MOODY'S

Rating Action: **Moody's downgrades Intrum's senior unsecured rating to B3; outlook negative**

29 Jan 2024

London, January 29, 2024 -- Moody's Investors Service (Moody's) today downgraded Intrum AB (publ)'s (Intrum) corporate family rating (CFR) to B2 from B1 and its senior unsecured debt rating to B3 from B2. The issuer outlook was changed to negative from stable.

The rating action follows Intrum's SEK 11.5 billion asset sale to Cerberus announced on 22 January 2024[1].

RATINGS RATIONALE

The downgrade, with a negative outlook, reflects Intrum's delayed deleveraging relative to its previous forecasts and to Moody's expectations. This follows Intrum's announcement on 22 January of a large asset sale (approximately 30% o the firm's investment portfolio by book value), resulting in a loss of investment income and EBITDA, and an increase o the firm's Debt/EBITDA leverage notwithstanding the planned reduction in the nominal level of debt.

Despite the planned nominal debt reduction, Intrum's Debt/ EBITDA leverage will increase, reflecting the loss of portfolio income and EBITDA from the sold portfolio, which will only be partially offset by servicing income that the firm will receive on the sold assets. Intrum estimates a 20% reduction in EBITDA following the sale, which would equate to SEK 10.3 billion on a pro-forma basis as of 30 September 2023 (last-twelve month basis). Moody's estimates that pro-forma for a full year, Intrum's Debt/EBITDA leverage will increase to 4.9x as compared to 4.0x previously forecasted fo 2024 (as disclosed in the September 2023 Capital Markets Day update). On a gross basis, Intrum's pro-forma Debt/EBITDA leverage will be slightly above 5x.

Intrum's slower than anticipated deleveraging heightens execution risks related to the strategic repositioning of its business in the currently challenging operating environment, characterized by increased refinancing costs and stiff competition in the debt purchasing and servicing sector, particularly given its upcoming debt maturities in 2024-2025. Though Intrum has been actively growing its volume in servicing organically and through acquisitions, higher operating costs have pressured its margins.

Intrum's senior unsecured debt rating of B3 reflects the application of Moody's Loss Given Default (LGD) analysis, which reflects the priorities of claims and asset coverage in the company's liability structure.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

A rating upgrade is unlikely, given the negative outlook. The outlook could be changed to stable if Intrum demonstrates solid financial and operating performance, with no further deterioration in leverage or debt servicing metrics, as it executes on its restructuring plan, including communication of credible plans to mitigate EBITDA reduction and refinancing pressures, as well as achieving its 2025 deleveraging plans.

Intrum's CFR could be downgraded if Intrum's credit metrics are expected to deteriorate further including material weakening of its liquidity and a lack of credible plans to enhance its EBITDA and achieve its 2025 deleveraging plans. As Intrum is facing material upcoming maturities in 2024 and 2025, which it will have to refinance in a higher interest rate environment, a delay in addressing the refinancings in a timely manner could result in a further ratings downgrade.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Finance Companies Methodology published in November 2019 and available at https://ratings.moodys.com/rmc-documents/65543. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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The Global Scale Credit Rating(s) discussed in this Credit Rating Announcement was(were) issued by one of Moody' affiliates outside the EU and is(are) endorsed for use in the EU in accordance with the EU CRA Regulation.

REFERENCES/CITATIONS

[1] Intrum's announcement 22-Jan-2024 (https://www.intrum.com/press/press-releases/press-release-article/?id=BD4770C9A340B1F4#Intrum_announces_SEK_115_billion_asset_sale_to_Cerberus_raising_liquidity_and_prog

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