CREDIT OPINION
30 May 2024

Update

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RATINGS

Axactor ASA

Domicile	Oslo, Norway
Long Term Rating	B2 , Possible Downgrade
Type	LT Corporate Family Ratings
Outlook	Rating(s) Under Review

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 downgrade, with a review for downgrade

Summary

On 17 May 2024, we downgraded Axactor ASA's (Axactor) corporate family rating (CFR) to B2 from B1 and its senior unsecured debt rating to Caa1 from B3 and placed the ratings on review for downgrade.

The B2 CFR reflects Axactor's weakened financial performance in the currently challenging macroeconomic environment for debt purchasers, characterized by reduced collections in certain regions and further exacerbated by the increased cost of funding. The decline in EBITDA in 1Q 2024 has put Axactor at the risk of the covenant breach for leverage and interest coverage for next quarter, which would result in an event of default under its bond loan agreements and cross-default with its revolving credit facility, unless the company obtains an amendment of its financial covenant thresholds from the bondholders in advance of a potential breach or requests a waiver following the breach. To reflect these risk management and governance weaknesses, the B2 CFR now incorporates a one-notch negative adjustment for corporate behavior and risk management.

During the review, we will assess Axactor's strategy for addressing the risk of the covenant violation in the next quarter and beyond, in light of the company's weakened financial performance.

Credit strengths

» Strong capitalisation

» No immediate debt maturities

Credit challenges

» Risk of a covenant breach due to the proximity of covenant ratios to the thresholds included in the bond indentures

» Declining cash collections

» Increased cost of funding due to high interest rates

» Increased Debt/EBITDA leverage

» Concentrated debt maturities in 2026

» Evolving liquidity and funding profile, with high reliance on a secured credit facility

Outlook

The ratings are under review for downgrade. During the review, we will assess Axactor's strategy for addressing the risk of the covenant violation in the next quarter and beyond, in light of the company's weakened financial performance.

Factors that could lead to an upgrade

A rating upgrade is unlikely given that Axactor's ratings are on review for downgrade. Axactor's ratings could be confirmed if we conclude that the risk of default stemming from a potential covenant breach in the coming quarter and beyond will likely to be successfully addressed by the company, and if we come to believe that there will be no further deterioration in the company's financial performance, including cash collections, leverage, interest coverage and liquidity.

Factors that could lead to a downgrade

Axactor's ratings will be downgraded if we conclude that there is a high risk of default associated with a potential covenant breach. Axactor's ratings could also be downgraded if we conclude that the company will be likely to operate with higher leverage (above 4x gross Debt/EBITDA) and reduced interest coverage (EBITDA/Interest Expense below 3x) for an extended period of time, even if the covenant levels are successfully amended.

Key indicators

Exhibit 1
Axactor ASA (Consolidated Financials) [1]

	03-24[2]	12-23[2]	12-22[2]	12-21[2]	12-20[2]	CAGR/Avg.[3]
Total managed assets (EUR Thousands)	1,405,721.0	1,435,815.0	1,437,778.0	1,293,175.0	1,363,627.0	0.9[4]
EBITDA (Finance) (EUR Thousands)	47,963.0	220,921.0	218,816.0	189,091.0	155,222.0	5.4[4]
Net Income / Average Managed Assets (%)	0.2	2.3	3.0	-3.5	-2.5	-0.1[5]
EBITDA / Interest Expense + Preferred Dividends	2.1x	2.7x	3.7x	3.8x	2.4x	3.0x[5]
Tangible Common Equity (Finance) / Tangible Managed Assets (%)	25.3	25.2	23.8	25.2	17.6	23.4[5]
Debt / EBITDA (Finance)	4.9x	4.3x	4.4x	4.5x	6.1x	4.8x[5]
Debt Maturities Coverage (%)	--	--	5.7	--	13.4	9.5[5]
FFO to Debt (%)	-1.7	5.9	7.4	3.4	3.4	3.7[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 Ratings 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 1,261 full-time employee equivalents as of March 2024. It is listed on the Oslo Stock Exchange, and has operations in six countries: Norway, Sweden, Finland, Germany, Italy and Spain.

As of 31 March 2024, Axactor had EUR 2.6 billion of Estimated Remaining Collections (ERC) from its non-performing loan investments. Its core segments comprise NPL purchasing and collections (mostly from financial institutions) and collection of outstanding debt on behalf of third parties. The real estate-owned (REO) portfolio was fully run-off in 4Q 2023. In 2023, the NPL collection segment accounted for 79% of total income and third parties for 21%.

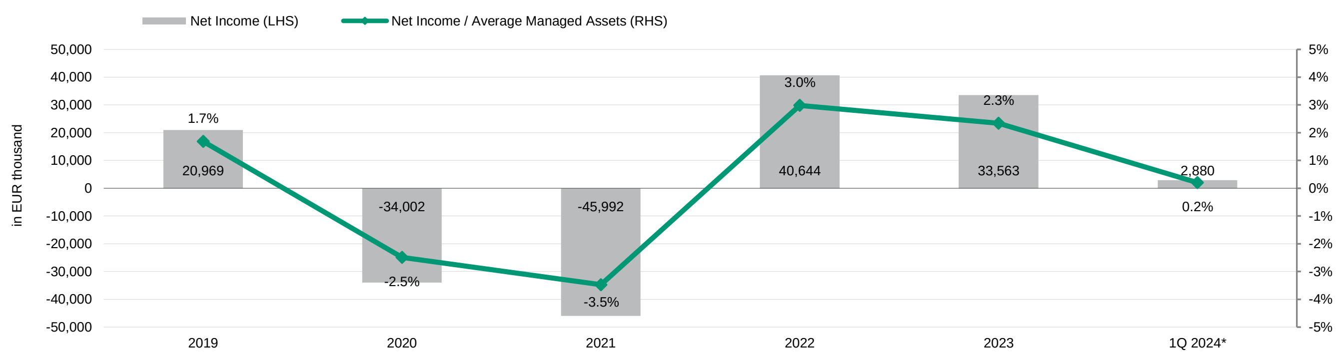
Detailed credit considerations

Weakened profitability, reflecting declining collections and high cost of borrowing

We assign a B2 score to Axactor's Net Income/Average Managed Assets subfactor, two notches below the initial score of Ba3, reflecting the company's reduced profitability in 1Q 2024, the trend that we expect to continue, as well as inherent volatility in its debt purchasing business.

In 1Q 2024, Axactor recorded after-tax earnings of EUR 0.7 million, translating into an annualized return on average assets of 0.2%, as compared to EUR 7.6 million in 1Q 2023 (annualized ROA of 2.1%). The company's weakened profitability has been driven by lower collections (92% of the forecast in 1Q 2024 vs. 98% a year ago) in the challenging macroeconomic environment, as well as by higher borrowing costs due to increased interest rates.

Exhibit 2
Net income and Return on Average Assets



*Annualised values for 1Q 2024
Source: Axactor and Moody's Ratings

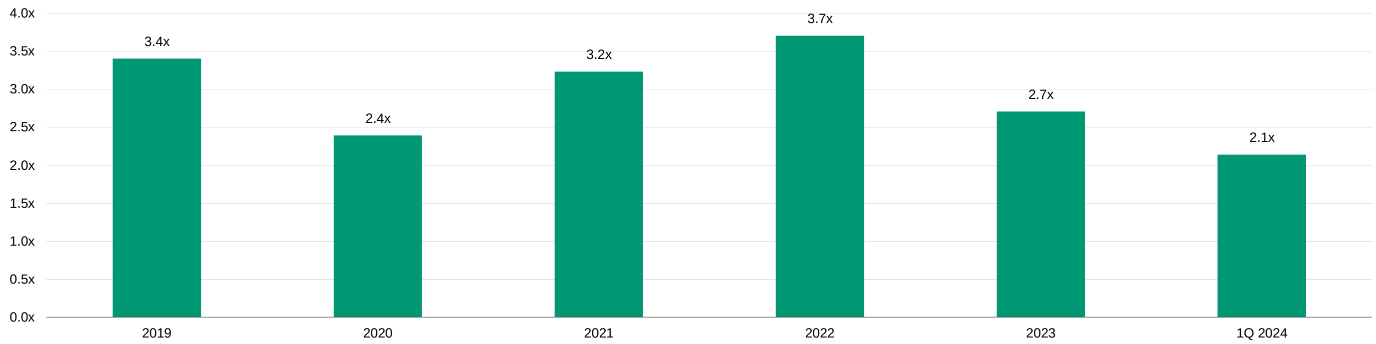
In 1Q 2024, Axactor purchased only EUR 11 million of NPLs as compared to EUR 33 million in a year ago. Axactor expects its investment levels to improve during the year; if these expectations do not materialize, reduced portfolio purchases will depress the company's portfolio income and earnings in future periods.

Positively, market prices for NPL portfolios have adjusted, reflecting increased funding costs for the industry, which has allowed Axactor to add new deals at higher Internal Rate of Return (IRRs) in recent quarters (at around 30%), with the average IRR for the total NPL book increasing to 18% in 1Q 2024 from 17% a year ago. However, investment volumes have been low. Axactor estimates its ERC replacement amount (volume of purchases to offset the investment portfolio run-off) for 2024 to be approximately EUR 106 million.

We assign a B3 score to Axactor's EBITDA Interest Coverage ratio, two notches below the initial score of B1, reflecting the firm's weakened debt servicing capacity driven by increased cost of funding and lower EBITDA, as well as the proximity of the ratio to the covenant level.

Axactor's interest coverage declined from 3.7x in 2022 to 2.7x in 2023 and 2.5x in the last twelve months ended 1Q 2024 (Moody's calculations). Axactor's interest coverage, as defined in the bond loan agreement, was 3.2x in the last twelve months ended 1Q 2024 vs. the covenant level of minimum of 3x (calculated as pro-forma EBITDA/interest expense net of interest income).

Exhibit 3
Axactor's interest coverage
(EBITDA/interest expense, Moody's definition)

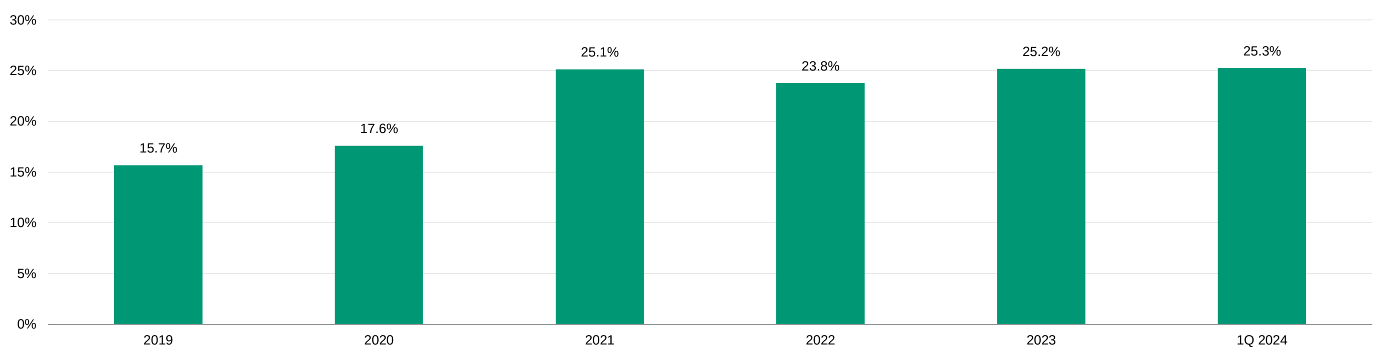


Source: Axactor and Moody's Ratings

Capital adequacy and leverage; strong capitalisation, elevated leverage with limited headroom against covenants

We assign a Aa2 score to Axactor's capitalisation, measured as Tangible Common Equity (TCE)/Tangible Managed Assets (TMA), two notches below the initial score of Aaa. Axactor's strong level of capitalisation reflects the company's historically disciplined approach to growth, with only small add-on platform acquisitions, which has been accomplished without incurring substantial amounts of goodwill. Axactor's TCE/TMA increased to 25.3% by the end of 1Q 2024 from 23.8% as of year-end 2022, reflecting capital accretion through earnings retention. The adjusted score reflects the risk of capital erosion from Axactor's presently weakened profitability due to reduced collections and increased borrowing costs.

Exhibit 4
Axactor's TCE/TMA

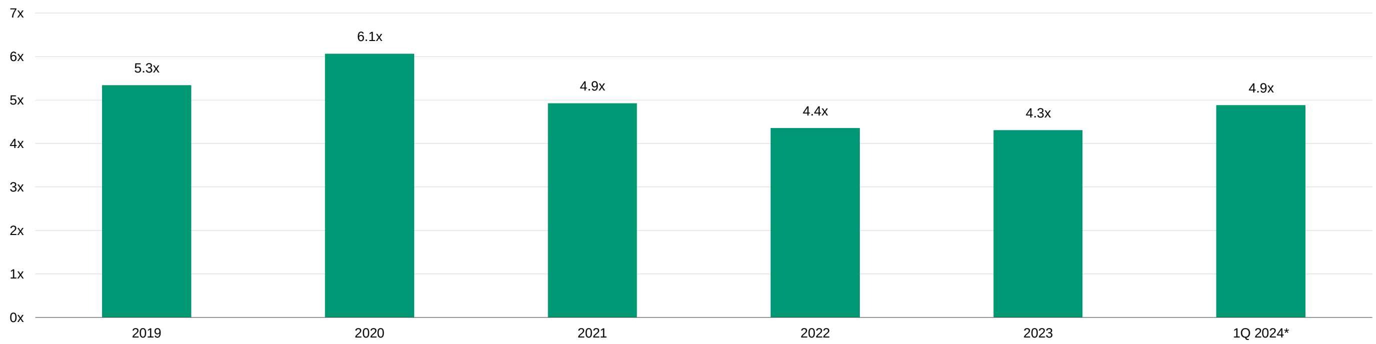


Source: Axactor and Moody's Ratings

We assign a B2 score to Axactor's Debt/EBITDA score, two notches below the initial Ba3 score. The B2 score reflects our expectation that Axactor's leverage, which Moody's defines as gross debt/EBITDA, will remain above 4x in the next 12 months. As of the end of 1Q 2024, Axactor's leverage was 4.3x (based on last twelve-month EBITDA).

The assigned score also incorporates the risk of the leverage covenant breach in Axactor's bond loan agreements. A potential breach would result in an event of default under the agreements and cross-default with the revolving credit facility, unless the company obtains an amendment of its financial covenant thresholds from the bondholders in advance of a potential breach or requests a waiver following the breach. By the end of 1Q 2024, Axactor's leverage ratio, calculated as net Debt/EBITDA on the last twelve-month basis, was approximately 4x, right below the covenant threshold of maximum 4.0x, as defined in the bond loan agreements.

Exhibit 5
Axactor's gross debt/EBITDA leverage



*For 1Q 2024, EBITDA leverage ratio is annualised
Source: Axactor and Moody's Ratings

Cash flow and liquidity: No upcoming debt maturities, but large debt maturity concentrations in 2026

We assign a Ba3 score to Axactor's Debt Maturities Coverage subfactor, reflecting the company's evolving liquidity and funding profile, with high reliance on the RCF borrowings, as we as a large debt maturity concentration in 2026 and limited debt laddering.

Axactor has two sources of funding: two bond loans, with an aggregate amount outstanding of approximately EUR 500 million, and a multicurrency EUR 545 million RCF from DNB and Nordea maturing in June 2026. There was EUR 465.8 million drawn under the facility at the end of 1Q 2024 (85% utilization), leaving EUR 79.2 million available for borrowing. With cash balances of EUR 35.3 million, Axactor's total available liquidity was EUR 114.5 million at the end of 1Q 2024.

Axactor's first bond loan, in the amount of EUR 300 million, matures in September 2026. Adjusting for EUR 19 million of the bond repurchased by the company, the outstanding amount of the bond was EUR 281.1 million. Axactor's other bond, in the amount of NOK 2,300 million, matures in September 2027.

We assign a Caa1 score to the Funds from Operations (FFO)/Total Debt subfactor, one notch below the initial score of B3 as of year-end 2023, reflecting our expectation that the company's cash flows will decline given its presently reduced collections and moderate investments.

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 B1 Financial Profile score and therefore receives no weight in the calculation of the Adjusted Financial Profile score, which is B1.

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.

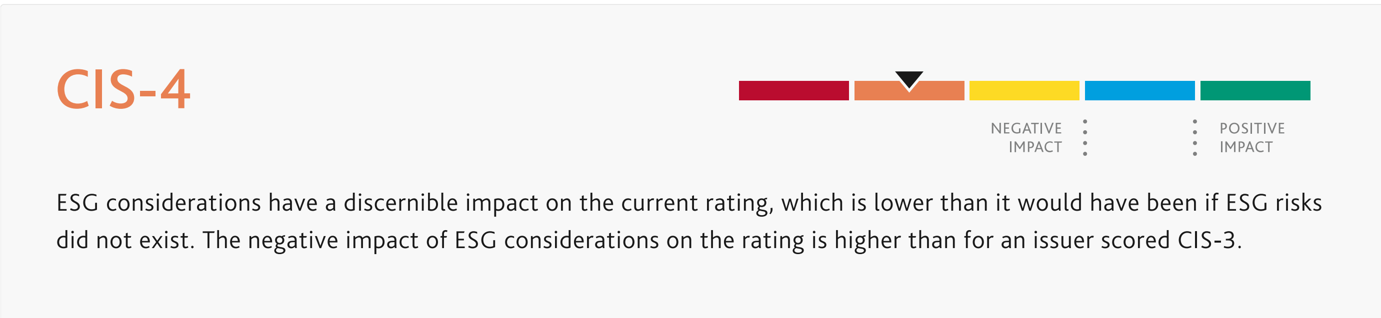
Business profile and financial policy

We have incorporated a one-notch negative adjustment for corporate behavior, reflecting risk management and governance deficiencies on the back of Axactor's lack of proactive measures taken to minimize the risk of the event of default by addressing the proximity of its covenant metrics to their thresholds.

ESG considerations

Axactor ASA's ESG credit impact score is CIS-4

Exhibit 6
ESG credit impact score



Source: Moody's Ratings

Axactor's ESG Credit Impact Score **CIS-4** reflects the discernable impact of governance and social risks on the firm's ratings. High governance risks reflect the firm's lack of proactive measures taken to minimize the risk of an event of default by addressing the proximity of its covenant metrics to their thresholds, which we view as a risk management weakness; this is captured by a one notch negative adjustment for corporate behavior. 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.

Exhibit 7
ESG issuer profile scores

Source: Moody's Ratings

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, reflected in a negative qualitative adjustment for corporate behavior and risk management in the corporate family rating assigned to the firm. We deem Axactor's lack of proactive measures taken to minimize the risk of an event of default by addressing the proximity of its covenant metrics to their thresholds as a risk management weakness. In addition, governance risks also reflect Axactor's board structure and policies, as these have to balance the influence of the major shareholder, with a 47% equity stake, 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 debt 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 EUR 545 million relative to the approximately EUR 500 million senior unsecured bonds indicates higher loss given default for senior unsecured creditors, leading to a two-notch differential with the 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 b1-b3. The company's assigned b2 standalone assessment is at the middle of the range.

Methodology and scorecard

Axactor's assigned CFR of B2 is consistent with the estimated standalone credit assessment using our Finance Companies Methodology.

Exhibit 8
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%	0.62%	Ba3	B2	Expected trend	Earnings volatility
EBITDA / (Interest Expense & Preferred Dividends) (x)	20%	2.71x	B1	B3	Expected trend	
Weighted Average Profitability Score			**B1**	**B3**		
Capital Adequacy and Leverage						
Tangible Common Equity / Tangible Managed Assets (%)	10%	25.26%	Aaa	Aa2	Other adjustments	
Debt / EBITDA (x)	25%	4.38x	Ba3	B2	Expected trend	
Weighted Average Capital Adequacy and Leverage Score			**Baa3**	**Ba2**		
Cash Flow and Liquidity						
Debt Maturities Coverage (%)	10%			Ba3	Other adjustments	
FFO / Total Debt (%)	25%	5.86%	B3	Caa1	Expected trend	
Weighted Average Cash Flow and Liquidity Score			**B3**	**B3**		
Financial Profile Score	**100%**		**Ba3**	**B1**		
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				**B1**		
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				**B2**		
					Comment	
Sovereign or parent constraint				**Aa2**		
Standalone Assessment Scorecard-indicated Range				b1 - b3		
Assigned Standalone Assessment				b2		

Source: Moody's Ratings

Exhibit 9
Axactor ASA

Instrument Class	Assigned Standalone Assessment	Affiliate Support Notching	Government Support Notching	Individual Debt Class Notching	Assigned Rating
LT Corporate Family Ratings	b2	0	0	0	B2
Senior Unsecured (Holding Company)	b2	0	0	-2	Caa1

Source: Moody's Ratings

Ratings

Exhibit 10

Category	Moody's Rating
AXACTOR ASA	
Outlook	Rating(s) Under Review
Corporate Family Rating	B2[1]
Senior Unsecured	Caa1[1]

[1] Placed under review for possible downgrade on May 17 2024
Source: Moody's Ratings

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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