential longer-term pressures on Axactor's credit profile given the current challenging operating environment for debt purchasing companies.

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 has moderate governance risks. The company has established an adequate track record of successful operational and financial performance since 2021, following a rapid growth phase during 2015-2019. It demonstrated conservative financial policy, focusing on deleveraging while still growing at a controlled pace. Compliance and reporting are consistent with industry best practices, which is essential because of high regulatory scrutiny. 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 relative to the around €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 ba2-b1. The company's assigned b1 standalone assessment is at the lower end of the range.

Methodology and scorecard

Axactor's assigned CFR of B1 is consistent with the estimated standalone credit assessment using our Finance Companies 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%	-0.99%	Caa2	Baa3	Expected trend	Earnings volatility
EBITDA / (Interest Expense & Preferred Dividends) (x)	20%	3.31x	B1	B1	Expected trend	
Weighted Average Profitability Score			**B2**	**Ba3**		
Capital Adequacy and Leverage						
Tangible Common Equity / Tangible Managed Assets (%)	10%	23.85%	Aaa	Aa2	Other adjustments	
Debt / EBITDA (x)	25%	4.96x	B1	B1	Expected trend	
Weighted Average Capital Adequacy and Leverage Score			**Baa3**	**Ba1**		
Cash Flow and Liquidity						
Debt Maturities Coverage (%)	10%	5.69%	Caa3	Ba1	Other adjustments	
FFO / Total Debt (%)	25%	7.39%	B3	B3	Expected trend	
Weighted Average Cash Flow and Liquidity Score			**Caa1**	**B2**		
Financial Profile Score	**100%**		**B1**	**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	0	
Liquidity Management	0	
Total Business Profile and Financial Policy Adjustments	**Ba3**	
		Comment
Sovereign or parent constraint	**Aa2**	
Standalone Assessment Scorecard-indicated Range	ba2 - b1	
Assigned Standalone Assessment	b1	

Source: Moody's Investors Service

Exhibit 11

Axactor ASA

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 12

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

Source: Moody's Investors Service

REPORT NUMBER 1381211

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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