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CREDIT OPINION
18 August 2021

New Issue

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RATINGS

Axactor SE

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 SE

Axactor SE - First-time rating assignment

Summary

The B1 corporate family rating (CFR) assigned to Axactor SE (Axactor) reflects the company's evolution since 2015 as one of the top five nonperforming debt collection companies, measured by estimated remaining collections (ERC) volume in Europe; efficient cost structure; and strong capitalisation. At the same time, the B1 CFR assigned to Axactor takes into account its still-limited operating track record and financial history since its inception in 2015 and 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 evolving regulatory environment.

The B3 issuer rating assigned to Axactor reflects the application of our Loss Given Default for Speculative-Grade Companies methodology, Axactor's capital structure and particularly the priorities of claims and asset coverage in the company's 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 Axactor's B1 CFR.

Credit strengths

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

» Focus on less risky, medium-ticket size, 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 the company's financial performance in the next 12-18 months will continue to recover from the coronavirus pandemic-induced weaker performance in 2020 and return to pre-crisis growth and profitability while maintaining its solid equity buffer.

Factors that could lead to an upgrade

Axactor's CFR could be upgraded if it demonstrates strong financial performance, including improvement in profitability and a reduction in leverage, and maintains a strong equity buffer while it continues to increase its scale and establishes 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 if there is a positive change to its debt capital structure that 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 outlook period of 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 SE (Consolidated Financials) [1]

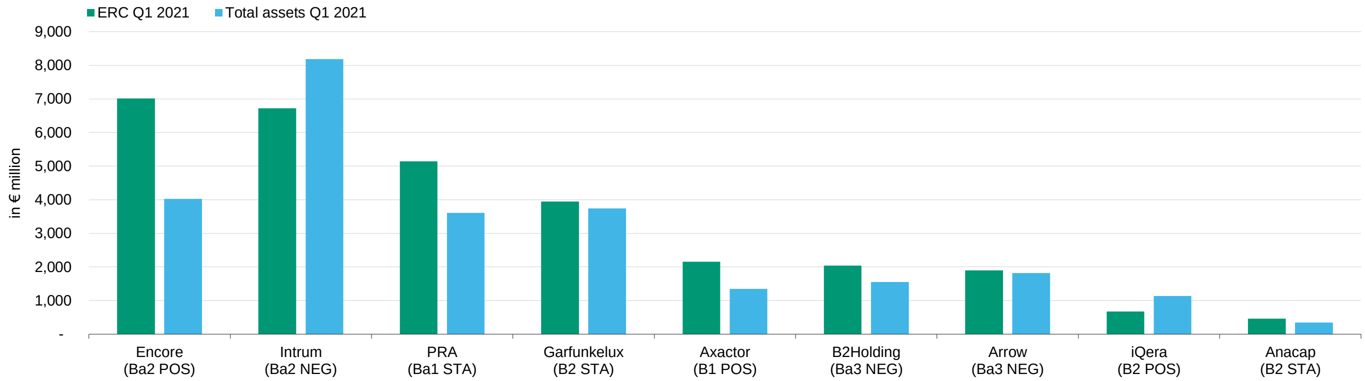
	03-21[2]	12-20[2]	12-19[2]	12-18[2]	CAGR/Avg.[3]
Total managed assets (USD Thousands)	1,588,322.3	1,668,473.9	1,539,569.2	1,266,493.3	10.6[4]
EBITDA (Finance) (USD Thousands)	49,688.1	177,221.6	196,143.9	92,449.5	21.1[4]
Net Income / Average Managed Assets (%)	-1.0	-2.5	1.7	0.2	-0.4[5]
EBITDA / Interest Expense + Preferred Dividends	3.0x	2.4x	3.4x	2.3x	2.8x[5]
Tangible Common Equity (Finance) / Tangible Managed Assets (%)	26.4	17.6	15.7	18.4	19.5[5]
Debt / EBITDA (Finance)	5.3x	6.1x	5.3x	9.4x	6.5x[5]
Debt Maturities Coverage (%)	24.3	13.3	15.2	39.9	23.2[5]
FFO to Debt (%)	9.3	3.4	12.7	10.5	9.0[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 SE 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 employs 1,095 full-time equivalents. With an estimated remaining amount of NPLs to collect (ERC) of €2.2 billion, 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 realisation of real estate assets. The REO portfolio has been significantly reduced since year-end 2018 and the remaining portfolios are in run-off. As of the first quarter of 2021, the NPL collection segment accounted for 65% of total income, 3PC for 22% and REO for 16%.

Exhibit 2
Peer Comparison



Source: Companies and Moody's Investors Service

Detailed credit considerations

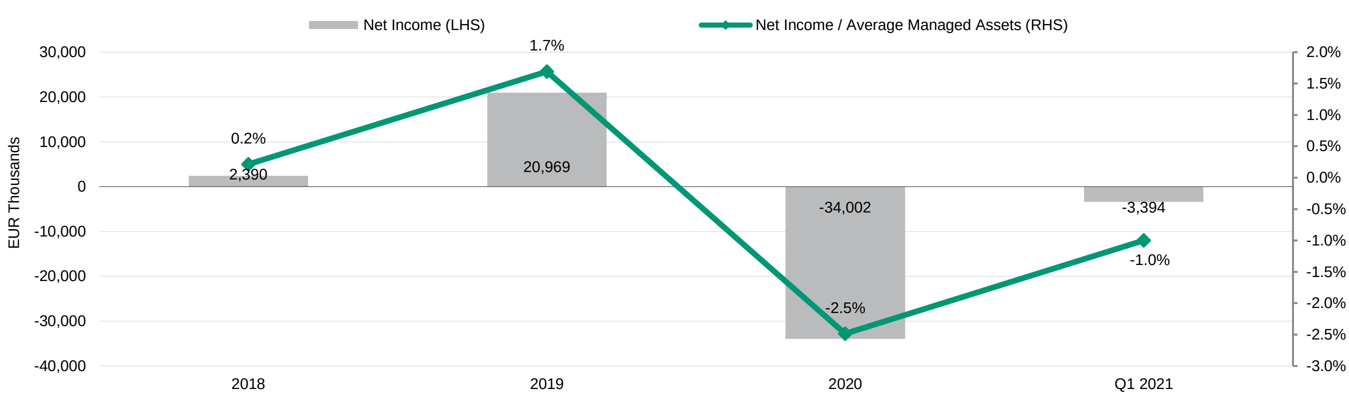
Profitability

We assign a Ba1 score to the Net Income/Average Managed Assets subfactor, eight notches above the initial score, reflecting our expectation of a recovery in profitability in Q2 2021 and Axactor's superior cost-to-collect ratio.

Profitability in 2020 was particularly hurt by negative revaluations of -€37 million in the NPL segment and -€16 million impairments in the secured REO segment, which focuses on Spain and which was hit by court closures. The REO portfolio is in run-off. REO volumes have been significantly reduced to €68 million in book value (no new business since Q3 2018) and will be phased out. Lower business volumes in the 3PC sector added to the pressure on profitability as the segment was affected by moratoriums for bank' clients and closures of legal systems in Spain, which currently accounts for 51% of the 3PC business. Profitability in Q1 2021 was negative, with a net income loss of €3.4 million. It includes, however, an unrealised foreign-exchange loss of €4 million and a one-off restructuring cost of €3.2 million related to site consolidation in Spain (closure of three sites). Excluding the restructuring and foreign-exchange loss, quarterly net income would be €4.7 million. We expect profitability to return to the 0.7%-1% level in Q2-Q3 2021, commensurate with our Ba1 subfactor score.

After phasing out the REO segment, Axactor will be less affected by real estate impairments. We also expect it to have a visible margin benefit in the future from its low cost-to-collect platform. Additionally, we expect a margin improvement following the replacement of portfolios with lower Internal rate of return (IRR), bought in 2016-18, with portfolios with higher IRRs, purchased after 2018.

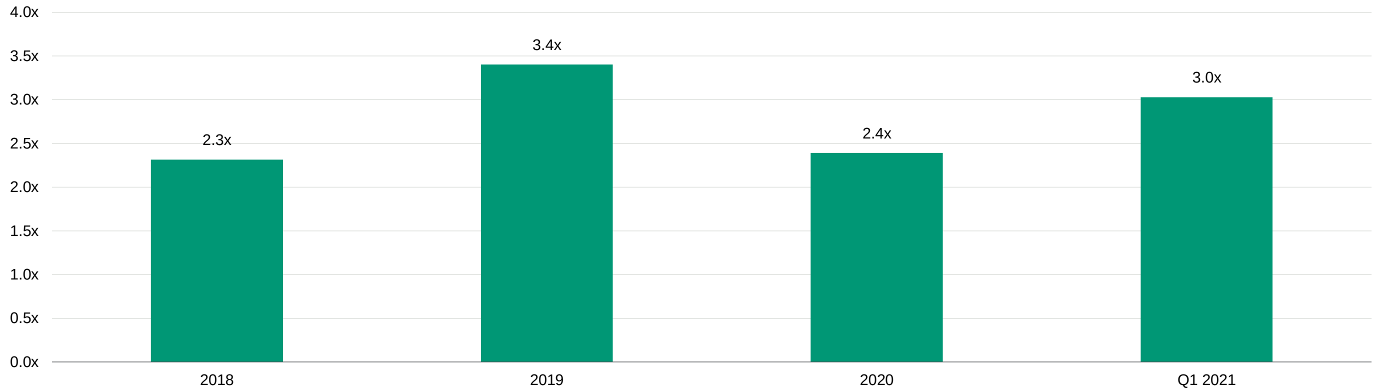
Exhibit 3
Axactor's net income and return on assets



Sources: Company and Moody's Investors Service

We assign a Ba3 score to the EBITDA Interest Coverage subfactor, one notch above the initial score of B2, based on Q1 2021 EBITDA interest coverage of 3.0x and reflecting our expectation that interest coverage will sustainably improve to above 3.0x on the back of a recovery in EBITDA in 2021.

Exhibit 4
Axactor's interest coverage (EBITDA/interest expense)

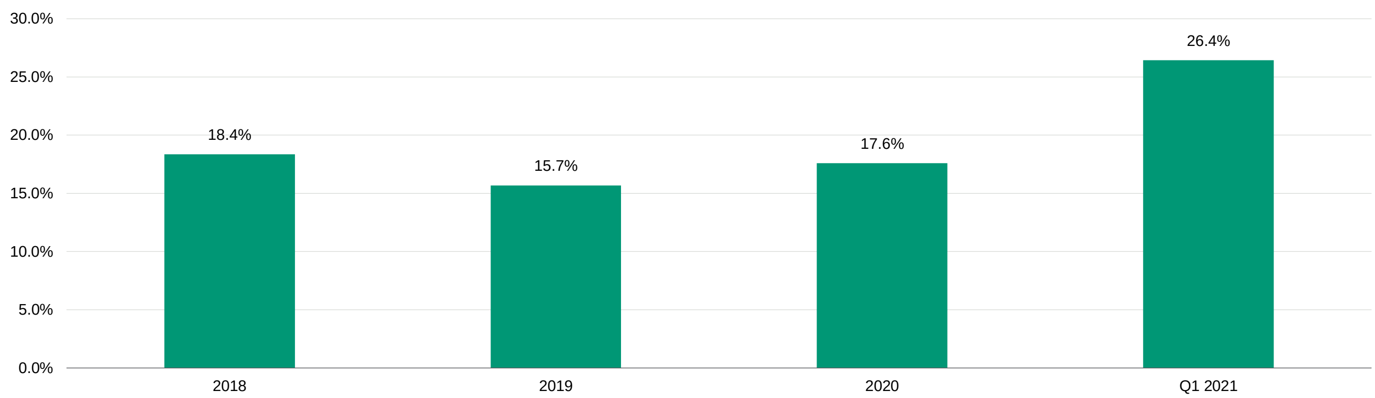


Sources: Company and Moody's Investors Service

Capital adequacy and leverage

We assign an Aa2 score to the Tangible Common Equity/Tangible Managed Assets subfactor, one notch below the initial score of Aaa. Axactor benefits from its focus on organic growth and only small add-on platform acquisitions in the past, and from the €50 million capital increase in Q1 2021, which has additionally strengthened the already-solid ratio to 26% as of Q1 2021 from 18% as of year-end 2020. Axactor's TCE/TMA is the strongest among its peers that we rate. We expect the ratio to remain in the range commensurate with the Aa2 TCE/TMA score after taking into account potential organic balance-sheet growth projections.

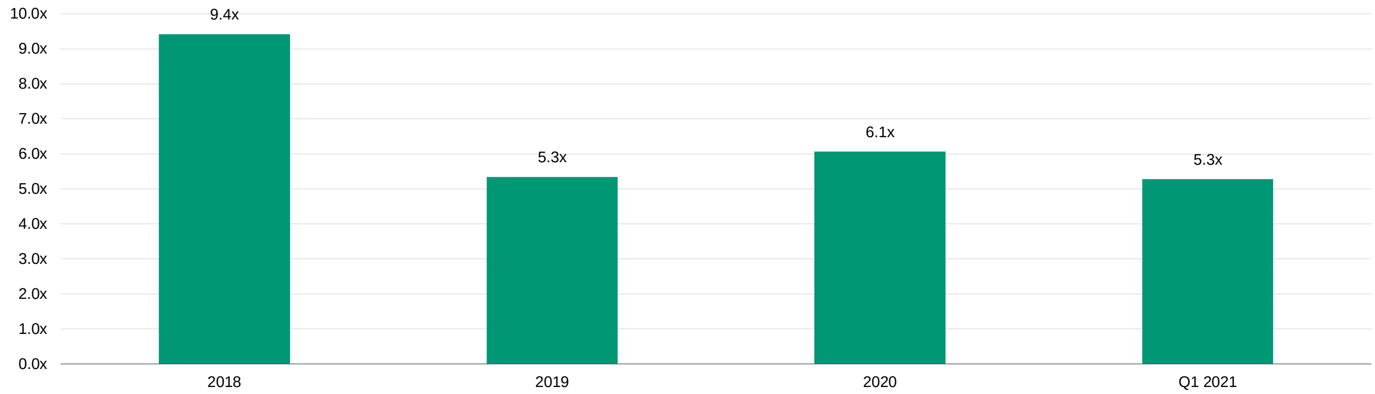
Exhibit 5
Axactor's tangible common equity/tangible managed assets



Sources: Company and Moody's Investors Service

We assign a B2 score to the Debt/EBITDA subfactor, two notches above the initial score of Caa1. The B2 score reflects the reduction in leverage to 5.3x Moody's-adjusted debt/EBITDA in Q1 2021, and our expectation that the company will continue to reduce leverage to below 5.0x Moody's adjusted debt/EBITDA.

Exhibit 6
Axactor's debt/EBITDA

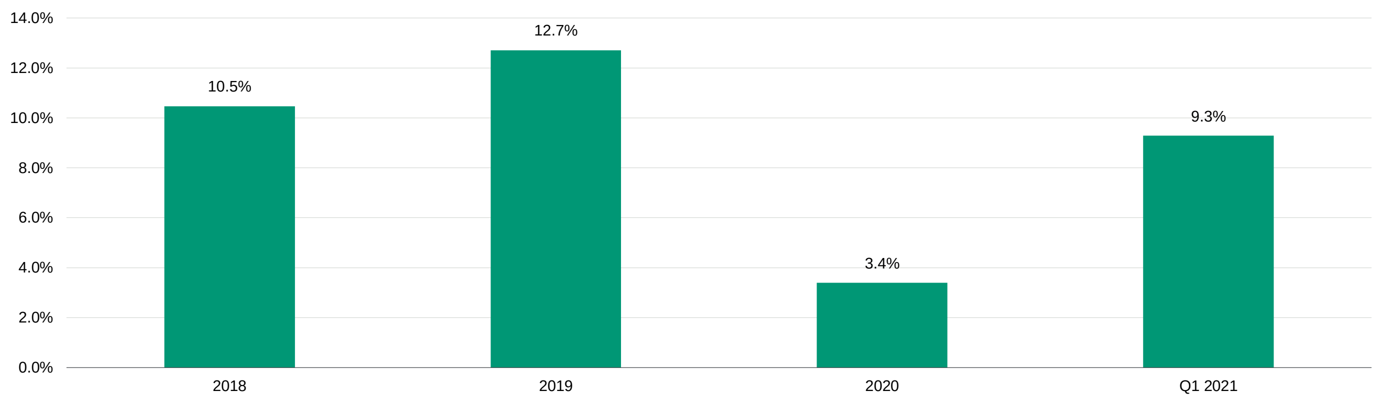


Sources: Company and Moody's Investors Service

Cash flow and liquidity

We assign a B3 score to the FFO/Total Debt subfactor, one notch above the initial score of Caa1, reflecting the company's improved FFO/debt of 9.3% (B2) in Q1 2021 and our expectation that the ratio will remain sustainably above 5% during the outlook period of 12-18 months.

Exhibit 7
Axactor's FFO/total debt



Sources: Company and Moody's Investors Service

Funding structure and maturities coverage

We assign a Ba3 score to the Debt Maturities Coverage subfactor, six notches above the initial score of Caa3, reflecting the company's improved maturity profile following the refinancing in Q1 2021.

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 see 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 history in 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 seeing significant volumes of debt sales only recently.

Business profile and financial policy

We adjust downward by one notch Axactor's Ba3 Adjusted Financial Profile score 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

In line with our general view for the finance companies sector, Axactor has a low exposure to environmental risks. See our Environmental risk heat map for further information.

Similar to other debt purchasers, Axactor is moderately exposed to social risks. Customer relations are important because institutions selling both performing and nonperforming debt can be highly regulated (for example, banks) and rely on the companies' handling of customer data and privacy. Changes to regulatory rules and legal practices within a market could also affect the recovery processes and collection curves. We also consider the coronavirus pandemic a social risk because of its implications for public health and safety. Please refer to our Social risk heat map for further information.

Governance is highly relevant for Axactor, as it is to all participants in the finance companies industry. Corporate governance weaknesses can lead to a deterioration in a company's credit quality, while governance strengths can benefit its credit profile. Because Axactor is a listed company and complies with high transparency requirements compared with private companies, we do not have any particular concern around Axactor's corporate governance practices. Similar to that for all financial institutions, corporate governance remains a key credit consideration and requires ongoing monitoring.

Notching considerations

Axactor's B3 issuer rating reflects the results of our LGD 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 €200 million senior unsecured bond 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 judgment 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 8

Axactor SE

Axactor SE						
Financial Profile	Factor Weights	Historic Ratio	Initial Score	Assigned Score	Key driver #1	Key driver #2
Profitability						
Net Income / Average Managed Assets (%)	10%	-2.49%	Caa3	Ba1	Expected trend	Earnings volatility
EBITDA / (Interest Expense & Preferred Dividends) (x)	20%	2.39x	B2	Ba3	Expected trend	
Weighted Average Profitability Score			**B3**	**Ba2**		
Capital Adequacy and Leverage						
Tangible Common Equity / Tangible Managed Assets (%)	10%	26.44%	Aaa	Aa2	Other adjustments	
Debt / EBITDA (x)	25%	6.94x	Caa1	B2	Expected trend	
Weighted Average Capital Adequacy and Leverage Score			**Ba2**	**Ba2**		
Cash Flow and Liquidity						
Debt Maturities Coverage (%)	10%	13.34%	Caa3	Ba3	Expected trend	Near-to-medium term maturities
FFO / Total Debt (%)	25%	3.39%	Caa1	B3	Expected trend	
Weighted Average Cash Flow and Liquidity Score			**Caa2**	**B2**		
Financial Profile Score	**100%**		**B2**	**Ba3**		
Operating Environment						
Home Country	Factor Weights	Sub-factor Score	Score			
Macro Level Indicator	0%		Aa2			
Economic Strength	25%	a1				
Institutions and Governance Strength	50%	aaa				
Susceptibility to Event Risk	25%	a				
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				**Aaa**		
Standalone Assessment Scorecard-indicated Range				ba3 - b2		
Assigned Standalone Assessment				b1		

Source: Moody's Investors Service

Ratings

Exhibit 9

Category	Moody's Rating
AXACTOR SE	
Outlook	Positive
Corporate Family Rating	B1
Issuer Rating	B3

Source: Moody's Investors Service

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