CREDIT OPINION
5 February 2025

Update

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RATINGS

Axactor ASA

Domicile	Oslo, Norway
Long Term Rating	B3
Type	LT Corporate Family Ratings
Outlook	Negative

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 with a negative outlook

Summary

The B3 CFR reflects Axactor ASA's (Axactor) weakened financial performance in the currently challenging macroeconomic environment, characterized by reduced collections and high competition for non-performing loans (NPLs), further exacerbated by the company's increased cost of funding. While Axactor's cost-cutting measures have partly mitigated the negative impact of the operating environment on its EBITDA, the company's leverage remains elevated, while its interest coverage has deteriorated, driven by increased financing costs. Positively, Axactor has reduced the risk of a covenant breach under its bond agreements with the sale of 6% of its NPLs portfolio for EUR 83 million in November 2024 and a subsequent repurchase of EUR 50.9 million of the 2026 bond. However, with the sale, Axactor will also lose income on the sold portfolio going forward.

The B3 CFR also reflects our view that Axactor has a high refinancing risk related to its maturity concentration in 2026, as well as its constrained liquidity position and limited financial flexibility, given the need to balance its maturing debt obligations against investments in the franchise.

Axactor's senior unsecured debt rating of Caa2 reflects the priorities of claims and asset coverage in the company's capital structure. The size of the company's senior secured revolving credit facility relative to the amount of senior unsecured bonds indicates higher loss given default for senior unsecured creditors, leading to a two-notch differential with the CFR.

Credit strengths

» Strong capitalisation

» Improved cost efficiencies

Credit challenges

» Elevated Debt/EBITDA leverage and relatively weak interest coverage

» Challenging collections environment and a highly competitive industry structure

» Weak cash collections, below forecasted levels

» Increased cost of funding due to high interest rates

» Refinancing risk presented by concentrated debt maturities in 2026

» Constrained liquidity, with limited availability under the RCF

Outlook

The negative outlook reflects the refinancing risk presented by Axactor's debt maturities in 2026, further heightened by its weakened financial performance in the presently challenging economic environment.

Factors that could lead to an upgrade

A rating upgrade is unlikely given the negative outlook. The outlook could return to stable if Axactor's financial performance strengthens, as evidenced by improved collections and cash flows, and if the company renews its RCF and refinances its 2026 bond at least one year prior to their maturities.

Factors that could lead to a downgrade

Axactor's ratings could be downgraded if the company does not renew its RCF due in June 2026 and if it does not refinance its September 2026 bond at least one year prior to their maturities. We could also downgrade Axactor's ratings if its collections and cash flows do not improve, resulting in higher leverage and reduced interest coverage, and additionally, if the company's franchise is eroded by diminished investments, meaningfully below the replacement rate, or substantial portfolio sales.

Key indicators

Exhibit 1

Axactor ASA (Consolidated Financials) [1]

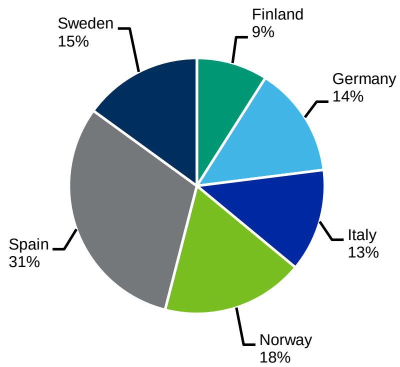
	09-24[2]	12-23[2]	12-22[2]	12-21[2]	12-20[2]	CAGR/Avg.[3]
Total managed assets (EUR Thousands)	1,435,056.0	1,435,815.0	1,437,778.0	1,293,175.0	1,363,627.0	1.4[4]
EBITDA (Finance) (EUR Thousands)	165,746.0	220,921.0	218,816.0	189,091.0	155,222.0	9.2[4]
Net Income / Average Managed Assets (%)	0.5	2.3	3.0	-3.5	-2.5	0.0[5]
EBITDA / Interest Expense + Preferred Dividends	2.5x	2.7x	3.7x	3.8x	2.4x	3.0x[5]
Tangible Common Equity (Finance) / Tangible Managed Assets (%)	25.2	25.2	23.8	25.2	17.6	23.4[5]
Debt / EBITDA (Finance)	4.4x	4.3x	4.4x	4.5x	6.1x	4.7x[5]
Debt Maturities Coverage (%)	--	--	5.7	--	13.4	9.5[5]
FFO to Debt (%)	0.2	5.9	7.4	3.4	3.4	4.1[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 headquartered in Oslo, Norway and listed on the Oslo Stock Exchange. Established in 2015, Axactor has operations in six countries: Norway, Sweden, Finland, Germany, Italy and Spain.

Exhibit 2
Book value of purchased loan portfolios by country as of 30 September 2024
% of total



Source: Axactor and Moody's Ratings

Axactor's core segments include NPL purchasing and collections (mostly from financial institutions), as well as collections of outstanding debt on behalf of third parties. In the first nine months of 2024, Axactor's NPL collections segment accounted for 77% of total income and the third parties segment for 23%. As of September 2024, Axactor had EUR 2.6 billion of Estimated Remaining Collections (ERC) from its NPL investments.

Recent developments

In November 2024, Axactor sold its 6% of its NPL portfolio for a total of EUR 83 million.

In December 2024, Axactor repurchased EUR 50.9 million of its EUR 300 million bond maturing in September 2026, equating to 17% of the issued amount of the bonds. The recent transaction increased the aggregate amount of the company's bond holdings to EUR 70 million (23% of the originally issued amount), given that the company previously repurchased EUR 19 million of the same bond. Axactor financed the transaction with the proceeds from the recent sale of its NPL portfolio.

The proceeds from the sale will be added to the company's EBITDA for the next four quarters under the terms of the bond agreements, and together with the partial bond repurchase, will alleviate the pressure on the covenant headroom. Pro-forma for these transactions, Axactor's net leverage ratio improved to 2.7x from 3.8x as of 30 September 2024, relative to the covenant threshold of 4.0x. Similarly, the company's interest coverage improved to 3.9x on a pro-forma basis from 3.0x for the twelve months ended 30 September 2024, which is also the covenant level.

Detailed credit considerations

Weakened profitability, reflecting lower than expected collections and high cost of borrowing

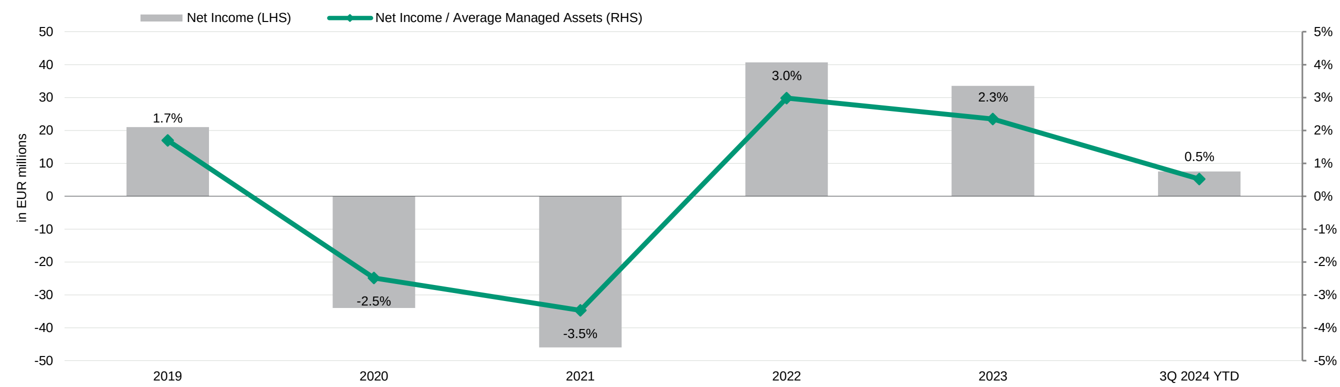
We assign a B3 score to Axactor's Net Income/Average Managed Assets subfactor, three notches below the initial score of Ba3, reflecting the company's reduced profitability in the first nine months of 2024, the trend that we expect to continue. In addition, with the sale of 6% of its NPL portfolio in November 2024, we expect the company's portfolio income to decline, unless replaced by new investments.

In the first nine months of 2024, Axactor recorded after-tax earnings of EUR 5.6 million, translating into an annualized return on average assets of 0.5%, as compared to EUR 24.3 million in the same period last year (annualized ROA of 2.3%). Axactor's weakened profitability has been driven by lower collections in the challenging macroeconomic environment, as well as by higher borrowing costs due to increased interest rates. The company's cost-cutting initiatives partially mitigated the negative impact of lower revenues.

Axactor's collections dropped to 90% of the previously forecasted levels in 3Q 2024 from 98% a year ago, and remained at the same level in October. Given the underperformance in collections, Axactor wrote down its investments by EUR 7.4 million in 3Q 2024, followed by its announcement of booking an impairment of EUR 12 million by November, with an additional write-down expected to be taken in the remaining 4Q 2024. The company expects the challenging operating environment to persist into 2025.

The lower that forecasted collections put the company at risk of the covenant breach under the revolving credit facility agreement (collections covenant set at the level of no lower than 90% for the last six months).

Exhibit 3
Net income and Return on Average Assets

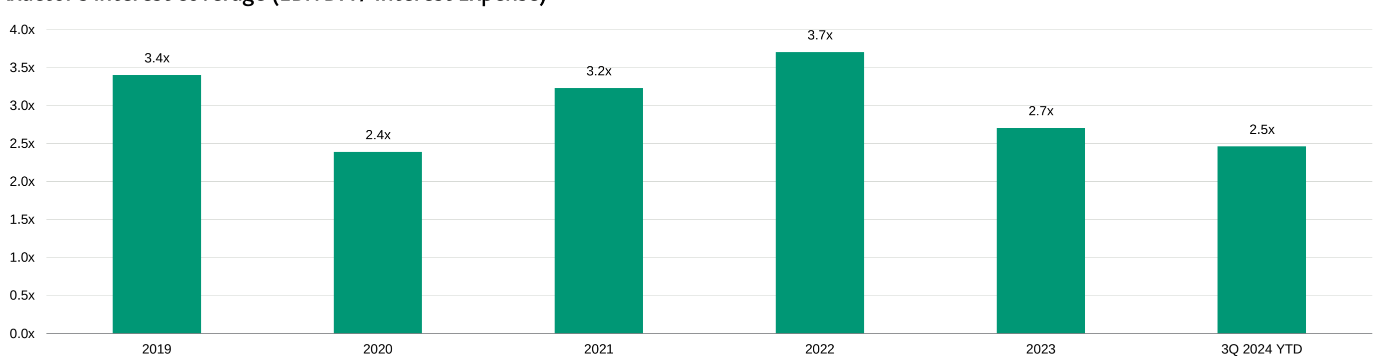


*Annualised values for 3Q 2024
Source: Axactor and Moody's Ratings

Reflecting increased funding costs for the industry, market prices for NPL portfolios have gradually adjusted, which has allowed Axactor to add new deals at higher Internal Rate of Return (IRRs) in recent quarters (18.7% in 3Q 2024 from 17.8% a year ago). However, investment volumes have been low. In 3Q 2024, Axactor's purchases of NPL portfolios were only EUR 13 million; nevertheless, the company is in a good position to meet its investment replacement rate of EUR 106 million for the year, with total purchases of EUR 94 million in the first nine months of 2024. Axactor's future growth will depend on the prevailing competitive dynamics in the debt purchasing sector, supply of NPL portfolios, as well as on its own available liquidity, which we currently view as limited. If the company's investments drop below its replacement rate, these reduced portfolio purchases will depress the company's portfolio income and earnings in future periods.

We assign a B2 score to Axactor's EBITDA Interest Coverage, one notch below the initial score of B1. While Axactor's cost-cutting measures have partly mitigated the negative impact of the operating environment on its EBITDA, the company's interest coverage deteriorated due to increased cost of funding. In the first nine months of 2024, Axactor's interest coverage declined to 2.5x, from 2.7x in 2023.

Exhibit 4
Axactor's interest coverage (EBITDA / Interest Expense)



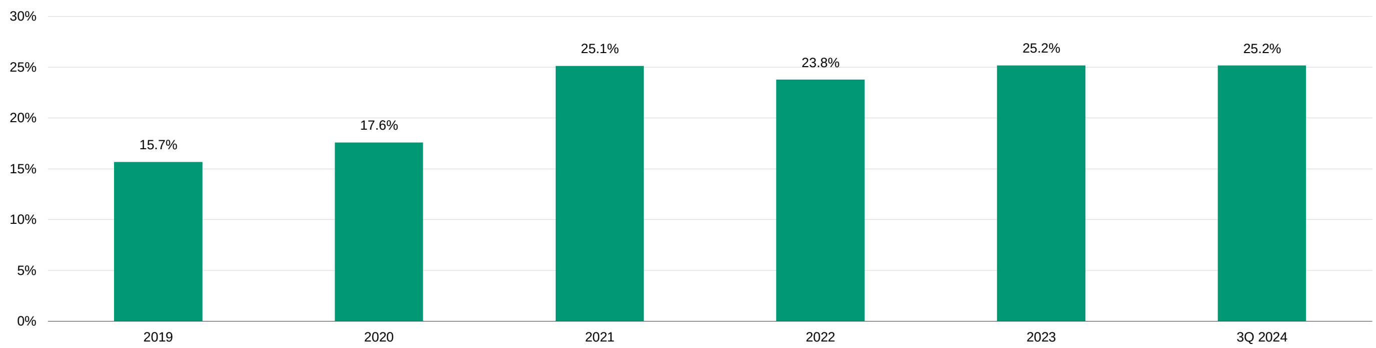
Source: Axactor and Moody's Ratings

Capital adequacy and leverage: strong capitalisation but elevated leverage

We assign a score of Aa2 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 capitalisation, with TCE/TMA of 25% as of 30 September 2024, reflects its historically disciplined approach to growth, with only small add-on platform acquisitions, which has been accomplished without incurring substantial amounts of goodwill. The adjusted score reflects the risk of capital erosion from Axactor's presently weakened profitability due to reduced collections and increased borrowing costs.

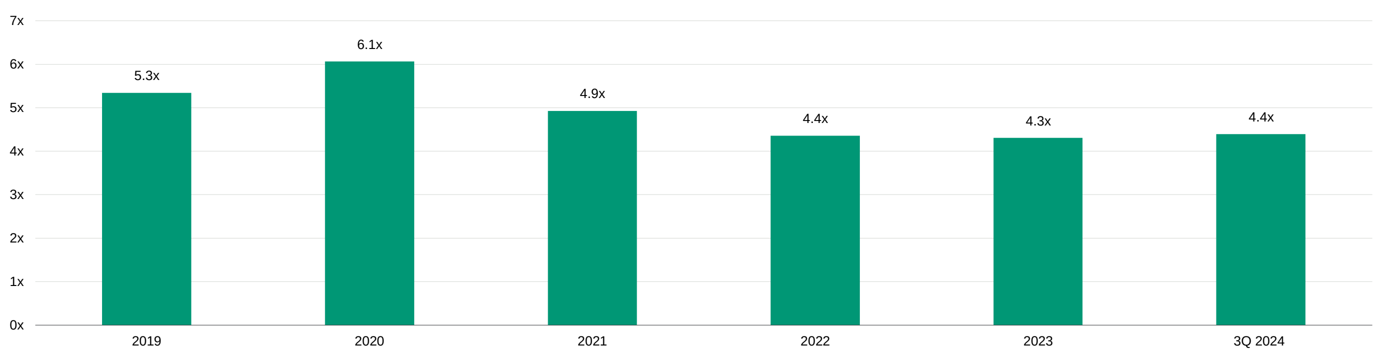
Exhibit 5
Axactor's TCE/TMA



Source: Axactor and Moody's Ratings

We assign a B1 score to Axactor's Debt/EBITDA score, one notch below the initial Ba3 score. The B1 score reflects Axactor's elevated leverage levels, with its Debt/EBITDA ratio of 4.4x as of 30 September 2024 (based on the annualised EBITDA for the first nine months of 2024). The assigned score also reflects the risk of further deterioration in EBITDA and leverage levels from persistently weak collections and limited liquidity available for investment purchases beyond the replacement rate, as well as reduced future portfolio income due to the NPL portfolio in Spain.

Exhibit 6
Axactor's gross debt/EBITDA leverage



3Q 2024 leverage is based on the annualised EBITDA for the fist nine months of 2024.
Source: Axactor and Moody's Ratings

Cash flow and liquidity: concentrated maturity concentrations in 2026; modest liquidity and constrained financial flexibility

We assign a Caa1 score to Axactor's Debt Maturities Coverage subfactor, reflecting the company's concentrated debt maturities in 2026, which present a refinancing risk, as well as its modest liquidity position in relation to its debt obligations. The company's limited availability under its credit facility further constrains its financial flexibility.

Notwithstanding the latest bond repurchase, Axactor has a large debt maturity concentration in 2026. The company's EUR 300 million bond, of which EUR 230 million is currently outstanding following Axactor's repurchases, matures in September 2026. In addition, Axactor EUR 545 million RCF matures ahead of the bond, in June 2026. As of year-end 2024, there was EUR 472 million drawn under the facility,

Axactor's current liquidity position is modest in relation to its debt obligations. Its cash balance amounted to approximately EUR 25 million at 30 September 2024; however, we believe that not all of it is available for debt repayment or investments, as the company needs to keep certain amount of cash for operating needs. Axactor's limited availability under its RCF further constrains its financial flexibility. As of year-end 2024, the facility was 87% drawn, leaving EUR 73 million available for borrowing.

We assign a Caa2 score to the Funds from Operations (FFO)/Total Debt subfactor, two notches below the initial score of B3, reflecting the weakening of the company's cash flows given its increased financing costs.

Operating environment

We assign a B1 operating environment score to debt purchasers. The assigned score reflects Axactor's Home Country Environment Score of B2, which is based on the Industry Risk score of B, and our upward adjustment to the B1 score. The adjustment reflects our view that the sector's niche but stable product offering in the form of debt collections, which has a long-established track record, has a relatively low risk of obsolescence and event risk. In addition, while the regulatory environment for debt collections focuses on conduct risk related to fair treatment of customers and data protection, it is less complex than that of consumer lenders, which also face regulations around loan affordability and pricing. In our view, the scope of the regulatory framework for debt collection activities limits the sector's exposure to adverse regulatory changes.

Macro-level indicator

The macro-level indicator of Aa2 reflects economic, institutional financial strength and susceptibility to event risk in countries in which Axactor operates: Norway, Sweden, Finland, Germany, Italy and Spain. The macro-level indicator does not have any weighting in establishing Axactor's Operating Environment score, since it is higher than the Industry Risk score of B.

Industry Risk score

We assign a B Industry Risk score to the debt purchasing sector. The sector's performance is sensitive to volatility in the availability of nonperforming loans (NPLs) and is also affected by cyclical changes in collection patterns. A low supply of NPLs in recent years has resulted in highly competitive pricing, thus significantly reducing debt purchasers' profitability. The cyclicality of collections is mainly driven by the prevailing state of the economy and consumer affordability, reflecting the fact that debt purchasers' customers typically have weaker credit profiles or experience temporary financial difficulties. Further, during a downturn, cash flows are impacted by a slowdown in collection volumes and companies' earnings can be negatively impacted by revaluation losses because of the time value of money as collection curves shift into the future.

The debt purchasing industry has moderate barriers to entry. Accurately pricing NPL portfolios requires access to large amounts of data, which acts as a barrier to entry for new competitors. However, the industry is capital-intensive, requiring substantial financial resources to acquire NPLs and to establish and maintain operations. Debt purchasers and servicers also need to maintain relationships with NPL sellers (i.e., banks and other lenders/providers) and to comply with their outsourcing and conduct guidelines.

Regulation further increases barriers to entry through licensing applicable to servicing and compliance costs.

At the same time, the availability of alternative capital in the NPL market, such as from asset and investment management firms, has reduced debt purchasers' market share in this business and has further heightened the competitive pricing dynamics.

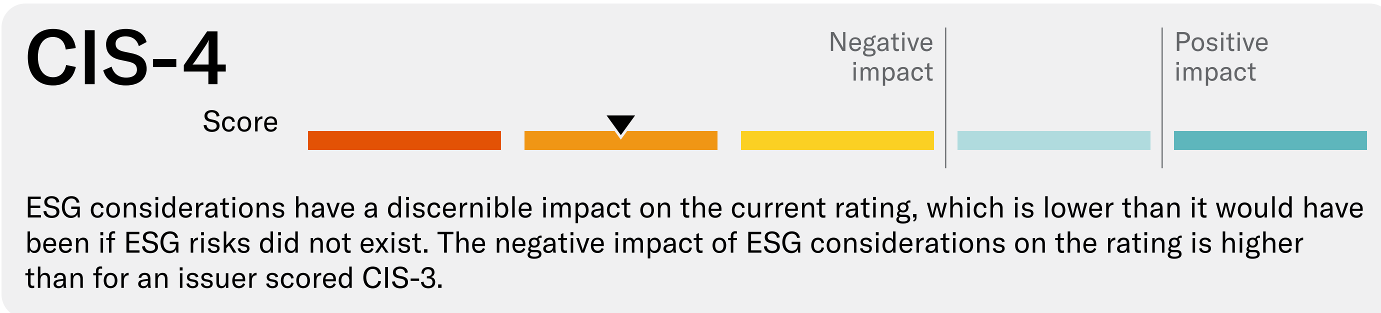
Business profile and financial policy

We incorporate a one-notch negative adjustment for corporate behavior, reflecting Axactor's constrained financial flexibility given the need to balance its upcoming debt obligations with investments in its franchise. The company's weakened financial performance in the currently challenging operating environment increases refinancing risk related to its 2026 debt maturities.

ESG considerations

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

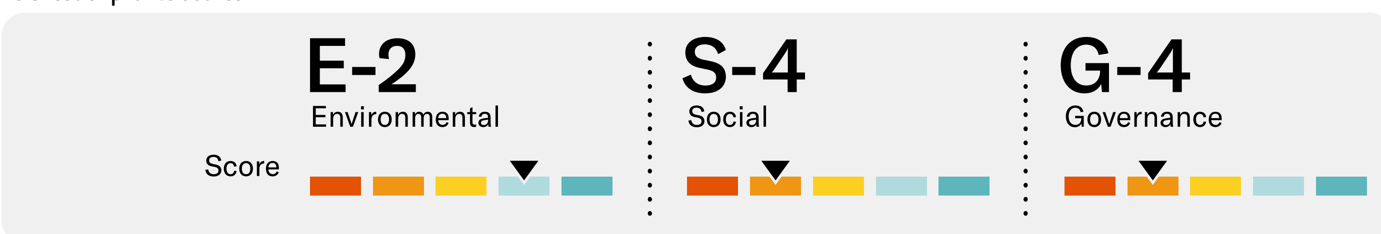
Exhibit 7
ESG credit impact score



Source: Moody's Ratings

Axactor's ESG Credit Impact Score **CIS-4** mainly reflects the discernable impact of governance risks on the firm's ratings. High governance risks reflect Axactor's constrained liquidity position and its limited financial flexibility, given the need to balance its maturing debt obligations against investments in the franchise, further exacerbated by its weak financial performance in the currently challenging operating environment.

Exhibit 8
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 behaviour and risk management in the corporate family rating assigned to the firm. We incorporate our concerns related to the company's weakened financial performance, which increases its refinancing risk, and its constrained financial flexibility given the need to balance its upcoming debt obligations with investments in its franchise, under Financial Strategy and Risk Management. 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 425 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 b2-caa1. The company's assigned b3 standalone assessment is at the middle of the range.

Methodology and scorecard

Axactor's assigned CFR of B3 is consistent with the estimated standalone credit assessment using our Finance Companies Methodology.

Exhibit 9

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	B3	Expected trend	Earnings volatility
EBITDA / (Interest Expense & Preferred Dividends) (x)	20%	2.71x	B1	B2	Expected trend	
Weighted Average Profitability Score			**B1**	**B2**		
Capital Adequacy and Leverage						
Tangible Common Equity / Tangible Managed Assets (%)	10%	25.17%	Aaa	Aa2	Other adjustments	
Debt / EBITDA (x)	25%	4.38x	Ba3	B1	Expected trend	
Weighted Average Capital Adequacy and Leverage Score			**Baa3**	**Ba1**		
Cash Flow and Liquidity						
Debt Maturities Coverage (%)	10%			Caa1	Near-to-medium term maturities	
FFO / Total Debt (%)	25%	5.86%	B3	Caa2	Expected trend	
Weighted Average Cash Flow and Liquidity Score			**B3**	**Caa2**		
Financial Profile Score	**100%**		**Ba3**	**B2**		
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%		B			
Home Country Operating Environment Score			B2			
	Factor Weights			Score	Comment	
Operating Environment Score	**0%**			**B1**		
ADJUSTED FINANCIAL PROFILE				Score		
Adjusted Financial Profile Score				**B2**		
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				**B3**		
					Comment	
Sovereign or parent constraint				**Aaa**		
Standalone Assessment Scorecard-indicated Range				b2 - caa1		
Assigned Standalone Assessment				b3		

Source: Moody's Ratings

Exhibit 10
Axactor ASA

Instrument Class	Assigned Standalone Assessment	Affiliate Support Notching	Government Support Notching	Individual Debt Class Notching	Assigned Rating
LT Corporate Family Ratings	b3	0	0		B3
Senior Unsecured (Holding Company)	b3	0	0	-2	Caa2

Source: Moody's Ratings

Ratings

Exhibit 11

Category	Moody's Rating
AXACTOR ASA	
Outlook	Negative
Corporate Family Rating	B3
Senior Unsecured	Caa2

Source: Moody's Ratings

REPORT NUMBER 1428177

CLIENT SERVICES

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